

SOUTH DERBYSHIRE DISTRICT COUNCIL

FINANCIAL STRATEGY 2006 to 2009

1. INTRODUCTION

- 1.1 This strategy effectively sets out the overall framework on which the Council plans and manages its financial resources and to ensure that they fit with, and support, the direction of the Council's key aims. The Council adopted this latest strategy in October 2005.

Its Objectives

- 1.2 In its broadest terms, the strategy is designed to ensure that:
- Finance contributes to the vision and key aims of the Council, whilst ensuring that:
 - The Council's financial position is sustainable, and
 - Probity and stewardship exist in the use of financial resources.
- 1.3 The framework is effectively cascaded down and detailed in other plans and strategies, which are:
- **The Budget Strategy** - setting out the medium term spending and financing plans.
 - **Treasury Management Strategy** - setting out how cash, borrowing and investment is managed.
 - **Financial Regulations and Procedural Rules** - setting out the procedures to ensure that the use of finance is legal, properly authorised, reported and provides value for money.
 - **Audit Plan** - setting out when fundamental financial and other systems will be reviewed over time to test the effectiveness of internal control.
 - **Capital Investment Strategy** - setting out how major investment is planned and managed and helps to deliver the Council's key aims.
 - **Asset Management Plan** - which sets out the management of land and property and identifies assets surplus to requirements for disposal.

Key Areas

- 1.4 The strategy is appropriate for all services. It identifies the key areas making up the overall framework that are considered on a regular basis. It then highlights the factors against each area that are used to meet the objectives (as set out in 1.2, above). These key areas are:
- Moving resources to meet priorities and new spending pressures
 - Setting a minimum level of reserve balances
 - Maintaining a sound and sustainable financial position
 - Maintaining other earmarked reserves

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- Generating/maximising external funding
- Local taxes
- Ensuring probity and stewardship
- Maintaining and developing sound financial management
- Raising awareness of finance

1.5 Broadly, the framework has been in place and developing at the Council for several years and this latest strategy builds on that.

Time Frame

- 1.6 The strategy has a medium-term time frame to fit in with the Council's corporate and service planning framework. However, in principle it will exist for longer as it provides the overall direction and parameters for financial management at the Council.
- 1.7 Clearly, the strategy continues to evolve and develop in response to new financial opportunities/risks and new policy directions. Therefore, the strategy is reviewed on a regular basis and at least annually. It is updated where necessary.

THE KEY AREAS

2. MOVING RESOURCES TO MEET PRIORITIES AND NEW PRESSURES

2.1 The Council's existing budgets at anyone time, are to a certain extent historically based. Consequently, they may not always meet the latest priorities and spending pressures.

2.2 "Shifting resources" has been identified as a key theme in the Council's Corporate Plan. The strategy to achieve this is:

- **To utilise the Council's approved scoring system when evaluating bids for service development and new investment.** The scoring system is constructed to favour bids that are aligned to the Council's priorities, together with national targets.
- **To identify yearly efficiency savings** (as part of the Government's "Gershon" target) and to redirect these resources to priority areas.
- **To undertake strategic service reviews** in accordance with Council's Procurement and I.E.G. strategies.
- **To align and examine council spending against priorities** on an on-going basis. This may from time to time include fundamental reviews of specific areas of the Council's base budget.

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3. SETTING A MINIMUM LEVEL OF RESERVE BALANCES

- 3.1 It is the responsibility of the Council's Chief Finance Officer (CFO) to recommend a minimum level of general reserves to act as a contingency against any unforeseen events or unexpected liabilities. There is no suggested set figure and the CFO needs to recommend a level to reflect local circumstances.
- 3.2 Up until to 2004, the Council had for many years, set a minimum level of general reserves of £3/4m at the end of the rolling 3-year financial planning period. This was reviewed during the budget round for 2005/06.
- 3.3 The Council faces many financial and business risks. These are detailed, reviewed and updated as part of the financial risk register.
- 3.4 In addition, the District has been and will continue to change quite rapidly. This brings new and additional demands for services. Furthermore, there is still a lot of uncertainty around the national funding regime, including funding that is not mainstream. Therefore, the Council now:
- **Aims to maintain a minimum general reserve as a contingency measure, of 10% of net revenue expenditure on the General Fund at the end of every 3-year planning period.**

4. MAINTAINING A SOUND and SUSTAINABLE FINANCIAL POSITION

- 4.1 With a principle set regarding a minimum level of general reserves, the **Council plans and manages its finances within this target, which is detailed in a 3-year budget strategy with associated spending plans.**
- 4.2 The budget strategy effectively details the financial plan in order to deliver services set out in the Council's Corporate and Service Planning framework. Essentially, it:
- Sets out the spending and financing plans over 3-years for general fund services and 5-years for capital investment.
 - Maintains and keeps under review an associated 3-year rolling financial forecast on the General Fund.
 - Maintains and keeps under review a 5-year capital expenditure and financing programme in accordance with the "Prudential Code."
 - Maintains and keeps under review a 10-year rolling financial projection on the Housing Revenue Account in accordance with the HRA Business Plan.
 - Assesses the affordability of proposed service developments and new capital investment over the 3-year and 5-year planning periods respectively.

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- 4.3 The budget strategy is constructed in detail as part of the Council's yearly budget setting process. It is reviewed and updated where necessary, following the annual budget out-turn.
- 4.4 The budget formulates spending plans in detail for the next financial year and provides forecasts over a 3-year period. As part of this process, the financial risk register is also reviewed and updated.

Approved Scoring System

- 4.5 A key part of the budget process is the assessment of proposals for new spending and investment. The Council has limited resources and cannot meet all new demands for spending. Therefore, this mechanism aims to provide a guide and a more objective assessment against which new spending proposals are prioritised.
- 4.6 It effectively asks Council members/officers to provide a business case for both revenue funding and new capital investment. The system is corporate and an independent panel of Members and Officers assesses all bids.
- 4.7 The scoring system takes account of the following:
 - How far a bid meets local (Council) priorities
 - How far it meets wider regional and national priorities
 - The degree of risk involved
 - How much partnership working is delivered
 - External funding levered in
 - Income generation and future cost savings

5. EARMARKED RESERVES

- 5.1 In addition to general reserves, the Council maintains earmarked reserves that are held for specific purposes. They are provided to meet known commitments and in some cases, to spread expenditure over financial years.
- 5.2 These reserves can exist over a number of years. Although this is a prudent way of safeguarding the Council's financial position, it is equally important to check that resources are not being tied up unnecessarily and that they are in accordance with accounting practice.
- 5.3 **Therefore, these reserves are reported and reviewed as part of the budget strategy.**

6. EXTERNAL FUNDING

- 6.1 It is recognised that the Council has limited resources and cannot achieve all of its aims in isolation. However (apart from local taxes) the Council does have access to a variety of funding sources as set out below.

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Government Funding

- 6.2 Both in general terms and via specific grants and borrowing allocations, the national exchequer funds over 50% of all council spending - clearly a significant proportion. In addition, some financing is not "mainstream" and not always guaranteed from year to year.
- 6.3 It is critical that the Council receives its fair and equitable share via the various distribution mechanisms used by the Government. Therefore, the Council seeks to "lobby" the Government through special interest groups (of councils) that share common issues with South Derbyshire.

Partnership/External Funding

- 6.4 The Council has a good track record of leveraging in such funding. Delivery of some of the Council's current key aims such as reducing crime and disorder are dependent upon it.
- 6.5 In addition, the provision and enhancement of new recreational facilities, especially in high growth areas are dependent upon securing Section 106 funding via the planning system.
- 6.6 Clearly, the maximisation of these resources is vital and the Council channels efforts in various ways to achieve this.
- 6.7 However, funding is only sought if it will contribute and help deliver the Council's priorities or Government targets.

Resources for Capital Investment

- 6.8 Plans for securing, maximising and utilising financing specifically for capital projects are detailed in the Council's Capital Investment Strategy. This covers:
- Proceeds from selling/disposing of fixed assets (capital receipts)
 - Generating additional resources via the Asset Management Plan
 - Partnerships and External Funding
 - Local Businesses and Developers
 - Borrowing
 - Private Finance Initiative

Fees and Charges

- 6.9 The Council generates approximately £3m per year (10% of gross expenditure) from various fees, sales, rents and other charges. The level of some of these is statutorily set or subject to periodic reviews such as rents and leases.
- 6.10 Many others are at the discretion of the Council. Maximising income is achieved in two ways:

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- Each year, a target increase on current charges is set for each council Division.
- Every 5-years the Council undertakes a more comprehensive review of its charging structure including a comparison with other councils and reviews any further areas where charges could be introduced for services.

Investment Income

- 6.11 The Council is a net lender of funds and periodically has surplus cash to invest on a temporary basis. The Council's **Treasury Management Strategy** sets out the way in which income from this source is maximised.
- 6.12 This includes measuring performance against an average market rate. However, the strategy also sets out how **security and liquidity of funds** is safeguarded - a key theme of that strategy.

7. LOCAL TAXES

- 7.1 Most council spending is ultimately financed from the "public purse." At a local level, the main tax that contributes to the provision of local services is the Council Tax.
- 7.2 The Council is mindful of the level of local tax that falls on its local residents and how much they are asked to contribute to the delivery and improvement of services.

Council Tax

- 7.3 The Council has an average level of council tax compared with its "family" group of authorities. The Council does have discretion over the level of increases each year, although the Government have "reserve powers" to cap increases at individual councils. In addition, broad parameters are signalled to councils each year.
- 7.4 **The Council aims to set its council tax each year within these central government guidelines and consults with local residents on its proposals.**

Council House Rents

- 7.5 Although not strictly a tax, this is the main way in which the cost of council housing is financed. Central government now effectively set local rent levels through their rent setting formula. This is designed to equalise rent levels with other housing providers across the District.
- 7.6 The Council does have some flexibility to vary rents, but this would be penalised through the system the Government use to subsidise council housing. Therefore,

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- the Council sets its yearly rent increase in accordance with the Government's rent setting formula.

8. PROBITY and STEWARDSHIP

- 8.1 Ensuring probity and stewardship in the use of public funds is enshrined in the Council's constitution and is based on best practice set out by the Chartered Institute of Public Finance.

Financial Regulations

- 8.2 These set out the policies in relation to:

- Financial accountabilities
- Financial policy
- Risk management and internal control
- Financial administration
- Partnerships, purchasing and contract arrangements.

Financial Procedural Rules

- 8.3 These provide an interpretation of the regulations and set out responsibilities and detailed guidance for Members and Officers.
- 8.4 Both the regulations and procedures are subject to continuous review by the CFO who submits any additions or changes necessary to full Council for approval. In addition, the CFO will report, where appropriate, breaches of the rules to full Council.

9. MAINTAINING and DEVELOPING SOUND FINANCIAL MANAGEMENT

- 9.1 Staying on track and monitoring financial plans and the use of resources is clearly a vital part of this strategy. This is achieved through a system of:

- Regular budget monitoring and analysis of spending with finance staff and budget holders/spend managers.
- Regular financial and performance reporting to the Council's Finance and Management Committee.
- The referral of any adverse variances or potential issues to the Council's main Policy Committees for consideration and action.

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10. RAISING AWARENESS OF FINANCE

- 10.1 Local government finance is very technical and diverse. It is governed by a myriad of legislation, regulations and complex distribution mechanisms. This can be over-bearing to the "non-finance" person.
- 10.2 The CFO plays a pivotal role in setting the strategy, but the whole Council is involved in its delivery at various stages. For example, the responsibility for managing budgets and using resources rests not with the CFO, but with Chief Officers and their service managers. The ultimate responsibility for allocating resources rests with elected members.
- 10.3 It is important therefore, that those having this responsibility have the necessary awareness and knowledge, etc. to manage budgets and make decisions. This is the role of the CFO.
- 10.4 Raising awareness and training is an on-going issue. It can be gained as a matter of course (and often is) through experience and the gathering of knowledge from regular involvement.
- 10.5 In addition, the CFO provides other (more formal) means of raising awareness and this is achieved in a number of ways:
- Through the induction process for new employees
 - Induction training for new members
 - A yearly seminar/workshop for members
 - Ad-hoc teach-ins for individual services
 - The provision of "easier to read" guidance on the Council's Intranet