

**DERBYSHIRE COUNTY COUNCIL**

**CABINET**

**15 July 2014**

**Report of the Director of Finance**

**FINANCIAL STRATEGY**  
(STRATEGIC POLICY AND BUDGET)

**1 Purpose of the Report**

To note and approve the Financial Strategy.

**2 Information and Analysis**

**Financial Strategy**

The purpose of the Financial Strategy is to set out the financial framework for the Council. This supports its strategic and policy objectives as outlined in the Council Plan.

The key components of the strategy are to:

- set out the framework for the financial operation of the Council which supports the strategic and policy objectives in the Council Plan
- ensure resources are allocated to achieve Council Plan objectives
- ensure cost effective affordable service delivery that delivers value for money
- maximise resources available to the Council
- ensure Council Tax levels are kept within reasonable levels
- integrate service plans into the budget process

The Council's financial regulations state that the strategy should be reviewed annually to remain consistent with the Council Plan, to ensure that the Financial Strategy drives the Five Year Financial Plan, Capital Programme and Revenue Budget.

The strategy has been reviewed and there are no significant changes from the previously published strategy.

A copy of the Financial Strategy is shown at Appendix One.

**3 Considerations**

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

**4 Background Papers**

Papers held in Technical Section, Corporate Finance

**5 Key Decision**

No

**6 Is it necessary to waive the call-in period?**

No

**7 OFFICER'S RECOMMENDATION**

To approve the Financial Strategy.

PETER HANDFORD

Director of Finance

16 June 2014

# FINANCIAL STRATEGY

*DERBYSHIRE COUNTY COUNCIL*



Peter Handford B.A. (Hons), CPFA

Director of Finance

## Approval and Authentication

Name	Job Title	Signature	Date

## Version History

Version	Date	Author	Reason	Approved
0.1		P Stone	Draft for Comments	

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## INTRODUCTION

This strategy 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 priorities.

## OBJECTIVES

- Deliver a robust, balanced and sustainable budget and asset base, so that sufficient resources are allocated to priority services within the context of the Council Plan.
- Delivering Value for Money to obtain the highest benefit from all resources used in pursuit of the Council Plan.
- Keeping council tax (or other forms of local taxation) low; to keep Derbyshire's share of the bill as one of the lowest of all county councils.

The strategy is by design a brief document and is presented as a series of linked elements supported by more detail in other published documents including:

**Five Year Financial Plan** – setting out the medium term spending and financing plans.

**Council Plan** – sets out the key Council priorities for the period 2010-14

**Reserves Policy** – establishes a framework within which decisions will be made regarding the level of reserves held by the Council.

**Treasury Management Strategy** – setting out how cash, borrowing and investment are managed.

**Financial Regulations** – setting out the procedures to ensure that the use of finance is legal, properly authorised, reported and provides value for money.

**Accounting Manual** – provides practical advice on all areas of financial control.

**Internal Audit Plan** – setting out when fundamental financial and other systems will be reviewed over time to test the effectiveness of internal control.

**Charging Policy** – setting out the formal framework within which the Council's fees and charges are regularly formulated, reviewed, agreed and administered.

**Capital Strategy and Corporate Asset Management Plan** – setting out how major investment is planned and managed and helps to deliver the Council's priorities.

## KEY AREAS

The elements developed as a part of the strategy are:

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
- Income generation
- Treasury and Debt Management
- Capital Expenditure and Financing
- Council Tax
- Probity

## TIMESCALE

The strategy is set against a medium-term time frame to fit in with the Council's corporate planning framework. However, in principle it will exist for longer as it provides the overall direction and parameters for financial management at the Council.

Clearly, the strategy may 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, together with the Five Year Financial Plan.

## MOVING RESOURCES TO MEET PRIORITIES AND NEW PRESSURES

The Council sets a balanced budget that addresses service priorities but is achievable within acceptable Council Tax limits and the context of the Five Year Financial Plan. The strategy to achieve this is set out below.

- Utilise the Council's budget priority framework when considering proposals for service development and new investment. The framework is based on a robust system of scrutiny that is constructed to favour proposals that are aligned to the Council's priorities, together with national targets.
- Identify budget reductions. This is to build capacity, achieve savings targets and to redirect resources to priority areas.
- The Council will undertake strategic service reviews in accordance with the Council's Changing the Way Derbyshire Works strategy.
- The Council will align and examine 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.

**SETTING A MINIMUM LEVEL OF RESERVE BALANCES**

The Council faces many financial and business risks. These are identified, assessed, and reviewed as part of the corporate and departmental risk registers.

It is the responsibility of the Council's Director of Finance to recommend a minimum level of general reserves to act as a contingency against any unforeseen events or unexpected liabilities. There is no externally set figure and the Director of Finance needs to recommend a level to reflect local circumstances.

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.

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 the Council Plan and accounting practice. These reserves will be regularly reviewed.

**MAINTAINING A SOUND AND SUSTAINABLE FINANCIAL POSITION**

The revenue budget is monitored and controlled and corrective action is taken where appropriate. It is integrated with service plans derived from the Council Plan and other strategies.

Estimates need to be realistic, accurate and robust having undergone a rigorous and transparent assessment.

There is strong in year budgetary control with predictive monitoring and corrective action where necessary, with clear lines of responsibility for preparation, approval and control.

With a principle set regarding a minimum level of general reserves, the Council plans and manages its finances within this target. This is detailed in the Five Year Financial Plan (FYFP).

The FYFP details how financial resources will be utilised in order to deliver services set out in the Council Plan. It sets out the spending and financing plans over the medium term.

The FYFP is formulated as part of the Council's yearly budget setting process. It is reviewed and updated where necessary and in particular, following the outturn (in July each year). It is then used as the starting point for consultation on the following year's budget.

A key part of the budget process is the assessment of proposals for new spending and investment. The Council has finite resources and is unlikely to



afford all new demands for spending. Therefore, this process aims to provide a guide and a more objective assessment against which new spending proposals are prioritised.

It asks Council members/officers to provide a business case for both revenue funding and new capital investment. The system is corporate and is assessed by Council members and STAR chamber to assess all bids.

## **INCOME GENERATION**

The Council will optimise the generation and effective use of external funding to achieve the Council's priorities.

To optimise income from fees and charges made to service users within the context of the Council's objectives and priorities.

A large element of the Council's funding, both revenue and capital, is derived from external funding, primarily specific grants, Formula Grant and the Business Rates Retention Scheme. Availability of grants can be subject to a detailed and complex bidding process.

Care needs to be taken that the availability of such funding does not distort the Council's priorities, divert resources from higher priorities, or set up unreasonable future commitments for the Council Taxpayer to meet. Exit strategies need to be developed in all material cases where there is uncertainty over future external funding.

Income from service users – fees and charges – is an important part of the Council's financial strategy. Factors taken into account in setting the levels include – the Council's specific priorities, market forces where applicable, affordability, inflation and the balance with income demanded from Council Tax payers.

Maximising income, although clearly an important consideration, is not the only factor in deciding on the level of fees and charges. The Council (has a charging policy which sets out best practice in the setting of charges.

## **TREASURY AND DEBT MANAGEMENT**

As well as managing the Council's investment and borrowing on a daily basis, the Council is responsible for the Derbyshire Pension Fund Investments. Its key objective is to place security of investment above return; but to maximise investment income.

The Council has adopted CIPFA's Treasury Management Code of Practice and monitors compliance.

The Director of Finance chairs quarterly strategy meetings with the Investments Officer and Treasury Management staff.

The Investments Committee meets quarterly and manages the pension fund.

All capital investment decisions reflect the Council Taxpayer meeting the majority of all new debt financing costs.

Spend-to-save schemes are acceptable provided loan repayments are financed from the schemes savings. Such loan repayments will be made as quickly as savings allow, as identified in the business case. It is not intended that spend-to-save schemes will be repaid over as long a period as other debt. Long term borrowing will be kept within reasonable limits in accordance with the principles in the Prudential Code.

### **CAPITAL EXPENDITURE AND FINANCING**

The Council's objective is to hold or provide, and develop or maintain such assets as necessary to meet the Council's objectives as identified within the Council Plan and service plans, subject to affordability within the context of the FYFP.

The Council will also adopt the most appropriate funding package for overall capital expenditure.

The Corporate Asset Management Group recommends priorities to Cabinet using the adopted appraisal methodology which involves the following criteria: -

- Council goals, objectives and performance indicators being met
- Funding requirements, taking into account any conditional grants/allocations and other external sources
- Statutory obligations including legal and health and safety
- Revenue implications
- Surplus assets available for sale
- The Local Transport Plan influence investment in the highway infrastructure

The Council establishes the level of investment available which is currently projected over a three year rolling programme.

Sources of finance are primarily:

- Long term borrowing
- Grants
- Capital receipts
- Revenue contributions
- Private Finance Initiative
- Third Party contributions

**COUNCIL TAX**

To ensure Council Tax is within acceptable levels. This involves communication with the Council Tax payers on the annual increase; the amount in comparison with other counties, and the quality of services.

**PROBITY**

The Council has a duty to safeguard public money by ensuring there are appropriate levels of financial control.

The Council's approach to financial management is to provide members and officers with a high level of flexibility to optimise service delivery with a controlled framework.

The control framework is outlined in the Annual Governance Statement which is reviewed and approved annually by Council and published in the annual Statement of Accounts.

The Assistant Director of Finance (Audit) produces an annual statement on the adequacy of the Council's control framework.

External Audit comment on the control framework annually in the Annual Audit and Inspection Letter.

The main exchequer services for the County Council and a range of public sector clients are carried out in-house: payroll, pensions, payments and income.

**OBTAINING ALTERNATIVE VERSIONS OF THIS DOCUMENT**

A summary of this document may be made available in Braille, on audio tape, in large print on request from the Call Derbyshire contact centre:

Phone: 08456 058 058

E-mail: [contactcentre@derbyshire.gov.uk](mailto:contactcentre@derbyshire.gov.uk)

The document, as well as summary versions, is also available on the Council's website at [www.derbyshire.gov.uk](http://www.derbyshire.gov.uk)