

Agenda Item No.6 (c)

**DERBYSHIRE COUNTY COUNCIL**

**CABINET**

**11 September 2019**

**Report of the Director of Finance & ICT**

**FINANCIAL STRATEGY**  
(STRATEGIC LEADERSHIP, CULTURE AND TOURISM)

**1 Purpose of the Report**

To note and approve the Council's Financial Strategy.

**2 Information and Analysis**

The purpose of the Financial Strategy (Strategy) is to set out the Council's financial priorities, and provide a financial framework for the Council to ensure the Council's financial operations contribute to the Council's strategic and policy objectives as outlined in the Council Plan 2017-2021.

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.
- Support delivery of the Council's Enterprising Council Programme.
- 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 and to ensure that the Strategy drives the Five Year Financial Plan, Capital Programme and Revenue Budget. The Strategy has been reviewed and it is proposed that there are no changes to the Strategy, other than to update the Financial Resilience section for current information.

A copy of the Strategy is shown at Appendix One.

**3 Considerations**

In preparing this report and developing the Council's Financial Strategy the relevance of the following factors has been considered:- financial, legal, human resources, social value, prevention of crime and disorder, equality and diversity, environmental, health, property and transport considerations.

**4 Background Papers**

Papers held in Technical Section, Finance & ICT, Room 137.

**5 Key Decision?**

No.

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

No.

**7 Officer's Recommendation**

That Cabinet approves the Financial Strategy.

PETER HANDFORD  
Director of Finance & ICT

# Financial Strategy



**Peter Handford BA(Hons) PGCert FCPFA  
Director of Finance & ICT**

## Approval and Authentication

<b>Name</b>	<b>Job Title</b>	<b>Signature</b>	<b>Date</b>
Peter Handford	Director of Finance & ICT		12 September 2019
Cabinet			

### Introduction

The Financial Strategy (Strategy) sets out the overall framework on which the Council plans and manages its financial resources and ensures that it fits with, and supports, the direction of the Council's priorities, including delivery of the Council's Enterprising Council Programme.

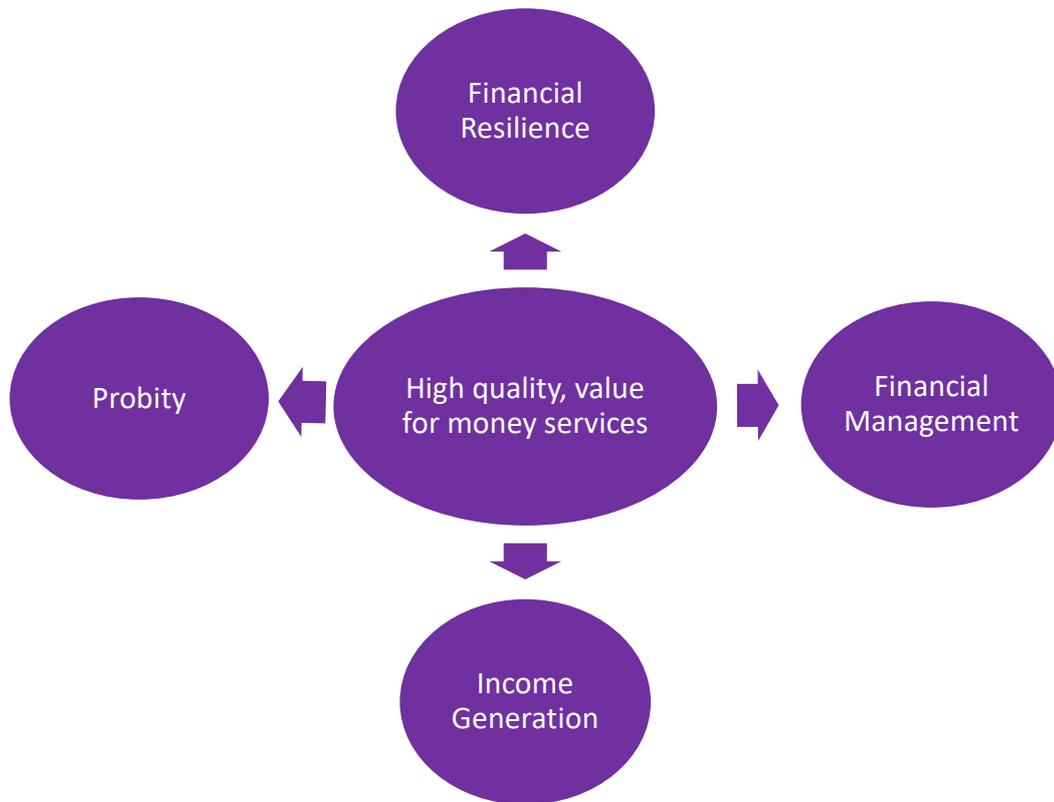
### Links with other strategies and initiatives

The Strategy is closely aligned with the Council Plan and Service Plans. It sits alongside the Council's Five Year Financial Plan, which sets out the Council's financial assumptions, spending plans and savings over the medium term. 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 but not limited to:

- Five Year Financial Plan
- Council Plan
- Reserves Policy
- Treasury Management Strategy
- Financial Regulations
- Accounting Manual
- Internal Audit Plan
- Charging Policy
- Capital Strategy and Corporate Asset Management Plan
- Reserves Policy
- Procurement Strategy
- ICT Strategy

## Strategic Aims

The Strategy is made up of four strategic aims.



### Financial Resilience

The Council has managed the achievement of a balanced budget in a robust and planned manner over the period of the current downturn in general government support for local authority spending.

The level of savings required over the medium term remains significant. By 2023-24, the Council needs to have reduced expenditure by a further £63 million in real terms. This is in addition to a £271 million reduction the Council has already made to services since 2010. The Council continues to look at ways to save money and generate income, whilst trying to protect and deliver services suitable for the residents of Derbyshire.

In headline terms the Council has now identified measures which should help balance the budget over the medium term. There is a clear challenge to ensure the Council achieves those savings over the next few years. The timescales are clearly important; the majority of any savings need to be achieved in the period up to 31 March 2022, this reflects two variables: the final reductions from Government in Revenue Support Grant; the desire by the current administration to have a 0% Council Tax rise in both 2020-21 and 2021-22 as well as deciding not to take the full increase possible in 2019-20.

The achievement of a balanced budget is dependent on the Council meeting its budget reduction target annually. There is an overall cumulative budget shortfall of £39 million by the end of 2023-24, comparing the profile of budget savings required over the period of the Five Year Financial Plan to the profile of budget savings identified. There is already a planned use of General and Earmarked Reserves from 2019-20 to 2023-24 in order to achieve a balanced budget. Whilst the General Reserve remains at a prudent risk assessed level to 2023-24, any overspends arising from demand management issues or slippage on the achievement of savings will require a further call on the General Reserve.

Significant consultation and planning timeframes are required to achieve many of these savings. In many cases the cost savings proposals will be subject to consultation and equality analysis processes. Throughout the process it will be essential to ensure that the Council continues to meet its statutory and contractual obligations. Delays in agreeing proposals could result in overspends by departments, which would then deplete the level of General Reserve held by the Council, decreasing its ability to meet short term, unforeseeable expenditure.

## Appendix One

Further, there is uncertainty over future funding because of changes the Government is committed to making in the funding of councils via retained Business Rates and remaining Government grant funding regimes. At present the Council has no indication of how these technical changes, alongside the results of the next Comprehensive Spending Review, will affect the Council's funding position.

In October 2016, the Council confirmed its acceptance of the Government's multi-year funding offer, announced in December 2015. The funding offer provides details of Government Grant allocations up to and including 2019-20. The intention is that these multi-year settlements provide funding certainty and stability to enable more proactive planning of service delivery and support strategic collaboration with local partners.

However, there is now growing uncertainty in the sector regarding the funding levels beyond this period. The Government had previously announced its intention to move to a 100% Business Rates Retention Scheme in 2019-20. The Government has confirmed that it has revised its aims and is pursuing a 75% business rates retention scheme by 2020-21 and eventually to 100%. Alongside this announcement, the Government published further consultations as part of its Fair Funding Review. The work will be divided into three closely related strands which are relative needs, relative resources and transitional arrangements. The implementation date for the Review was expected to be 2020-21 but the latest indications are that the Government's Fair Funding Review is behind schedule and that a new multi-year funding settlement will be delayed by at least one year.

As this period of consultation between local government and central government continues over the coming months, to establish a distribution methodology that is fit for purpose, local authorities are struggling to set medium term financial plans due to this element of uncertainty. It is difficult to predict the likely impact of the proposed changes to the scheme and the financial impact until further detailed information is provided by the Government.

The introduction of 75% Business Rates Retention is currently assumed to be fiscally neutral to the Council. To ensure that the reforms are fiscally neutral, local government will need to take on extra responsibilities and functions at the point that full localisation occurs, as currently, more is raised from business rates than spent locally. The Government will also need to take account of future events such as transfers of responsibility for functions between local authorities, mergers between local authorities and any other unforeseen events.

## Appendix One

Although there continues to be a consistent rise in business rates growth in the county, a change in the economic life-cycle or a significant loss of business in the region will impact on the level of business rates income.

It is assumed that there will be support for the Adult Care budget over the medium term, through the Adult Social Care precept. It is also assumed that the use of the improved Better Care Fund allocations will support the base budget, through collaboration with clinical commissioning groups and that existing allocations of the improved Better Care Fund continue to be paid beyond 2019-20. If the funding ceases beyond 2019-20, local authorities will experience a 'cliff edge' funding effect that will significantly impact on the delivery of adult social care services.

The Council Plan sets out the Council's priorities which include working efficiently and effectively. The Council will be pursuing new delivery and commissioning models to achieve its priorities. It will review the way it works, ensuring its operation is fit for purpose.

To ensure an element of transparency in its decision making, a value for money board has been established which will examine and review Council contracts.

Wherever possible, the Council aims to protect service delivery and has clear ambitions to be an efficient and high performing Council by moving towards an Enterprising Council approach. However, with the Council having already made significant budget savings, it will not be possible to make all the savings over the next four years without affecting frontline services.

In a challenging financial environment the Council will need to prioritise its limited resources to protect the service areas the Council considers to be the most important, supporting the most appropriate approach to service delivery. In doing so, it must look at ways of raising additional income and reduce its reliance on Government funding. The Council will make savings by reviewing all areas of expenditure and considering new ways of working which require additional investment.

### **We will achieve this by:**

- Reviewing and updating the Council's Five Year Financial Plan at least annually to assist the budget planning process and identify funding gaps at the earliest opportunity to help develop appropriate savings plans.
- Setting a balanced budget that addresses service priorities but is achievable within acceptable Council Tax limits and the context of the Five Year Financial Plan.
- Utilising the Council's budget priority framework when considering proposals for service development and new investment.

## Appendix One

- Ensuring Council Tax is within acceptable levels. Over the medium term this will include setting a 2% increase for the Adult Social Care Precept to raise additional income for Adult Social Care.
- Developing and implementing a robust savings programme, which is regularly monitored and reported to Members and incorporates consultation and equality impact assessment processes where these are required.
- Benchmarking service costs and performance on a regular basis;
- Actively considering the best delivery model for the Council's services in order to deliver quality services and a reasonable cost.
- Reviewing the minimum level of General Reserve to ensure that the balance is sufficient to act as a contingency against any unforeseen events or unexpected liabilities.
- Integrating services, where appropriate, including health and social care and co-location of services as part of the Council's One Public Estate initiative.
- Monitoring local government funding, lobbying Government to ensure Derbyshire's interests are represented.
- Using one-off support from reserves balances to support budget management.

### Financial Management

The Council will maintain sound financial management policies and controls to ensure its resources are used economically, efficiently and effectively.

The Council's savings targets over the medium term are significant and need to be managed. Budget managers need to demonstrate strong financial management whilst maintaining the delivery of high quality services.

#### **We will achieve this by:**

- Providing a framework for managing the Council's financial affairs through the Constitution and Financial Regulations.
- Utilising 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.
- Identifying budget savings which will build capacity and redirect resources to priority areas. The Budget Strategy Group (BSG) will be responsible for the monitoring of savings and will report to the Corporate Management Team.
- Aligning and examining 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.
- Monitoring and controlling both revenue and capital budgets, taking correcting action where appropriate. There will be strong budgetary control and scrutiny with clear lines of responsibility for preparation, approval and control. Reports will be provided to Members on a regular basis in accordance with the Council's Budget Monitoring Policy.
- Setting a minimum level of General Reserve. The Director of Finance & ICT will report on the level of reserves as part of the annual Revenue Budget Report.
- Reviewing Earmarked Reserves' balances at least annually and reporting the outcomes to Members in accordance with the Council's Reserves Policy.
- Managing the Council's investment and borrowing on a daily basis. The Council is also responsible for the Derbyshire Pension Fund Investments. The objective is to place security of investment above return, but to maximise investment income.
- Complying with the principles of the Treasury Management Code of Practice.
- Keeping long-term borrowing within reasonable limits in accordance with the principles in the Prudential Code.

## Appendix One

- Procuring goods, services and works in accordance with Value for Money (VfM) principles.
- Ensuring capital investment decisions reflect the Council Taxpayer meeting the majority of all new debt financing costs.
- Maintaining and holding assets to meet the Council's objectives as identified within the Council Plan and Service Plans, subject to affordability within the context of the Council's Five Year Financial Plan.
- Adopting the most appropriate funding package for overall capital expenditure.
- Ensuring loans for 'Spend-to-Save' schemes are financed from the schemes' savings. The loan repayments will be made as quickly as savings allow. It is not intended that 'Spend-to-Save' schemes will be repaid over as long a period as other debt.
- Recommending Capital priorities to Cabinet using the Council's 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 influences investment in the highway infrastructure
- Establishing the level of capital investment available which is currently projected over a three-year rolling programme.
- Providing training and information in the financial skills and competencies to officers and Members who are accountable for finance within their roles.
- Establishing clear budget responsibility and accountability, recognising budget management as an essential part of good management.

### Income Generation

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

A large element of the Council's funding, both revenue and capital, is derived from external funding, primarily specific grants, Revenue Support Grant and business rates. 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.

#### **We will achieve this by:**

- Exploring and implementing opportunities for greater trading and income generation to help the Council be more self-sufficient and less reliant on Government funding.
- Examining different investment opportunities to maximise investment returns.
- Optimising income from fees and charges made to service users within the context of the Council's objectives and priorities.
- Collecting all income due promptly and taking effective and appropriate recovery action where appropriate.

### 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 within 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.

#### **We will achieve this by:**

- Providing an open and transparent budget process that ensures budgets reflect the Council's strategies and focuses resources on the priority areas as set out in the Council Plan.
- Scrutinising and challenging all significant planned investment to ensure projects are consistent with the Council's Capital Strategy.
- Producing an annual statement on the adequacy of the Council's control framework.
- Ensuring the costs, benefits and risks of any partnership working are fully assessed, that governance and reporting arrangements are appropriate and that there are financial arrangements to safeguard the Council's interests.
- Reviewing Council contracts to ensure that they are delivering value for money and demonstrating this to the proposed Value for Money (VfM) Board.
- Scrutinising proposed project and service delivery models to ensure that they have robust business cases and deliver acceptable returns on investment.
- Identifying, assessing and reviewing financial and business risks as part of the corporate and departmental risk registers.

### **We will know we have been successful by:**

- Being a key facilitator in the achievement of Council Plan goals.
- Providing reports to Committees, Cabinet and Council on setting out the financial implications of providing new or existing services.
- Reviewing and updating the Five Year Financial Plan at least annually.
- Ensuring our borrowing levels are affordable under the statutory prudential framework.
- Providing regular budget monitoring reports to Cabinet and Committees on the Council's latest financial position as defined in the Budget Monitoring Policy.
- Receiving an opinion from the external auditor that provides a true and fair view of the Council's financial standing.
- Receiving a positive external audit opinion on value for money from external audit in the annual Statement of Accounts review.
- Achieving departmental savings targets.
- Regular monitoring of the savings targets by the Budget Management Strategy Group.
- Reviewing the Council's Earmarked Reserves at least annually.
- Developing and implementing schemes that deliver additional income to the Council.
- Utilising benefits realisation processes to ensure that projects have delivered the anticipated paybacks.