Financial Strategy 2014/15 – 2017/18

1. Introduction

The Financial Strategy sets out how the Council intends to finance its services and priorities and the principles upon which the medium term financial plan and the capital programme are based.

This is the third major revision of the Financial Strategy first approved by the County Council in October 2002 and coincides with the start of the new administration. It incorporates the Capital Strategy, previously treated as a separate document.

2. Corporate Plan

The service & resource planning process ensures the medium term financial plan (MTFP), capital programme and directorate business strategies reflect the Council's objectives and priorities set out in the corporate plan.

The corporate plan is revised every year and the current version was agreed by Council in February 2013. It outlines our overall goal of achieving a 'Thriving Oxfordshire' and sets out how we are working towards that goal. The latest update of the Corporate Plan will be presented to Council for approval in April 2014.

3. Financial Planning

The four-year medium term financial plan aligns available revenue funding with the delivery of services through the service & resource planning process. Our financial planning reflects:

- The reducing level of financial support from Government and consequential revenue savings required over the medium term
- The allocation of resources to meet statutory service requirements and key strategic priorities
- The use of one-off income to meet one-off pressures or priorities, or to help address an adverse cash flow position in the MTFP (where planned pressures exceed planned savings in the short-term)
- Our commitment to council tax payers
- Our on-going commitment to achieve efficiencies to ensure improved value for money

4. Use of grant funding

- The use of general grant funding for both revenue and capital will be maximised.
- Where grant bids are required, these need to be linked to the Council's objectives.
- Exit strategies are required for grant bids and time-limited grants.

- Directorates will be required to meet any reductions in ring-fenced grant funding, through cessation of projects/services or additional savings.

5. Balance sheet management

The Council actively manages its debtors and creditors position to reduce the demand for working capital using the following targets:

- Debtors – we will clear 97% of non-care debtors and unsecured care debtors within 90 days. Days revenue outstanding for non-care debts will be kept to 33 days or below, with a target of 62 days for care debts.
- Creditors – we will pay 97.5% of all undisputed invoices within their normal payment terms. The Council's standard payment terms are 14 days for small and medium size enterprises (SMEs), otherwise 28 days.

6. Balances and Reserves

- Balances will be maintained at a level commensurate with identified risks, based on an annual risk assessment, subject to a minimum of 2.5% of gross expenditure (excluding schools). The risks reflect unforeseen overspendings, unexpected events and emergencies such as severe weather, potential liabilities and uncertainties over the future level of funding.
- Any income which is fortuitous to the Council will be used to address an adverse cash flow position in the MTFP or otherwise be added to balances.
- Revenue reserves will be held for specified purposes only and reviewed on an annual basis.
- New revenue reserves require approval by the Cabinet.

7. Capital Strategy

The capital strategy provides a framework for the development of the capital programme and ensures that the use of limited capital resources accords with the Council's objectives and priorities as set out in the Corporate Plan. The latter is achieved by having asset management plans for the two main areas of asset holding:

- The Asset Management Plan sets out the future direction for managing the Council's property assets and provides a strategic approach to securing operational and financial benefits of the property estate. It reflects the changing needs of the property portfolio as the Council moves from being a service provider to a commissioner of services.
- The Transport Asset Management Plan sets out the prioritisation for investment in highway infrastructure including roads, footways, bridges, street lighting and drainage, based on an assessment of need, and incorporates the Local Transport Plan.

The Council's limited capital resources are managed effectively by:

- Allocating capital resources in line with corporate objectives and priorities and considering what outcomes can be achieved by a particular project and how effectively it uses corporate capital resources.
- Using capital resources prudently and flexibly in line with the agreed capital funding strategies to ensure their affordability, longevity and sustainability.
- Providing contingencies across the capital programme to manage the resources pressure arising from housing growth and uncertainties related to on-going service transformations.

Our principles for prioritising capital investment are to:

- comply with our statutory duties;
- improve the efficient and effective delivery of our services; and
- promote economic growth.

This gives the following **capital investment priorities**:

Priority 1: projects which enable compliance with our legal/ statutory duties including projects which address any infrastructure deficits related to statutory compliance.

Priority 2: projects which maximise leverage from external partnerships and bodies (e.g. Local Enterprise Partnership (LEP)) in order to deliver agreed infrastructure priorities (e.g. SPIP).

Priority 3: projects where a major proportion is funded from developer contributions, Community Infrastructure Levy, grant or revenue contributions.

Priority 4: projects that facilitate economic development and housing growth but require the majority of funding to be met from the Council.

Priority 5: projects that address cross-cutting issues, facilitate joint-working with partners or generate new/ additional income.

Priority 6: other projects.

Invest to save schemes which generate sufficient revenue savings to cover the cost of capital within at least 10 years, or are self-financed through prudential borrowing will be considered on a case by case basis alongside other bids which are subject to prioritisation.

Schemes below a certain financial threshold value will be assessed as part of an overall programme rather than individually.

Capital resource allocations are considered corporately on the following basis:

- <u>Central government capital allocations and grants</u> issued as “not ring-fenced” will be allocated in line with the Council’s priorities based on this capital strategy and the underpinning asset management plans. Ring-fenced or earmarked funding received from central government will be used for the purposes for which it is issued in line with grant/allocation conditions.

- Capital receipts will be treated as a corporate resource and not ring-fenced to the originating service. The Council seeks to maximise capital receipts from the disposal of surplus land and buildings, unless another option gives greater overall benefit.

- Prudential borrowing will be used to fund invest-to-save schemes, where the cost of borrowing is met from future revenue savings by services; or capital investment where the Council has a significant unmet capital need, in which case the cost of borrowing is met corporately. The application of prudential borrowing must be in line with the requirements of the Prudential Code.

- The Council will try wherever possible to influence investment through the targeted use of its limited capital resources to lever in external funding and project specific grants where these meet the Council's priorities and objectives. Any external resources, once secured, will be used for the purposes for which they are issued as per the guidance and conditions determined by funding providers. The Council will evaluate long-term implications of accepting any external funding provision, in particular any impact on the revenue budget and such projects only proceed if they are affordable and demonstrate value for money. This includes working within the broader context (such as the LEP) to align available funding streams.

- The Council will be proactive in ensuring, as far as possible, that all additional capital investment needs arising from new developments are funded from developer contributions, however it is recognised that this is unlikely to meet the scale of infrastructure investment provision needed to respond to the identified level of growth.

- The Community Infrastructure Levy (CIL) comes into full operation in April 2014. This levy based mechanism is a contribution from all new development towards the cost of infrastructure. Developer contributions will still apply in site specific infrastructure required to mitigate the impact of a specific development. As the Charging Authorities will be the District Councils in Oxfordshire, the County Council will need to seek an agreement with each Charging Authority the contribution from CIL towards the cost of services and infrastructure which it provides.

- The Council will use the Rolling Fund to forward-fund major infrastructure schemes where infrastructure is needed to support the planned development. The cost of infrastructure will then be recovered from public and private sector funding streams as they come forward. The priorities under this fund will be agreed by the Cabinet.

- The Council will consider alternative funding models (such as Public Private Partnerships, Private Finance Initiative, Local Asset Backed Vehicles, Tax Increment Financing and Local Authority Bonds) to address potential future funding requirements, subject to full evaluation of requirements.

In financing the capital programme the first calls on capital resources will be external funding (including S106). This is followed by grants & contributions, supported borrowing and capital receipts and reserves. The final calls, where necessary, will be on prudential borrowing.

In order to respond effectively to unforeseen capital pressures and to accommodate possible changes in the capital resources position, a 3% **contingency** is built into capital programme planning assumptions. This provision and other capital programme contingencies are managed corporately and reviewed on a regular basis based on the risks associated with the overall programme.

8. Managing our Resources Effectively

- Financial management roles and responsibilities are transparent and embedded across Directorates.
- Financial literacy is actively promoted throughout the organisation.
- Appropriate systems and processes are in place to ensure effective in-year financial monitoring of revenue and capital and delivery of business strategies.
- Effective financial controls are in place in all areas of financial management, risk management and asset control.
- Financial Procedure Rules, Contract Procedure Rules and Financial Regulations are regularly reviewed and updated, providing a sound basis for financial governance.

9. Arrangements for carrying forward revenue budget under/overspends

- Revenue overspends will be the first call against any underspends within a directorate. Where overspends cannot be offset by underspends, they will be carried forward into the following year and a clear plan for their recovery will be required.
- Revenue underspends not needed to offset overspends will be placed in reserves to support the MTFP.
- The Cabinet may agree to the carry forward of a revenue underspend for a specific purpose on an exceptional basis.

10. Related Strategies

The Financial Strategy is underpinned by more detailed strategies for particular areas, including the Treasury Management Strategy, the Annual Investment Strategy and the Procurement Strategy.

- The Treasury Management Strategy sets out the Council's strategy for borrowing to ensure its capital investment plans are affordable, prudent and sustainable.

- The Annual Investment Strategy sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

- The Procurement Strategy sets out how we achieve value for money and efficiencies in our procurement of goods and services, supplier relationship management and contract management.