

# MEDIUM-TERM FINANCIAL MANAGEMENT STRATEGY

## PORTFOLIO RESPONSIBILITY: CORPORATE FINANCE

**CABINET**

**26TH OCTOBER, 2006**

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### Wards Affected

County-wide

### Purpose

To approve the Medium-Term Financial Management Strategy (MTFMS), taking into consideration any comments from the Strategic Monitoring Committee meeting on 16th October, 2006.

### Key Decision

This is not a Key Decision

### Recommendation

**THAT Cabinet approves the attached Medium-Term Financial Management Strategy.**

### Reasons

Herefordshire Council is determined to provide a sound basis for sustainable improvements in services, better value for money and an improved quality of life for the people of Herefordshire.

### Considerations

1. The Medium-Term Financial Management Strategy (MTFMS) provides the financial context for making sure our service improvement aspirations for the future are both affordable and sustainable. It will provide a framework for making sure our cash resources follow corporate priorities as reflected in our medium-term financial plans.
2. This final version of the MTFMS has not changed substantially from the draft document the Cabinet approved for consultation and the Strategic Monitoring Committee has previously reviewed.
3. The Strategic Monitoring Committee considered the MTFMS on 15th September (draft document) and 16th October (final document as attached). The Committee's views on the final document will be reported verbally at the Cabinet meeting. The MTFMS will be considered alongside the Directors' three-year service proposals as it sets the context for developing those proposals.
4. The MTFMS contains chapters covering the:
  - National policy context;

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Further information on the subject of this report is available from  
Sonia Rees, Director of Resources on 01432 383519

- National financial context;
  - Herefordshire's policy context;
  - Herefordshire's financial context;
  - Herefordshire's financial management strategy including;
    - i. Corporate financial objectives;
    - ii. Financial management strategy for the revenue account;
    - iii. Medium-Term Financial Resource Model (MTFRM);
    - iv. Financial management strategy for the capital investment;
    - v. Medium-Term Capital Plan;
    - vi. Efficiency Review & Value for Money;
    - vii. Treasury Management Strategy; and
    - viii. Key corporate and financial risks.
  - Decision-making, consultation, diversity & review.
5. The national policy context outlined in the MTFMS leads to the inevitable conclusion that local government's share of public spending is likely to contract over the medium-term as the Government prioritises health, education, home security and global security services.
  6. The impact this will have on future funding levels for local government is compounded by the fact that the national financial context suggests that the Government's public spending plans will contract.
  7. Herefordshire's policy and financial context is described to complete the background against which the MTFMS has been developed.
  8. The financial parameters contained in the guidelines the Directors were given for preparing their 3-year service proposals (see accompanying report on this agenda) reflect the conclusions that have been drawn from reviewing the evidence we have about what the future might hold. Because that future looks bleak, those guidelines are of necessity very tough but manageable in the overall context given past financial performance.
  9. Given the strict control on growth in future budgets, the MTFMS ensures there is a clear policy on general and specific reserves to ensure known financial risks not allowed for in the base budget are covered. The current policy of maintaining a minimum of £3m in general reserves has been maintained but supplemented by a policy of creating Specific Reserves to cover the key financial risks.
  10. The MTFMS also works towards ensuring there is a balanced budget position going forward by completing the work started as part of the 2006/07 budget setting process. It recognises there is more to do in terms of determining the future revenue

base budget requirement for social care services and this area features prominently on the list of 3-year service proposals.

11. The MTFRM identifies the likely level of resources for 2007/08 – 2010/11 given the planning assumptions identified in the MTFMS. The MTFRM indicates there will be financial capacity in 2007/08, no spare capacity in 2008/09 with only a slight improvement on this position in 2009/10 – 2010/11.
12. The MTFMS therefore sets aside some of the additional spare capacity in 2007/08 to ease the pressure identified in 2008/09, allow some additional funding for Invest to Save projects and provide a reserve in the event of slippage compared to the outline financial appraisal for Herefordshire Connects approved in April 2006.
13. The MTFMS allocates £1m from 2005/06 general reserves to fund genuine Invest to Save proposals – proposals that clearly demonstrate how they support corporate priorities, the pay back period, the improvement in performance that will be delivered and the financial resource that will be released as a result.
14. In addition to this sum, the prognosis for the four-year period covered by the MTFMS is as follows:
  - **2007/08** - approximately £3.6m available for future growth proposals ;
  - **2008/09** - approximately £3.9 available for future growth proposals;
  - **2009/10** - approximately £4.6m available for future growth proposals; and
  - **2010/11** - approximately £3.8m available for future growth proposals.
15. Invest to Mitigate future growth proposals also need to demonstrate how they support corporate priorities, the improvement in performance that will be delivered, how that will be monitored and quantify the extent to which the growth pressure has been contained.
16. The new Performance Improvement Cycle will ensure that the available resources are targeted at the Invest to Save / Invest to Mitigate proposals that do most to support key corporate priorities. CMB's initial 3-year service proposals have been developed within this framework and are outlined in the accompanying report on this agenda. Once approved, these will inform the Corporate Plan for 2007 – 10 which will ultimately be agreed by Council alongside the MTFMS. These two documents will provide the basis for developing detailed service and financial plans for 2007/08 in January / February prior to budget setting in March.
17. The draft MTFMS was available for comment over the summer holidays and the Head of Communications developed an active communication strategy to encourage discussion and debate. Full advantage of the opportunity to promote a greater shared understanding of the Council's financial position and the new general and financial management culture it is fostering was taken.
18. The MTFMS provides the financial context for the Council's corporate and service planning activities. Forecasting future financial resources is not an exact science given the numerous variables involved - the Council generates around £1bn of transactions across 800 separate service areas in a year. The MTFMS is however an important planning tool, ensuring that corporate aspirations are affordable in the

long-term and that resources are allocated to agreed corporate priorities in the pursuit of improved Value for Money.

## **Alternative Options**

Stakeholders and partners were asked to identify alternative options during the consultation process. None have been identified to date.

## **Risk Management**

The MTFMS includes reference to corporate risks – both business and financial – and the management actions in place to mitigate them. The risk registers concerned are regularly reviewed and updated in line with the Council's risk management strategy and financial management processes.

## **Consultees**

The following were consulted on the draft MTFMS:

- Corporate Management Board;
- Senior Management Team;
- Leadership Forum;
- Strategic Monitoring Committee;
- Strategic Partnership Board;
- Community Forum meetings in October; and
- Unison.

## **Background Papers**

Background papers are available from the Resources Directorate on request.