

THE MAIDSTONE BOROUGH COUNCIL

CABINET

12 AUGUST 2009

REPORT OF HEAD OF FINANCE

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| <p>Report Prepared by: Paul Riley Head of Finance</p> |
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1. **MEDIUM TERM FINANCIAL STRATEGY 2010-2013**

1.1 Issue for Decision

1.1.1 The council's medium term financial strategy has existed in its current format for a number of years. Although updated annually in line with other strategies it has not been considered for full review since its development.

1.1.2 Cabinet, at its meeting in July 2009, requested a full review of the strategy to ensure that it is in line with currently accepted best practice and fit for the future corporate objectives of the council.

1.2 Recommendation of the Head of Finance

1.2.1 It is recommended that Cabinet approve the draft Medium Term Financial Strategy 2010 onwards attached at Appendix B.

1.2.2 It is recommended that Cabinet approve the proposed revised focus of both the Medium Term Financial Strategy and the Budget Strategy in order to assist in the development of medium term efficiency targets and the strategic plan.

1.3 Background

1.3.1 The Audit Commission recommends the development of a robust medium term financial strategy (MTFS) for all public sector organisations. The Audit Commission does recognise that a MTFS will vary in format for each organisation with the level of detail contained within the strategy being dependent upon the detail already available in other strategies and key documents.

1.3.2 A typical MTFS, like the council's, has two elements a narrative summary and a tabulated, high level, financial plan for the organisation. A simple definition of the MTFS is that it is a financial translation of the Strategic Plan.

- 1.3.3 The council's current MTFS is a combination of a brief narrative and a tabulated 5 year strategic projection. The narrative focuses on the principles of the strategy and the strategic projection focuses on the financial consequences of the strategy in the medium term. The strategic projection is based upon an assessment of the objectives from the strategic plan and key factors affecting the finances of the council such as the strength of the economy and government policies.
- 1.3.4 The details of the link between the two elements of the council's MTFS are contained in the reports and debates on the budget strategy at Cabinet and Overview and Scrutiny as these finalise the factors and assumptions that produce the strategic projection each year. This work ensures that the 5 year strategy is annually reviewed and appropriately focused on the council's key objectives.
- 1.3.5 When compared to the best practice examples recommended by the Audit Commission the council's current MTFS consistently matches the direction and content of other documents. The greatest difference is that the Council's MTFS is brief by comparison and relies upon other council documents to provide details of the corporate objectives and factors built into the financial projection. In addition, although a five year plan, the document has a heavy focus on the following financial year in terms of the identification of growth and savings. Possible enhancements could include improved narrative to clearly relate this document to the strategic plan and a medium term focus to the development of efficiencies and targets in the strategic projection. This would aid development of longer term, sustainable, efficiency proposals.
- 1.3.6 When the council's MTFS is considered in isolation, without the benefit of the cabinet reports and debate, the factors and assumptions are unclear, making it difficult to comprehend the movement in the figures contained in the strategic projection. A possible enhancement could be to tabulate the main economic factors, key objectives and assumptions into the narrative element of the MTFS.
- 1.3.7 The strategic plan review will commence during September 2009 and a report to Cabinet is elsewhere on this agenda. It is essential for the development of the MTFS that the Strategic Plan and the MTFS are harmonious documents. Future developments of the MTFS will need to include feedback from the development of the Strategic Plan and this issue is considered further in that report on this agenda.
- 1.3.8 Attached at Appendix B is a draft proposal for an updated MTFS narrative. The strategic projection that forms part of this MTFS is the most likely scenario agreed at Cabinet in July 2009 and has not been reviewed.
- 1.3.9 This draft MTFS includes enhancements to improve the narrative, as discussed in 1.3.5 and 1.3.6 above but does not consider the proposal to place a medium term focus on the development of efficiency targets. This proposal would be developed if cabinet were to agree this revised focus for the MTFS as it will also revise the focus of the annual budget

strategy. Achievement of this objective would best form part of future integration of Strategic Plan and MTFS development as detailed in 1.3.7.

- 1.3.10 This style of MTFS becomes a fluid document during the budget strategy and strategic planning process. As the plans and strategies develop changes to the MTFS ensure Cabinets current decisions are reflected. Possible developments during the 2010/11 process will include decisions relating to fees and charges, consultation and shared services.
- 1.3.11 The MTFS is a reflection of the strategic plan and should identify the resources required to achieve corporate objectives whilst remaining within the policies it defines. These include the principles to produce a balanced budget and maintain a minimum level of balances.

1.4 Alternative Actions and Why Not Recommended

- 1.4.1 Cabinet could retain the current MTFS as the Audit Commission makes it clear that, given the council's current financial position, that document is satisfactory.
- 1.4.2 This alternative would not provide a best practice version of the MTFS and would not provide a document that stands alone using other council strategies only as a source of in-depth information. In addition, the current MTFS would not be fit for the future financial circumstances currently predicted for the council.

1.5 Impact on Corporate Objectives

- 1.5.1 The MTFS is intended to be a financial statement of the strategic plan. Resources identified will be focused on the council's corporate objectives by the budget strategy process during the year. The MTFS is intended to ensure that the council has the financial resources to achieve its strategic plan.

1.6 Risk Management

- 1.6.1 The failure to produce a robust MTFS puts at risk the possibility that the council will achieve its corporate objectives. Mitigation is to produce a robust MTFS and the council has done and continues to do this.
- 1.6.2 The failure to enhance the current MTFS increases the risk that the council will fail to achieve its corporate objectives in the future. The council's current financial circumstances include: the expected ending of the capital receipts that have funded the capital programme and supported revenue through investment income; the consequences of the economic downturn in 2008/09 and its continuation; and the related enhanced efficiency agenda and reductions in grant aid by the government. Mitigation of these risks would come from improvements in the MTFS especially the development of the medium term efficiency targets.

1.7 Other Implications

1.7.1 Financial

Staffing

Legal

Social Inclusion

Considerations for Disabled Persons

Environmental/Sustainable Development

Community Safety

Human Rights Act

Risk Assessment

1.7.2 The financial implications are contained in the body of the report.

1.8 Background Documents

1.8.1 World Class Financial Management – Discussion Paper Audit Commission

NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED

Is this a Key Decision? Yes

No

If yes, when did it appear in the Forward Plan?

Is this an Urgent Key Decision? Yes

No

Reason for Urgency

[State why the decision is urgent and cannot wait until the next issue of the forward plan.]