

CABINET

**COUNCILLOR GARETH WILLIAMS
LEADER AND FINANCE PORTFOLIO HOLDER**

15 OCTOBER 2024

KEY DECISION? NO

REPORT NO. CEX2406

FINANCIAL RECOVERY PLAN

SUMMARY AND RECOMMENDATIONS:

The Council's Medium Term Financial Strategy (MTFS) approved on 22nd February 2024 presented a cumulative £19.152 million budget deficit over 4 years to 2027-28 before mitigation through a savings programme.

A high-level plan to address the deficit was developed (The Financial Resilience Plan) and the Chartered Institute of Public Finance Accountants (CIPFA) were appointed to review and provide assurance on the plan.

In July 2024, Cabinet and Council considered the Medium-Term Finance Strategy (MTFS) Update and 2023-23 Budget Outturn (Report No FIN 2411). That report included the CIPFA report which endorsed the approach being taken and encouraged the Council to move forward at pace with delivery of a detailed plan.

A detailed Financial Recovery Plan has therefore been developed and includes delivery of revenue savings and capital receipts as well as improving capability and capacity within the Finance function.

Implementation of the Financial Recovery Plan will address the issues and recommendations set out in the CIPFA Financial Resilience Report and also recommendations related to the Council's financial position raised in the Corporate Peer Challenge.

The Council's Overview and Scrutiny Committee considered the CIPFA report at its meeting on 12 September. Matters raised at this meeting are set out in section 3.19 of this report for consideration by Cabinet.

A Cabinet Working Group, the Financial Recovery Working Group, has been established to provide oversight on the delivery of the plan. Comments from the meeting of the Group held on 8 October 2024 will be reported to Cabinet at the meeting.

This report invites Cabinet to consider matters raised by the Overview and Scrutiny Committee and Financial Recovery Working Group and agree the Recovery Plan.

Recommended that Cabinet;

- 1) Consider the matters raised by the Overview and Scrutiny Committee set out in section 3.19 of this report

- 2) Consider any comments on the plan from the meeting of the Financial Recovery Working Group held on 8 October 2024
- 3) Approve the Financial Recovery Plan actions as set out in Annex 2 (Revenue) and Exempt Annex 3 (Capital)
- 4) Note the actions set out and completed in the Finance Service capacity and capability workstream (Annex 1, p2 onwards)
- 5) Note progress made on delivery of actions to date.

1. INTRODUCTION

- 1.1. The Council has a statutory obligation to set and maintain a balanced budget. In February, the Council identified a significant challenge to its future financial sustainability (as set out at the February 2024 Budget Council) and without mitigation the council would not be in a position to set a balanced budget in 2026-27.
- 1.2. A Financial Resilience Plan was agreed at February Council to address this and put the Council on a financially sustainable footing over the medium term. An independent review of the Financial Resilience Plan was completed by the Chartered Institute of Public Finance and Accounting (CIPFA), who concluded that the approach in the Financial Resilience Plan was robust, but that a more detailed plan needed to be completed as soon as possible and then delivered at pace. Subsequently, a Financial Recovery Plan has been developed for approval by Cabinet.

2. BACKGROUND

- 2.1. The Council's Medium Term Financial Strategy (MTFS) approved on 22nd February 2024 presented a cumulative £19.152 million budget deficit over 4 years to 2027-28 before mitigation through a savings programme.
- 2.2. A Financial Resilience Plan was outlined in the February 2024 report to address the deficit challenge and support a savings programme.
- 2.3. In July 2024, Cabinet and Council considered the MTFS Update and 2023-23 Budget Outturn (Report No FIN 2411). The report acknowledged that whilst progress has been made within the Financial Resilience Plan, some external factors have become more challenging. The savings requirement set out in the MTFS report was as follows;

Interest and MRP reduction	(240)	(1,558)	(2,040)	(2,040)
Services cost reduction	(500)	(1,000)	(1,500)	(2,000)
Total recurrent savings:	(740)	(2,558)	(3,540)	(4,040)
Net deficit before savings	5,149	4,393	3,920	4,131
Net deficit after savings	4,409	1,835	380	91

- 2.4. The report set out that for the Council to become financially resilient, it would require the implementation of a wide mix of cost reductions, efficiency savings and delivery of substantial capital receipts to reduce borrowing costs.
- 2.5. The July report also set out that the external reviews, conducted by Chartered Institute of Public Finance and Accounting (CIPFA) in February and the Corporate Peer Challenge performed in June, indicated that the Council needed to urgently set more detailed actions to achieve financial sustainability through a new Financial Recovery Plan alongside work to improve the capacity and capability of the finance service.
- 2.6. The remainder of this report sets out the approach to the Financial Recovery Plan, identifies work already undertaken and Annex 2 and Annex 3 provide the detail of the actions to be taken relating to revenue and capital respectively.
- 2.7. A full response to the Corporate Peer Challenge is provided separately in Report CEX2405.

3. FINANCIAL RECOVERY PLAN

General

- 3.1. The actions in the Financial Recovery Plan were initially derived from the key recommendations and actions identified in the CIPFA Report. (Annex 1), the high-level Financial Resilience Plan and subsequently recommendations relating to the Council's financial position in the Corporate Peer Challenge report.
- 3.2. Specific governance arrangements and a supporting programme structure (Fig 1) for delivery of the Financial Recovery Plan has been defined and implemented with input from Executive Leadership Team.

Financial Recovery Plan - Structure

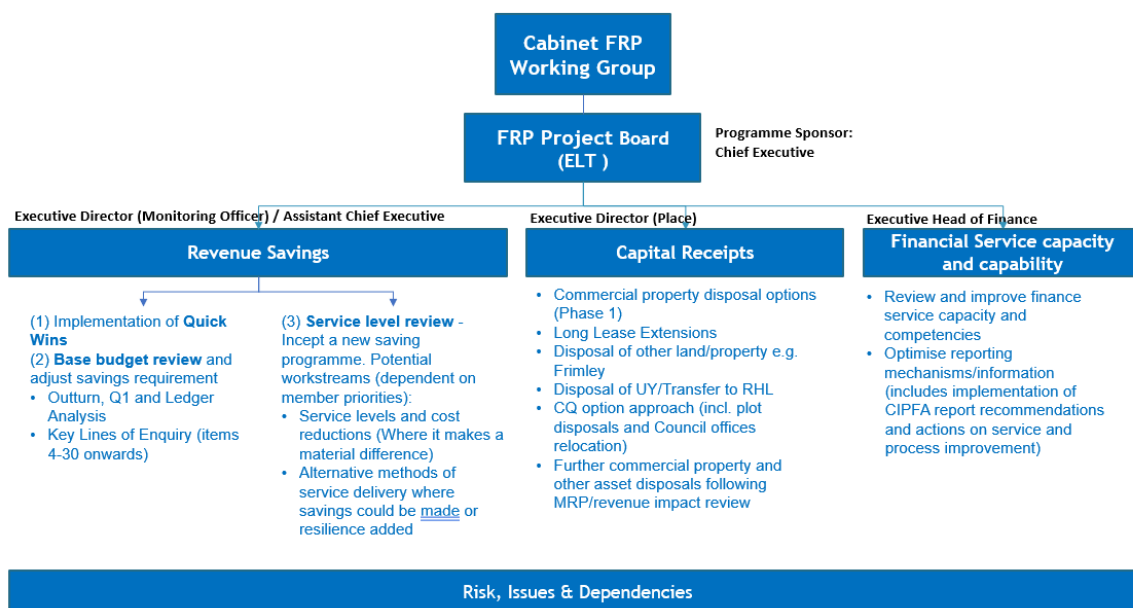


Fig 1.

- 3.3. Day to day management is provided by the Financial Recovery Plan Project Board, consisting of the Executive Leadership Team, and led by the Chief Executive. This board meet on a fortnightly basis.
- 3.4. In terms of member governance, the Financial Recovery Plan will be overseen by the cross-party Financial Recovery Cabinet Working Group who meet on a monthly basis.
- 3.5. Three separate workstreams have been established; (1) Revenue Savings, (2) Capital Receipts, and (3) Financial Service capacity and capability.
- 3.6. The Finance Service capacity and capability workstream includes the CIPFA recommendations and actions included in Annex 1, (p2 onwards). Governance for this workstream is overseen by Executive Director (Monitoring Officer) and Council Leader in his role of Portfolio holder.

Revenue savings workstream

- 3.7. The Revenue Savings workstream is in three parts. The first element is implementation of quick wins which were reported in the Quarter 1 Budget Management report. This work achieved £626,567 savings in 2024/25, exceeding the revenue savings target for the 24/25 financial year. £193,391 of the quick wins are expected to be recurring. In addition, a budget review exercise has identified further recurrent budget adjustments of £134,340.
- 3.8. This is good progress, however, further recurring budget reductions will be needed to achieve the 2025/26 MTFs revenue saving target as set out in table 1 below.

	2024-25	2025-26	2026-27	2027-28
	£	£	£	£
Cumulative Summary				
Cumulative Target Savings	- 500,000	- 1,000,000	- 1,500,000	- 2,000,000
Quick Wins	- 626,567	- 295,933	- 193,391	- 193,391
Budget Adjustments	- 134,340	- 134,340	- 134,340	- 134,340
Remaining savings to be found		- 569,727	- 1,172,269	- 1,672,269
Savings achieved beyond target	260,907			

Table 1: Revenue savings from Q1 budget report

- 3.9. The July MTFs report described several Council expenditure types that could contribute to achieving the required revenue budget reductions in future years. Around 30 lines of enquiry and associated actions have been identified as part of the Financial Recovery Plan (Annex 2). The purpose of this review is to establish a robust base budget requirement based on current service delivery arrangements.
- 3.10. The third element of the Revenue Savings Workstream is a Service level review which will form a new formal savings programme. This programme will identify options for reductions in service levels and costs across the organisation taking into account Council priorities and consideration of alternative methods of service delivery. The scale of saving required is dependent on the outcome of the work on the lines of enquiry and the consequential 're-based budget'.
- 3.11. Separately, a management review, utilising a consultant from Solace is underway. The primary aim is to ensure good alignment with new priorities in line with one recommendation from the Peer Challenge report but may also identify opportunities for reductions in management costs.

Capital receipts workstream

- 3.12. A full review of Council assets has been undertaken, with support from external consultants, to determine the optimal assets to release whilst balancing capital receipt value and ongoing revenue income. Projects have been established, where required, to ensure delivery as quickly as possible.
- 3.13. The current capital receipts target profile as set out in Report FIN 2411 is as follows:
- 24/25 - £5m
 - 25/26 - £25m
 - 26/27 - £10m
- 3.14. The proposed Council assets identified to date for disposal to support the documented capital receipt targets, anticipated asset value and estimated timescales are outlined in Annex 3. Whilst £5m of receipts is expected to be achieved as proposed in 24/25, there is not currently full certainty of delivery of £25m of capital receipts by the end of 25/26. The work identified in exempt

Annex 3 seeks to achieve this certainty as soon as practicable. In sections 3.46-3.47 of the July MTF report, the Executive Head of Finance set out a range of sensitivities including the impact of interest rates and the impact of a reduction in the overall level of capital receipts achieved to £20m.

- 3.15. Regular monitoring is in place to provide visibility of progress on the achievement of capital receipts, but it should be recognised that land and property disposals are complex, timetables not always entirely within the Council's control and values subject to the market. Any changes to forecast disposal values and estimated delivery dates together with the revenue impacts of this will be reported to the working group and cabinet as soon as they become certain.

Financial service capacity and capability workstream

- 3.16. The Financial Service capacity and capability workstream is led by the Executive Head of Finance and aims to strengthen capacity and capability in respect of the Finance function. Output from the CIPFA report and Corporate Peer Review has shaped the activity to be undertaken. This includes:

- Understanding latest regulations on capital flexibilities and impact to RBC
- Revision of a regular timetable for financial reporting and budget setting and review.
- Review of treasury operations.
- Review of capital planning methodology.
- Maintenance and improvement of suitable expenditure controls into the medium term.
- Management of the Council's balance sheet.
- Review of team structure and capacity
- Review of the Council's management of insurance
- Review of reserves to improve governance and transparency for drawdown of earmarked reserves
- Complete audit of Statement of Accounts for 2020/21, 2021/22 and 2022/23.

- 3.17. Annex 1 provides an update on progress made to date and timescales for further activity to be completed.

Overview and Scrutiny Committee

- 3.18. Members from Overview and Scrutiny Committee considered the CIPFA report at their meeting on 12 September. That committee endorsed the recommendations as set out in the CIPFA report and have advised that all should be adopted without any undue delay. The Committee further proposed three other areas for consideration:

- (1) That the work of the Financial Recovery Working Group be accelerated to reflect the urgency of the financial position facing the Council.

- (2) Pre-scrutiny be used to consider any future governance matters in a timely manner to avoid any further delays in improving the process of governance.
- (3) Serious consideration be given to appointing an independent person (possibly from CIPFA or similar independent public financial body) to the Financial Recovery Working Group to provide external independence and challenge.

3.19. Cabinet are invited to consider these proposals.

Other consultation

- 3.20. The Finance Working Group last met on 8th October to consider the Financial Working Plan, and their comments will be reported to the meeting.
- 3.21. Corporate Governance, Audit and Standards Committee have noted that the governance matters raised in the CIPFA report and Peer Challenge will be addressed through the Financial Recovery Plan arrangements and/or the proposed review of Governance by the Centre for Governance and Scrutiny

Alternative Options

- 3.22. The Council has a legal obligation to produce a balanced budget and therefore there is not a 'Do Nothing' option. The Council must achieve its Revenue and Capital receipt targets, through implementation of the Financial Recovery Plan.

4. IMPLICATIONS

Risks

- 4.1. Strategic and corporate risks associated with the delivery of the financial recovery plan are included in the council risk register and reported quarterly to cabinet.
- 4.2. The delivery of and timescales for capital receipts for the identified assets is dependent on third party actions and decisions, which are often outside of the Councils direct control.
- 4.3. If interest rates do not fall in line with MTFs projections, the Revenue and Capital Receipt targets will need to be reviewed accordingly. Sensitivity analysis was provided to Cabinet in July and contingency plans to mitigate against this scenario are being considered.
- 4.4. The delivery of some revenue savings will require changes and potentially reductions to services. This may consequently impact residents,

Legal Implications

- 4.5. The Local Government Act 1972 (Section 151) states that “every local authority shall make arrangements for the proper administration of their financial affairs.....” Councillors are responsible for the financial control and decision making at their council. Section 113 of the Local Government Finance Act 1988 requires that an officer of the Council is a qualified member of one of the accountancy institutes. Every council designates a specific officer as their responsible financial officer (the Council’s section 151 officer). This person is central in providing effective financial advice to councillors and officers; organising and maintaining a sound system of financial governance and control; and ensuring that the council follows its legal duties in financial matters. Every council must have a balanced and robust budget for the forthcoming financial year, and a “medium term financial strategy (MTFS”) and plan.

Financial Implications

- 4.6. Successful delivery of all aspects of the Financial Recovery Plan is key in addressing the financial challenges facing the Council. Delivery of the plan will support savings to ensure balanced General Fund budgets in coming years and for the sustainability of the Council’s financial position.

Timescales

Set out in Annex 4 – Budget Setting Timetable

Resource Implications

- 4.7. In addition to in house resources, interim and specialist roles may also be required to support some of the actions.

Equalities Impact Implications

- 4.8. There are no direct equality impacts as a result of agreeing the Financial Recovery plan. However, potential reductions to services may have direct impacts and where appropriate, equality impact assessments will be undertaken.

Other

- 4.9. The delivery of the plan is a corporate priority, and all services will need to contribute.

5. CONCLUSIONS

- 5.1 The council has identified a significant challenge to its future financial stability as set out at the February 2024 Budget Council. Approval and subsequent implementation of the proposed Financial Recovery Plan is essential to enabling delivery of the required cost reductions, efficiency savings and capital receipts to mitigate the deficit.

- 5.2 Implementation of the Financial Recovery Plan addresses issues raised in the CIPFA Financial Resilience Report and Corporate Peer Challenge.

LIST OF APPENDICES/ANNEXES:

Annex 1: Chartered Institute of Public Finance and Accounting (CIPFA) Report

Annex 2: Revenue savings lines of enquiry

Exempt Annex 3: Capital receipts assets, anticipated values, and timescales

BACKGROUND DOCUMENTS:

Budget Council agenda 22nd February 2024: including the MTFs and Capital Strategy Report 2024-25 TO 2027-28 MEDIUM TERM FINANCE STRATEGY UPDATE AND 2023- 24 BUDGET OUTTURN

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