

CABINET

**COUNCILLOR GAYNOR AUSTIN
FINANCE & RESOURCES PORTFOLIO HOLDER
REPORT NO. FIN2517**

14TH OCTOBER 2025

KEY DECISION? NO

MEDIUM TERM FINANCIAL STRATEGY 2025-26 to 2028-29 MID YEAR REVIEW

SUMMARY AND RECOMMENDATIONS:

This report sets out a review of the Medium-Term Financial Strategy (MTFS) up to 2028/29 as at the end of September 2025. The report provides an assessment of existing and newly identified budget pressures and progress to date on delivering the required budget savings to achieve financial sustainability within the MTFS period, the Council's top corporate objective.

The MTFS is being adversely impacted by increased cost pressures identified in the February 2025 budget setting report and delays in identifying and delivering savings, compounded by the Local Government Review's significant impact on strategic leadership capacity and changes within the senior management team due to the departure of the Chief Executive.

CABINET is recommended to:

- i. Consider the MTFS mid-year review set out in this report and recommend appropriate actions to the Senior Management team.

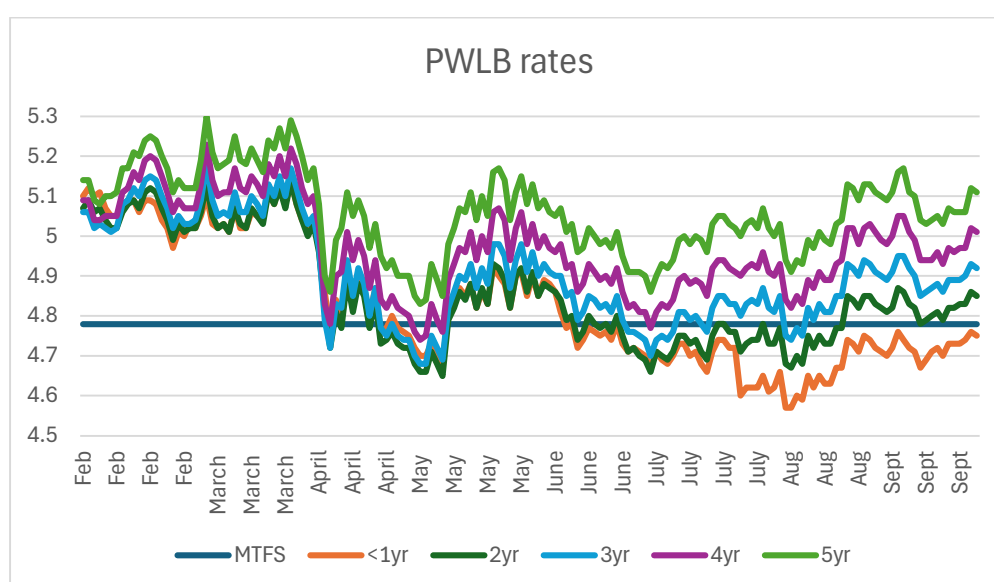
1. INTRODUCTION

- 1.1. The Budget is a major decision for the Council and setting and maintaining a balanced budget is a statutory requirement. This report provides an update on the medium-term financial forecast approved on 27th February 2025.

2. BACKGROUND AND EXECUTIVE SUMMARY

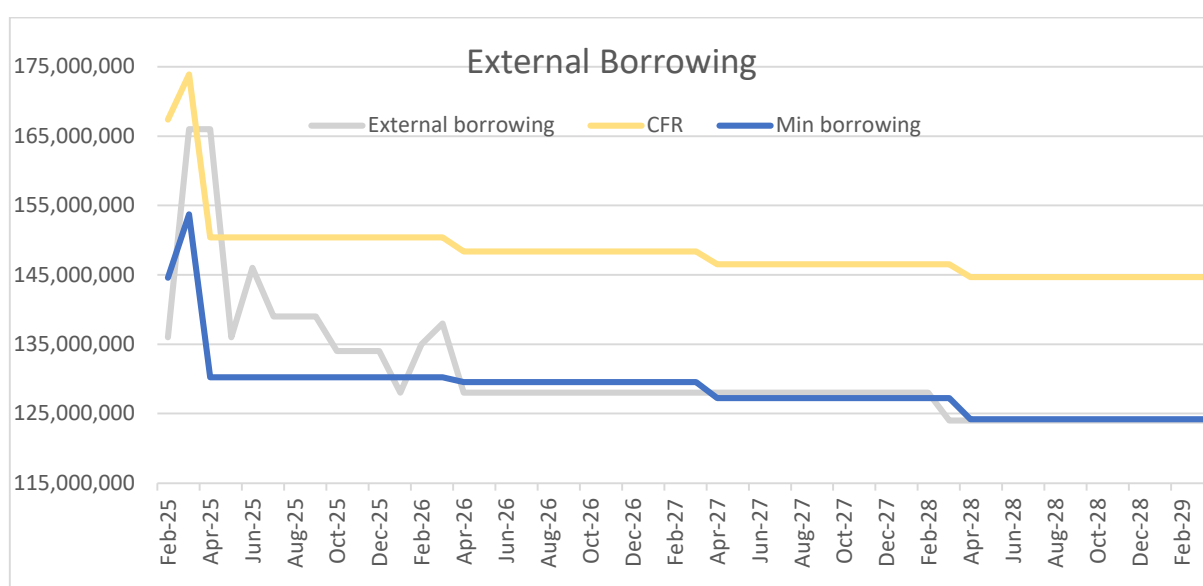
- 2.1. The Council has a statutory obligation to set and maintain a balanced budget. In February 2025 the Council identified a significant challenge to its future financial sustainability (as set out at the February 2025 Budget Council).
- 2.2. The forecast outturn for 2025/26 is on track with the full £1.8million savings requirement achieved. Most of this saving is of a one-off nature and therefore must be found again in 2026-27 in addition the £1m increase in savings requirement.

- 2.3. Whilst the council has maximised the use of all available cashflow through detailed and careful cash management to avoid external borrowing, the overall reduction in the level of borrowing required in the MTFS to achieve interest and Minimum Revenue Provision savings can only be achieved through the timely delivery of the identified capital receipts. Cabinet approved a one off £200k in July 2025 to increase resources across the commercial property team pending a restructure to ensure resources are targeted at priorities within the asset portfolio to improve the portfolio's overall net position and develop a longer-term strategic focus.
- 2.4. As of March 2025, the council had £166m of external borrowing 100% maturing within 12 months (i.e. to be reborrowed), by September, this was reduced to £139m with 68% maturing within one year, 11% within 2 years and 22% within 4 years. There is £25m to be reborrowed by the end of March and a further £39m to be reborrowed by the end of June 2026. Timely delivery of capital receipts will avoid the need to reborrow. The objective is to borrow for longer periods (i.e. 3 years) to gain cost certainty and progress is being made. The February 2025 MTFS assumed an average borrowing rate in 2025-26 of 5% dropping to 4.78% for the remainder of the MTFS period. Reborrowing interest rates between February and July have been below 4.78%.
- 2.5. The graph below tracks the available rates for each maturity period, the trajectory implies that the council is unlikely to be able to replace debt maturing between October 2025 and June 2026 (in total £64m) within its assumed interest rate of 4.78% and longer than one year maturity and will be reliant on the Inter Authority borrowing market which predominantly offers maturities less than 2 years and cheaper than PWLB. This will increase the council's exposure to interest rate increase at a time when the council is under pressure to achieve financial sustainability.



- 2.6. The graph below sets out the Capital Financing Requirement (CFR) i.e. the amount of capital expenditure the council has incurred to date that has yet to

be funded by its own resources, therefore relying on borrowing. On the graph, the minimum borrowing (blue line) represents the external borrowing required to ensure the council has sufficient cash available to pay its creditors and bills as they fall due whilst maintaining a minimum £5m cash buffer. However, the council's day to day cashflow needs is not smooth as it depends on the daily amount of money coming in and going out (working capital), and at times some borrowing is needed to cover shortfalls in working capital demonstrated by the external borrowing line. Minimising the cost of borrowing requires an accurate cashflow forecast, including capital receipts. Delays in achieving planned capital receipts therefor has a direct impact on the councils in year cashflow and the longer-term ability to reduce the level of borrowing required, interest cost and Minimum Revenue Provision reduction.



- 2.7. The delayed receipts that were included in the February 2025 MTFS mid-year review have been removed from the budget estimates and is now being treated as a savings target to be achieved. The impact of the delay on the financial recovery plan is included in the overall financial position presented in appendix one.
- 2.8. The Serco waste and grounds maintenance contract is being reprocured. The detail is still under negotiation and will cover Employers National Insurance and minimum wage increases, cancellation of the commercial service and an adjustment for an improved margin. In total this is estimated to be around £500k per year.
- 2.9. There are several cost pressures that have escalated since the February budget approval, amounting to a total £815k in 2026-27 rising to £1.5m by 2027-28. Clearly this is unwelcome pressure on the Financial Recovery Plan and work will have to be done to contain these estimates within the current budget. The detail is itemised on appendix one.

- 2.10. The government has committed to progressing with the Fair Funding Review and has consulted all councils on a comprehensive range of proposals. The councils funding advisors (Pixel) have modelled the policies detailed within the consultation and there are a significant number of scenarios giving different answers to changes in the councils funding and therefore no assumption has been factored into the mid-year estimates. The delay in the Autumn Budget has pushed back the timelines for the provisional settlement for funding allocations from MHCLG, which can now be expected shortly before Christmas. A Policy Statement is expected early November ahead of the provisional settlement.
- 2.11. Reserves projection included within the February estimates indicated there would be £5.8m of useable reserves plus £2m working balance at the end of 2028-29 and the council would have resolved its deficit. Due to the changes itemised in this report, this position is likely to be worse with £4.2m of reserves if all savings are achieved, and no reserve funded supplementary budget estimates are approved during the remaining MTFS period, and the Fair Funding Settlement is budget neutral.
- 2.12. The savings target is the most significant concern and is likely to be very challenging to achieve next year. This year the target (£1.78m) was achieved through a combination of temporary reductions and the reversal of the government policy on Pooled Funds (£1m book loss provision). Most of these savings are unlikely to be achieved again like for like, the target for next year is £2.78m, an additional £1m. There is not sufficient information available to be more precise on the change in savings requirement until January 2026, once the contract negotiations, Fair Funding and Local Government Reorganisation have been progressed.
- 2.13. Financial Recovery Strategy adopted to resolve the financial challenge and bring the council's budget back into financial balance without the use of reserves is progressing and remains the appropriate response. The Mid-year review highlights that more focus on in year savings is required, and a bigger call on reserves than planned whilst the service review work to align the councils work and underlying budget with the recently adopted Delivery Plan progresses.
- 2.14. There are a significant number of uncertainties in the estimates, including the outcome of the Fair Funding review to be progressed before the council is due to set its 2026-27 and MTFS in February 2026.

3. Alternative Options

- 3.1. 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.
- 3.2. Progress on identifying and implementing measures is being financially monitored, the council does have the option to introduce targeted or broader temporary expenditure control to hold back expenditure and reduce the

drawdown on reserves if the financial situation warrants. The Executive Head of Finance will consult at the earliest indication of this option being required.

4. Consultation

- 4.1. No specific consultations have been undertaken outside of the elected member of the council.

5. IMPLICATIONS

Risks and Uncertainties

A summary of the key risks over the MTFS period as described in February 2025 and updated for the Mid-Year review is included below:

- 5.1. The cost of borrowing remains a risk to the council at present. Most of the borrowing has now been put in place for this financial year, with many transactions below the original 5% assumption. Further borrowing will be required in the final months of the year. In the last month, interest rates available have increased slightly, increasing risk to the achievement of interest rates at or below budget.
- 5.2. External borrowing was minimised throughout 2024/25, however, the value of borrowing the council holds remains high, borrowing interest costs continues to provide a risk to the council with £64m of maturing debt to be reborrowed within the next nine months.
- 5.3. Delays to disposals of capital receipts are having an impact on borrowing costs in year. Further delays will continue to negatively impact the 2025/26 financial year. If delays fall into the 2026/27 financial year, both interest costs and MRP savings reported in the MTFS will not be achievable in the 2026/27 financial year.
- 5.4. Property portfolio rental streams are a sizable contributor to the council's income at circa £10m, supporting the funding of debt costs. Properties remain at risk of vacancies which both prevent income achievement but can incur additional costs of rates, maintenance, and security. The property team capacity is under pressure to cover the full scope of managing the portfolio, this is currently being reviewed.
- 5.5. The Fair Funding review is a significant risk to the MTFS and is covered in detail within the report.
- 5.6. Officer capacity and focus is required to achieve the challenging savings targets which are proving to be difficult to achieve with the current capacity demands and focus on Local Government Review and changes in the senior leadership team. These risks will have to be fully addressed in the next two months.
- 5.7. Financial Statements disclaimed audit backlog to 2020-21 carries risk around impact on available reserves. Full audit assurance will not be achieved until the

2026-27 financial statements audit is completed by audit deadline of February 2029. There may be matters that affect the reserves identified at any point within this period.

- 5.8. Work on identifying and evaluating the latent liability (such as energy efficiency standards, major component replacement or dilapidations) on the substantial property holdings and additional capital expenditure on lease transactions has not been concluded and incorporated into the capital programme or revenue account through planned maintenance and income projections. This work must be progressed to tie into the savings strategy.
- 5.9. The airport planning application is a financial risk from the cost that could arise from any legal proceedings following the decision. This could be a significant revenue expense.
- 5.10. There is an unsecured loan to Farnborough International Limited (FIL) of £6.482m due for repayment in tranches in the next three years. FIL has offered the council the option to repay the full loan in March 2026 and this has been included within the mid-year assessment. There is a risk that FIL will not conclude on its refinancing and revert to the agreed repayment schedule.

Legal Implications

- 5.11. Under the Council's Finance Procedure Rules, the Executive Head of Finance is responsible for the proper administration of the Council's financial affairs and advising on the corporate financial position. In compliance with the Council's Financial Regulations, it is the responsibility of Executive Directors, Heads of Service, Corporate Managers and Service Managers to consult with the Executive Head of Finance and seek approval on any matter liable to affect the Council's finances materially, before any commitments are incurred, including appropriate reporting and approvals in line with the delegated authority thresholds.

Financial and Resource Implications

- 5.12. Financial implications are set out within the report and further due diligence is given on appendix 2 "Section 25: Budget calculations: report on robustness of estimates"

Equalities Impact Implications

- 5.13. No direct impact.

Other

- 5.14. There are no further implications of this report to consider.

6. CONCLUSIONS

- 6.1. The council set a 2025-26 balanced budget with a planned reserve drawdown of £3.4m and a savings target of £1.8m of net budget reduction in 2025-26. The latest forecast shows the savings target has been achieved.
- 6.2. If the in-year financial situation determines, cost controls can be implemented to slow down the rate of expenditure until the situation is resolved.
- 6.3. Overall, the financial position over the MTFS period continues to be challenging, progress is being made and officers will continue to monitor closely and report updates regularly to councillors.

LIST OF APPENDICES/ANNEXES:

Appendix 1: MTFS Mid-Year review

Appendix 2: Section 25: Budget calculations: report on robustness of estimates

BACKGROUND DOCUMENTS:

- Budget Management - Outturn 2024/25– 8th July 2025
- Budget Management – Period 5-6 - 14th October Cabinet
- General Fund Budget 2025/26 and Medium-Term Financial Strategy 2025/26 to 2028/29 - Council – 27th February 2025

CONTACT DETAILS:

Head of Service – Peter Vickers peter.vickers@rushmoor.gov.uk

Appendix 1

MTFS Mid Year review

September 2025



2024-25 Outturn and Reserves

	February 2024 Approved Budget £'000	January 2025 (P10) forecast £'000	March 2025 (P12) Outturn £'000
Budget deficit - February 2024 MTFS	5,379	5,379	5,379
Deficit reduced by savings removed from budget	(740)	(926)	(926)
Budgeted use of reserves:	4,639	4,453	4,453
Budget variances	0	(1,064)	(4,229)
Reserve drawdown to fund deficit	(4,639)	(3,389)	(224)
Reserves			
Reserves available to fund deficit 31/3/2024	(12,075)		(12,075)
Reserve drawdown to fund deficit	4,639		224
In year use of reserves	0		920
Reserves available to fund deficit 31/3/2025	(7,436)		(10,931)
Reserves supporting specific initiatives	(1,766)		(1,766)
In year use of reserves	119		(767)
Reserves supporting specific initiatives 31/3/2025	(1,647)		(2,533)
Total useable reserves 31/3/2025	(9,083)		(13,464)
Working Balance:	(2,000)		(2,000)

The 2024-25 budget projected a £5.379m deficit funded by 740k savings to be achieved and £4.639m reserve drawdown. In January 2025 £926k of savings achievement were reported to Cabinet and removed from the budget, with an additional £1.064m of favourable variances forecast to year end (March 2025). At the end of March, the in-year forecast variance (£1.064m) became the outturn variance to budget (i.e. reality: £4.229m) and this was a significant improvement resulting in a £224k drawdown from reserves for 2024-25 instead of the budgeted £4.639m.

MTFS February 2025 - Reserves Projection

	2025-26	2026-27	2027-28	2028-29
2025-26 MTFS	£`000	£`000	£`000	£`000
Net deficit on revenue account	5,205	3,085	4,054	3,808
Savings to be identified:	(1,784)	(2,784)	(3,781)	(3,781)
Funded from reserves	3,421	301	273	27
Reserves:				
Available to fund deficit:	10,931	6,382	6,081	5,807
Supplementary approvals	(1,128)			
Budget deficit	(3,421)	(301)	(273)	(27)
Reserves remaining	6,382	6,081	5,807	5,780

Updated for the increase in reserves from 2024-25 outturn. An adequate level of reserve is required to cushion against financial shocks such as not achieving and/or delayed planned savings, new cost pressures, cost of change/to achieve savings and organisational change. The annual net deficit is the indicative level of required reserves.

MTFS September 2025 - Reserves Projection

	2025-26	2026-27	2027-28	2028-29
	`000	`000	`000	`000
2025-26 MTFS Reserves Mid year				
Feb 2025 Net deficit on revenue account	5,205	3,085	4,054	3,808
Net change in MTFS mid year		815	1,553	1,511
Total: revised deficit	5,205	3,900	5,607	5,319
 Feb 2025 Savings to be identified:	(1,784)	(2,784)	(3,781)	(3,781)
Capital receipts target		(158)	(1,002)	(1,155)
	(1,784)	(2,942)	(4,783)	(4,936)
 Revised funding from reserves	3,421	958	825	383
 Reserves:				
Available to fund deficit:	10,931	6,382	5,423	4,599
Supplementary approvals	(1,128)			
Budget deficit	(3,421)	(958)	(825)	(383)
Reserves remaining	6,382	5,423	4,599	4,216
 February 2025 planned reserves	6,382	6,081	5,807	5,780

The council's financial plan is being blown off course and will no longer achieve a balanced MTFS and adequate reserves by the end of 2028-29 without action being taken. **The savings run rate this year is well below amount needed with most of the current year £1.784m savings being non recurrent. A repeat of this year's performance will result in insufficient reserves to call upon to set a balanced budget, i.e. £3.5m to cover £4.7m savings**

	<u>2025-26</u>
<u>Service savings</u>	<u>£000</u>
Budget correction	(62)
Budget not required	296
No elections 2025-26	8
UKSPF 2526 Programme funding	162
Reduction in property repairs budget (£220k is the Meads)	351
Commercial property service charges adjustment	125
Property management fee alignment	14
Property consultancy fee adjustment	50
LSH fees adjustment	50
Property contract staff	34
Regen consultancy fee adjustment	15
Regen temp staff adjustment	50
Total service savings:	<u>1,093</u>
Pooled fund reversal one off saving	1,000
Total 2025-26 savings	<u>2,093</u>

Most of the savings are property related and have a degree of discretion; further reliance will require management decisions. UKSPF funding will not be available next year. Very little saving has been identified from across other services non establishment (i.e. staffing) expenditure budgets.

	<u>2025-26</u>
<u>UKSPF 2526 Programme</u>	<u>£000</u>
Direct Grants	20
Grant To Dial A Ride	34
Grants To Business Support	10
Miscellaneous Expenses	67
Town Centre Marketing and promotion	31
Total UKSPF funded activity	<u>162</u>

	2026-27	2027-28	2028-29
Summary of changes in MTFS mid year September 2025	£`000	£`000	£`000
Southwood MRP and interest charged to SANG	(144)	(114)	(114)
Vacancy Savings	(83)	(12)	(12)
Union Yard PRS MRP	33	34	34
Princes Hall - staffing	50	50	50
Inflation	53	4	6
Planning income budget unrealistic	60	61	62
Local Plan Staff	100	100	100
MRP	116	308	331
LGR costs	150	150	150
Legal team capacity	200	200	200
Net interest	280	272	195
Serco contract	0	500	510
Net change in MTFS mid year	815	1,553	1,511
() means improvement			

Corporate delivery plan priorities have not been costed into these numbers. Fair funding review, changes in Retained Business Rates and government grants will not be known until December 2025.

	2026-27	2027-28	2028-29
	£`000	£`000	£`000
MRP Changes summary			
Net changes in Cap Ex on CFR	(59)	(77)	(54)
<u>Capital receipts included</u>			
FIL loan	(461)	(250)	(250)
Vivid Capital receipt	(15)	(16)	(17)
Frimley sale	2	2	2
MRP Included in estimates	(474)	(264)	(265)
<u>Capital receipts excluded</u>			
Devereux	150	150	150
Hawley	338	339	339
Meads Block 3	10	11	12
Optrex	150	150	150
MRP removed from estimates	649	650	650
Net change in MRP	116	308	331
() means improvement			

	2026-27	2027-28	2028-29
Changes in interest projections	£`000	£`000	£`000
<u>Capital receipts included</u>			
Union Yard Prime Sale £1m less	48	48	48
Net FIL repayment	(44)	(15)	53
Increased interest on Money Market Funds	(275)	(275)	(275)
Cashflow working capital estimates	140	103	(42)
Interest on capital receipts included in projections	(131)	(139)	(216)
<u>Capital receipts excluded</u>			
Devereux House	72	72	72
Optrex	72	72	72
Meads Block 3	96	96	96
Hawley Lane	172	172	172
Interest on capital receipts removed from projections	411	411	411
Net change in Interest projections	280	272	195
() means improvement			

<u>Impact of capital receipt delays</u>	<u>2026-27</u>	<u>2027-28</u>	<u>2028-29</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
MRP on planned capital receipts			
Devereux	150	150	150
Hawley	338	339	339
Meads Block 3	10	11	12
Optrex	150	150	150
Total: MRP adjustment	649	650	650
Interest on planned capital receipts			
Devereux House	72	72	72
Hawley Lane	172	172	172
Meads Block 3	96	96	96
Optrex	72	72	72
Total: Interest adjustment	411	411	411
Total capital savings adjusted out of budget	1,060	1,061	1,061

These capital receipts were factored into the February 2025 MTFS estimates. The table quantifies the original savings had they been delivered on time. The impact on the current financial year has been included within the in-year budget management reporting.

Capital receipts: revised projected savings.

September 2025 Assumptions	Due date:	£m	2025-26	2026-27	2027-28	2028-29
			£000	£000	£000	£000
Devereux House	By October 2026	1.5	0	36	222	222
Optrex	By October 2026	1.5	0	36	222	222
Meads Block 3	By October 2028	2	0	0	48	201
Hawley Lane (value range £2m- £4m)	By October 2026	3.6	0	86	511	511
Total: September assumptions		8.60	0	158	1,002	1,155
February capital savings adjusted out of budget			603	1,060	1,061	1,061
Net change in capital savings			603	902	59	(94)

() means improvement

Delayed capital receipts have been adjusted out of the mid year estimates and the current projections will be included as a specific savings target in the February 2026 MTFS.

The adverse financial impact demonstrates that adequate asset disposal capacity is critical to delivery of capital receipts to prevent further deterioration of the MTFS.

Appendix 2

Local Government Finance Act 2003, Section 25: Budget calculations: report on robustness of estimates

1. Section 25 of the Local Government Finance Act 2003 requires the chief finance officer (CFO) (section 151 of the Local Government Act 1972) of the Council to report to Full Council on the following matters:

- the robustness of the estimates included in the budget
- and the adequacy of the financial reserves in the budget

2. The Act requires councillors to have regard to this Section 25 report in making decisions at the Council's budget setting and council tax setting meeting(s).

3. Section 26 of the Local Government Finance Act 2003 Minimum reserves: requires the CFO to ascertain a minimum level of reserves for the council and to determine the level of reserve at the end of the financial year under consideration, which cannot be less than the minimum set by the CFO.

Robustness of Estimates

4. Budget setting is based on a standstill approach in cash terms, with inflationary provision normally only made for specified expenditure (e.g., Pay Award, contracts with agreed uplift mechanism). The revenue budget is increased by unavoidable budget pressures that cannot be mitigated elsewhere.

5. The basis on which the budget for 2025/26 and the MTFS have been prepared has been set out clearly in the 27th of February 2025 report to Full Council, including sensitivity testing to specific changes in risk and assumptions. The key financial issues addressed within those budget estimates have been reviewed in this report.

7. The 27th of February 2025 MTFS shows a £16.152m budget deficit as described in the report along with a process to address the deficit and bring the revenue account back into balance. The savings target has been set predicated on the assumptions on interest rates, capital receipts and several other significant assumptions set out within the MTFS. These assumptions have been revisited and updated in the mid-year review.

Risk

8. As indicated in the reports to Cabinet and Full Council, there are several financial risks that the Council will face over the medium-term. The 2025/26 Budget and the MTFS have been prepared with consideration of the risks summarised in the report. It has not been possible to mitigate these risks through use of reserves alone and a budget recovery plan has been proposed. Progress on the delivery of the recovery plan has been assessed and reported as part of the mid-year review.

Adequacy of the Reserves

9. The Budget Strategy set a target for the General Fund balance (working balance) to be maintained at a minimum of £2m. In addition to the £2m working balance, the Council is had £10.931m of useable reserves on 1st April 2025. The mid-year review presented in appendix 1 forecasts that a significant repurposing of earmarked reserves will be required during fund the forecast deficit beyond what was assumed in February 2025.

10. The level of projected reserves shown in appendix 1 indicates that the Council has sufficient reserves to set a legal budget for 2026/27, and potentially 2027/28, depending upon

how the assumptions play out and progress made in achieving the cost-of-service reduction in the coming months through the implementation of the savings plan described above.

11. Therefore, I am satisfied that the level of reserves the Council holds for the forthcoming year is adequate to support the budget although members should consider the level of reserves utilised in 2025/26 and the need to ensure reserves remain adequate over the medium-term.

Peter Vickers
Executive Head of Finance and Section 151 Officer

25 September 2025