CABINET **COUNCILLOR GARETH WILLIAMS**
FINANCE PORTFOLIO HOLDER
23rd July 2024 **REPORT NO. FIN 2411**

KEY DECISION: YES

2024-25 TO 2027-28 MEDIUM TERM FINANCE STRATEGY UPDATE AND 2023-24 BUDGET OUTTURN

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. The budget estimates included several significant assumptions and risks and a set of savings targets to mitigate the deficit to bring the council back to a financially sustainable footing by 2027-28. Cabinet committed to update July Council on these assumptions and progress against the savings targets.

Cabinet is requested to:

note the following:

1. Note the 2023-24 unaudited budget outturn returning **£1.245m surplus** to reserves, which may change with further due diligence and audit, to be updated at October Council
2. Note the revenue budget carry forward schedule para 3.16 and capital slippage on para 3.21
3. Note the 2024-25 financial year review of performance against budget to date on key budget items as described on para 3.22 to 3.31 and note that Cabinet will receive a full in-year financial position in September.
4. Note the Section 151 Officer assessment that the minimum working balance of £2m remains adequate
5. Note the sensitivity analysis of the budget deficit with respect to key assumptions and delivery of the savings plan as set out in para 3.46 to 3.47
6. Note the update to significant risks within the MTFS period as described on para 6.1 to 6.11
7. Note the progress made to date on the financial resilience plan approved on 22nd February and the CIPFA Financial Resilience Report at Appendix 1
8. Note the intention to address issues affecting the Council's financial position raised by this MTFS update, the CIPFA Financial Resilience Report and the Peer Challenge through a new detailed 'Financial Recovery Plan'
9. Note that a further update will be provided to Cabinet in September and Council in October

approve:

10. Approve the write-off of the commercial property lease debt described on para 3.14

11. Approve the 2023-24 reserve movements as represented by the transfers summarised on para 3.18 to 3.19, resulting in unaudited usable revenue reserves of **£20.8m** and a separate **£2m** working balance
12. Approve the proposed strategy to drawdown reserves to finance the projected 2024-25 deficit on para 3.48 to 3.49
13. Approve the establishment of a cross-party Cabinet Working Group to be known as the 'Financial Recovery Working Group' with the primary role of overseeing delivery of the Financial Recovery Plan

recommend to Full Council to approve:

14. the approach and timetable to identifying the required revenue savings as set out in para 4.1 to 4.4
15. the use of capital receipts strategy on para 3.50
16. the proposed reprofiling of the capital receipts income target as described in para 3.45 and resulting additional £1.6m drawdown of reserves

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 a summary of the overall financial performance against the 2023-24 budget (i.e., financial year ended 31st March 2024), forecast performance against the 2024-25 approved revenue and capital budget and an update on the 2025-28 Medium Term Financial Strategy (MTFS) adopted by Full Council on 22nd February 2024

1.2. This is a key decision because it is likely to result in the Council incurring expenditure or making savings which are significant in as much as they will have a material effect on the level of council tax or balances or contingencies in relation to the Council's overall budget.

2. BACKGROUND AND EXECUTIVE SUMMARY

2.1. Last year, the Council approved a balanced 2023-24 budget in February 2023 and projected a balanced budget in 2024-25 without the use of reserves, with a £5m deficit in the later 2 years of its MTFS. However, the council's £167m of borrowing is fully exposed to the significant hike in interest rates and the MTFS has been adversely impacted by higher inflation.

2.2. The 2023-24 in-year financial monitoring early in the year was projecting a £2.177m deficit, however by the end of March 2024 this was significantly better with a £1.245m underspend against budget. This underspend arose due to a combination of one-off accounting corrections, some over-prudent forecasting and some significant variances that are set out in section 3 of the report. This also highlights the insufficiently experienced financial capacity supporting the council as concluded by the CIPFA Financial Resilience Review.

2.3. Within this context, the Council has identified a significant challenge to its future financial sustainability as set out at the February 2024 Budget Council. The 2024-25 budget was balanced using a £5.4m drawdown on reserves and the MTFS shows a cumulative £19.152m deficit over 4 years before mitigation, supported by a projected £10.56m of available reserves. Effectively without mitigation the council will not be able to set a balanced budget in 2026-27. A Financial Resilience Plan was agreed to mitigate the deficit and put the Council on a financially sustainable footing.

2.4. A review of the 2024-25 budget against the outturn information indicates the projected £5.4m deficit this year should be improved. An action plan based upon the analysis and commentary in this report has been compiled. The objective is to comprehensively review the underlying cost drivers and challenge expenditure and income to ensure all aspects of budget are clearly understood and closely managed against risks and priorities, minimising the level of reactive expenditure within the base budget. An external experienced interim accountant is being employed to lead this project and will then go on to develop a framework to identify further savings using evidence led approach including options analysis.

2.5. 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 needs to be completed as soon as possible and then delivered at pace. The report also included some recommendations on governance, strengthening capacity and capability in respect of the finance function and other improvements that the Council needs to address as part of its financial improvement plans.

2.6. A review of the interest rate assumptions in the budget indicates the long-term borrowing interest rate will be closer to 4% compared with 3.1% factored into estimates. Work on the Financial Resilience approach to date also indicates that it is unlikely that the council will achieve the full £40m of capital receipts from the sale of assets. Whilst there may be additional in year improvement in the budgeted outturn, this will require a recurrent additional reduction of up to £2m in revenue budgets to ensure the budget is balanced and ideally this would be delivered early to preserve reserves. The detail of how this will be achieved will be brought to the October Council meeting.

3. FINANCIAL UPDATE

Budget outturn for 2023-24

3.1. In February 2023 the Council approved an MTFS showing a balanced budget for 2023-24 and projected a balanced budget for 2024-25 after achievement of savings targets; the following two years were in deficit. The approved 2023-24 budget was the basis of the 2024-25 budget, informed by the Quarter 3 budget forecast.

Item	2023/24 (£'000)	2024/25 (£'000)	2025/26 (£'000)	2026/27 (£'000)
Portfolio Net Expenditure	9,769	9,026	8,768	7,619
Corporate Items	2,421	2,597	3,006	4,543
Inflation	2,186	2,646	3,207	4,229
Portfolio + Corporate Items	**14,375**	**14,270**	**14,981**	**16,391**
Additional Items & Budget Pressures	303	315	262	12
Budget Proposals	-	-	-	-
Risk items (Waste)	-	350	350	350
Outcomes Based Budgeting Savings	(2,309)	(2,593)	(2,593)	(2,593)
Draft Net Revenue Budget	**12,369**	**12,342**	**13,000**	**14,160**
Funded by:				
Council Tax *	7,448	7,748	7,993	8,111
Business Rates *	4,057	3,732	2,744	2,797
New Homes Bonus	658	658	-	-
Other Grant Funding	197	205	299	273
Council Tax/NNDR Surplus or (Deficit)	10	-	-	-
TOTAL Funding	**12,369**	**12,342**	**11,036**	**11,181**
Funding Gap / (Surplus)	**-**	**-**	**1,964**	**2,979**

3.2. In March 2024 Cabinet received a Quarter 3 forecast predicting a £2.177m overspend against the 2023-24 budget whilst the outturn as of 31st March 2024 reported an **underspend of £1.245m**, a swing of £3.422m improvement. A summary of changes between Quarter 3 and 4 forecast are presented in the table below. The level of forecast error within the service budgets in Quarter 3 is being reviewed and has implications on the detail included within the 2024-25 budget and subsequent MTFS baseline. This detail is currently being worked through led by the finance team.

Comparison of 2023-24 reported financial position	**Qtr 3 Forecast £'000**	**Qtr 4 Actual £'000**	**Change £'000**
Service Portfolios:			
Corporate Services	4,987	4,612	(375)
Customer Experience & Improvement	2,856	2,791	(64)
Democracy, Strategy & Partnerships	2,325	1,916	(409)
Major Projects & Property	(5,531)	(6,325)	(794)
Operational Services	5,618	4,924	(694)
Planning & Economy	1,022	938	(84)
Net Service expenditure	**11,276**	**8,856**	**(2,420)**
Non-service related items:			
Retained business rates: prior year adjustment	(4,779)	(5,842)	(1,063)
Capitalised debt interest on Union Yard	(600)	(1,660)	(1,060)
Reduction in debt interest payable	7,089	6,884	(205)
Treasury investment interest	(2,546)	(2,900)	(354)
Reduction in provision for doubtful debtor receipts	0	(227)	(227)
Additional one-off small grants	(282)	(510)	(227)

Earmarked reserve movement	(1,578)	530	2,108
Other non-service related items	(6,402)	(6,376)	26
Total: Outturn Deficit/Surplus	**2,178**	**(1,245)**	**(3,422)**

Brackets () represent negative numbers, improved position

3.3. The outturn for 2023-24 against budget is shown in the table below, this is subject to further due diligence and external audit that is scheduled to be signed off week commencing 16th December 2024. There may be adjustments required that affect the reported £1.245m surplus resulting from ongoing diligence and independent audit.

Revenue Account outturn 2023-24	**Budget £000**	**Outturn £000**	**Variance £000**
Corporate Services	4,558	4,612	54
Customer Experience & Improvement	3,063	2,791	(272)
Democracy, Strategy & Partnerships	1,900	1,916	15
Major Projects & Property	(5,668)	(6,325)	(657)
Operational Services	6,027	4,924	(1,103)
Planning & Economy	996	938	(58)
Net Cost of Service	**10,876**	**8,856**	**(2,020)**
Non-service related items:			
Interest received on treasury management	(2,122)	(3,006)	(884)
Interest payable on debt	2,982	6,884	3,901
Capitalised interest on debt	(600)	(1,660)	(1,060)
Minimum Revenue Provision	2,170	1,572	(599)
Other non-service related items	433	242	(191)
Government grants	(1,014)	(1,167)	(153)
Net Budget Requirement	**12,726**	**11,721**	**(1,005)**
Financed by:			
Retained business rates	(4,087)	(5,842)	(1,755)
Council tax precept	(7,448)	(7,458)	(11)
Net Deficit/Surplus () Before Use of Reserves	**1,191**	**(1,580)**	**(2,771)**
Earmarked reserves net movement	(1,191)	335	1,526
Net Surplus	0	(1,245)	(1,245)

Brackets () represent negative numbers, improved position

3.4. The table below presents the same outturn against budget by nature of the expenditure.

Revenue Account Outturn 2023-24	**2023-24 Final budget £'000**	**2023-24 Actual £'000**	**2023-24 Variance £'000**
Staff costs	14,693	14,593	(100)
Utilities and Business rates	2,170	1,641	(529)
Information Technology (IT)	1,231	1,099	(132)

Other Costs	5,789	6,029	240
Professional Consultancy	311	379	68
Maintenance	1,233	1,059	(174)
Equipment	139	242	103
Contracted services	4,677	4,610	(67)
Commercial Property services charges	811	988	177
Fees and charges for council services	(6,406)	(6,853)	(446)
Property related Income	(12,886)	(13,444)	(558)
Grant income	(886)	(1,488)	(602)
Net cost of service	**10,876**	**8,856**	**(2,020)**
Non-service related items:			
Retained business rates including prior year adjustment	(4,087)	(5,842)	(1,755)
Capitalised debt interest on Union Yard	(600)	(1,660)	(1,060)
Debt interest	2,982	6,884	3,901
Treasury investment interest	(1,600)	(2,900)	(1,300)
Reduction in doubtful debt provision	0	(227)	(227)
Additional one-off small grants received	(357)	(510)	(153)
Earmarked reserve net movement	(1,191)	335	1,526
Revenue Contribution to Capital	195	195	0
Rushmoor Homes Limited interest on loans	(522)	(105)	417
Council Tax income	(7,448)	(7,458)	(11)
Minimum Revenue Provision	2,170	1,572	(599)
New Homes Bonus grant	(658)	(658)	0
Other non-service related items	238	273	36
Total: Other non-service related items	**(10,876)**	**(10,100)**	**776**
Net Surplus on Revenue Account	**0**	**(1,245)**	**(1,245)**

Brackets () represent negative numbers, improved position

3.5. The table below provides a breakdown of the 2023-24 Net Cost of Service budget variations (£2.020m surplus) by portfolio, followed by an explanation of key variances within each portfolio.

Income and Expenditure Variance to budget: Net cost of Service	Corporate Services £000	Customer Experience & Improvement £000	Democracy, Strategy & Partnerships £000	Major Projects & Property £000	Operational Services £000	Planning & Economy £000	Total £000
Staff costs	115	1	19	(14)	(111)	(110)	(100)
Utilities and Business rates	0	(93)	0	(249)	(186)	(2)	(529)
Information Technology (IT)	27	(114)	(7)	(40)	2	(1)	(132)
Other Costs	230	(19)	(44)	(156)	327	(98)	240
Professional Consultancy	38	0	0	19	6	6	68
Maintenance	0	11	(25)	(161)	0	1	(174)
Equipment	(2)	(3)	5	104	(1)	0	103
Contracted services	0	(1)	0	(5)	(59)	(2)	(67)
Property services charges	0	0	0	177	0	0	177
Fees and charges for services	(76)	15	77	25	(716)	228	(446)
Property related Income	12	(69)	(9)	(226)	(186)	(80)	(558)
Grant income	(291)	0	(0)	(130)	(180)	0	(602)
Net cost of service	54	(272)	15	(657)	(1,103)	(58)	(2,020)
Brackets () represent underspend of cost or additional income							

3.6. **Net cost of service:** The 2024-25 MTFS approved in February 2024 was based on the 2023-24 budget. Given the high level of variance over all it is important that all variations are checked against the 2024-25 budget to ensure the ongoing accuracy of MTFS and to identify mitigating actions where necessary.

3.7. **Corporate services:** include finance, human resources, policy and performance, housing benefit and council tax/business rates administrations teams. The key variations to budget are summarised in the table below.

Analysis of Corporate	**Variance to budget £000**	
Housing Benefit overpayment recovery	(157)	Reclaimed housing benefit relating to claimant error
External audit fee saving	(104)	Reduction in audit fee from 2021-2023 financial years
Council tax cost recovery	(71)	Reclaimed cost of collection
Treasury management consultancy	22	One off treasury advice on borrowing and MRP
Other cost net variance	40	
Postage	54	Budgeting error
Interim finance staff	115	Cost of Interim S151 and flexing staff capacity
Borrowing brokerage fees	156	Short-term debt renewal, usually 0.004 to 0.01% of principal
Total: Corporate Variances	**54**	

3.8. **Customer Experience & Improvement:** includes the cost of the council office building, facilities management, IT service, transformation, and customer services. Key variations and explanations are given in the table below.

Analysis of Customer etc	**Variance to budget £000**

Staff costs	1	
Utilities and Business rates	(93)	Electricity Gas and Water overbudgeted
Information Technology (IT)	(114)	Overbudgeted
Other Costs	(19)	Budget carry forward for PCI compliance work
Maintenance	11	
Equipment	(3)	
Contracted services	(1)	
Fees and charges for services	15	
Property related Income	(69)	Additional office income from Farnborough College
Net cost of service	**(272)**	

Brackets () represent underspend of cost or additional income

3.9. **Democracy, Strategy & Partnerships:** includes committee administration, member support, election administration, civic support, procurement and risk, climate change, partnerships and grant funding and government funded resettlement schemes. There are no significant variances in this area to report, the movements in the table on 3.5 above relate to the council's role in acting as the local trusted organisation for partnership PEBL.

3.10. **Major Projects & Property:** property maintenance, highways maintenance, regeneration team and corporate property portfolio. The table below shows the variances against budget for each of these services. Property has been expanded further in paragraph 3.11. The only other item of significance to draw out is the regeneration grant of (£130,000). This is Levelling Up capacity Funding (£50,000) and Homes England funding (£80,000) being passported via the service to fund expenditure on the capital program in line with accounting rules.

Major Projects & Property variance to budget	Housing £000	Maint Team £000	Other Highways £000	Regen £000	Property £000	Total £000
Staff costs	(0)	(35)	(14)	13	23	(14)
Professional consultancy	0	0	0	19	0	19
Utilities/Business rates	0	(1)	(6)	2	(244)	(249)
I.T. Costs	0	0	0	(1)	(39)	(40)
Equipment	0	3	(1)	0	102	104
Maintenance	0	1	(5)	6	(163)	(161)
Other costs	0	16	1	(36)	(137)	(156)
Serco contract	0	0	(3)	0	(3)	(5)
Service charge	0	0	0	0	177	177
Fees and charges	0	9	16	0	(0)	25
Grant	0	0	0	(130)	0	(130)
Other income	35	0	(22)	(15)	(225)	(226)
Total	**35**	**(7)**	**(33)**	**(142)**	**(509)**	**(657)**

3.11. The property column in the table above includes the commercial portfolio, the Property and Estates Team and The Meads and Kingsmead shopping centres. Further budget detail is given in the table below. All these budgets are still being worked up into a detailed forecast for the MTFS as per the risk commentary in the February Council budget report. (Page 100 paragraph 1.6 of the agenda pack.) Given the scale and volatility of the income associated with commercial assets, these budgets are a significant risk to the council's MTFS. It is important that the Council invests time in putting in place a comprehensive and reliable approach to fully understanding all costs associated with managing this diverse portfolio. This includes improving forecasting and managing the impact of voids and associated rent loss, service charges and managing scheduled and unplanned maintenance. This approach and associated financial impact will be presented to Full Council in October and taken into account in the Financial Recovery Plan to reduce revenue impact on the base budget.

	Investment Property			Property & Estate			The Meads		
	Budget £000	Actual £000	Var £000	Budget £000	Actual £000	Var £000	Budget £000	Actual £000	Var £000
Establishment	0	0	0	742	765	23	0	0	0
Management fees	188	174	(14)	0	0	0	0	14	14
Utilities/rates	194	205	11	31	31	0	492	237	(255)
Maintenance	38	79	41	367	473	107	249	39	(209)
Agents/cleaning etc	41	53	12	264	165	(99)	150	58	(92)
Service charge	335	450	115	4	9	5	466	523	57
Rental Income	(7,892)	(8,097)	(205)	(403)	(343)	60	(1,843)	(1,922)	(80)
Total	**(7,096)**	**(7,135)**	**(40)**	**1,004**	**1,100**	**95**	**(487)**	**(1,052)**	**(565)**

3.12. **Operational Services:** has a significant number of variances to budget that will require detailed analysis in respect of the 2024-25 base budget. Generally, all services in this portfolio have outperformed their income budgets except for the Lido and indoor pool due to the weather-related lower volume usage. Utility costs across the ledger have been overbudgeted in the last year due to the difficulty in predicting energy prices and inflation, accurate meter readings are a risk to also be reviewed. The alignment with the 2024-25 base budget is currently underway to ensure income budgets are aligned to current performance. The Commercial column is expanded further in a sub table below.

Operational Services Budget Variances	Commercial £000	Housing £000	Place £000	Crematorium £000	Other £000	Total £000
Staff cost	51	26	(170)	11	(25)	(106)
Utilities/rates	(144)	0	(36)	11	(18)	(186)
IT Costs	(1)	2	0	1	(0)	2
Equipment	(7)	0	(13)	22	(2)	(1)
Maintenance	25	(1)	(17)	(7)	0	0
Other costs	343	(3)	(9)	(6)	2	327
Serco contract	(2)	0	(56)	(1)	0	(59)
Fees and charges	(454)	(82)	(197)	18	(1)	(716)
Grant	0	(180)	0	0	0	(180)
Other Income	(72)	(56)	(40)	(6)	(12)	(186)
Total	**(260)**	**(292)**	**(537)**	**42**	**(56)**	**(1,103)**

Within Commercial, there is a one-off contractual payment to PfP the leisure operator of the swimming pools in relation to the operational deficit of the facilities resulting from a low usage in the summer. Princes Hall is a trading account and the costs and income will naturally flex with the volume of activity, unfortunately the budgets were not flexed resulting in significant variances. The importance being the profit margin (contribution to council overheads) achieved remains consistent, although that information is not obvious from the variance numbers given in the table.

Commercial Services Budget variances	Pools £000	Car Parks £000	Princes Hall £000	Other services £000	Total £000
Staffing	10	(0)	37	5	51
Utilities/rates	0	(130)	(12)	(2)	(144)
IT Costs	0	(2)	1	0	(1)
Equipment	0	(2)	0	(6)	(7)
Maintenance	2	7	7	8	25
Other Costs	101	(2)	236	8	343
Serco contract	0	1	0	(3)	(2)
Fees and charges	0	(68)	(386)	1	(454)
Rental income	0	(0)	(73)	2	(72)
Total:	**113**	**(197)**	**(190)**	**13**	**(260)**

3.13. **Planning & Economy:** the budget variances to note are the downturn in development management fees £168,000 on a £536,000 budget, which is a concern for future years and a corresponding £79,000 reduction in building control fees on a £502,000 budget, both resulting from economic factors. The outturn also benefitted from a favourable variance due to a budget omission to remove the £100,000 Gulf Stream grant from the base budget and has already been adjusted in the 2024-25 base.

3.14. Debt write off: In compliance with the Constitution, Financial Regulations (E60), Cabinet are requested to approve the write off of £690,431 of accumulated rent arrears with respect to 168 High Street Guildford. The tenant has gone into liquidation and there is no prospect of receiving any of the outstanding arrears. This matter has been under review for a period through the oversight of the Capital Projects & Property Advisory Group who support the write off of this debt. The arrears are fully provided for on the balance sheet and therefore has no further impact on the revenue account.

3.15. In addition to 168 High Street, the following smaller debts are no longer economical to pursue and proposed for write off. They are also fully provided for as doubtful debts in the revenue account.

Proposed debt write off

Business Rates:	**£**	**Detail**
All Class MOT Centre LTD	5,504	Debtor absconded no forwarding address available
Autotek servicing and MOT LTD	8,321	Debtor vacated. No forwarding address available
The Lord Campbell	5,848	Liable party vulnerable with limited understanding of obligations. Premises now demolished
Housing Benefit overpayment:		
Claimant ref 28590	5,197	Benefit Fraud case - customer left property no forwarding address available
	24,870	

3.16. **Revenue budget carry forward:** In compliance with the Constitution, Financial Regulations (C12), Executive Leadership Team have approved the following budget carry forwards to enable the completion of specific projects. These budgets will be drawn from the reported General Fund Revenue Account surplus of £1.245m and are included on the Earmarked Reserve schedule later in this report.

Item	Amount	Reason
Projects & Improvements PCI Compliance	27,385	One off budget to make changes to achieve PCI compliance. Work delayed due to procurement issues and further assurance work requested. Project now progressing.
ICT Application Maintenance & Compliance	73,525	IDOX onboarding budget agreed at £100,000 for 2023/24, £51,475 spent to date = £48,525 remaining. Pay360 onboarding budget agreed at £25,000 for 2023/24, £NIL spent to date = 25,000.
Leisure Contract Procurement	42,338	Budget needed to be carried forward for the Leisure Operator Contractor Procurement Costs

To cover the cost of a new lighting desk	13,000	It was agreed to vire £13k from 80114 Other Contributions (£50k 'windfall') to 30101 Equipment Maintenance, and then Carry that amount forward to 2024/25.
Devereux House pre-sale costs	60,000	One off budget - delay to sale of property
	216,248	

3.17. **Non-service specific** items are presented in the table below with the commentary following the table:

Revenue Account outturn 2023-24	2023-24 Budget £'000	2023-24 Actual £'000	2023-24 Variance £'000
Net Cost of Service	**10,876**	**8,856**	**(2,020)**
Non-service related items:			
Rushmoor Homes Limited interest	(522)	(105)	417
Interest received on treasury management	(1,600)	(2,900)	(1,300)
Interest payable on borrowing	2,982	6,884	3,901
Capitalised interest on borrowing	(600)	(1,660)	(1,060)
Minimum Revenue Provision	2,170	1,572	(599)
Prior year balance sheet correction	0	(1,174)	(1,174)
Doubtful debt provision adjustment	0	(227)	(227)
Other non-service related items	433	468	36
Government grants	(1,014)	(1,167)	(153)
Total: Non-service related items	**1,849**	**1,691**	**(159)**
Net Budget Requirement	**12,726**	**10,546**	**(2,179)**
Financed by:			
Retained business rates	(4,087)	(4,668)	(581)
Council tax precept	(7,448)	(7,458)	(11)
Net Deficit/Surplus Before Use of Reserves	**1,191**	**(1,580)**	**(2,771)**
Earmarked reserves net movement	**(1,191)**	**335**	**1,526**
Net Surplus	0	(1,245)	(1,245)

Brackets () represent negative numbers, improved position

- Rushmoor Homes (RHL) interest was assumed on the loans made to RHL in respect of transfers of several council properties for development into housing, these transfers have not gone ahead resulting in less interest received.
- Interest on treasury investments reflects the higher than budgeted interest rates benefitting the current strategy to fund the council through short-term borrowing which requires a higher average cashflow surplus to ensure debt repayment commitments are met than would usually be needed.
- Interest payable on borrowing reflects the unbudgeted increase in the interest rate, the MTFS includes a target to repay debt from capital receipts generated from asset sales.

- Capitalised interest on borrowing reflects the cost of financing the Union Yard project from borrowing. The original business case assumed interest would be expensed in the revenue account each year, however, this is a legitimate cost of the project and in accordance with accepted financial practice should be capitalised on the balance sheet along with all other project costs until the project is completed. The implication of the decision to do this is currently forecast to add around £1.66m additional cost to the project over budget. The full implications of this and other changes to the Union Yard projects budget will be considered by the Union Yard Project Board at their next meeting and reported to cabinet in the Autumn. Whilst the interest has been charged to revenue each year, prior to the capitalisation of the 2023-24 interest on borrowing, this is still a cost of the project. Capitalisation enables the interest to be funded from borrowing spread over 50 years rather than being a one off in-year significant cost to the revenue account.
- Minimum Revenue Provision is a statutory requirement to set aside funding to repay borrowing principal. The council has £167m of underlying need to borrow that attracts MRP. The calculation was reviewed in-year enabling a reduction in the MRP charge to the revenue account.
- Prior year balance sheet correction is the reversal of a double counted business rates tariff paid to the government in the 2022-23 accounts. This highlights the risk incurred due to the audit backlog, the council's auditors signed off the 2019-20 this year. During this period the finance team have also had a limited qualified and experienced capacity to ensure adequate oversight and management review which will have contributed to this error. This has been identified within the CIPFA Financial Resilience review and there is action underway to address the challenge.
- Retained business rates within the "financed by" section reflects the government rebasing of business rates rateable values. This is forecast into the MTFS base going forward.
- The debt provision, government grants and other items variances are all one-off items with no expected onward impact on the 2024-25 base budget.

3.18. **Earmarked reserves net movements in the revenue account:** these are transfers between the revenue account and earmarked reserves for specific reasons. Cabinet is asked to approve the reserve drawdown in line with the virement rules set out in the council's Constitution's Financial Regulations (C10&11) and Delegated Authorities (3.5 Matters Reserved for Cabinet). The earmarked reserves net movement £1.526m variance to budget listed in the "non-service related items" section of the table above is described in the detailed schedule below. The 2023-24 budget approved in February 2023 incorporated a numbers of budget errors totalling £786,000 included in the table below as "2023-24 approved budget - budget errors" intended to be funded from the Stability and Resilience Reserve, however, these items were covered by in year surplus budget and no reserve drawdown was required. During the year there was £199,000 of "Supplementary Budget" approvals that were also subsequently covered with in year surplus budgets, avoiding a reserve drawdown. The 2024-25 base budget has already been adjusted for these items where appropriate. The budget shown below was adjusted at year end to match the actual reserve movements and eliminate budget variations on these items in the “Net Cost of Service” element of the revenue account year end outturn.

Earmarked Reserve movement in the 2023-24 revenue account	2023-24 Budget £'000	2023-24 Actual £'000	2023-24 Variance £'000
Supplementary Budget	(199)	0	199
2023-24 approved budget - budget errors	(786)	0	786
Cameo contribution to reserve	0	41	41
Redundancy contribution to reserve	0	212	212
Year-end review of reserves	0	(10)	(10)
SANG Interest	18	317	299
Control Outbreak Management Fund (49)	(13)	(15)	(2)
Budget Carry-forward 2022/23	(274)	(274)	0
UK shared prosperity Fund 71	(40)	(40)	(0)
Afghan relocation scheme 68	10	10	0
Homes for Ukraine Expenses (B) 70	(11)	(11)	(0)
Homes for Ukraine support (A) 69	155	155	(0)
CCTV decommissioning costs	(20)	(20)	0
Deprivation Reserve	(6)	(6)	0
LRC Support (CEV FUNDING) (56)	(17)	(17)	(0)
Town Centre Management	(10)	(10)	0
Biodiversity Net Gain Grant (DEFRA funding) 65	(37)	(37)	0
Esso Environment Improvement Programme 66	27	27	0
Cyber Security Grant (44)	(5)	(5)	0
Asylum Dispersal (77)	144	144	0
LAHF Balance (76)	42	42	0
Biodiversity Grant (DEFRA funding) 65	3	3	(0)
Elections hire of halls - Individual Electoral Registration (25)	(15)	(15)	0
DLHUC Levelling Up Local Digital Fund 74	35	35	0
A331 Air Quality Project (37)	(13)	(13)	0
Civil Parking Enforcement Surplus	(24)	(24)	(0)
OPCC Outreach 75	3	3	(0)
Community grants - Leisure	(38)	(38)	0
Release India Jane reserve write off	(121)	(121)	0
Total:	**(1,191)**	**335**	**1,526**

Supplementary Budget	**`£000**
Cabinet Report REG2303 - leisure procurements	29
Cabinet Report REG2305 - union yard	7
Cab Report REG2303-Pro Officer	11
Cab Report PG2308-Dev House	75
Legal Salaries Restructure	22
Procurement Officer Funding	37
Graduate Regen Post Uplift	7
Graduate Regen Post Training	2
Operation Peg Legal Case (Aldershot Incident)	10
Total: Supplementary Budget	**199**

February 2023 budget corrections:	**`£000**
Digital Team Funding	250
Commercial Property Income Recovery	400
Contribution from Reserves	(20)
Transfer to Reserves for Regen, Prop & Major Projects	100
Saving that couldn't be met - Change of Address Scheme	44
Other budget correction	12
February 2023 budget corrections:	**786**

3.19. **Reserves review:** Paragraph 2.12 of the February budget report to Full Council committed to a comprehensive review of reserves to be completed as part of the 2023-24 outturn. The outcome of this review is included in the table below. The "Internal transfers" column indicates reserves identified as no longer ringfenced for the original purpose and returned to the Stability and Resilience reserve. Cabinet is asked to approve these movements.

Earmarked Revenue Reserves	**March 2023 £000**	**Internal Transfers £000**	**Transfers Out £000**	**Transfers In £000**	**March 2024 £000**
Commuted Sums/Amenity Areas	5,642	(2)	(47)	341	5,934
Stability and Resilience Reserve	2,913	2,785	1	1	5,700
Business Rate Equalisation Reserve	2,000	1,892	-	-	3,892
Flexible Housing Grant	812	-	-	-	812
Mercury Abatement	488	-	-	40	528
Homes for Ukraine Support A	165	-	-	155	320
Workforce Reserve	100	-	-	212	312
Regeneration Reserve	257	-	-	-	257
Insurance Reserve	253	-	-	-	253
A331 Air Quality Project	227	-	(14)	-	213
Civil Parking Enforcement Surplus	206	-	(24)	24	206
Other Grants (Individually below £45k)	347	(163)	(79)	49	154
Asylum Dispersal		-	-	144	144
Pipeline -Environment Improvement reserve	107	-	(5)	32	134
Farnborough Airport Environmental Fund	130	-	(1)	-	129
Climate Emergency Reserve	178	-	(54)	-	124
Deprivation Reserve	111	-	(5)	-	106
Custom Build Reserve	75	-	-	-	75
COVID C/Tax Hardship Earmarked Reserve	43	-	-	-	43
LAHF		-	-	42	42
Cyber Security Reserve	31	-	(4)	-	27
Afghan Relocation Scheme	14	-	-	10	24
Homes for Ukraine Expenses B	30	-	(11)	-	19
Control Outbreak Management Fund Reserve	23	-	(15)	-	8
UK Shared Prosperity Fund Reserve	48	-	(41)	-	7
Supported & Temp Accom Work		-	-	7	7
COVID BRR Earmarked Reserve	1,892	(1,892)	-	-	-
Commercial Reserve	1,483	(1,483)	-	-	-
Business Sup Grants Admin	297	(297)	-	-	-
Treasury Earmarked Reserve	220	(220)	-	-	-
Affordable Housing Reserve	195	-	(195)	-	-
LADGF Discretionary Reserve	130	(130)	-	-	-
Commercial Property Reserve	121	-	(121)	-	-
Budget Carry Forwards	93	-	(93)	-	-
LCTS Scheme Admin Reserve	93	(93)	-	-	-
Feasibility for Victoria Road	85	(85)	-	-	-
Dilapidation Reserve	71	(71)	-	-	-
Cohesion/Migration Impact/Gurkha Settlement	64	(64)	-	-	-
Property Services Covenant Release	59	(59)	-	-	-

Land Charges	45	(45)	-	-	-
COVID19 Test & Trace Reserve	37	(37)	-	-	-
Ward Reserve	26	(26)	-	-	-
Elections Integrity (Voter ID)	14	-	(14)	-	-
Admin Support - Benefits Team	10	(10)	-	-	-
Total:	**19,135**	**0**	**(722)**	**1,057**	**19,470**

3.20. **Capital Outturn and budget carry forward:** The 2023-24 capital programme was approved at £42.7m at February 2023 Budget Council. There was £8.4m addition to the programme consisting of budget carry forward from 2022-23 financial year reflecting timing delays in delivery of the programme and additional approvals during the year. Note that the table only shows future annual budget allocations of multi-year projects representing the anticipated timing profile of remaining expenditure. The schedule below doesn't give a reconciliation to the overall approved budget for each project, this will be corrected in the in-year monitoring. Whilst most schemes are coming to an end in 2023-24, there are a number that require budget carry forward (reprofiling) to enable completion in 2024-25 amounting to £5.354m. The full list is included in the table below.

3.21. The Union Yard construction budget reflects the anticipated profile of expenditure during 2023/24 but due to variations in the work programme and the recently extended timescale to completion, the February 2024 approved capital programme anticipated reprofiling £2.7m as part of the 2024-25 original budget £5.384m. An additional £545,000 will be reprofiled into 2024-25 to complete the project. The main area of forecast underspend on the capital programme is the Housing Private Rental Sector scheme – this was an intended capital loan of £5.894m to RHL to enable the transfer of properties and subsequent development. The scheme did not go ahead due to viability concerns.

Capital Programme outturn 2023-24 Portfolio / Scheme	2023/24 Original Estimate £'000	2023/24 Adjustments £'000	2023/24 Current Budget £'000	2023/24 Actual Outturn £'000	2023/24 Variance £'000	Proposed Slippage to 24/25 £'000	2024/25 Original Budget £'000	2024/25 Adjusted Budget £'000
The Meads	8,152	2,466	10,618	10,511	(107)			
Hawley / Frimley	662	-	662	85	(577)	15		15
Council Offices	74	-	74	-	(74)	74		74
Asset management R+M		540	540	218	(322)		671	671
Civic Quarter Farnborough	1,600	205	1,805	1,472	(333)	333		333
Housing PRS Delivery (RHL)	5,894	-	5,894	-	(5,894)			
The Galleries Development	3,400	-	3,400	-	(3,400)	3,400		3,400
Union Yard Aldershot	19,838	728	20,566	17,839	(2,727)	545	5,384	5,929
Affordable Housing - LAHF	-	2,883	2,883	1,568	(1,315)			
Crematorium	750	(303)	446	166	(280)	363	4,418	4,781
Redan Rd Chapel	-	289	289	197	(92)			
Improvement Grants	1,161	943	2,104	1,313	(791)		1,632	1,632
CCTV - Camera & Network	400	-	400	115	(285)	185		185
Refuse/Recycling inc. Food Waste	127		127	116	(11)		127	127
Southwood Sang Country Park	-	-	-	95	95			
Section 106	437	468	906	782	(124)	247	658	905
IT Projects	221	135	356	59	(297)	193	582	775
Total Capital Programme	**42,716**	**8,354**	**51,070**	**34,536**	**(16,534)**	**5,355**	**13,472**	**18,827**
Funded by:								
Developer contribution to Wheeled bins							(20)	(20)
S106/ Grant(Southwood Play Area)							(450)	(450)
S106 (Play Areas etc)						(247)	(208)	(455)
Disabled Facilities Grants							(1,632)	(1,632)
LUF - Leisure HUB						(333)		(333)
HIF (Union Street)						(3,400)		(3,400)
Capital receipts - Vivid Union Yard							(2,500)	(2,500)
Borrowing						(1,375)	(8,662)	(10,037)
Total funding:						**(5,355)**	**(13,472)**	**(18,827)**

Current year: 2024-25 financial revenue forecast and review

3.22. Budget monitoring is being conducted monthly from June 2024 and a detailed Quarter 1 financial forecast will be reported to September Cabinet. A high-level analytical review comparing the 2024-25 budget against the 2023-24 outturn provides a strong benchmark indicating that it is possible to reduce the 2024-25 £5.4m budget deficit. Key areas of enquiry for strategic focus are described below.

3.23. Utilities outturn indicated that business rates and electricity budgets are overbudgeted and can be significantly reduced. There is a risk that The Meads/Kingsmead and commercial property voids could adversely impact the revenue account where the cost will fall to the council. This can be managed through a supplementary budget draw on reserves in year to enable the base revenue budget to be stabilised and not carry a significant “risk factor” budget within base.

3.24. The 2024-25 maintenance budget (£1.261m) is not fully supported by a detailed costed and funded schedule of planned maintenance, reflecting a historical lack of an asset management programme. It is vital that the MTFS includes budget for planned maintenance based upon affordability, deliverability and planning minimising the need for significant reactive maintenance. There is scope to reduce the maintenance cost carried in the base budget through a detailed review and alignment of the budgets on the ledger to contractual recurrent and programmed expenditure. Scheduled planned maintenance should be included in the MTFS on an itemised basis alongside a separate budget for small unforeseen reactive maintenance (typically items costing less than £10k). Any significant items of unplanned maintenance expenditure should be funded from a contingency reserve (to be set up at October Full Council) with oversight on priorities and options assessments through the Executive Leadership Team, and virement to fund reactive expenditure approved in compliance with the Financial Regulations C10. The priority is to manage health and safety issues and risk in a financially affordable way, and where possible utilising **non-revenue** funding (i.e., S106 funds, capital receipts or borrowing).

3.25. "Other Costs" budget totals £5.4m consisting of a wide variety of non-staff related expenditure. This is the primary budget to identify base budget savings to achieve the recurrent Financial Resilience Plan target, a detailed review with the objective to align expenditure to priorities will enable decisions to be taken to make a significant reduction in base budget.

3.26. 'Other income' of £12.684m (40% of the councils gross £32m cost) is predominantly property related income i.e., leases on property. The February budget report identified this area as the most significant risk within the service budgets with the MTFS not being reconciled to a comprehensive lease schedule which accurately identifies lease break options and potential voids by asset. Going forward this will be a key strategic management schedule that will be regularly considered by the Executive Leadership Team, scrutinised by the Commercial Property and Project Advisory Group and reported to Cabinet to ensure an appropriate risk-based budget is set and managed with strategic oversight.

3.27. Property service charges are incurred when a commercial property becomes void (i.e., loss of tenant) resulting in service costs usually paid by a tenant reverting to the council to fund. The budgeted cost of these for 2024/25 are significant at £1.184m, effectively 9% of the budget. The Council's investment advisers Lambert Smith Hampton provide a detailed schedule of lease events and predicted financial impacts on the commercial estate that they oversee, these need to be reconciled to the budget. However, information is not as robust on The Meads/Kingsmead and some of the Council managed assets. This needs to translate better into the budget monitoring and MTFS via a management schedule with agreed mitigating actions. These costs can vary significantly between years. Moving forward it is proposed that this be managed through a balance sheet provision. This will provide stability in the revenue account and avoid overbudgeting in the revenue base budget.

3.28. Fees and charges income was circa £0.5m higher than budgeted. This could indicate that services have been cautious in their budget planning. A detailed review supported by the finance service is underway to help managers provide more realistic forecasts and identify mitigations where income is reducing or not being optimised.

3.29. Staffing is £15m (47%) of the council's gross budget, the current value of vacancies (June) is £1.023m before use of agency/temporary staff. This is a typical run rate representing a staff turnover of 7%, which correlates to the corporate performance reporting. The staffing budget is the most robustly costed expenditure item and is tracked by individual post giving significant budget assurance. It is reasonable to assume an in-year underspend of 3% of gross payroll each year through vacancy management to ensure that this element of the cost base contributes to the required £2m revenue reductions required over the 4-year MTFS period. The implementation and achievement of this target will mean services will need to understand the Cabinet's new priorities and continue to challenge the need to fill vacant roles "like for like" and consider how the work can be achieved, done differently or the work demand removed completely to make permanent savings.

3.30. Non-service related items: It is likely that up to £500,000 of the business rate appeals provision (£2.949m: note 23 page 52 2023-24 Statement of accounts) will be released this year on the winding down of the 2017 rateable listing valuation appeals. Treasury income is being tightly managed to delay the replacement of maturing debt, and this is anticipated to reduce income from treasury investments and borrowing costs. The net effect will be forecast in the October update once more certainty has been gained. RHL interest £1.045m will be £205,000 less due to the timing of the transfer of the private rental units.

3.31. The overall budgeted £5.37m deficit can be significantly improved with a keen management focus as described above.

MTFS 2024-25 to 2027-28 July update

3.32. This revised (July) MTFS update of the February approved budget is detailed in the table below. The portfolio budgets (i.e., Net Cost of Service) have not been adjusted to reflect the 2023-24 outturn and 2024-25 analytical review as they are currently being reviewed. Any resulting adjustments will be reported in the October MTFS update to Cabinet and Council. Commentary on the changes and key assumptions made in the July MTFS are set out below.

Medium Term Financial Strategy - Summary: July Update	2023-24 Actual £'000	2024-25 Feb Approved Budget £'000	2024-25 July Update £'000	2025-26 Projected £'000	2026-27 Projected £'000	2027-28 Projected £'000
Base Budget:	**9,085**	**12,433**	**12,433**	**12,855**	**11,158**	**10,955**
Anticipated Budget Variations:					**Incremental changes**	
Total: Portfolio changes	**335**	**119**	**119**	**(574)**	**412**	**486**
Corporate Income & Expenditure changes:						

One off items	(1,162)					
Interest receivable from treasury investment	(2,900)	(2,350)	(2,350)	220	490	-
RHL interest	(105)	(1,045)	(840)	(241)	143	-
Minimum Revenue Provision (MRP)	1,572	1,758	1,692	609	156	114
Interest payable on borrowing	6,884	8,675	8,620	(2,229)	(1,269)	-
Capitalised interest	(1,660)	(381)	(691)	691	-	-
Total: Corporate Income & Expenditure	**2,629**	**6,657**	**6,431**	**(950)**	**(480)**	**114**
Central Government Funding changes:						
Retained Business Rates	(4,668)	(5,100)	(5,100)	(174)	(135)	(139)
New Homes Bonus	(658)	(384)	(384)	-	-	-
Services Grant	(134)	(15)	(17)	-	-	-
Funding guarantee	(272)	(515)	(516)	-	-	-
Revenue Support Grant	(104)	(111)	(111)	-	-	-
Total: Central Government Funding	**(5,835)**	**(6,125)**	**(6,128)**	**(174)**	**(135)**	**(139)**
Total: Budget requirement	**6,214**	**13,085**	**12,855**	**11,158**	**10,955**	**11,416**
Less Collection Fund (Surplus)/Deficit	(10)	(23)	(23)	23	-	-
Less Council Tax	(7,448)	(7,683)	(7,683)	(7,816)	(8,063)	(8,313)
Net Deficit Funded from reserves	**(1,245)**	**5,379**	**5,149**	**3,365**	**2,892**	**3,103**
Note - figures showing in () indicate a favourable change from budget						
Cumulative reserve requirement if zero mitigation:		**5,379**	**5,149**	**8,514**	**11,407**	**14,509**
Estimated reserve balance:						
Opening balance	(10,649)	(10,560)	**(12,229)**	(7,199)	(3,768)	(875)
Budgeted service movement	(335)	(119)	(119)	66		
Actual/Forecast deficit	(1,245)	5,379	5,149	3,365	2,892	3,103
Remaining reserve	**(12,229)**	**(5,300)**	**(7,199)**	**(3,768)**	**(875)**	**2,227**
Working Balance: min required £2m:	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Note - figures showing in brackets () represent available reserve						

3.33. The table below provides a summary of the changes in the projected revenue deficit but does not take into account savings identified in the February budget report and now included in the Financial Resilience Plan.

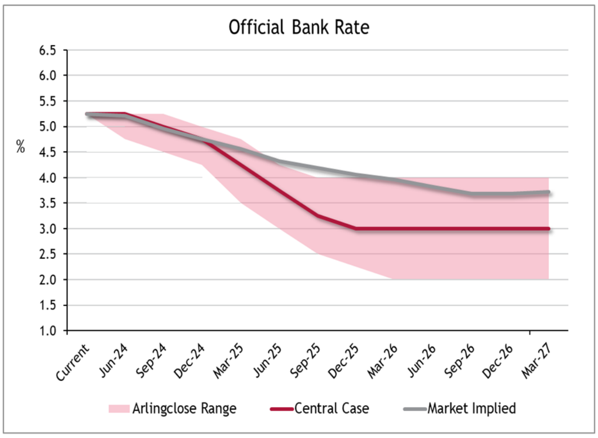
Analysis of change in projected deficit prior to mitigating savings	**2024-25 July Update £'000**	**2025-26 Projected £'000**	**2026-27 Projected £'000**	**2027-28 Projected £'000**
Cumulative change in base budget	0	(230)	266	416
RHL interest	205	(0)	0	0
Minimum Revenue Provision (MRP)	(66)	185	150	74
Interest payable on borrowing	(58)	0	0	0
Capitalised interest	(310)	310	0	0
Cumulative changes in base budget	(230)	266	416	490
			-	
February projected deficit	5,379	4,127	3,504	3,641
July projected deficit	5,149	4,393	3,920	4,131
Net change in projected deficit	(230)	266	416	490

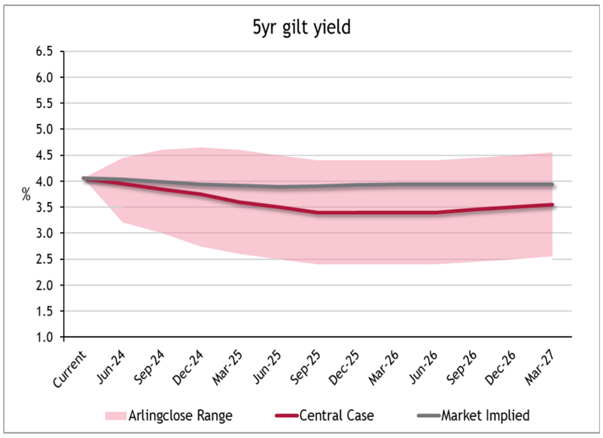
3.34. Interest on treasury management and borrowing costs projections have been reviewed in consultation with Arlingclose, including updating of the Capital Financing Requirement (CFR) with the 2023-24 outturn data, which determines the council's need to borrow. The interest rate assumptions and level of borrowing in the February MTFS continue to hold as per the schedule below. Whilst borrowing rates achieved to date are below budget it is expected that the rates will be slightly higher than budget from September's assumption of 5.15%

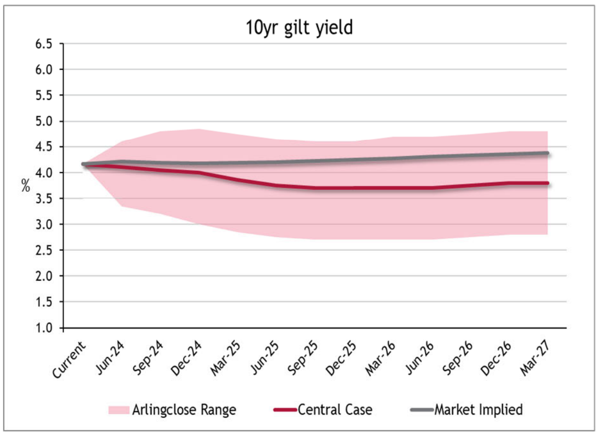
due to uncertainty in the financial markets due to the Parliamentary elections. Financial Markets indicate that there will be a base cut in August this year, although this will not directly translate into a borrowing rate reduction in the Local Authority borrowing market because this rate is determined by government gilt yields as forecast in the graphs below. The current projections show that the interest rates on borrowing from Local Authorities or the Public Works Loan Board (PWLB) are likely to be closer to 4% than the assumed 3.1% in February. This is a watching brief for now.

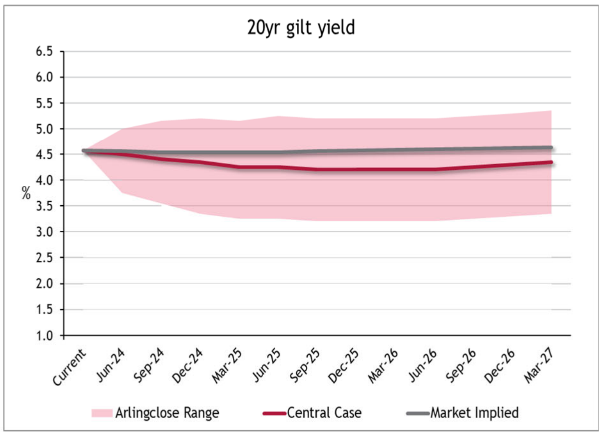
2024/25 refinancing

	Borrowing £000	**Budgeted Rate %**	**Actual Rate %**
Apr-24	28,000	5.40%	5.25
May-24	39,000	5.40%	5.30
Jun-24	9,000	5.30%	5.2
Jul-24	29,500	5.30%	5.18
Aug-24	5,000	5.30%	
Sep-24	0	5.15%	
Oct-24	7,500	5.15%	
Nov-24	5,000	5.15%	
Dec-24	15,000	4.80%	
Jan-25	15,000	4.80%	
Feb-25	3,000	4.80%	
Mar-25	5,000	4.30%	
Apr-25	0	4.30%	
May-25	5,000	4.30%	
Total	**166,000**		









3.35. Interest received from RHL has reduced by £205,000 reflecting a two-month delay in sale of the Union Yard 82 private rental dwellings, average monthly interest on the loan note is approximately £115,000. The delay will have no impact on the MTFS assumed RHL interest in years 2025-26 to 2027-28.

3.36. Capitalised interest on the Union Yard project has increased by £310,000 in line with the re-profiling of the construction costs to completion in the capital programme and two-month delay in completion. Capitalisation will cease at the practical completion stage.

3.37. Minimum Revenue Provision (MRP) has reduced by £66,000 in line with the 2023-24 and prior year CFR being reviewed as part of the year-end financial process, although future MTFS periods sees an increase due to balance sheet restatement. MRP is chargeable in the year following the practical completion of a capital project funded by borrowing.

3.38. Pay inflation factored into the MTFS in February assumed the following profile from 2024-25 5%:4%,3%2% over the 4 year period. A 1% increase equated to circa £149,000. Inflation has been reducing as anticipated by the Bank of England and reached its 2% target this June. The pay inflation profile remains reasonable on the basis that pay increase is subject to national negotiation, the current offer is 2.5% and there remains significant pressure for pay to catch up. Non staff contractual pay affects potentially £9m of the cost base, the rest of the cost base is held cash neutral. Non staff inflation is a more complex picture as many contracts are CPI linked at a specific date, Serco is based on an average CPI and Microsoft IT licences are priced in US$ incurring exchange rate risk. The MTFS includes the following inflation profile from 2024-25 £000: 780:400:300:300. It is looking likely that this profile will reduce in the MTFS period, Serco inflation was under budget this year and energy pricing has already reduced.

3.39. Central government funding is determined through an annual Financial Settlement, 2024-25 includes £1.028m, this has unhelpfully been single year with no guarantees of future years and the MTFS assumes no future receipt. It is likely that the government will provide some element of support, and this will be communicated to the council around early December. The February budget report includes more detail on page 70 of the council agenda pack.

3.40. The useable reserve balance available to fund the projected MTFS deficit was forecast as £10.56m. The reserve position has been updated with the 2023-24 outturn and is now £12.229m. Detail on funding the MTFS deficit is given later in this report.

3.41. The effect of the July adjusted revenue deficit before savings are applied and after accounting for the increased opening reserve shows that the council will run out of useable reserve funding in 2026-27, where earmarked reserves will be overdrawn by **£1.181m** resulting in a draw on the Working Balance, taking it below the recommended minimum £2m. This is broadly the same scenario as presented in the February MTFS and is a serious matter should this arise.

Estimated reserve drawdown before savings mitigation:	**2024-25 July Update £'000**	**2025-26 Projected £'000**	**2026-27 Projected £'000**	**2027-28 Projected £'000**
Opening reserve	**(12,229)**	(7,199)	(2,740)	1,181
Budgeted service movement	(119)	66		
Forecast deficit	5,149	4,393	3,920	4,131
Remaining reserve	**(7,199)**	**(2,740)**	**1,181**	**5,311**
Working Balance: minimum required £2m:	(2,000)	(2,000)	(2,000)	(2,000)

Note - figures showing in brackets () represent available reserve

Savings requirement

The February approved savings mitigation to bring the council back into financial sustainability by 2027-28, comprised two targets. (1) A £40m capital receipts programme to be achieved by September 2025 (from the sale of assets that have a negative net revenue impact), to paydown debt to a sustainable level through interest and MRP cost reduction amounting to £2.040m. (2) The second target was a £2m reduction in net revenue baseline spread evenly over 4 years. This target will counter inflationary pressure and enable the council's cost base to remain static. Incorporating the July adjustments into the deficit profile based upon the February targets being achieved would result in a healthy level of reserve being maintained at around circa £5m plus Working Balance £2m.

Estimated reserve drawdown before savings mitigation:	2024-25 Budget £'000	2025-26 Projected £'000	2026-27 Projected £'000	2027-28 Projected £'000
Assumed Interest rate	**4.80%**	**3.86%**	**3.10%**	**3.10%**
Capital receipts	**20m**	**20m**		
2024/25 interest on £20m by Dec 24	(240)	(772)	(620)	(620)
2025/26 interest on £20m by Sept 25		(386)	(620)	(620)
2024/25 MRP avoided on 20m at 2%	-	(400)	(400)	(400)
2025/26 MRP avoided on 20m at 2%			(400)	(400)
Total Interest and MRP reduction	**(240)**	**(1,558)**	**(2,040)**	**(2,040)**
Service adjustment:				
2024-25	(500)	(500)	(500)	(500)
2025-26		(500)	(500)	(500)
2026-27			(500)	(500)
2027-28				(500)
Total annual recurrent service savings	**(500)**	**(1,000)**	**(1,500)**	**(2,000)**
In year saving permanently out of base				
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
Estimated reserve balance:				
Opening balance	(12,229)	(7,820)	(5,985)	(5,604)
Forecast deficit	4,409	1,835	380	91
Remaining reserve	**(7,820)**	**(5,985)**	**(5,604)**	**(5,514)**

3.42. As described in para 3.46 below the delivery of Capital receipts is complex and timing uncertain. The council has a legal duty to remain within its Capital Financing Requirement (CFR), which is part of its annual Treasury Management Strategy. To ensure the council remains legally compliant the adopted capital receipts target profile of £40m by September 2025 the £40m required savings were profiled in the CFR as £5m in 2024/25: £25m in 2025/26: and £10m in 2026/27 in acknowledgement that the timing and scope of capital receipts are very difficult to predict and the CFR debt limit will therefore be complied with in the event of a delay in reducing borrowing.

3.43. The rationale for the £40m capital receipts target is to bring the councils revenue cost of capital (interest on borrowing and MRP) through debt reduction back to the 2023-24 value of £5.172m which was part of a balanced budget, prior to the hike in interest rates. This, together with the post 2023-24 service budgets inflationary pressure being neutralised by the £500,000 per year revenues savings target, would achieve financial sustainability. The calculation to rationalise the £40m is shown below using the capital receipts profile in the CFR, the final year 2027-28 assumes the full £40m is achieved and used to repay debt avoiding interest at 3.10%. The actual timing of the receipts profiling has an impact on the amount of reserve required to fund interest until the target 3.10% debt interest rate is achieved, so the earlier capital receipts can be achieved the more reserves will be preserved. Either of these assumptions not materialising will have an adverse impact on financial sustainability. This is examined in the following paragraphs.

Capital receipts target calculation	2023-24 Original Budget £'000	2024-25 Budget £'000	2025-26 Projected £'000	2026-27 Projected £'000	2027-28 Projected £'000
Assumed interest rate:		5.17%	3.86%	3.10%	3.10%
Borrowing:		167,000	160,242	133,456	122,064
Capital receipt		(5,000)	0	0	-
Capital receipt		-	(25,000)	0	-
Capital receipt		0	0	(10,000)	0
MRP net of cap receipt:		(1,758)	(1,786)	(1,392)	(1,432)
Total Borrowing		**160,242**	**133,456**	**122,064**	**120,632**
Revenue Position after savings:					
Interest cost	3,002	8,461	5,672	3,961	3,740
MRP	2,170	1,758	1,786	1,392	1,432
Total cost of borrowing	5,172	10,218	7,458	5,352	5,171
2023-24 Revenue cost of capital budget:					5,172
					(1)

Minimum Revenue Provision (MRP)

3.44. Whilst the MRP is assumed at 2% straight line (i.e., capital receipt divided by 50 years), the actual application of capital receipts to reduce the CRF (the basis of the MRP charge calculation) depends upon the underlying original financing of the asset being disposed. Capital receipts from assets financed without underlying borrowing (i.e., from capital receipts or reserves) can be used to reduce the CFR in 10ths, i.e., 10 years straight line. Assets sold with underlying borrowing requires the CFR to be reduced by the capital receipt spread over the remaining number of years on the same basis as the specific asset's MRP calculation i.e., most likely the annuity basis which produces a lower saving in earlier years. Therefore, the savings target can only be refined, and revenue implications understood once the current list of asset disposals has been agreed.

Delivery of Capital Receipts

3.45. Since the February capital receipts target of £20m in 2024-25 and £20m in 2025-26 was agreed, work has been ongoing as set out in the Financial Resilience Plan. Whilst certainty of timing and delivery of some capital receipts has improved the delivery of £20m capital receipts by September 2024 will not be achieved. The profile for the delivery of receipts has been adjusted in line with the CFR whilst retaining the overall £40m target and interest rate profile. The overall impact of this change is a bigger drawdown of reserves which is mitigated by the higher than forecast reserve balance at the end of 2023-24. An additional £1.6m additional drawdown of reserves is required across the MTFS period resulting in a 2027-28 projected reserve balance of £3.9m verses £5.5m.

Reprofiled Savings Target effect on reserves: July 2024 Update	2024-25 July Update £'000	2025-26 Projected £'000	2026-27 Projected £'000	2027-28 Projected £'000
In year saving permanently out of base				
Interest and MRP reduction	(60)	(534)	(1,608)	(2,040)
Services cost reduction	(500)	(1,000)	(1,500)	(2,000)
Total recurrent savings:	**(560)**	**(1,534)**	**(3,108)**	**(4,040)**

In year deficit before mitigating savings	5,149	4,393	3,920	4,131
Revised deficit/outturn	**4,589**	**2,859**	**813**	**91**
Opening reserve balance:	**(12,229)**	**(7,640)**	**(4,781)**	**(3,968)**
Revised deficit	**4,589**	**2,859**	**813**	**91**
Reserve annual closing balance	**(7,640)**	**(4,781)**	**(3,968)**	**(3,877)**
Working Balance: minimum required £2m:	(2,000)	(2,000)	(2,000)	(2,000)
Capital receipts:	**4.80%**	**3.86%**	**3.10%**	**3.10%**
Capital receipts timing	**5m**	**25m**	**10m**	-
2024/25 interest saved on £5m	(60)	(193)	(155)	(155)
2025/26 interest saved on £25m		(241)	(775)	(775)
2026/27 interest saved on £10m			(78)	(310)
2024/25 MRP avoided on £5m	-	(100)	(100)	(100)
2025/26 MRP avoided on £25m			(500)	(500)
2026/27 MRP avoided on £10m				(200)
Total Interest and MRP reduction	(60)	(534)	(1,608)	(2,040)

Sensitivity of interest rates

3.46. In understanding the MTFS sensitivity to interest rates it should be noted that if the interest rate profile tracks 1% higher than the 3.1% assumed in the MTFS i.e., now 4.1%, in addition to the reprofiled capital receipts, this will require an additional revenue savings target of £890,000 to be achieved recurrently by the end of 2027/28 to achieve financial sustainability.

Savings Target effect on reserves: July 2024 Update: Cap Receipt £5/25/10m 1% higher interest	**2024-25 July Update £'000**	**2025-26 Projected £'000**	**2026-27 Projected £'000**	**2027-28 Projected £'000**
In year saving permanently out of base				
Interest and MRP reduction	(60)	(647)	(1,933)	(2,440)
Services cost reduction	(500)	(1,150)	(1,800)	(2,450)
Total recurrent savings:	**(560)**	**(1,797)**	**(3,733)**	**(4,890)**
In year deficit before mitigating savings	5,149	5,090	4,617	4,828
Revised deficit/outturn	**4,589**	**3,293**	**885**	**(62)**
Opening reserve balance:	**(12,229)**	**(7,640)**	**(4,346)**	**(3,461)**
Revised deficit	**4,589**	**3,293**	**885**	**(62)**
Reserve annual closing balance	**(7,640)**	**(4,346)**	**(3,461)**	**(3,524)**

3.47. In the event that only £20m of the required £40m capital receipt are achieved, and by December 2026 (i.e., 2.5 years' time) and interest rates are 1% higher i.e., now 4.1%. The required recurrent service cost reduction will increase from £2m to £3.65m and the combined interest and MRP saving will reduce from £2.04m to £1.22m **requiring a bigger compensating reduction in service budget** by the end of the MTFS period to achieve financial sustainability. The level of available reserves will also be approaching a critical level at £2.2m plus working balance of £2m, leaving very little margin to not achieve the timing or value of savings or accuracy of cost assumptions such as interest rates, inflation and unforeseen service cost pressures. **It is likely that this will**

become the prevailing scenario. Work is underway on the capital receipts and this scenario will be firmed up at October Council.

Savings Target effect on reserves: July 2024 Update: Cap Receipt £20m Dec 2026 1% higher interest	2024-25 July Update £'000	2025-26 Projected £'000	2026-27 Projected £'000	2027-28 Projected £'000
In year saving permanently out of base				
Interest and MRP reduction		-	(205)	(1,220)
Services cost reduction	(500)	(1,550)	(2,600)	(3,650)
Total recurrent savings:	**(500)**	**(1,550)**	**(2,805)**	**(4,870)**
In year deficit before mitigating savings	5,149	5,090	4,617	4,828
Revised deficit/outturn	**4,649**	**3,540**	**1,812**	**(42)**
Opening reserve balance:	**(12,229)**	**(7,580)**	**(4,040)**	**(2,227)**
Revised deficit	**4,649**	**3,540**	**1,812**	**(42)**
Reserve annual closing balance:	**(7,580)**	**(4,040)**	**(2,227)**	**(2,270)**

Reserves Analysis

3.48. As at the end of 2023-24 financial year there are £20.819m of earmarked reserves and a Working Balance of £2m. The earmarked reserves have been analysed into categories in line with their purpose and limitations on use (ringfencing) as per the schedule below. Of the £20.819m there is **£12.229m** that can be repurposed to fund the MTFS deficit, including reserves retained to manage risk.

Revenue Reserves analysis as at 31st March 2024	Reserves as at 31/3/2024 £000
Reserves that can be repurposed	
Working balance surplus net of budget carry forward	1,133
Stability and Resilience Reserve	5,700
Business rates appeals and backdating	3,892
Flexible Housing Grant	812
Regeneration Reserve	257
Civil Parking Enforcement Surplus	206
Other Grants (Individually below £45k)	154
Custom Build Reserve	75
	12,229
Reserves supporting specific initiatives	
Climate Emergency Reserve	124
A331 Air Quality Project	213
Mercury Abatement	528
Homes for Ukraine Support A	320
Budget Carry forward 2023/24 - for approval by July 2024 Council	216
Asylum Dispersal	144
Deprivation Reserve	106
COVID C/Tax Hardship Earmarked Reserve	43
LAHF	42
Cyber Security Reserve	27
Afghan Relocation Scheme	24
Homes for Ukraine Expenses B	19
Control Outbreak Management Fund Reserve	8
UK Shared Prosperity Fund Reserve	7
Supported & Temporary Accommodation Work	7

	1,828
Reserves not available for deficit relief	
S106/SANG	5,934
Pipeline -Environment Improvement reserve	134
Farnborough Airport Environmental Fund	129
Insurance Reserve MMI run off	253
Workforce Reserve	312
	6,762
Total Earmarked Reserves	**20,819**
Excess working balance	1,349
EMR schedule total	19,470
Total reserves in addition to £2m working balance	**20,819**
Working Balance	2,000

3.49. The revenue deficit must be funded from reserves, this required a repurposing of the earmarked reserves as shown in the table below. The strategy is to first utilise the smaller reserves that currently have no commitment or specific ongoing purpose, then the Stability and Resilience Reserve and finally as a last resort the Business rates appeals and backdating reserve due to the business rates appeals risk. Any improvement in the projected revenue deficit will first be applied to restoring any drawdown on the Business Rates Appeals reserve and then be adjusted against the Stability and Resilience reserve.

Savings Target effect on reserves: July 2024 Update: Cap Receipt £5/25/10m	**Reserves as at 31/3/2024**	**2024-25 July Update £'000**	**2025-26 Projected £'000**	**2026-27 Projected £'000**	**2027-28 Projected £'000**
Forecast deficit prior to savings plan		5,149	4,393	3,920	4,131
July reprofiled savings target		(560)	(1,534)	(3,108)	(4,040)
Forecast deficit to be funded from reserves		**4,589**	**2,859**	**813**	**91**
Reserves that can be repurposed					
Working balance surplus net of budget carry forward	1,133	(1,133)			
Stability and Resilience Reserve	5,700	(2,764)	(2,047)	(813)	(76)
Business rates appeals and backdating	3,892	-			(15)
Flexible Housing Grant	812		(812)		
Regeneration Reserve	257	(257)			
Civil Parking Enforcement Surplus	206	(206)			
Other Grants (Individually below £45k)	154	(154)			
Custom Build Reserve	75	(75)			
Reserves applied to fund deficit		(4,589)	(2,859)	(813)	(91)
Annual Earmarked reserve balance	**12,229**	**7,640**	**4,781**	**3,968**	**3,877**

Use of capital receipts

3.50. The council has £3.537m of capital receipts. The use of these receipts is statutorily restricted to fund capital expenditure and specific revenue costs under the government directive “flexible use of capital receipts” as described in February budget agenda page 83 paragraph 9.2. The council is holding these receipts to mitigate the risk of a significant unplanned capital cost arising to avoid borrowing and to provide financial capacity to make changes to the revenue account that qualify under the directive as set out in paragraph 5.7 page 77 of the February budget report.

3.51. The 2024-25 to 2027-28 capital program does not have a planned maintenance scheme to support the council's asset base, except for £671,000 of historic asset management contingency budget funded from additional borrowing. The Meads purchased in April 2023 report to Cabinet recognised the need for capital expenditure from the pre-acquisition conditions survey due diligence. This was not included in the capital programme at that point; however, the expectation was to fund any necessary capital investment from the revenue stream within the business case, which is not practically possible as The Meads contributes an annual deficit to the revenue account. There is also a requirement for capital resources to fund capital contribution to let new leases on empty properties such as in Union Yard. Financing options for any approved expenditure must be considered as part of the overall corporate financing.

4. Savings requirement and Financial Recovery Plan

4.1. It is likely from the information above and work to date through the Financial Resilience Plan that the 2024-25 revenue base budget target of £500,000 will be achieved. Work is underway to identify the full £2m MTFS revenue savings target. In addition, it is likely that an additional £2m annual revenue reduction will be required due to the likelihood of less than £40m of capital receipts being achieved against a higher long term interest rate.

4.2. Once there is more certainty on the rebased 2024-25 budget expenditure reduction proposals will be developed with the intent of achieving the full £2m additional savings as early as possible in the MTFS period to alleviate pressure on reserves. The Council can draw on its previous successful savings initiatives to assist with this process which should take into account service priorities and council objectives.

4.3. Progress will be made on developing these savings approaches in July through September for update to Cabinet and Council in October. These will be brought together with detailed actions on the delivery of capital receipts and other savings projects into a 'Financial Recovery Plan'.

4.4. To ensure delivery of the required savings it is proposed to establish a cross party Cabinet Working Group to be known as the 'Financial Recovery Working Group' with the primary role of overseeing delivery of the Financial Recovery Plan.

5. External Review

5.1. Given the financial situation, the Council has sought external perspectives on its financial plans and overall performance through a LGA Peer challenge and by commissioning CIPFA to undertake an independent review.

Corporate Peer Challenge (LGA)

5.2. The LGA Peer Challenge was undertaken in June. The Peer challenge process is improvement focused and aims to provide a critical friend oversight of how the council is performing. There were a number of key recommendations from the team relevant to the MTFS including:

- There is an urgent need for the Council to address its immediate financial challenges to ensure it can remain a going concern

- A comprehensive asset disposal strategy needs to developed and agreed with the right capabilities to deliver it. The Council then needs to move immediately to implement the strategy to allow a budget to be set for 2025-26 and beyond.

- There are significant shortcomings in finance team's capacity, systems and governance that have contributed to the situation and make a soft landing more difficult.

5.3. The Council will receive the full report within 3 weeks, following which the report will be published and an improvement plan developed. It is anticipated that this will form the basis of a wider plan that also includes recommendations from the CIPFA report not included in the Financial Recovery Plan.

CIPFA Review

5.4. The 2024-25 to 2027-28 MTFS approved at February Council recognised a significant challenge to the Council's financial sustainability over the medium term. In the run up to the budget, the Council approached DLUHC (Department for Levelling Up Housing & Communities) in late 2023 to discuss options for exceptional financial support (EFS). DLUHC advised the Council were not at the stage where EFS would be appropriate (being able to balance the budget currently and in a position of adequate reserves for the immediate future). The MTFS that supported the Council's budget setting proposed a financial sustainability plan with a series of measures to ensure that the Council could continue to be financially sustainable without EFS. The budget report further recommended that the financial sustainability plan be independently examined by CIPFA (Chartered Institute of Public Finance & Accountancy). CIPFA are the most appropriate professional body and are effectively advising DLUHC regarding financial sustainability challenges across the sector.

5.5. The full CIPFA report is included as appendix 1 to this report. The report endorsed the Financial Resilience Plan and highlighted that "The Council needs to reassert the importance and centrality of finance to the Council, addressing issues in relation to financial capacity and competencies and the robustness of financial management." It further states that, "The Council needs to implement the improvements in financial management discussed in this report and included in the Financial Resilience Plan as a matter of urgency given the importance of good practice financial management in underpinning financial control, supporting effective decision-making and delivering the planned path to financial sustainability."

5.6. The report set out a range of matters the Council might wish to address and these will be brought together with the actions arising from the Peer Challenge into a single action plan to be published in September.

6. Risks and uncertainties

6.1. Cost of borrowing remains a risk facing the council at present. The assumed profile of interest rate reduction is likely to be later, and less than planned. The achievement of capital receipts and timing remains uncertain at this point. Work is underway; however, delivery is a significant concern and the impact on the revenue account and reserves has been demonstrated above. This work will need to be accelerated and reported into the October Council update.

6.2. 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 identified and incorporated into the capital programme or revenue account through planned maintenance. This has been covered off in detail in this report. This work must be progressed to report into the October Council update.

6.3. The commercial property portfolio rent stream along with the Meads represents circa £11m of income, the work to fully translate the rent schedules into the budget is still underway as per the detail covered off in this report. It is urgent to ensure that the council can take a strategic approach identifying and mitigating the risks to the rent roll and future capital requirements to maintain the income and manage revenue impact.

6.4. The Waste collection contract with Serco (circa £5m) must be retendered or extended by 2027 with the work commencing in 2024/25. There are some significant cost and capital commitment risks associated with this contract that must be engaged with and understood as early as possible to enable any potential mitigation to be effective, more detail will be provided at the October budget update.

6.5. The potential council office move to free up the current site for development disposal is a financial opportunity and a risk and a "Treasury 5 cases" style outline business case will be needed to enable the proposal to be fully evaluated in respect of the MTFS and financial resilience.

6.6. Union Yard is nearing completion, there are several financial risks to the MTFS around the letting of the student accommodation, the management of the communal heating and letting of the commercial units.

6.7. The transfer to RHL is dependent on the detail of the due diligence of the RHL business case, Knight Frank has been commissioned to do this work and are due to report back at the end of July. Delay or a change in plan at this point would have a material effect to the 2024-25 budget and MTFS.

6.8. 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.

6.9. The potential changes to Hampshire County Council's budget include closure of Grosvenor Rd which currently provides 14 Bedspaces of accommodation. Also Clayton Court which provides around 35 temporary accommodation places is due to close by December 2026 and there is no agreed replacement. Demand has already increased use of Bed and Breakfast from an average of 10 to 14 rooms at any one time due to increasing levels of homelessness and difficulties in rehousing people. Currently the Rough Sleeper initiative is due to end in April 2025 which has assisted in addressing that issue. There is therefore a significant financial risk that the costs of the Council meeting its homelessness obligations could increase substantially.

6.10. There is an unsecured loan to Farnborough International Limited (FIL) of £6.482m due for repayment in tranches in the next three years. The financial stability of FIL is reviewed quarterly to understand their trading and cashflow position and the risk to the council.

6.11. The council's last audited accounts were 2019-20, signed off late last year. This means that the 2024-25 to 2027-28 MTFS is based upon an uncertified baseline. As seen in the 2023-24 outturn it is possible that the useable reserves assumptions can change due to balance sheet adjustments required through officer diligence and external audit of the 2023-24 accounts published on 31st May 2024.

7. ALTERNATIVE OPTIONS

7.1. The council must produce and keep under review a MTFS that by its nature includes a number of assumptions and options to deal with a range of transactions and service delivery strategy. Where there are options, these have been brought out in the relative section of this report.

8. CONSULTATION

8.1. No specific consultations have been undertaken outside of the elected members of the council.

8.2. An all Member finance briefing was held to discuss the key assumptions within this report.

9. IMPLICATIONS

Risks

9.1. Risks to the MTFS and delivery of the MTFS agreed actions have been specifically covered off within the report and the risk section above.

Legal Implications

9.2. Full detail on the legal implications of the content of this MTFS update can be found in the February budget report page 84 of the agenda.

Financial and Resource Implications

9.3. Resource and financial implications of the MTFS are set out within the report. Further financial implications are set out in the February Budget report appendix 7: Section 25 report on the robustness of estimates and is applicable to this update, on page 100 of the agenda pack.

Equalities Impact Implications

9.4. Full detail on the Equalities Impact implications of the content of this MTFS update can be found in the February budget report page 85 of the agenda

Other

9.5. There are no further implications of this report to consider.

10. CONCLUSIONS

10.1. The Council set a balanced budget with the use of reserves in February 2024 with a £19.152m deficit over the MTFS term and a Financial Resilience Plan to address the challenge. Whilst progress has been made, some factors have become more challenging and for the Council to become financially resilient it will require the implementation of cost reductions, efficiency savings and delivery of substantial capital receipts to reduce capital costs whilst drawing down reserves.

10.2. It is appropriate to update Council on the latest review of the assumptions inherent in the MTFS, the outcome of the 2023-24 financial year and likely outturn against budget for the current financial year (2024-25). External reviews have indicated the Council's current approach is sound but needs more detailed actions and to be undertaken with urgency. This will be set out in a new Financial Recovery Plan with delivery overseen by a new Cabinet Financial Recovery Working Group.

LIST OF APPENDICES/ANNEXES:
Appendix 1: CIPFA Financial Resilience Review

BACKGROUND DOCUMENTS:
Budget Council agenda 22nd February 2024: including the MTFS and Capital strategy reports.

CONTACT DETAILS:

Report Author – Peter Vickers Peter.vickers@Rushmoor.gov.uk
Head of Service – Peter Vickers

APPENDIX

Rushmoor Borough Council: Financial Resilience Review

Final

June 2024

Table of contents

1. Introduction

Rushmoor Borough Council (Rushmoor) has identified a threat to its future financial sustainability as is set out in the General Fund Budget 2024-25 and Medium Term Financial Strategy 2024-25 to 2027-28 reported to Cabinet and the Council in February 2024. We understand that Rushmoor entered into dialogue with DLUHC in late 2023 in relation to this and were advised that their focus was only on those Councils that had or were likely to be unable to set a balanced budget in 2024/25 and therefore Rushmoor was not currently a candidate for Exceptional Financial Support (EFS).

Subsequently, Rushmoor commissioned CIPFA to undertake a review of its financial position as follows.

- **Financial Management and Sustainability**: An assessment of Rushmoor's financial management and management of risk, financial pressures, deliverability of savings plans and efficiency in delivering services and potential capital flexibilities. (Section 3)
- **Debt/Commercial Assets**: An assessment of Rushmoor's assets and investments including dependence on commercial income, debt costs and other risks. (Section 4)
- **Capital Programme/Companies**: An assessment of Rushmoor's capital programme and management of related risks including arrangements with the two Rushmoor owned companies. (Section 5)
- **Governance and Culture**: An assessment of Rushmoor's governance/management processes, leadership, operational culture, whether it has the appropriate governance procedures in place, and the capability and capacity to make any necessary transformation. (Section 6)
- **Improvement Proposals and Recommendations:** Recommendations to provide the Council with tangible actions to guide design and implementation of the necessary actions to address identified risks and issues. (Section 7)

We have undertaken a similar approach to that we have used with DLUHC commissioned reviews so that, if necessary, this report could be shared with DLUHC. It also benefits from our work in supporting DLUHC in assessing submissions for EFS.

Please note, our initial draft report was sent to the Council on 22nd April 2024 based on our work undertaken in the period February to April 2024. Consequently, this version may not reflect decisions or actions taken by the Council since then.

2. Executive Summary

Financial Sustainability

Rushmoor Borough Council (Rushmoor) has identified a significant challenge to its future financial sustainability as is set out in the General Fund Budget 2024-25 and Medium Term Financial Strategy 2024-25 to 2027-28 reported to Cabinet and the Council in February 2024. The Council has been able to set a balanced budget in 2024/25 albeit funded through a significant reduction in reserves. This continues the trend of recent years of the Council spending more each year than it receives in funding. The Council has recognised that this is a situation which cannot continue.

The Council's spending has exceeded income in each of the past three financial years (2021/22 to 2023/24), adding to a cumulative use of reserves over the past three financial years to fund this excess of spending over income of £12.605m (taking into account the Q3 2023/24 forecast outturn). This figure is dependent on the final outturn for 2023/24. This is significant for a Council of Rushmoor's size and responsibilities.

The Medium-Term Financial Strategy (MTFS), approved by the Council on 22nd February 2024 sets out a continuation of this trend with a further £16.598m needed in reserves in the period 2024/25 to 2027/28 without the Council taking steps to significantly curb spending.

Without reducing annual spending to align with annual income the Council will not be able to set a balanced budget in 2026/27. Consequently, without mitigation, the Council is not financially sustainable in the medium-term. This is driven by the Council's level of debt. This means the Council has a maximum of two years to make the necessary changes required to achieve a stable and financially sustainable future, including curbing spending so it is aligned with funding.

The MTFS does set out a path to financial sustainability. The "Revenue Budget, Capital Programme and Council Tax Level" report to the Council on 22nd February includes in Appendix 1 the "MTFS – Financial Resilience Plan" and within the report identifies the scale and focus of the savings target required which amount to a reduction in the base budget of £4.040m; £2.000m in service cost reductions and £2.040m in Interest and MRP cost reductions. This would put the Council on a financially sustainable footing.

Whilst 2026/27 may seem some time off, the steps needed to achieve financial sustainability will take time to implement, especially the £40m disposal of assets needed to achieve the reduction in interest and MRP costs. In addition, the savings target requires savings to be made in 2024/25 and in 2025/26 in order to achieve financial sustainability.

The Council is in a position to avoid any future request for intervention from Government, in the form of Exceptional Financial Support (EFS) if it acts in a timely manner and makes some key decisions about its future, in particular in relation to its development programmes.

Securing financial sustainability may entail making difficult decisions that run counter to the Council's ambitions and could result in reductions in service and affect the Council's regeneration goals.

It is, therefore, important that the Council quickly makes decisions and determines the actions it is going to take so that they can be implemented in a planned and structured way.

The Council needs to:

- Identify how it will deliver the £40m of capital receipts required, including confirming land and property assets that it will dispose of, and put in place the necessary detailed plans to achieve these disposals by the target date of September 2025, with a focus on those assets that would not have an impact on net revenue income
- Identify how the recurring service cost reductions in 2024/25 of £0.5m are going to be achieved and develop proposals for additional recurring service cost reductions of £0.5m in 2025/26 and subsequent years are going to be achieved
- Consider, should the proposed new capital flexibilities come into regulation, what needs to be done to take advantage of these if the Council so chooses (for example, through more asset disposals to generate the required capital receipts), noting that the proposed flexibilities provide an alternative to EFS to capitalise general cost pressures

Financial Management and the Centrality of Finance

The Council needs to reassert the importance and centrality of finance to the Council, addressing issues in relation to financial capacity and competencies and the robustness of financial management. We acknowledge steps have already been taken to start to address this.

In our analysis we highlight a historic lack of clarity and consistency in reporting. This suggests a historical lack of financial management capacity and competency which has not been helped by changes in leadership of the finance function. The current S.151 Officer is the fourth in recent years following two Interim S.151 Officers. In addition, the Council's External Auditors, Ernst & Young, refer to issues of capacity in the finance department in the context of their work and identify officer capacity as 'moderate' in their "Annual Audit Letter for the year ended 31 March 2020" dated July 2023.

The Financial Resilience Plan identifies a number of actions in relation to building financial capacity and competency. These align with our conclusions and it is important a plan to implement these improvements is determined and actioned.

We also suggest improvements, including a focus when setting the budget on the 'Net Budget Requirement'. More insightful and transparent, the "Net Budget Requirement" presentation of the budget, which other Councils adopt, more clearly identifies the level of spending the Council has agreed to in setting the budget before any budgeted use of reserves (which is included as a source of funding).

In Rushmoor, the S.151 Officer reports to the Monitoring Officer/Deputy CEO. We recognise the S.151 officer is a member of the Executive Leadership Team and involved in all key organisational decision making. However, The imminent "Code of Practice on Good Governance for Local Authority Statutory Officers" which has been consulted on by LLG, CIPFA and SOLACE will state "The Chief Finance Officer and Monitoring Officer should have a clear and direct relationship to the Head of Paid Service (Chief Executive), normally through line management or other equivalent arrangement". This supports CIPFA's long-held view that the S.151 officer should be a direct report to the CEO.

The Council needs to implement the improvements in financial management discussed in this report and included in the Financial Resilience Plan as a matter of urgency given the importance of good practice financial management in underpinning financial control, supporting effective decision-making and delivering the planned path to financial sustainability.

Alignment of the Council Plan with the MTFS

It also has to be considered, in developing the next iteration of the Council Plan whether the Council's priorities still align with the Council's financial situation, especially given the scaling back of the capital programme and the need to reduce the level of borrowing in order to achieve the interest and MRP savings through the disposal of assets to generate capital receipts of £40m.

In our opinion, the Council should also recognise the need to ensure that the next version of the Council Plan includes, as a core priority, the attainment and maintenance of financial sustainability, enabling the Council to prioritise more effectively its longer-term strategic aims for the area and its residents against the financial limitations that it faces.

We would strongly recommend that the Council needs to explicitly prioritise financial sustainability in the next iteration of the Council Plan and balance its ambitions alongside its core responsibilities and services.

Governance Arrangements and Operational Culture

Our impression is that the Council has had a significant focus on major regeneration projects. This has led to the high levels of debt and the current challenge to financial sustainability.

In our interviews, participants identified that the Council, has accepted a high level of risk in order to progress its regeneration ambitions, acting in an “entrepreneurial” manner. This has contributed to a significant debt position which, alongside the ongoing imbalance between cost of services and income, is now impacting on the Council’s financial sustainability.

Given the urgency of the situation, the Council needs to assure itself that the governance and delivery arrangements for the Financial Resilience Plan are supported by clarity of priorities, focus and direction, which leaves no room for competing agendas or diversion from the essential decisions and actions the Council needs to take.

Financial Resilience Plan

It is essential that the governance arrangements put in place to implement the Financial Resilience Plan reflect this need for focus and leadership together with a sense of urgency. This implies a continued and prioritised focus on completing the activities that are fundamental to achieving and maintaining financial sustainability with clear accountabilities and timescales for delivery.

The Financial Resilience Plan includes the key work-steams we would expect to see in such a plan and that DLUHC would expect to see a local authority act on before considering any form of Exceptional Financial Support, including spending controls, savings targets, and the scaling back of the capital programme. However, the February 2024 version of the Financial Resilience Plan does not include an asset disposal programme as a specific work-stream, reference is only made to asset disposal in relation to the Commercial Property Review work-stream when it is clear the Council will have to look more widely across its land and property portfolio in order to identify the £40m capital receipts required.

The implementation of the Financial Resilience Plan is underway and ideally needs to accelerate its delivery. This will require clear accountabilities and agreed realistic timescales for implementation, in particular around the:

- Identification and tracking of the service cost reduction savings target which needs a permanent removal from the base budget of £0.5m each year for the next four years, including 2024/25
- Identification of the £40m asset disposal programme which is the key to achieving the Interest and MRP cost reduction savings target.

The planned refresh of the MTFS is an important milestone. It is vital that, once this is considered, the Council has confidence and visibility of the outcomes, governance and accountabilities included in the Financial Resilience Plan along with the specific actions and their associated timescales so that the MTFS can properly reflect the Council's path to financial sustainability.

Our recommendation, therefore, is that the Council builds on the work to date and quickly develops a more detailed delivery plan which sets out clear timescales, actions and accountabilities setting out:

- The financial outcomes required as adjusted by the outturn, review of reserves and revised MTFS
- The subsequent actions to be taken and when decision are needed
- Reporting and monitoring arrangements to ensure Financial Resilience Plan is on target and there is good visibility on progress

The action plan should include detailed plans in relation to:

- Assets to be disposed of (at an individual asset level)
- Service cost reductions

This is fundamental to achieving the Council's planned journey to a more financially sustainable future.

The revised MTFS should set out key financial targets and dates to be achieved. A detailed delivery plan with clear accountabilities will mitigate the risk of not meeting these target dates, focus minds and provide a clear framework for accountability and implementation.

3. Financial Management and Sustainability

Introduction

Rushmoor faces a significant challenge to its continued financial sustainability. The Council has been able to set a balanced budget in 2024/25 albeit funded through a significant reduction in reserves. This continues the trend of recent years of the Council spending more each year than it receives in funding. The MTFS identifies that the Council will be unable to set a balanced budget in 2026/27 since reserves would, by then, be exhausted. The Council has recognised that this is a situation which cannot continue without significant remedial action being taken.

A summary of the financial trajectory is set out below. In Appendix A we examine the financial history of the Council between 2021/22 to 2023/24 based on its reporting. This highlights in more detail how the current financial challenge developed. Our view is that there has been a lack of clarity and consistency in reporting which makes it more difficult for those without significant financial expertise to fully understand the overall financial position at any specific time.

Financial Trajectory 2021/22 – 2023/24

Summary 2021/22 to 2023/24

In the table below we have summarised and restated the reported 2021/22 and 2022/23 outturn positions together with the latest (Q3) forecast outturn for 2023/24. The purpose of this restatement is to provide insight into the true level of spending (the Net Budget Requirement) and use of reserves that has been required to support this level of spending.

Summary 2021/22 to 2023/24	**2021/22 £000s**	**2022/23 £000s**	**2023/24 £000s**
Net Service Expenditure	9,273	9,738	11,731
Corporate Income & Exenditure	9,583	2,397	5,191
Adjustments	659	2,252	-
Net Revenue Budget Requirement	**19,515**	**14,387**	**16,922**
Funding	- 13,448	- 11,605	- 13,166
Deficit Before Use of Reserves	**6,067**	**2,782**	**3,756**
Balance of Earmarked Reserves			
Earmarked Reserves Opening Balance	27,985	21,918	19,136
Use of Earmarked Reserves	- 6,067	- 2,782	- 3,756
Earmarked Reserves Closing Balance	**21,918**	**19,136**	**15,380**
General Fund Balance	2,000	2,000	2,000
Total Reserves	**23,918**	**21,136**	**17,380**

To do this the use of reserves to support spending included in the reported 'Net General Fund Revenue Budget' has been added back to identify the Net Budget Requirement and adjustments have been made in relation to the issues set out in Appendix A.

The above table also reconciles opening and closing balances on Earmarked Reserves. In addition, the Council maintains a £2.000m General Fund balance (working balance).

It is not clear how the adjustments in the table above should be allocated to either Net Service Expenditure or to Corporate Income & Expenditure. What is clear, however is that spending has exceeded income in each of the past three financial years (2021/22 to 2023/24), adding to a cumulative use of reserves over the past three financial years to fund this excess of spending over income of £12.605m (dependent on the final outturn for 2023/24). This is significant for a Council of Rushmoor's size and responsibilities.

Revenue Budget 2024/25 and MTFS 2024/25 – 2027/28

Revenue Budget 2024/25

The 2024/25 budget was agreed at a meeting of the Council on 22nd February 2024, having been considered by the Cabinet on 6th February 2024. Appendix 4 of the report to Council "Revenue Budget, Capital Programme and Council Tax Level" sets out the General Fund Revenue Budget Summary 2024/25 which was approved by the Council. This approved 2024/25 revenue budget is summarised and restated below to identify the Net Budget Requirement (i.e. before use of reserves). We also include, for comparison, the 2023/24 Original Budget per Appendix 4 and the 2023/24 Q3 Forecast, which was not reported to the Cabinet until 12th March 2024.

	2023/24 Original Budget £000s	2023/24 Q3 Forecast £000s	2024/25 Approved Budget £000s	Change vs 2023/24 Budget £000s	Change vs. 2023/24 Q3 Forecast £000s
Net Service Revenue Budget	11,077	11,731	12,434	1,357	703
Corporate Income & Expenditure	2,450	5,191	6,657	4,207	1,466
Net Budget Requirement Before Use of Reserves	**13,527**	**16,922**	**19,091**	**5,564**	**2,169**
Funding	-12,403	-13,166	-13,831	-1,428	-665
Net Deficit Before Use of Reserves	**1,124**	**3,756**	**5,260**	**4,136**	**1,504**
Deficit Funded By:					
Use of Earmarked Reserves	1,124	1,578	-119	-1,243	-1,697
General Fund Deficit	-	2,178	5,379	5,379	3,201
Total Call on Reserves	**1,124**	**3,756**	**5,260**	**4,136**	**1,504**

This in effect means that the Council agreed to a level of spending of £19.091m in 2024/25, which is £5.064m more than in the 2023/24 budget and £2.169m more than the level of spending identified in the Q3 2023/24 forecast.

Medium Term Financial Strategy 2024/25 – 2027/28

The Medium Term Financial Strategy (MTFS) is included in the above mentioned report and was approved by the Council on 22nd February 2024.

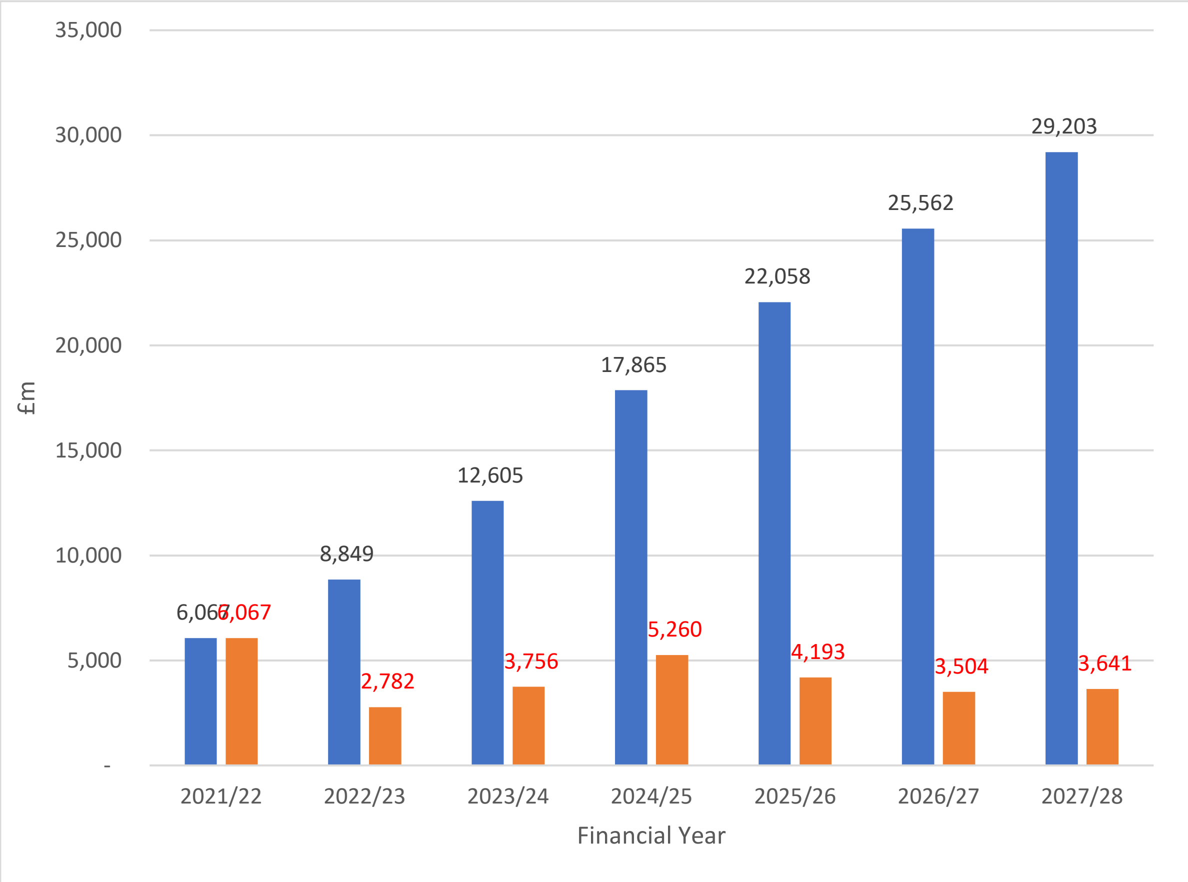
At that time, the forecast use of reserves in 2023/24 identified in the report and in Appendix 4 to the report was £2.500m. The Q3 2023/24 forecast reported to Cabinet on 12th March 2024 revised this upwards by £1.256m as is set out in the table below.

2023/24 Outturn Position Per	24/25 Budget £000s	Q3 Forecast £000s	Forecast +/- £000s
Use of Earmarked Reserves	1,124	1,578	454
Deficit	1,376	2,178	802
Total Call on Reserves	**2,500**	**3,756**	**1,256**

This impacts on the MTFS. In the table below we restate the MTFS presented to the Council to take account of this.

Adjusted MTFS Deficit and Reserve Balance	2023/24 £000s	24/25 £000s	25/26 £000s	2026/27 £000s	2027/28 £000s
Defictit Before Use of Reserves	3,756	5,260	4,193	3,504	3,641
Cumulative Deficit Before Use of Reserves	3,756	9,016	13,209	16,713	20,354
Estimated Reserve Balance					
Opening Balance	13,060	9,304	4,044	-149	-3,653
Planned Use of Earmaked Reserve	-1,578	119	-66	-	-
General Fund Defcicit	-2,178	-5,379	-4,127	-3,504	-3,641
Closing Balance	**9,304**	**4,044**	**-149**	**-3,653**	**-7,294**

The cumulative use of reserves to support spending since 2021/22 and projected to 2027/28 is illustrated below.



This amounts to £29.203m over 7 years, which is the £12.605m identified above in this report for the period 2021/22 to 2023/24 plus £16.598m forecast as required in the period 2024/25 to 2027/28 if no mitigating action is taken.

The adjustment of £1.256m in respect of 2023/24, based on the Q3 2023/24 forecast, means that the Council would not be able to set a balanced budget in 2025/26 without utilising the £2.000m General Fund (working) balance since Earmarked Reserves will not be sufficient to fund the whole of the projected deficit. In 2026/27 the Council would be unable to set a balanced budget even if the General Fund (working) balance was applied as without mitigation the General Fund (working) balance would have reduced to £1.851m and the forecast deficit at £3.504m results in an unfunded deficit of £1.653m as is illustrated below.

Adjusted MTFS Deficit and Reserve Balance including General Fund Working Balance	**2023/24 £000s**	**2024/25 £000s**	**2025/26 £000s**	**2026/27 £000s**	**2027/28 £000s**
Deficit Before Use of Reserves	3,756	5,260	4,193	3,504	3,641
Cumulative Deficit Before Use of Reserves	3,756	9,016	13,209	16,713	20,354
Estimated Reserve Balance					
Opening Balance including GF Working Balance	15,060	11,304	6,044	1,851	-1,653
Planned Use of Earmaked Reserve	-1,578	119	-66		-
General Fund Defcicit	-2,178	-5,379	-4,127	-3,504	-3,641
Closing Balance	**11,304**	**6,044**	**1,851**	**-1,653**	**-5,294**

Without mitigation, the Council is not financially sustainable in the medium-term. This is largely driven by the Council's level of debt which we discuss in Section 4 below. The position set out above means the S.151 Officer would be obliged, if there is no change, to issue a S.114 Notice in respect of the setting of the 2026/27 budget. This means the Council has a maximum of two years to make the necessary changes to its spending that would be required to set a balanced budget in 2026/27.

The MTFS does set out a path to financial sustainability. The "Revenue Budget, Capital Programme and Council Tax Level" report to the Council on 22nd February includes in Appendix 1 the "MTFS – Financial Resilience Plan" and within the report identifies the scale and focus of the savings target required.

The report to Council on 22nd February 2024 states "There are two significant levers within the Council's control to resolve the deficit. The most controllable lever is the Council's cost base, the second lever is the reduction of interest and MRP through reduction in debt (i.e., a capital solution), however disposal of assets to generate capital receipts is a medium-term action as this takes time to achieve".

These savings targets in relation to these two levers are set out in the table below.

MTFS Savings Target	**2024/25 £000s**	**2025/26 £000s**	**2026/27 £000s**	**2027/28 £000s**
Services Cost Reduction	500	1,000	1,500	2,000
Interest and MRP Reduction	240	1,558	2,040	2,040
Total Recurrent Savings	**740**	**2,558**	**3,540**	**4,040**
Deficit Before Use of Reserves	5,260	4,193	3,504	3,641
Less Savings Target	-740	-2,558	-3,540	-4,040
Revised Deficit Before Use of Reserves	**4,520**	**1,635**	**-36**	**-399**
Cumulative Deficit Before Use of Reserves	4,520	6,155	6,119	5,720

This target is for a permanent reduction in the base budget of £4.040m by 2027/28 comprising of £2.000m in service cost reductions and of a reduction of £2.040m in the cost of MRP and interest.

The impact of achieving this level of savings on reserves, taking into account the Q3 2023/24 forecast outturn and the General Fund (working) balance) is set out in the table below.

Estimated Reserve Balance If Savings Target Achieved	**2024/25 £000s**	**2025/26 £000s**	**2026/27 £000s**	**2027/28 £000s**
Opening Balance including GF Working Balance	11,304	6,784	5,149	5,185
Planned Use of Earmaked Reserve	119	- 66		-
General Fund Deficit	- 4,639	- 1,569	36	399
Closing Balance	**6,784**	**5,149**	**5,185**	**5,584**

This is clearly a significantly improved position. The cumulative impact of recurring savings from 2024/25 to 2027/28 would move the Council from a negative reserves balance of £5.294m to a positive reserves balance of £5.584m, a change of £10.878.

The achievement of the savings target would put the Council on a financially sustainable footing, maintaining the overall level of reserves, including the General Fund (working) balance, in excess of £5.000m throughout the current MTFS period and avoid an unfunded deficit in 2026/27 and 2027/28.

This is a challenging savings target. The table below summarises the MTFS from 2024/25 to 2026/27 set out in “Appendix 2: Detailed MTFS 2024/25 – 2027/28” included in the report to Council on 22nd February 2024 (Note, 2027/28 was not included in the table).

This is prior to the savings target and disaggregates the revenue impact of projects relating to capital expenditure/borrowing on the General Fund, providing a measure of the scale of savings (against spend) to be achieved to attain the degree of financial sustainability sought through the savings target.

Disaggregation of MTFS 2024/25 to 2025/27	2024/25 £000s	2025/26 £000s	2026/27 £000s
Net Service Revenue Expenditure	**20,428**	**21,235**	**22,254**
Investment Properties	- 1,616	- 2,961	- 3,607
The Meads	427	274	199
Union Yard	1,022	816	459
RHL	- 241	- 515	- 498
Crematorium	- 14	- 596	- 628
Civic Quarter	369	275	222
Other Operating Assets	1,066	862	763
Projects (related to CapEx/Borowing)	**1,013**	**- 1,845**	**- 3,090**
Interest Receivable from Treasury Investment	**- 2,350**	**- 2,130**	**- 1,640**
Net Budget Requirement	**19,091**	**17,260**	**17,524**
Funding	- 13,831	- 13,067	- 14,020
Net Deficit Before Use of Reserves	**5,260**	**4,193**	**3,504**

The cumulative annual savings target for service cost reduction to 2026/27 of £1.500m is 6.74% of .Net Service Revenue expenditure in the table above. This follows a series of savings that the Council has already implemented in recent years.

The report to Council on 22nd February 2024 states that Members should expect to receive proposals that manage the budget shortfall that:

a) Recognise the Council may no longer be able to afford to deliver the current range of services or maintain some services at existing levels

b) Prioritise services that deliver statutory obligations as a borough council"

For Interest and MRP cost reduction the cumulative annual savings target to 2026/27 is £2.040m. Projects and assets (related to CapEx/Borrowing) which attract MRP and interest do, overall, have a beneficial impact on the General Fund in 2025/26 and 2026/27 and over the three years from 2024/25 have a beneficial impact of £3.922m.

However, as can be seen in the table above, the beneficial impact is limited to certain projects and assets, namely Investment Properties, RHL and the Crematorium. Over the three years from 2024/25 these contribute £10.676m to the General Fund. In contrast, the Meads, Union Yard, the Civic Quarter and Other Operating Assets are currently a cost to the General Fund of £6.754m.

The report to Council on 22nd February states "The capital solution requires £40million reduction in borrowing (i.e., the Capital Financing Requirement) through the generation of capital receipts (or other external funding) by September 2025".

Naturally, the MTFS is based on a number of assumptions. Key assumptions relate to falls in interest rates and inflation which are outside the control of the Council. The report to Council on 22nd February 2024 identifies the risk associated with these assumptions.

This places even greater emphasis on making the decisions over which it does have control. As the report to Council on 22nd February identifies, the timing of savings delivery is critical.

Reserves Position

We have reviewed the overall reserves position above in discussing the MTFS, taking into account the Q3 2023/24 forecast outturn. The opening balance for 2023/24 of £13.060m reconciles to the closing balance in the draft Statement of Accounts 2022/23 of £19.136m.

This is set out in Appendix 5 of the "Revenue Budget, Capital Programme and Council Tax Level" report to Council on 22nd February 2024.

Reserves:	**as at 31/3/2023**
Earmarked reserves	(10,807,303)
Risk reserves	(2,252,797)
Total Earmarked Reserves	**(13,060,100)**
SANG/Developers Reserves Sub Total	(6,076,128)
Total Reserves:	(19,136,228)

The opening balance of £13.060m excludes SANG/Developers Reserves and the General Fund (working) balance of £2.000m. There is no breakdown provided of estimated balances of individual Earmarked Reserves as at 31st March 2024. However, these are identified as at 31st March 2023 in the draft Statement of Accounts 2023/24.

The report to Council on 22nd February 2024 states "A comprehensive reserves review will be completed as part of the 2023-24 outturn. Reserves will be aligned to the updated Financial Resilience plan, with reserve transfer proposals put forward to Full Council in July 2024". We have highlighted a number of issues in this report that might impact on the reserves position.

The report to the Council on 22nd February 2024 also refers to this in the section on Risks and Uncertainties, stating that the "audit backlog to 2020-21 carries risk around impact on available reserves". It is important, as part of the planned comprehensive reserves review, that assurance is gained on the level of reserves available to the Council.

The S.151 Officer's Section 25 Statement in the budget report to Council on 22nd February, in relation to the adequacy of reserves, identifies a significant repurposing of Earmarked Reserves is required in relation to 2023/24 to fund the forecast deficit (which increased in the subsequent Q3 2023/24 forecast).

It also states, "the Council has sufficient reserves to set a legal budget for 2024/25, and potentially 2025/26". This accords with our analysis, taking into account the Q3 2023/24 forecast of an increase in the 2023/24 deficit. However, as stated above and indicated in the budget report, there are insufficient reserves, including the General Fund (working) balance to set a balanced budget in 2026/27 without significant mitigation.

As is referred to above, there is a need for repurposing of Earmarked Reserves and a comprehensive reserves review is to be completed by July 2024 as part of the plan to attain financial sustainability.

A local authority relies on its financial reserves to provide funding for investment in future activities and to act as a safety net in case of short-term financial challenges. It is important to note that Earmarked Reserves are set aside for specific purposes and cannot necessarily be repurposed to bridge budget gaps unless the intended use of such reserves is no longer applicable. It is important this is taken into account, as part of the comprehensive reserves review, and that necessary decisions are sought in relation to such repurposing.

It is also important that there is appropriate governance and transparency in relation to the use and drawdown of specific Earmarked Reserves, which has not been the case historically.

CIPFA guidance states that using reserves to fund otherwise unsustainable services or to defer the need to make difficult decisions about service delivery should be avoided. Such an approach does nothing to enhance financial resilience. It also serves to make those difficult decisions even more difficult when they inevitably have to be made in the future.

Financial Management, Risk Management and Compliance

Financial Management

CIPFA has not undertaken a formal assessment of financial management at Rushmoor through, for example, CIPFA's FM Model or indeed, the requirement to undertake an assessment against the financial management code.

We have identified a number of historical issues in relation to financial reporting to Members in our analysis of the Council's financial position as it has evolved to the present day. This includes:

- Conflicting information on the 2022/23 outturn being provided to Members in July 2023
- Lack of Q2 and Q3 forecast outturn reporting to Members in 2022/23
- Presentation of budget/forecast information that does not clearly identify the Net Budget Requirement (the amount the Council plans to spend or is spending compared to funding (including the use of reserves)
- The recasting and presentation of the budget in a way which does not enable visibility of increases in the Net Budget Requirement

This suggests a historical lack of financial management capacity and competency which has not been helped by changes in leadership of the finance function, the current S.151 Officer is the fourth in recent years following two Interim S.151 Officers.

The Council's External Auditors, Ernst & Young, refer to issues of capacity in the finance department in the context of their work and identify officer capacity as 'moderate' in their "Annual Audit Letter for the year ended 31 March 2020" dated July 2023.

Given the financial position of the Council, we question whether quarterly forecasting is frequent enough. There is a lack of "in-flight" information during the course of the financial year which would provide the opportunity to take decisions to mitigate an adverse position, especially when the timing of current quarterly forecasts is taken into account.

The Q2 forecast went to Cabinet in January 2024 and Cabinet did not see the Q3 forecast until March 2024, after the 2024/25 budget had been approved and close to the 2023/24 year-end. Whilst an earlier indication of direction of travel might be possible under the current arrangements, more frequent (monthly) forecasting would provide a more robust foundation for financial management especially given the challenge to financial sustainability Rushmoor is facing. However, we do recognise this might be testing in the context of the current financial management capacity of the Council.

It is our observation that many reports that go to Members do not, as a matter of course, include a separate section on financial implications prepared by or on behalf of the S.151 officer but do contain sections on risk and on legal implications, even where there are significant financial repercussions. This runs the risk of Members taking decisions for which the financial implications have not been properly considered by the S.151 officer or a representative of the S.151 officer.

This may be a symptom of historical financial management capacity but, in our opinion, is a significant omission, especially given the Council's current financial position. We would expect all reports to Members to include a section on financial implications approved by the S.151 Officer even if this is to confirm there are none.

Achieving financial sustainability will depend on the Council achieving the challenging savings target discussed above. It is vitally important that these form a robust programme which is closely monitored in a visible/transparent way especially given the critical nature of their timing. Finance has a core role to play in validating and tracking the savings that have been achieved against this target.

We are aware that the current S.151 Officer is cognisant of the shortcomings in financial capacity and is taking steps to address them. This has included the recent appointment of the Financial Services Manager & Deputy S151 Officer. It is essential that the Council is supportive of all necessary steps needed to achieve a sufficient level of financial capacity and competency under the direction of the S.151 Officer.

Risk Management

Ernst & Young do draw attention to issues in relation to risk management in their “Annual Audit Letter for the year ended 31 March 2020” dated July 2023 stating “Adequate risk management is required for members and officers to take informed decisions” determining “The Council's Risk Management arrangements are adequate” before making a number of suggested improvements.

In February 2022 an Internal Audit Report in relation to Corporate Risk Management concluded that arrangements were ‘reasonable’ which meant improvements were required. The Internal Audit Report contained six recommendations of which five have been implemented.

The “Risk Management Process 2023/24” report to the Corporate Governance, Audit and Standards Committee on 24th March 2024 reports on the ongoing development and maintenance of the Council’s risk management process and includes as Appendix A the current Corporate Risk Management Policy (v2.0 27/04/22).

The report of 24th March states “Work has continued in response to the internal audit of risk management that concluded in February 2022. Of the 6 actions identified, the final outstanding item has been addressed in the latest draft of the risk management policy”. This is, in our opinion, slightly misleading since whilst there is now a section on ‘risk appetite’ in the policy, as the report states “Further work is however planned to investigate how the Council can establish an effective high level risk appetite policy (or policies)”. The Management Action Plan appended to the Internal Audit Report in February 2022 set a target date of 30th June 2022 to “to define and communicate the Corporate Risk Appetite”.

The latest "Council Plan and Risk Register Quarterly Update" report to Cabinet was made on 6th February 2024. This identifies a number of key corporate risks which we have summarised below.

	Risk Rating		
Key Corporate Risk	**Inherent**	**Residual**	**Target**
Leisure and Cultural Hub	High	High	Medium
Civic Quarter	High	High	Medium
Union Street	High	High	Low
Insufficient Funding to Proceed with Projects	High	High	Medium
External Debt	High	High	Medium
Financial Sustainability	Medium	Medium	Medium

These risks are clearly interrelated and to some extent conflict in their mitigation. For example, as has been set out above, the achievement of the Interest and MRP savings target depends on reducing the level of borrowing. Whilst this reduces risks associated with external debt and financial sustainability it does, without an alternative source of funding, adversely impact on the sufficiency of funding for projects and, therefore, the Council's ability to deliver the major projects set out in the table above, namely the Leisure and Cultural Hub, the Civic Quarter and Union Street.

Compliance with Local Government Accounting Codes and International Financial Reporting Standards

As set out in the draft Statement of Accounts 2022/23, the financial statements are prepared and published in accordance with the Accounts and Audit Regulations 2015 and the Code of Practice on Local Authority Accounting in the United Kingdom 2023. The Code is issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code is based on International Financial Reporting Standards (IFRS), as adapted for the UK public sector under the oversight of the Financial Reporting Advisory Board.

However, the last audited Statement of Accounts relates to 2019/20. Whilst draft Statement of Accounts for 2020/21, 2021/22 and 2022/23 have been published these are yet to be audited. Rushmoor has, thus, commenced the new financial year with four years of accounts remaining to be audited. Rushmoor is not alone in having a backlog. The Government is currently consulting on a statutory backstop date of 30th September 2024 for the completion of all outstanding audits up to and including 2022/23.

Capital Flexibilities

On 19th December 2023, DLUHC opened a consultation on capital measures to improve local government sector stability and efficiency. Any resulting changes will be available to all local authorities so are separate from and do not replace the EFS process, which is focused on supporting local failure. The consultation does, however, recognise “where local authorities face cost pressures that are not a consequence of local failure, then further freedoms to use capital resources could allow local management of budget pressures, and facilitate investment that reduces future costs and supports continued sustainability over the long-term”.

The specific options identified in the consultation paper are:

- Option 1: Extend capitalisation flexibilities to include a wider set of eligible costs – allowing local authorities to capitalise general cost pressures and meet these with capital receipts
- Option 2: Extend the flexible use of capital receipts to allow authorities to borrow for the revenue costs of invest-to-save projects, thus allowing local authorities to borrow to finance the revenue costs of eligible projects in addition to using capital receipts
- Option 3: Allow additional flexibilities for the use of the proceeds of selling investment assets – allowing local authorities to use investment asset proceeds to fund financial pressures and potentially having access to other flexibilities such as increasing reserves where they are demonstrably low

Option 1 is significant since at present EFS is the only way for local authorities to capitalise general cost pressures. It would be conditional on putting in place and committing to delivering an efficiency plan to reduce costs, with a defined payback period on any capitalised spend. The intent is that any use of the flexibility must be part of an overall plan to move back to financial sustainability within the MTFS term. It would also depend on the availability of capital receipts.

The intent of Option 3 is to encourage divestment of assets held only for revenue and not for the delivering the objectives of the local authority and to provide additional incentives to recognise that local authorities selling such assets will likely be foregoing future revenue income.

If these flexibilities come into regulation, they do present important opportunities for the Council to manage the financial challenge it is facing and in achieving a stable and financially sustainable future.

However, the ability to make use of these flexibilities will be dependent on the Council having access (in relation to options 1 and 3) to sufficient capital receipts, placing even greater emphasis on the importance of the Council in achieving its asset disposal plans and, since currently this is focused on reducing borrowing, considering a more extensive programme of asset disposal to take advantage of these flexibilities if they come into regulation.

Conclusion

Whilst Rushmoor has been able to set a balanced budget in 2024/25 this is reliant on a further reduction in reserves. Without reducing annual spending to align with annual income, the Council will not be able to set a balanced budget in 2026/27.

A savings target combining service cost reductions and reductions in interest and MRP costs has been identified which would put the Council on a financially sustainable footing.

Whilst 2026/27 may seem some time off, the steps needed to achieve financial sustainability will take time to implement, especially the £40m disposal of assets needed to achieve the reduction in interest and MRP costs. In addition, the savings target requires savings to be made in 2024/25 and in 2025/26 in order to achieve financial sustainability.

The Council is in a position to avoid any future request for intervention from Government, in the form of Exceptional Financial Support (EFS) if it acts in a timely manner and makes some key decisions about its future, in particular in relation to its development programmes.

There is a great deal of energy being put into identifying the detail of the actions the Council needs to make and a Financial Resilience Plan has been developed. Securing financial sustainability may entail making some politically unattractive decisions that run counter to the Council's ambitions, resulting in reductions in service and affecting the Council's regeneration goals.

It is important that the Council quickly makes decisions and determines the actions it is going to take so that they can be implemented in a planned and structured way.

In so doing, the Council needs to address issues in relation to financial capacity and competencies, which we acknowledge steps have already been taken to address. The Financial Resilience Plan identifies a number of actions in relation to finance including:

- 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

- Improvements in the quality of working papers, documents, and reconciliations through establishment of new standards for these materials
- Development of financial skills within the Council
- Design and consultation on the structure of the finance service at a suitable juncture

These align with our conclusions and it is important a plan to implement these improvements is determined and actioned in the short-term.

Good practice in financial management is fundamental to and underpins the delivery of organisational priorities and objectives. It is key to:

- Providing control, probity and accountability
- Enhancing and improving performance
- Supporting better decision-making
- Managing risk
- Enabling change
- Achieving value for money

These are organisation-wide responsibilities, they are not solely the responsibility of Finance but are supported by Finance. Without the actions identified in the Financial Resilience Plan being delivered, the ability of the Council to secure sound financial management and achieve a financially sustainable future is at risk.

4. Debt and Commercial Assets

Debt

Scale of Indebtedness

For its size. Rushmoor has one of the highest levels of debt of any local authority in England. In September 2023 Moody's identified the 20 most indebted local authorities in England relative to size. Rushmoor ranked 7th as is shown in the table below[1].

Top 20 English councils with high levels of debt for their size

Local authorities ranked by borrowing level versus their income

Local authority	Total borrowing	Borrowing to income ratio
1. Spelthorne	£1.1bn	86.9x
2. Woking	£2.0bn	62.0
3. Eastleigh	£522m	41.1
4. Runnymede	£643m	23.4
5. Worthing	£204m	14.4
6. Surrey Heath	£170m	13.7
7. Rushmoor	£120m	10.6
8. Cherwell	£188m	10.3
9. Uttlesford	£302m	10.0
10. Warrington	£1.8bn	9.9
11. Brentwood	£226m	9.7x
12. Mole Valley	£103m	9.6
13. East Hampshire	£120m	9.5
14. Thurrock	£1.5bn	7.5
15. Adur	£165m	7.1
16. Epsom and Ewell	£64m	6.8
17. Broxbourne	£58m	6.3
18. Guildford	£295m	6.0
19. Chorley	£78m	5.9
20. Warwick	£268m	5.9

Guardian graphic. Source: Moody's investors service

The level of external debt as at 31st March 2023 was £120m. The Treasury Management and Non-Treasury Investments Operations 2023/24" report to the Corporate Governance, Standards and Audit Committee on 27th November 2023 forecast that external debt would rise to £167m by 31st March 2024 as is set out in the table below.

[1] Due to concerns about the financial information identified earlier in the report we have not been able to use the comparative CIPFA data in our report including the Financial Resilience Index.

External Borrowing Summary	
1/4/2023 balance - started before this date	**120,000,000**
	-
Of which repaid pre November	115,000,000
Replaced borrowing in year to date	153,000,000
Of which matured	(16,000,000)
Balance to date	**142,000,000**
Borrowing contracted in last Quarter	25,000,000
Repaid in last Quarter	(13,000,000)
Required borrowing in last Quarter	13,000,000
Total debt at 31/3/2024	**167,000,000**

The 2023-24 budget assumed £165m of borrowing. The budget's interest assumption was based on short-term borrowing of £45m (27.3%) at 0.75% and £120m (72.7%) of long-term Public Works Loan Board (PWLB) borrowing at 2%.

At 31st March 2023 long-term loans represented £5m (4.16%) of the £120m external debt. In September 2023, the Council was advised by Arlingclose to transfer 60% of its short-term debt to longer-term PWLB loans. However, this was considered unaffordable. The planned switch to long-term borrowing in the 2023-24 budget did not materialise despite an apparent commitment and understanding across the Council at the time.

The "Annual Treasury Management Strategy and Annual Non-Treasury Investment Strategy 2024/25" approved by the Council on 22nd February 2024 sets out the Council's annual borrowing strategy. This identifies that the majority of current debt is due to mature within 12 months and that the Council will need to borrow £135.4m by the end of 2024/25 to replace existing short-term loans as they mature.

The chief objective of the annual borrowing strategy is "to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required". It also identifies as a secondary objective the flexibility to renegotiate loans should the Council's long-term plans change.

The annual borrowing strategy retains the desire to switch to a greater proportion of long-term debt to enable greater in the cost of borrowing. However, this process will not begin until expected falls in current interest rates.

Authorised Limit and Operational Boundary

The Council is legally obliged to set an Authorised Limit (or affordable borrowing limit) for external debt each year. The Authorised Limit is a prudential indicator which controls the overall level of borrowing and is the limit beyond which borrowing is prohibited. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

The “Annual Capital Strategy 2024/25” approved by the Council on 22nd February 2024 identifies the Authorised Limit of £202m in 2023/24 remaining constant through to 2026/27. Similarly, the Operational Boundary identified of £171.8m in 2024/25 remains constant through to 2026/27.

Debt of £167m as at 31st March 2024 is approaching the Operational Boundary though securely within the Authorised Limit. Given the Council is seeking to reduce the level of debt and both the Authorised Limit and Operational Boundary are constant through to 2026/27, the extent to which debt is less than these indicators should increase over the period to 2026/27.

Capital Financing Requirement

The purpose of the Capital Financing Requirement (CFR) is to demonstrate that Council borrowing is undertaken to fund capital expenditure only. The “Annual Capital Strategy 2024/25” provides the following description “The Council’s cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt”.

In the “Annual Capital Strategy 2024/25” the Council’s estimated CFR in 2024/25 is £167.9m, reducing to £129.1m in 2026/27. As the Council is projecting reducing levels of debt over this period, the Council is expecting to comply with the recommendation in CIPFA’s Prudential Code for Capital Finance in Local Authorities that total debt is lower than the highest forecast CFR in the period 2024/25 to 2026/27.

Minimum Revenue Provision (MRP)

Historically, the Council has charged MRP on a straight-line basis, where equal annual charges for MRP are made over the asset life. Following a review of MRP by Arlingclose, the Councils Treasury Management advisers, the Council has changed to the annuity basis from 2024/25 onwards. This results in a reduction in MRP in earlier years but sees the MRP charge increase each year over the asset.

This change in approach is set out in Appendix 3 - Minimum Revenue Provision Statement 2024/25 to the “Annual Treasury Management Strategy and Annual Non-Treasury Investment Strategy 2024/25” approved by the Council on 22nd February 2024. A detailed review of the Council’s MRP calculation is outside the scope of this review. However, we are able to comment that the approach adopted by the Council is compliant with regulations and guidance and is an approach that is widely adopted.

Interest and MRP Costs

Interest and MRP costs are a function of the scale of borrowing, interest rates and the Council's MRP policy. Interest costs together with the borrowing and interest rate assumptions included in the MTFS approved by the Council on 22nd February 2024 are set out in the table below.

Interest on External Borrowing	2023-24 Original Budget £'000	2023-24 Forecast £'000	2024-25 Draft Budget £'000	2025-26 Draft Budget £'000	2026-27 Draft Budget £'000
1. Investment Properties	1,562	3,391	4,371	3,229	2,591
2. The Meads	363	789	502	371	298
3. Union Yard	669	1,452	1,552	1,168	937
4. RHL Ltd	15	33	855	631	507
5. Crematorium	6	14	239	187	150
6. Civic Quarter	128	278	363	268	215
7. Other Operational Assets	258	560	793	591	479
Total interest on external borrowing	**3,002**	**6,516**	**8,675**	**6,446**	**5,117**
Weighted average interest rate	**1.67%**	**3.90%**	**5.17%**	**3.86%**	**3.10%**
Short term borrowing	45,000	167,000	167,000	167,000	167,000
Long Term borrowing	120,000	-	-	-	-
Total external borrowing	**165,000**	**167,000**	**167,000**	**167,000**	**167,000**
Internal borrowing	-	7,746	15,409	16,474	16474
Total borrowing	**165,000**	**174,746**	**182,409**	**183,474**	**183,474**

The MTFS assumes total external borrowing of £167m in the period 2024/25 to 2026/27. A key assumption is a fall in the weighted average interest rate from 5.17% in 2024/25 to 3.1% in 2026/27. This results in total interest on external borrowing of £8.675m in 2024/25 falling to £5.117m in 2026/27. Whilst not included in the table above, the MTFS indicates that total interest on external borrowing will remain at £5.117m in 2027/28.

The table below provides a breakdown of MRP included in the MTFS approved by the Council on 22nd February 2024.

Minimum Revenue Provision by Scheme	Expenditure funded by borrowing £'000	Minimum Revenue provision 2023-24 Original Budget £'000	2024-25 Draft Budget £'000	2025-26 Projected £'000	2026-27 Projected £'000	2027-28 Projected £'000
1. Investment Properties	91,908	1,911	1,299	1,101	1,093	1,113
2. The Meads	10,561	0	142	120	119	121
3. Union Yard	33,246	0	0	380	377	384
4. RHL Ltd	17,970	25	19	211	209	213
5. Crematorium	5,324	12	18	98	103	105
6. Civic Quarter	7,637	68	6	7	7	7
7. Operational Assets	16,827	154	273	271	284	289
Grand Total	**183,474**	**2,170**	**1,758**	**2,186**	**2,192**	**2,232**
Year on year chang in MRP			**(412)**	**428**	**6**	**40**
Funded by:						
External borrowing	167,000					
Internal Borrowing	16,474					
Total borrowing	**183,474**					

The £0.428m increase in 2025-26 is the effect of Union Yard becoming operational in 2024-25 since MRP is chargeable in the next financial year. This increase is split between Union Yard and RHL, reflecting the proposed transfer of the private rented units from Union Yard to RHL.

DLUHC set an indicative minimum percentage of MRP as a proportion of CFR of 2%. The table below compares the MRP included in the MTFS included in the table above with the estimated CFR identified in the Capital Strategy 2024/25 for the period 2024/25 to 2026/27.

MRP as % of CFR	2024/25 £000s	2025/26 £000s	2026/27 £000s
Minimum Revenue Provision (MRP)	1,758	2,186	2,192
Capital Financing Requirement (CFR)	167,900	141,400	129,100
MRP as % of CFR	**1.05%**	**1.55%**	**1.70%**

As can be seen in the table above, the Council is below this indicative minimum though it does get closer to it by 2026/27.

The combined impact on the General Fund (interest on external borrowing plus MRP) over the period of the MTFS is set out in the table below.

Debt Servicing Costs 2024/25 to 2027/28	2024/25 £000s	2025/26 £000s	2026/27 £000s	2027/28 £000s
Interest on External Borrowing	8,675	6,446	5,117	5,117
MRP	1,757	2,186	2,192	2,232
Total GF Debt Servicing Costs	**10,432**	**8,632**	**7,309**	**7,349**

Based on the MTFS assumptions total debt servicing costs do reduce though, of course, this depends on assumed falls in interest rates materialising. The table above does not take account of the Interest and MRP savings target discussed in Section 3 which is dependent on a reduction in borrowing of £40m. The impact of this target is set out in the table below.

Impact of Savings Target on Debt Servicing Costs	2024/25 £000s	2025/26 £000s	2026/27 £000s	2027/28 £000s
Total GF Debt Servicing Costs	10,432	8,632	7,309	7,349
Interest and MRP Savings Target	- 240	- 1,558	- 2,040	- 2,040
Total GF Debt Servicing Costs After Savings	**10,192**	**7,074**	**5,269**	**5,309**

Treasury Management Investment

The "Annual Treasury Management Strategy and Annual Non-Treasury Investment Strategy 2024/25" approved by the Council on 22nd February 2024 sets out the Council's Annual Treasury Management Investment Strategy.

This states "The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns". It goes on to further describe the strategy in the following way:

- Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss.
- Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation.
- Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice

The strategy also identifies that the Council will give due consideration to the potential sale of strategic pooled funds as part of an ongoing review of their risk and return to the Council. A sale at the present time is not considered a suitable option due to the current economic climate which would result in realising a loss in these investments.

As at 31st December the Council held the following treasury management investments:

	Portfolio £m	Average Rate
Treasury investments:		
Local authorities	24.7	5.30%
Money market funds	15.0	5.75%
Strategic pooled funds	19.3	7.13%
Total treasury investments	**39.7**	**6.02%**

The Council expects to hold a minimum of £25m in such investments in future years.

The MTFS identifies interest receivable from treasury investments as is set out in the table below.

Interest Receivable from Treasury Investment:	Original Budget £'000	2024-25 Draft Budget £'000	2025-26 Draft Budget £'000	2026-27 Draft Budget £'000
Money Market Funds	(31)	(820)	(600)	(400)
Pooled Funds	(1,279)	(1,240)	(1,240)	(1,240)
Farnborough International Loan	(290)	(290)	(290)	0
	(1,600)	(2,350)	(2,130)	(1,640)

The loan to Farnborough International is due to be fully repaid in 2025-26.

In addition to the above, the MTFS also takes account of interest receivable from RHL as is set out below.

RHL Interest	Original Budget £'000	2024-25 Draft Budget £'000	2025-26 Draft Budget £'000	2026-27 Draft Budget £'000	2027-28 Draft Budget £'000
Interest on loan notes	(56)	(968)	(1,220)	(1,085)	(1,085)
Interest on borrowing	(64)	(78)	(67)	(59)	(59)
Total Interest:	(120)	(1,045)	(1,287)	(1,144)	(1,144)
Loans notes	780	17,780	17,780	17,780	17,780
Borrowing	970	970	970	970	970
Interest rate (TM+3%)	6.10%	7.22%	7.99%	6.86%	6.10%

The above assumes that 82 private rental units in the Council's Union Yard development will transfer to RHL during 2024/25.

Commercial Property Investments

The Council has investments in local and regional commercial and residential property with the intention of making a profit that will be spent on local public services. The Council does not have any intention to add to their current portfolio of investment properties since this would impact on access to PWLB loans as a consequence of revised lending terms introduced in 2020.

These investment properties do attract interest and MRP costs, as is set out above in the data relating to these costs in the MTFS. However, as is set out in Section 3 above, the investment property portfolio does make a positive contribution to the General Fund after taking account of these costs. The "Annual Capital Strategy 2024/25" states "Total commercial investments for 2024/25 are forecast to be £128.7m, the portfolio providing a net return after all costs of 6.8%".

There is a quarterly review of the portfolio, produced by LSHIM, the Council's commercial property advisers. This is reviewed by a Cabinet working group consisting of Members (from both the Cabinet and the opposition), The CEO, Directors (including the Monitoring Officer) and the S151 officer. To support the Financial Resilience Plan, LSHIM undertook a Commercial Portfolio Asset Review in February 2024, with a view to identifying the potential disposal of any assets to contribute to the reduction in debt the Council seeks to achieve financial sustainability.

The Council is aware that in undertaking any disposals the overall impact on the General Fund must be taken into account but that rationalisation of the portfolio where individual investment properties do not make a positive contribution to the General Fund may still be appropriate in line with the Council's agreed approach to portfolio management.

Asset Disposal Plan

The reduction in borrowing of £40m to achieve the savings target on Interest and MRP costs is dependent on the sale of assets. Whilst this need is recognised in the MTFS approved by the Council on 22nd February 2024, the Council has not yet confirmed which assets it will dispose of to achieve the savings. As the MTFS also identifies, the timing of disposals is critical, the target date for completing the required asset disposals being September 2025.

In considering which assets to dispose of the Council will wish to consider the overall impact on the General Fund, disposing of assets that are projected to be a net cost to the Council and retaining assets that are projected to benefit the General Fund.

It is important to note, in addition, that should the proposed new capital flexibilities come into regulation, taking advantage of these flexibilities will be dependent on the generation of capital receipts through asset disposal. This may mean the Council needs to consider a more extensive disposal programme.

Conclusion

Whilst borrowing is within the Authorised Limit and borrowing will not exceed CFR, securing the future sustainability of Rushmoor requires a structured and timely disposal of assets to achieve the Interest and MRP savings target, reducing the interest and MRP costs borne by the General Fund.

The implication of this is that the primary focus should be on assets held in relation to the regeneration projects rather than on the Commercial Property Investments portfolio except where the disposal of individual investment properties does not negatively impact the General Fund.

The timing of disposals and the generation of capital receipts has been identified by the Council as critical, with a target date of £40m of disposals by September 2025. It is vital that the Council identifies its programme of disposals as quickly as possible so that a planned disposal process that realises the value of the assets to be disposed of can be implemented.

It is also vital that Rushmoor has access to the necessary capacity and experience to successfully implement the asset disposal programme. It is unlikely the Council possess all the experience it needs in-house given it has not pursued such an initiative in the past.

Quite apart from the skills needed in respect of the asset disposal programme, the Council also needs to consider whether the Council possesses the necessary Treasury Management expertise commensurate with its needs and, given current capacity was described to us as weak, consider how capacity in this important, specialist area can be improved.

If the Council fails to quickly finalise the assets it plans to dispose of and commence the relevant processes, the achievement of its plans to secure a financially stable future will be put at serious risk.

5. Capital Programme and Companies

Capital Programme

Scale of the Capital Programme

The ""Revenue Budget, Capital Programme and Council Tax Level" approved by the Council on 22nd February 2024 sets out the Council's capital programme. The report states "The capital programme is focussed on delivering against the Council's key priority of Town Centre Regeneration, with further schemes focused on enhancing the delivery of core services through improvement and enhancement of assets. The programme also includes support for the provision of local housing and the Council's statutory duties in respect of Disabled Facilities Grants".

The capital programme approved by the Council on 22nd February 2024 is set out below.

Capital Programme	2023-24 Forecast £'000	2024-25 Draft Budget £'000	2025-26 Projected £'000	2026-27 Projected £'000	2027-28 Projected £'000
Capital Expenditure					
Union Yard	16,966	5,384	603	-	-
The Meads	10,456	-	-	-	-
The Galleries	3,400	-	-	-	-
Temporary Housing	2,883	-	-	-	-
Disabled Facilities Grants	1,868	1,632	1,111	1,111	1,111
Civic Quarter	1,550	-	-	-	-
Asset Management R & M	849	671	50	50	-
Section 106 funded projects	827	658	-	-	-
Crematorium	446	4,418	305	-	-
CCTV	300	-	-	-	-
Redan Rd	289	-	-	-	-
ICT Services system upgrades	252	582	-	-	-
Housing PRS Delivery via RHL	169	-	-	-	-
Refuse Bins	127	127	127	127	-
Total Capital Expenditure	**40,383**	**13,473**	**2,196**	**1,288**	**1,111**

The forecast for 2023/24 is based the revised capital programme for 2023/24 and reflects the estimated outturn on all projects.

Proposed funding of the capital programme is set out in the table below.

Capital Financing	2023-24 Forecast £'000	2024-25 Draft Budget £'000	2025-26 Projected £'000	2026-27 Projected £'000	2027-28 Projected £'000
Developer contribution to Wheeled bins	(20)	(20)	(20)	-	-
Homes Infrastructure Funding	(5,012)	-	-	-	-
S106 funding	(713)	(658)	-	-	-
LAHF Funding + Ukraine +S106 Commuted	(2,883)	-	-	-	-
LTA Grant	(114)	-	-	-	-
Leveling Up Funding	(1,240)	-	-	-	-
Disabled Facilities Grants	(1,868)	(1,632)	(1,111)	(1,111)	(1,111)
Borrowing	(28,532)	(8,663)	(1,065)	(177)	-
Capital receipts - Vivid Union Yard	-	(2,500)	-	-	-
Total Financing	**(40,383)**	**(13,473)**	**(2,196)**	**(1,288)**	**(1,111)**

As can be seen, the scale of the currently approved capital programme tails off dramatically reflecting the Council's understanding of its current financial position, falling from a forecast outturn in 2023/24 of £40.383m to only £1.111m in 2027/28, by which time it is restricted to Disabled Facilities Grants (which are fully funded by grant and, therefore, make no call on the Council's capital resources). Further iterations of the capital programme to be approved by the Council will, no doubt identify additional, required capital spend. The Council will need to identify the source of funding for such additional capital spend in the context of its plans to secure a financially stable future.

The major items of capital expenditure in 2024/25 are in respect of Union Yard (£5.384m) and the Crematorium (£4.418m). Together these comprise 73% of the capital programme in 2024/25. Both of these are included in the capital programme for 2025/26 at a much reduced level of spending, with Disabled Facilities Grants becoming the major item of capital expenditure in 2025/26 and the only item by 2027/28.

Historically, the capital programme has been funded through prudential borrowing. Given the Council's financial position and the objective of reducing the level of debt to support financial sustainability, the report to Council on 22nd February states "any new projects will need to be funded from other sources of external finance such as government grants" until the Council has achieved a financially sustainable position.

Key Schemes in the Capital Programme

The MTFS discusses key schemes in the capital programme. These are summarised below:

- Aldershot Crematorium - Refurbishment of this key operational asset, which contributes to the General Fund, was approved by Cabinet in September 2023. Accurate assessment of refurbishment costs will become available once a Main Contractor has been appointed.
- Union Yard - It is anticipated that the whole of the budget approved to date will be fully spent by 2024-25 and the scheme will be completed. An amount of £0.603m is held back for 2025/26 to cover the contracted retention fee.
- The Meads - Purchase of the Meads was approved by Cabinet in April 2023. There is currently no capital budget for this scheme in 2024-25 as it was intended necessary capital investment would be revenue funded in the business case.
- The Civic Quarter is not included in the capital programme for 2024-25 beyond some limited enabling works primarily funded by approved grants which are included within 2023-24 programme. There is ongoing work to seek support from government agencies and undertake funded work to increase the value of council land assets.

The Leisure and Cultural Hub project which would have relied on prudential borrowing is not included in the capital programme despite the Council being awarded £20million Levelling-up capital funding in 2023 towards this project. Approval of this award assumed matching funding of £20m through prudential (PWLB) borrowing.

The report to the Council on 22nd February 2024 setting out the capital programme states "The overall cost of this project and the associated mobility hub is currently forecast at circa £67million. Based on the current financial forecast, estimated running costs and income projections for the project once complete, there would be a funding gap which was intended to have been met by prudential borrowing in 2026-27. Given this report, the Council cannot today rely on being able to take additional borrowing at that point". The report further states "a decision will be made on this (the Leisure and Cultural Hub) when the revised MTFS is produced in July".

There are no indications that the Council is classifying investments within its capital programme incorrectly or pursuing investments primarily for yield or without regard for wider socio-economic benefit.

Rushmoor Companies

Rushmoor Homes Limited (RHL)

Rushmoor Homes Limited (RHL) is a company wholly owned by Rushmoor Borough Council. The purpose of the company is to develop and acquire a portfolio of residential properties for letting in the local housing market. We understand RHL also manages a number of residential properties on behalf of the Council.

The RHL business model is based on the Council lending money to RHL to fund development (and acquisition). In return, the Council receives interest as income on the loans.

The Council makes two kinds of loans to RHL for which interest is due, consisting of the value of land transferred to the company, called loan notes, and cash (borrowing) to fund property development. RHL borrowing is funded by the Council from the Council's own borrowing (debt).

The company has been slow in achieving its stated aims. An update on RHL's progress against its business plan 2021 – 2026 in September 2021 identifies that in 2021/22 RHL owned only one property and managed two properties on behalf of the Council. It was projected at that time that RHL would own fifty-nine properties by 2023/24, with the bulk of these (fifty-three properties) having been developed by RHL and the remainder having been transferred by the Council or acquired on the open market. At that time, it was not part of the plan for RHL to manage properties on behalf of the Council. We understand that RHL currently owns nine properties, substantially less than had been planned.

At its meeting on 12th March 2024, the Cabinet approved the transfer (sale) on a long leasehold basis of eighty-two residential units that form part of the Union yard development for £16.975m. Our understanding is that development of these properties is nearing completion and they will be acquired by RHL on a vacant basis.

The Cabinet decision is subject to due diligence with the final terms of the disposal to be progressed by the Executive Director in consultation with the Major Projects and Property Portfolio Holder. The target date for practical completion and handover is July 2024.

This is a significant change in the operational scale of RHL. The company governance arrangements require a rolling five-year Business Plan to be approved by the Council. A new Business Plan 2024 -2029 is in the process of being produced. We understand that a draft has been produced but that the Council is seeking external validation of the robustness of the Business Plan before it is agreed and prior to the transfer (sale) of the Union Yard properties to RHL is completed.

The 2024/25 to 2027/28 MTFS assumes the transfer (sale) will takes place and incorporates the following in relation to RHL.

Detailed Medium Term Financial Strategy	2023-24 Original Budget £'000	2024-25 Draft Budget £'000	2025-26 Projected £'000	2026-27 Projected £'000
RHL Ltd:				
Interest Income - Loan Notes	(522)	(968)	(1,220)	(1,085)
Interest Income - Loans		(78)	(67)	(59)
Operational costs recovered	(70)	(70)	(70)	(70)
Operational costs	-	-	-	-
MRP	25	19	211	209
Interest on Borrowing:	15	855	631	507
Net Revenue Impact	**(552)**	**(241)**	**(515)**	**(498)**

This shows a net revenue benefit to the Council in 2024/25 and in subsequent years. Interest on loan notes is based on an outstanding balance due to the Council of £17.870m from 204/25 (£0.780m in 2023/24) and throughout the period of the MTFS. The interest on loans is based on an outstanding balance of £0.970 in 2024/25 and throughout the period of the MTFS. The total indebtedness of RHL to the Council from 2024/25 to 2027/28 is, therefore, being £18.750m.

However, the S.151 Officer's Section 25 report in relation to the 2024/25 budget, in considering the robustness of the estimates, does state "the transfer of property from Union Yard to RHL is a significant budget assumption and investment property long term maintenance commitments and rental income modelling is not reconciled to the MTFS revenue budgets beyond 2024/25".

RHL incurs a 3% interest rate premium on the Council's own cost of borrowing. However, the report to the Council on 22nd February 2024 in relation to the MTFS does state "RHL does not have sufficient cash to settle the interest due each year and therefore the Council has agreed to hold the interest due as a debtor balance on the Council's balance sheet until RHL is generating sufficient cashflow to settle the debtor position. This will have a small impact on the Council's cashflow position".

Validation of the robustness of RHL's Business Plan will support the Council in strengthening the robustness of its own estimates in the MTFS and determining the ability of RHL to meet its obligations to the Council in respect of interest payments on the loans provided by the Council.

Rushmoor Development Partnership (RDP)

Rushmoor Development Partnership (RDP) was established in 2018 as a 50/50 joint venture limited liability partnership (LLP) with Hill Partnerships Ltd, to provide expertise and capacity to support delivery of the Council's regeneration aspirations.

Our understanding is that the design of the RDP the model assumes that once planning is achieved a ‘project’ plan is submitted and the land ‘put in’ by the Council with development costs shared and a land value agreed. All costs are then deducted from the profits and residual profit shared.

On 31st January 2024 a “RDP Progress Review” report was presented to the Corporate Governance, Audit and Standards Committee which included as an appendix a progress report prepared by RDP covering the period January 2022 to December 2023. This identifies the involvement RDP has had in a number of schemes including Parsons Barracks, the Civic Quarter and Union Yard.

In relation to Union Yard, following development of the scheme through feasibility and planning by RDP, the Council opted to pursue a direct delivery option and entered into the main build contract with Hill Partnerships.

The RDP report states, “With the exception of concluding the planning consent for the Civic Quarter Masterplan the RDP currently has no live projects”. The report to the Corporate Governance, Audit and Standards Committee on 31st January 2024 states “Members should note the current ‘on hold’ status of the company’s business activity given the economic situation and the negative viability of planned schemes”.

This report concludes “RDP has made a positive contribution to moving forward the Council’s regeneration objectives” and that “The Committee are invited to note the progress achieved and that a future report of the role of the company or new project plans will come forward in due course”.

We understand there is a potential liability related to loan notes sitting in the RDP in the region of £1.5m. This relates to the planning costs of the Civic Quarter Masterplan which would need to be settled from early receipts unless the RDP takes forward plots for development. It is considered this liability would only materialise if the RDP partnership is ended.

The S.151 Officer is of the opinion that the Council’s potential liability is material and will accordingly be disclosed in the notes to the Statement of Accounts for 2023/24.

Conclusion

As is set out above, the Council’s capital programme tails off dramatically over the period of the MTFS. This is what we would expect to see given the Council’s challenge in regard to financial sustainability and the need to reduce debt.

However, as indicated in the February 2024 report considered by the Cabinet this does mean that current plans for key schemes such as the Civic Quarter and the Leisure and Cultural Hub need to be rethought and that, potentially these schemes will need to be delayed and/or redesigned to reduce cost. We understand the Council-owned assets related to these schemes are being considered for inclusion in the asset disposal programme set out in the Financial Resilience Plan to contribute to the £40m the Council needs to raise to realise the interest and MRP savings target in the MTFS.

In relation to RHL, the transfer (sale) of Union Yard properties will significantly increase the scale of RHL. Whilst, the Council makes a return on the lending it provides to RHL, this is the only direct financial benefit derived from the arrangement since it is not envisaged the company will be in a position to pay a dividend for some time, if ever, and will not even be in a position to pay the interest due to the Council on the loans made to it at present.

At the same time the Council will need to maintain the level of debt associated with the loans to RHL of circa £17m, resulting in both continuing interest and MRP costs to be met by the Council's General Fund Revenue budget. It is not clear when the principal would be repaid by RHL.

The MTFS does project a positive contribution to the General Fund over the period of the MTFS. It, therefore, makes sense to pursue the current option of transfer (sale) to RHL subject to the new RHL Business Plan providing a robust foundation for the MTFS projections. It is essential that the Council is clear on the priorities and outcomes it is seeking to achieve though this transfer, including the financial priorities and outcomes, and how these support achieving and maintaining financial sustainability. It will also be essential, should the transfer (sale) go ahead that actual performance is measured against the Business Plan projections and that these Business Plan projections are kept under review as key assumptions are subject to change.

Noting the Council has recently considered alternative options for the disposal of the 82 units based on a report produced by Lambert Smith Hampton Investments, we would propose that alternative options in relation to the proposed sale of the eighty-two residential units at Union Yard to RHL could be reconsidered and particularly whether, given the Council's financial challenges, being a private sector landlord is really the kind of non-core business the Council wants to be involved in. For example, sale of the 82 units to a 3rd party would generate a sizeable capital receipt and avoid the borrowing necessary if the units are sold to RHL.

Although this would have a negative impact on the revenue budget this could support a number of objectives in achieving a stable financial position and, should the proposed new capital flexibilities come into regulation, provide the Council with a capital receipt that can be used to take advantage of these flexibilities.

In relation to RDP, the Council needs to determine the future of this limited liability partnership considering the potential liability that exists and how this is to be resolved. In the meantime, it is appropriate to include a note in the Statement of Accounts in respect of this potential liability given its materiality.

6. Governance

Alignment of the Council Plan with the MTFS

The Council Plan 2023 – 2026 was approved by the Council on 6th July 2023. The Council Plan is refreshed and updated annually, setting out the priorities and key projects / activities the Council will undertake over the next three years that contribute towards achieving the Council's longer-term vision set out in the document Your Future, Your Place – A vision for Aldershot and Farnborough 2030. We understand, it is likely work on a refreshed Council Plan will commence in 2024/25.

The Council Plan 2023 – 2026 identifies the Council's priorities, stating "We are an ambitious council, and this plan sets out our aspirations against two key areas of work -- People and Place."

The five People priorities include:

- Support the creation of quality, new homes – referring to RHL and stating the company's focus will be to provide good quality, energy efficient homes for rent;
- Progress the development of a new leisure centre and cultural hub in Farnborough – stating the Council will continue to work on the approach, costs and designs for a new leisure and cultural hub for Farnborough.

The five Place priorities include:

- Complete Aldershot town centre's Union Yard regeneration scheme – stating it will be completed in the summer of 2024;
- Progress the regeneration of Farnborough town centre, including the civic quarter – stating that working as part of the Rushmoor Development Partnership (RDP) we will begin to bring forward plans for the individual plots at the civic quarter and we will progress the purchase of The Meads and Kingsmead shopping centre, together with the car park and business centre, which supports our wider regeneration plans for the town centre and civic quarter;
- Update the facilities at the crematorium in Aldershot – stating architects will be designing a major refurbishment of Aldershot Crematorium and we expect work to be completed in Winter 2024.

These reflect the Council's focus on regeneration, which is on a scale comparable to many larger local authorities. Whilst financial sustainability is recognised as a key corporate risk and is referred to in the Council Plan under the heading 'Financial uncertainty' in the key opportunities and challenges section of the Plan, it is not identified as a key priority.

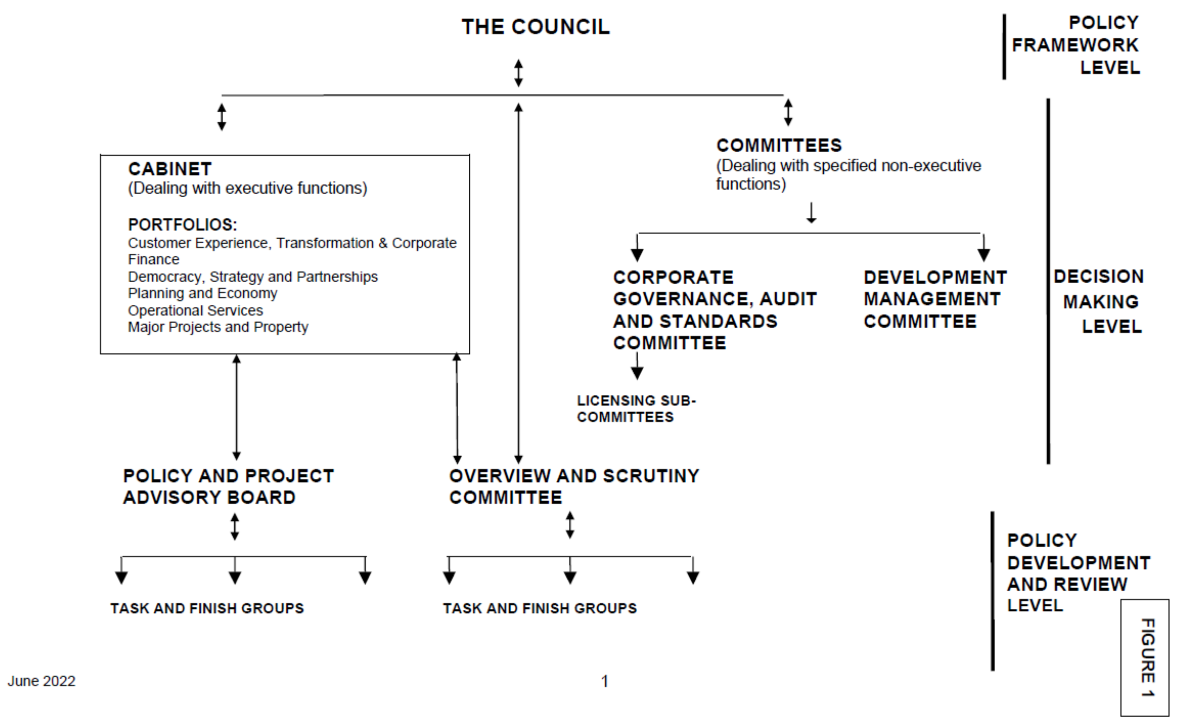
It also has to be considered, in developing the next iteration of the Council plan whether the Council's priorities still align with the Council's financial situation, especially given the scaling back of the capital programme and the need to reduce the level of borrowing in order to achieve the interest and MRP savings through an asset disposal programme of £40m.

In our opinion, the Council should also recognise the need to ensure that the next version of the Council Plan has as a core priority the attainment and maintenance of financial sustainability, enabling the Council to prioritise more effectively its longer-term strategic aims for the area and its residents against the financial limitations that it faces; balancing its ambitions alongside its core responsibilities and services.

Governance Arrangements

Council

The overall governance arrangements set out in the Constitution are set out below.



Whilst not referred to in the Constitution, which we understand is in the process of being updated, we are also aware of the following cross-party Member working groups which also include officers in their membership:

- Budget Strategy Working Group

- Strategic Housing and Local Plan Working Group
- Member Development Group
- Capital Projects and Property Advisory Group (CPPAG)
- Waste and Recycling Options Working Group
- Union Yard Project Board
- Leisure and Cultural Hub Project Board

In addition to this the Capital Programme Board provides the opportunity for the Executive team to focus exclusively on the Council's major capital projects. The Board is underpinned by robust programme and project management arrangements reflecting the size of the Council's current capital programme activity.

From the minutes of the various Cabinet Working Groups we were provided with, it appears that some of these are more for updating progress on various matters rather than fulfilling a strategic and advisory role that both provides challenge on progress and provides advice to the Cabinet.

From our interviews, there also appears to be a view that the Overview and Scrutiny Committee does not really provide substantial challenge.

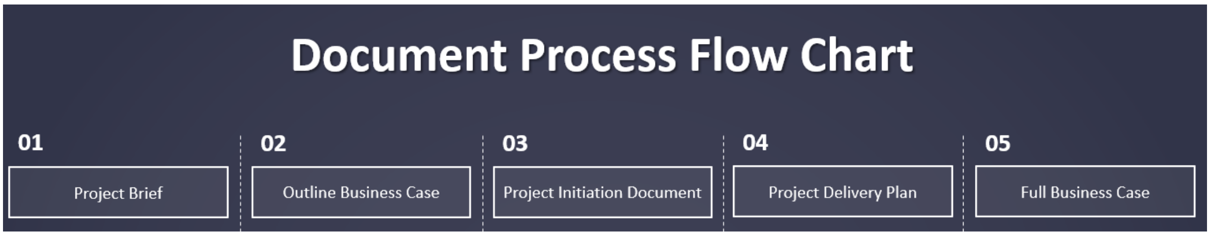
Capital Programme

We have been provided with the following in relation to capital programme governance.

In our opinion, it is unclear to us which advice to the Cabinet (the Cabinet Working Groups or the Capital Programme Board has primacy.

The Cabinet Working Groups include CPPAG (which considers commercial property investments and we understand, more recently, new capital investment) and the Project Boards for Union Yard and the Leisure and Cultural Hub. There is some common officer membership of these Cabinet Working Groups and the Capital Programme Board. It is worth noting that there is a Project Board for the Leisure and Cultural Hub despite not being formally part of the Council's approved Capital Programme for 2024/25 onwards. However, as is stated in the report to the Council of 22nd February 2024 (referenced in Section 5 above) "a decision will be made on this (the Leisure and Cultural Hub) when the revised MTFS is produced in July".

The same document provided to us in relation to capital programme governance identified the following key documents in relation to capital programme governance.



Whilst we have seen comment in relation to Outline and Full Business Cases in reports to Cabinet, we have not had sight of these as standalone documents so are unable to comment on their robustness.

However, we do note, in relation to the Leisure and Cultural Hub the minutes of Capital Programme Board made available to us imply that an Outline Business Case has not yet been completed.

- 15th November 2023 Capital Programme Board state it was "Confirmed the Outline Business Case (for the Leisure and Cultural Hub) will be circulated to the Programme Board for review and comment ahead of the next board meeting" which was on 24th January 2024.
- 24th January Capital Programme Board state, "Action 3.36 (15.11.2023) - Closed- Leisure Outline Business case report to be presented at Cabinet" and also "Advised a pause in progressing the outline business case subject to the outcomes of the Cabinet report and Willmott Dixon cost review / redesign considerations. (On Hold)".

We do not have the minutes of the subsequent meeting of the Capital Programme Board on 21st March 2024 so do not know if there was a further update.

We note that the Capital Programme Board, as an officer body, is not the decision making body for new financial commitment and that all major decisions relating to capital and other significant projects are taken through the Cabinet and Council.

Companies

At present Rushmoor Councillors sit on the boards of the companies it owns. In addition to three representatives of Hill, the RDP Board includes the following:

- Deputy Leader and Major Projects and Property Portfolio Holder
- Chief Executive, Rushmoor Borough Council
- Executive Director, Rushmoor Borough Council

The RHL Board is dominated by Councillors, three of the four members of the RHL Board being Councillors, namely:

- Finance Portfolio Holder
- Non- portfolio holding Cabinet member
- Leader of the Labour group

The shareholder role is undertaken by the Monitoring Officer/Deputy CEO for RDP and the CEO for RHL who provide Shareholder Reports to the Corporate Governance, Standards and Audit Committee (RDP) and the Cabinet (RHL). In our opinion this does not provide clarity of responsibilities. For example, two of the RHL Board members sit on the Cabinet to which the CEO reports as 'shareholder'.

We are aware of other Council's where different arrangements are in place, on the recommendation of External Auditors to strengthen governance arrangements, where Councillors no longer sit on the Boards of local authority owned companies but instead sit on Shareholder Boards (constituted as a Cabinet Sub-committee) in order to provide shareholder oversight, rather than sitting on the Board of the company and being directly involved in the functioning of the company.

CIPFA's "Local Authority Companies: A Good Practice Guide" published in 2022 is a useful reference in this context.

Statutory Officers and the Chief Finance (S.151) Officer

In "The role of the chief financial officer in public service organisations" published in September 2023, CIPFA states, in relation to critical relationships for the chief financial officer, “The CFO’s primary relationship within the organisation is with the chief executive officer (CEO) or their equivalent. The CEO and CFO share a common vision for the organisation and work effectively as a team to turn this vision into reality. A strong and supportive relationship based on trust and mutual respect allows the CFO to act as an advisor to the CEO and to challenge them when required”.

In local government, the CEO, S.151 Officer and the Monitoring Officer represent a ‘golden triangle’ of statutory officers who work closely together. The imminent “Code of Practice on Good Governance for Local Authority Statutory Officers” which has been consulted on by LLG, CIPFA and SOLACE (consultation closed on 5th April 2024) will state “The Chief Finance Officer and Monitoring Officer should have a clear and direct relationship to the Head of Paid Service (Chief Executive), normally through line management or other equivalent arrangement”.

It will also state “There must be regular meetings between the Head of Paid Service, Chief Finance Officer and Monitoring Officer (Statutory Officer meetings), which should include the Head of Internal Audit on a regular basis, to review current and likely future issues that will raise political, financial, legal, staffing or other issues that may impact on their statutory duties”.

In Rushmoor, the S.151 Officer reports to the Monitoring Officer/Deputy CEO so is not a direct report to the CEO. In our opinion, good practice suggests the S.151 Officer should have a status equivalent to the Monitoring Officer and be a direct report to the CEO.

We do note that the Executive Leadership Team, which is the officer leadership group in the Council does include the ‘golden triangle’ with the addition of the second Executive Director, Assistant CEO and Executive Heads of Service, providing a broader skill base and challenge beyond those of the statutory officers. However, the imminent “Code of Practice on Good Governance for Local Authority Statutory Officers” does suggest regular meetings of the ‘golden triangle’, as the key officer leadership team.

Operational Culture

Comments on the operational culture of the Council are inevitably an impression gained from the information provided to us and the interviews undertake in the course of our work.

Our impression is that the Council has had a significant focus on major regeneration projects. This has contributed to the high levels of debt and the current challenge to financial sustainability.

In our interviews, participants identified that the Council, in the absence of defining its risk appetite, has accepted a high level of risk in order to progress its regeneration ambitions, acting in an “entrepreneurial” manner

The historic lack of capacity and capability of key individuals in finance identified in Section 3 may have led to insufficient financial involvement and input in some significant decisions. Finance sections in reports are not always written by the finance service which, whilst there is opportunity for review as part of the report approval process, could result in a lack of clarity and ownership of financial implications

The challenge for the Council now, given the need to secure and maintain financial sustainability, is how Members and senior officers can provide the focus and leadership required in making what will inevitably include some difficult decisions adversely impacting on the Council’s ambitions, in order to achieve this.

This needs to be supported by effective governance arrangements which provide a clear, strategic direction and ensure all decisions take are cognisant of the need to secure and maintain financial sustainability.

Conclusion

Governance arrangements need to be coherent and focused on supporting the Council in making good decisions in a timely way, especially given the financial position the Council is in. We have identified a number of issues which, in our opinion, undermine this.

Consequently, in our opinion and given the urgency of the situation, the Council would benefit from a review of governance arrangements supported by clarity of priorities, focus and direction, which leaves no room for competing agendas or diversion from the essential decisions and actions the Council needs to take. The measures the Council need to take are not a ‘menu’ of options so effective leadership is needed to ensure a cohesive approach to implementing them.

7. Improvement Proposals and Recommendations

At the meeting to set the 2024/25 budget and approve the 2024/25 – 2027/28 MTFS on 22nd February, the report included, at Appendix 1, a Financial Resilience Plan.

In relation to this the report states "The Executive Leadership Team have been working with Cabinet to develop a detailed Financial Resilience Plan which includes a range of medium- and shorter-term actions to deliver the above strategy over the next 18 months".

The report also states, "The work on delivering the Financial Resilience Plan has commenced and current key actions and delivery arrangements are set out in Appendix 1". It also states "The Financial Resilience Plan will develop over the next few months and will need to be jointly owned by officers and councillors. It will be a priority for the Council moving forward to drive the change and transformation required to support financial recovery". The current key actions set out in Appendix 1 of the report to Council are included as Appendix B to this report.

The Financial Resilience Plan states "Appropriate delivery and governance measures will be implemented and agreed with Executive Leadership Team and Cabinet Members to approve actions, implementation plans and track progress against proposed targets. Currently oversight on budget, savings and transformation is undertaken by both the Budget Strategy Working Group and the Transformation Task and Finish Group and members will be invited to consider appropriate oversight arrangements for the Financial Resilience Plan".

As we have commented in Section 6 it is important to have the right focus and leadership in meeting the challenge to secure and maintain financial sustainability. It is essential that the governance arrangements put in place to implement the Financial Resilience Plan reflect this need for focus and leadership together with a sense of urgency. This implies a more directive approach to completing the activities that are fundamental to achieving and maintaining financial sustainability with clear accountabilities and timescales for delivery. Some Councils have successfully adopted a 'gold command' approach in similar circumstances, with a small team of officers (such as the 'golden triangle' we have referred to in Section 6) taking the lead with oversight from the Leader and key Portfolio holders.

It is important that other governance processes are supportive of this approach and that all members of the 'improvement team' have the same focus on the 'end-game'.

The Financial Resilience Plan includes the key work-steams we would expect to see in such a plan and that DLUHC would expect to see a local authority act on before considering any form of Exceptional Financial Support, including spending controls, savings targets, and the scaling back of the capital programme. However, it does not include an asset disposal programme as a specific work-stream, reference is only made to asset disposal in relation to the Commercial Property Review work-stream when it is clear the Council will have to look more widely across its property portfolio in order to identify the £40m asset disposal programme required.

Whilst we understand the implementation of the Financial Resilience Plan is underway, the Council ideally needs to accelerate its delivery. This will require clear accountabilities and agreed realistic timescales for implementation, in particular around the:

- Identification and tracking of the service cost reduction savings target which needs a permanent removal from the base budget of £0.5m each year for the next four years, including 2024/25
- Identification of the £40m asset disposal programme which is the key to achieving the Interest and MRP cost reduction savings target.

The Financial Resilience Plan includes a Finance work-stream and it is important that issues in financial management capacity and competencies are addressed. In addition, the Council will need access to capacity (in terms of skills and experience) to implement the asset disposal programme. The planned refresh of the MTFS s an important milestone. It is vital that, once this is considered, the Council has confidence and visibility of the outcomes, governance and accountabilities included in the Financial Resilience Plan along with the specific actions and their associated timescales so that the MTFS can properly reflect the Council's path to financial sustainability.

Our recommendation, therefore, is that the Council builds on the work to date and quickly develops a more detailed delivery plan which sets out clear timescales, actions and accountabilities setting out:

- The financial outcomes required as adjusted by the outturn, review of reserves and revised MTFS
- The subsequent actions to be taken and when decision are needed
- Reporting and monitoring arrangements to ensure Financial Resilience Plan is on target and there is good visibility on progress

The action plan should include detailed plans in relation to:

- Assets to be disposed of (at an individual asset level)
- Service cost reductions

This is fundamental to achieving the Council's planned journey to a more financially sustainable future.

The revised MTFS should set out key financial targets and dates to be achieved. A detailed delivery plan will mitigate the risk of not meeting these target dates, focus minds and provide a clear framework for accountability and implementation.

Appendix A – Financial Trajectory 2021/22 – 2023/24

In this Appendix we examine the financial history of the Council between 2021/22 to 2023/24. This highlights how the current financial challenge developed. In our view, there has been a lack of clarity and consistency in reporting which makes it more difficult for those without significant financial expertise to fully understand the overall financial position at any specific time.

Revenue Budget Outturn 2021/22

At its meeting on 25th February 2021, the Council set a net general fund revenue budget £12.869m for 2021/22. With available funding of £11.855m, this resulted in a 'core deficit' of £1.014m to be met from the planned use of the Sustainability & Resilience Reserve.

The "Final Revenue and Capital Outturn 2021/22" report was not reported to Cabinet until 13th September 2022. Previous reports in April and July 2022 had provided updates to Cabinet on the outturn position. The "P3 Revenue Budget and Capital Programme Monitoring Draft Outturn 2021/22" report to Cabinet on 26th April set out agreed changes to the budget during 2021/22 which increased the budget to £13.076m as at 31st December 2021 (a net increase of £0.207m) with a further increase to £13.360m by virtue of Council decisions on 25th February 2022 (a net increase of £0.285m). With funding of £11.892m (an increase of £0.037m), this revised 'latest' budget had a 'core deficit' of £1.468m to be met from the MTFS Equalisation Reserve (an increase of £0.454m).

On 5th July 2022, the "Draft Outturn 2021/22" report to Cabinet also stated a budget of £13.360m. However, the "Final Revenue and Capital Outturn 2021/22" in September 2022 further revised the 2021/22 budget to £13.386m (a marginal difference of £0.026m) with funding reverting to £11.855 resulting in a 'core deficit' of £1,531m (a further increase of £0.063m) to be met from the Sustainability & Resilience Reserve (Note, alternating of the name of the reserve).

The "P3 Revenue Budget and Capital Programme Monitoring Draft Outturn 2021/22" report in April 2022 forecast a 'core deficit' of £0.826m with provisional carry-forwards of £0.250m resulting in a forecast call on the MTFS Equalisation Reserve of £1.076m.

The "Final Revenue and Capital Outturn 2021/22" to the Cabinet in September 2022 shows a net underspend ('core surplus') of £0.078m (Spend of £13.370m less funding of £13.448m) compared to the latest version of the 2021/22 budget.

However, the spend total of £13.370m includes a net use of earmarked reserves of £5.486m (against a budgeted use of earmarked reserves of £1.546m in the latest version of the

2021/22 budget). The Final Revenue Outturn Report 2021/22 sets out the following accounting for the 'core surplus' of £0.078m.

General Fund Revenue Budget	2021/22 Original Budget (£'000)	2021/22 Latest Budget (£'000)	2021/22 Outturn (£'000)	2021/22 Variation (£'000)
Core (Surplus) or Deficit	**1,014**	**1,531**	**(78)**	**(1,609)**
2021/22 Carry Forwards - Transfer to Reserves			432	432
Balanced by:				
General Fund Balance			(353)	(353)
Stability & Resilience Reserve	(1,014)	(1,531)		1,531
Core Surplus or Deficit after Transfers	**0**	**0**	**0**	**(0)**

On this basis, the net call on reserves in 2021/22 is £5.408m. This reconciles to the Movement in Reserves Statement and the Expenditure and Funding Analysis in the draft Statement of Accounts 2021/22 which identifies a closing General Fund Balance at 31st March 2022 of £23.750. However, the 2021/22 position is restated in the draft Statement of Accounts 2022/23, increasing the opening General Fund Balance as at 31st March 2021 from £29.156m to £29.985m and restating the use of reserves in 2021/22 to £6.607m to arrive at a closing General Fund Balance at 31st March 2022 of £23.918m (of which Earmarked Reserves are £21.918m), a difference in closing position of £0.168m.

Revenue Budget Outturn 2022/23

At its meeting on 24th February 2022, the Council set a net general fund revenue budget of £12.503m for 2022/23. With available funding of £11.530m, this resulted in a 'core deficit' of £0.973m to be met from the planned use of the MTFS Equalisation Reserve of £0.500m and an 'Additional Cost Reduction and Savings Target/Additional income Target' of £0.473m.

The "Q4 Revenue Budget and Capital Programme Final Outturn Report 2022/23" to Cabinet on 4th July 2023 states "Additional changes to the budget were agreed by Council in April 2022, with a further change to correct the ICE Programme budget, with a further reflection of the projected use of reserves and matching of resources. The revised budget was £11.530m". This revised budget of £11.530m incorporated a net use of reserves of £1.649m and planned savings of £1.028m in arriving at a "Net General Fund Revenue Budget" of £11.530m.

However, the "Revenue and Capital Budget Monitoring Report P1 2022/23" to Cabinet on 9th August 2022 did not reflect this change in budget which was still stated as being £12.503m. It is unclear, therefore, when these changes to the budget were approved.

On 4th July 2022 the "2022-23 High Risk Budgets, Financial Reporting Plan and Budget Monitoring Process" report to Cabinet had set out a timetable for in-year P1, P2 and P3 Budget Monitoring 2022/23 reports to Cabinet together with a P4 Budgeting Monitoring and Draft Outturn Report in July 2023 and a Final Outturn Report in September 2023.

The P1 report (referred to above) was provided to the Cabinet on time on 9th August 2022. This forecast a 'core deficit' of £2.578m, £1.605m more than the £0.973m in the original budget approved on 24th February 2022.

There is no evidence of the P2 (due 15th November 2022) and P3 (due 14th March 2023) reports being produced, though a Budget Strategy 2023/24 was produced for the Cabinet meeting on 15th November 2022 which still referred to a 2022/23 budget of £12.503m. Thus, it would appear the P1 report was the only forecast outturn provided to the Cabinet in-year, though the report to Council on 23rd February 2023 (to set the 2023/24 budget) does refer to a forecast overspend in 2022/23 of £0.692m to be mitigated by a reduction in the contribution to the Pension Reserve of £0.500m. This suggests a significant lack of oversight and monitoring of the budget during the year at a time when financial pressures and the use of reserves creates real challenges.

In the event the planned Draft Outturn report to Cabinet on 4th July 2023 became the Final Outturn Report 2022/23 (referred to above). This states an outturn position of net spend of £11.605m (against a budget of £11.530m) with funding of £11.605m (i.e. no 'core surplus or deficit). However, net spend of £11.605m is after taking account of a net use of reserves of £0.530m in 2022/23.

The section of the Final Outturn Report 2022/23 in relation to Reserves and Balances reflects this £0.530m use of reserves to support spending, identifying in Table 4 a reduction in Earmarked Reserves from £22.094m as at 31st March 2022 to £21.564m as at 31st March 2023. The report does contain the caveat that "The forecast has been amended to reflect the updated outturn position only. It is likely that the level of specific earmarked reserves will change from those indicated in the table below as the final outturn position will inform the level of reserve-funded expenditure".

However, the draft Statement of Accounts 2022/23, which was provided to the Corporate Governance, Audit and Standards Committee on 26th July 2023 (i.e. the same month the Cabinet received the Final Outturn 2022/23 report), identifies a net change in Earmarked Reserves of £2.060m from £21.198m to £19.136m in 2022/23. The differences are summarised in the table below.

	Opening Balance £000s	Movement in Year £000s	Closing Balance £000s
Final Outturn Report 2022/23	22,094	- 530	21,564
Statement of Accounts 2022/23	21,918	- 2,782	19,136
Difference	- 176	- 2,252	- 2,428

There is clear inconsistency between these two documents presented to Members in July 2023 in respect of the opening balance, in-year use and the closing balance of Earmarked Reserves.

The difference in the opening balance in the Final Outturn Report is explained by a difference in the opening balance of the Sustainability & Resilience Reserve. The Final Outturn Report 2022/23 overstates the opening balance by £0.176m, mistakenly stating the balance as at 31st March 2021 as the balance as at 31st March 2022.

The difference in net movement is mostly explained (£1.948m or 86.5% of the £2.252m total) by the movement in-year in the Statement of Accounts being greater than in the Final Outturn Report by:

- Stability & Resilience Review – £0.117m
- Affordable Housing Reserve - £0.166m
- Covid BRR EMR reserve - £1.665m

Given Appendix 5 of the report to Council on 22nd February 2024, to set the 2024/25 budget, identifies a balance of Earmarked Reserves of £19.136m as at 31st March 2023 (i.e. the closing balance on the draft Statement of Accounts 2022/23), it might be assumed that reliance should be placed on the draft Statement of Accounts 2022/23 and that the Final Outturn Report 2022/23 is a misleading anomaly.

Consequently, the use of Earmarked Reserves in 2022/23 is £2.782m (per the draft Statement of Accounts 2022/23) rather than £0.530m in the Final Outturn Report 2022/23. It must also be concluded, therefore, that the Final Outturn Report 2022/23 understates spend by the difference between the two of £2.252m. In addition, the Council maintains a General Fund Balance (working balance) of £2.000m giving total reserves of £21.136m as at 31st March 2023.

Forecast Revenue Budget Outturn 2023/24

At its meeting on 23rd February 2023, the Council set a ‘Net General Fund Revenue Budget’ of £12.393m for 2023/24. With available funding of £12.393m, this resulted in a ‘core surplus/deficit' of zero though this was only after taking into account 'Outcomes Based Budgeting Savings' of £2.291m. This 'Net General Fund Revenue Budget' was contained in Table 3 – Medium Term Financial Forecast in the "Revenue Budget, Capital Programme and Council Tax Level" report to Council.

However, Appendix 1 Medium Term Financial Strategy 2022/23 to 2026/27 to this report (note date error in title), which is what the Council was specifically asked to approve, is not consistent with Table 3 in the report in respect of 2023/24, the Net Revenue Budget and funding) being £0.024m lower at £12.369m. There was no detailed summary of the 2023/24 budget included in the report, which aggregated major areas of spend (i.e.it gave little information about how 'Portfolio Net Expenditure' was made up).

The 'Original Budget' of £12.393m was disaggregated in the "Revenue and Capital Monitoring Report – Q1 2023/24" to Cabinet on 6th August 2023 however an increased 'Approved Budget' is identified of £13.706m, an increase of £1.313m. In the "Approved Budget" this increase is funded by an increase in Business Rates of £1.313m to arrive at a 'core surplus/deficit' of zero. At Q1 there was a forecast 'core deficit' of £0.693m after net use of reserves of £1.337m.

The 'Approved Budget' in both the "Revenue and Capital Monitoring Report – Q2 2023/24" reported to Cabinet on 9th January 2024 and the "Revenue and Capital Monitoring Report – Q3 2023/24" reported to Cabinet on 12th March 2024 revert to an 'Approved Budget' of £12.393m. However, the way in which this is arrived at does change significantly as is illustrated below.

Changes in 2023/24 Budget Per Q1, Q2 and Q3	**Original Per Q1 £000s**	**Approved Per Q1 £000s**	**Approved Per Q2 £000s**	**Approved Per Q3 £000s**	**Change £000s**
Corporate Services	2,975	3,029	3,629	3,619	644
Customer Experience & Improvement	511	547	27	27	- 484
Democracy, Strategy & Partnerships	2,615	2,989	3,035	3,193	578
major Projects & Property	- 4,875	- 4,875	- 4,634	- 4,651	224
Operational Services	10,567	10,574	10,675	10,982	415
Planning & Economy	2,100	2,188	2,198	2,233	133
Sub-Total	**13,893**	**14,453**	**14,929**	**15,404**	**1,511**
Less Reversal of Accounting Entries	- 2,901	- 2,901	- 2,901	- 2,901	-
Net Service Revenue Budget	**10,992**	**11,552**	**12,028**	**12,503**	**1,511**
Corporate Income & Expenditure	2,178	3,491	2,173	2,178	-
Movement in Reserves	- 778	- 1,337	- 1,809	- 2,289	- 1,511
Net General Fund Revenue Budget	**12,393**	**13,706**	**12,393**	**12,393**	**-**
Funding	- 12,393	- 13,706	- 12,393	- 12,393	-
Core (Surplus)/Deficit	-	-	-	-	-
Net Budget Requirement (Before Use of Reserves)	**13,171**	**15,043**	**14,202**	**14,682**	**1,511**

The above analysis demonstrates that compared to the Q1 Original Budget, the Q3 Approved Budget, though coming to the same “Net General Fund Revenue Budget” of £12.393m, represents an increase in the “Net Budget Requirement” of £1.511m funded by an increase in the use of reserves of £1.511m.

More insightful and transparent, the “Net Budget Requirement” presentation of the budget, which other Councils adopt, more clearly identifies the level of spending the Council has agreed to in setting the budget before any budgeted use of reserves (which is included as a source of funding). In effect, the changes in the “Approved Budget” illustrated above imply the Council has agreed to spend £1.511m more during the course of 2023/24 and to fund this from reserves. The forecast outturn at Q2 and Q3 is summarised in the table below.

Q2 & Q3 2023/24 Forecasts	**Budget £000s**	**Q2 Forecast £000s**	**Budget £000s**	**Q3 Forecast £000s**	**Forecast +/- £000s**
Net Srvice Revenue Budget	12,029	12,498	12,503	11,731	- 767
Cororate Income & Expenditure	364	3,641	- 110	3,613	- 28
Net GF Revenue Budget	**12,393**	**16,139**	**12,393**	**15,344**	**- 795**
Funding	- 12,393	- 13,787	- 12,393	- 13,166	621
Net Deficit	**-**	**2,352**	**-**	**2,178**	**- 174**
Use of Reserves in Net GF Revenue Budget	1,809	1,809	2,289	1,578	- 231
Total Call on Reserves	**1,809**	**4,161**	**2,289**	**3,756**	**- 405**
Restated to reflect Net Budget Requirement					
Net Budget Requirement (Before Use of Reserves)	14,202	17,948	14,682	16,922	- 1,026
Less Funding	- 12,393	- 13,787	- 12,393	- 13,166	621
Net Deficit Before Use of Reserves	**1,809**	**4,161**	**2,289**	**3,756**	**- 405**

We have also identified the Net Budget Requirement to better reflect the level of spending by the Council before the use of reserves is taken into account. This shows that the forecast Net Budget Requirement at Q3 is £2.240m more than the Q3 version of the budget. This difference of £2.240m is partially offset by an increase in funding against budget of £0.773m. resulting in an overall forecast increased call on reserves of £1.467m compared to budget. increasing to £3.756m from £2.289m.

However, there has been an improvement in the forecast outturn at Q3 compared to Q2, with a reduction in the overall call on reserves of £0.405m, from £4.161m to £3.756m.

Summary 2021/22 to 2023/24

In the table below we have summarised and restated the reported 2021/22 and 2022/23 outturn positions together with the latest (Q3) forecast outturn for 2023/24. The purpose of this restatement is to provide insight into the true level of spending (the Net Budget Requirement) and use of reserves that has been required to support this level of spending.

To do this the use of reserves to support spending included in the reported ‘Net General Fund Revenue Budget’ has been added back to identify the Net Budget Requirement and adjustments have been made in relation to the issues discussed above, namely:

- The restatement of 2021/22 in the draft Statement of Accounts 2022/23
- The position in respect of 2022/23 in the draft Statement of Accounts as opposed to that set out in the Final Outturn Report 2022/23.

Summary 2021/22 to 2023/24	**2021/22 £000s**	**2022/23 £000s**	**2023/24 £000s**
Net Service Expenditure	9,273	9,738	11,731
Corporate Income & Exenditure	9,583	2,397	5,191
Adjustments	659	2,252	-
Net Revenue Budget Requirement	**19,515**	**14,387**	**16,922**
Funding	- 13,448	- 11,605	- 13,166
Deficit Before Use of Reserves	**6,067**	**2,782**	**3,756**
Balance of Earmarked Reserves			
Earmarked Reserves Opening Balance	27,985	21,918	19,136
Use of Earmarked Reserves	- 6,067	- 2,782	- 3,756
Earmarked Reserves Closing Balance	**21,918**	**19,136**	**15,380**
General Fund Balance	2,000	2,000	2,000
Total Reserves	**23,918**	**21,136**	**17,380**

The above table also reconciles opening and closing balances on Earmarked Reserves. In addition, the Council maintains a £2.000m General Fund balance (working balance).

It is not clear how the adjustments in the table above should be allocated to either Net Service Expenditure or to Corporate Income & Expenditure. What is clear, however is that spending has exceeded income in each of the past three financial years (2021/22 to 2023/24), adding to a cumulative use of reserves over the past three financial years to fund this excess of spending over income of £12.605m (dependent on the final outturn for 2023/24). This is significant for a Council of Rushmoor’s size and responsibilities.

Appendix B – Financial Resilience Plan as at February 2024

Current Key Actions

Finance workstream	a) Definition of the Minimum Revenue Position, to be adopted for financial accounting and planning purposes. b) Revision of a regular timetable for financial reporting and budget setting and review. c) Review of treasury operations. d) Review of capital planning methodology. e) Maintenance and improvement of suitable expenditure controls into the medium term. f) Management of the Council's balance sheet. g) Improvements in the quality of working papers, documents, and reconciliations through establishment of new standards for these materials. h) Development of financial skills within the Council. i) Design and consultation on the structure of the finance service at a suitable juncture. j) Review of the Council's management of insurance.
Commercial Property Review	a) Review of existing commercial investment property portfolio b) Development of an asset sales strategy and a property income optimisation strategy, with external advisors LSHM, to support and to deliver the best return for the "public purse and leave the council with a balanced portfolio" c) Implementation of the resulting disposal programme
Capital Programme Review	a) Continued analysis of the capital programme, including phasing and financial commitments b) Analysis of options pertaining to the future operation and ownership of Union Yard following practical completion c) Review of the Leisure and Cultural Hub project including scope, delivery timescales and funding strategy d) Pursuit of further grant and other funding opportunities that can support delivery of the capital programme
RHL	a) Review the development schemes supported to reduce the impact on the Council's revenue budget and minimise risk to the Council
Transformation Review	a) Delivery of existing savings and transformation activity b) Development of a new transformation strategy which ensures services can be delivered within the financial resources available. This work could include; I. Development of options and supporting analysis II. Design and implementation of a revised target operating model III. Design and implementation of revised service designs and associated objectives IV. Design and consultation for proposed organisational changes