

## COUNCIL MEETING – 25TH JULY 2024

## AGENDA ITEM NO. 5

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. The Cabinet committed to update the Council meeting in July on these assumptions and progress against the savings targets.

At its meeting on 23rd July, the Cabinet will consider the MTFS Update Report No. [FIN2411](#) and in that report the Cabinet will note the following:

1. 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 the Council Meeting in October
2. the revenue budget carry forward schedule para 3.16 and capital slippage on para 3.21
3. 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 that Cabinet will receive a full in-year financial position in September.
4. the Section 151 Officer assessment that the minimum working balance of £2m remains adequate
5. 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. the update to significant risks within the MTFS period as described on para 6.1 to 6.11
7. the progress made to date on the financial resilience plan approved on 22<sup>nd</sup> February and the CIPFA Financial Resilience Report at **Appendix 1**
8. 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. that a further update will be provided to Cabinet in September and Council in October

At its meeting on 23rd July, the Cabinet will also be asked to approve:

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

11. 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. the proposed strategy to drawdown reserves to finance the projected 2024-25 deficit on para 3.48 to 3.49; and
13. 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

**THE COUNCIL IS RECOMMENDED TO:**

1. approve the approach and timetable to identifying the required revenue savings as set out in paragraphs 4.1 to 4.4
2. approve the use of capital receipts strategy at paragraph 3.50; and
3. approve 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 31<sup>st</sup> 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 22<sup>nd</sup> February 2024

## **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
<b>Portfolio + Corporate Items</b>	<b>14,375</b>	<b>14,270</b>	<b>14,981</b>	<b>16,391</b>
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)
<b>Draft Net Revenue Budget</b>	<b>12,369</b>	<b>12,342</b>	<b>13,000</b>	<b>14,160</b>
<b>Funded by:</b>				
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	-	-	-
<b>TOTAL Funding</b>	<b>12,369</b>	<b>12,342</b>	<b>11,036</b>	<b>11,181</b>
<b>Funding Gap / (Surplus)</b>	<b>-</b>	<b>-</b>	<b>1,964</b>	<b>2,979</b>

- 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 31<sup>st</sup> 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.

	Qtr 3 Forecast £'000	Qtr 4 Actual £'000	Change £'000
<b>Comparison of 2023-24 reported financial position</b>			
<b><u>Service Portfolios:</u></b>			
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)
<b>Net Service expenditure</b>	<b>11,276</b>	<b>8,856</b>	<b>(2,420)</b>
<b><u>Non-service related items:</u></b>			
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
<b>Total: Outturn Deficit/Surplus</b>	<b>2,178</b>	<b>(1,245)</b>	<b>(3,422)</b>

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 16<sup>th</sup> December 2024. There may be adjustments required that affect the reported £1.245m surplus resulting from ongoing diligence and independent audit.

	Budget £000	Outturn £000	Variance £000
<b>Revenue Account outturn 2023-24</b>			
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)
<b>Net Cost of Service</b>	<b>10,876</b>	<b>8,856</b>	<b>(2,020)</b>
<u>Non-service related items:</u>			
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)
<b>Net Budget Requirement</b>	<b>12,726</b>	<b>11,721</b>	<b>(1,005)</b>
<u>Financed by:</u>			
Retained business rates	(4,087)	(5,842)	(1,755)
Council tax precept	(7,448)	(7,458)	(11)
<b>Net Deficit/Surplus ( ) Before Use of Reserves</b>	<b>1,191</b>	<b>(1,580)</b>	<b>(2,771)</b>
Earmarked reserves net movement	(1,191)	335	1,526
<b>Net Surplus</b>	<b>0</b>	<b>(1,245)</b>	<b>(1,245)</b>

Brackets ( ) represent negative numbers, improved position

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

	2023-24 Final budget £'000	2023-24 Actual £'000	2023-24 Variance £'000
<b>Revenue Account Outturn 2023-24</b>			
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)
<b>Net cost of service</b>	<b>10,876</b>	<b>8,856</b>	<b>(2,020)</b>

**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
<b>Total: Other non-service related items</b>	<b>(10,876)</b>	<b>(10,100)</b>	<b>776</b>
<b>Net Surplus on Revenue Account</b>	<b>0</b>	<b>(1,245)</b>	<b>(1,245)</b>

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)
<b>Net cost of service</b>	<b>54</b>	<b>(272)</b>	<b>15</b>	<b>(657)</b>	<b>(1,103)</b>	<b>(58)</b>	<b>(2,020)</b>
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.

	Variance to budget £000	
<b>Analysis of Corporate</b>		
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
<b>Total: Corporate Variances</b>	<b>54</b>	

- 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.

	Variance to budget £000	
<b>Analysis of Customer etc</b>		
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
<b>Net cost of service</b>	<b>(272)</b>	

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)
<b>Total</b>	<b>35</b>	<b>(7)</b>	<b>(33)</b>	<b>(142)</b>	<b>(509)</b>	<b>(657)</b>

- 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)
<b>Total</b>	<b>(7,096)</b>	<b>(7,135)</b>	<b>(40)</b>	<b>1,004</b>	<b>1,100</b>	<b>95</b>	<b>(487)</b>	<b>(1,052)</b>	<b>(565)</b>



- 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)
<b>Total</b>	<b>(260)</b>	<b>(292)</b>	<b>(537)</b>	<b>42</b>	<b>(56)</b>	<b>(1,103)</b>

Within Commercial, there is a one-off contractual payment to PpP 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)
<b>Total:</b>	<b>113</b>	<b>(197)</b>	<b>(190)</b>	<b>13</b>	<b>(260)</b>

**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**

<b>Business Rates:</b>	<b>£</b>	<b>Detail</b>
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
<b>Housing Benefit overpayment:</b>		
Claimant ref 28590	5,197	Benefit Fraud case - customer left property no forwarding address available
<b>24,870</b>		

- 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.

<b>Item</b>	<b>Amount</b>	<b>Reason</b>
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
	<b>216,248</b>	

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

	2023-24 Budget £'000	2023-24 Actual £'000	2023-24 Variance £'000
<b>Revenue Account outturn 2023-24</b>			
<b>Net Cost of Service</b>	<b>10,876</b>	<b>8,856</b>	<b>(2,020)</b>
<b><u>Non-service related items:</u></b>			
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)
<b>Total: Non-service related items</b>	<b>1,849</b>	<b>1,691</b>	<b>(159)</b>
<b>Net Budget Requirement</b>	<b>12,726</b>	<b>10,546</b>	<b>(2,179)</b>
<b><u>Financed by:</u></b>			
Retained business rates	(4,087)	(4,668)	(581)
Council tax precept	(7,448)	(7,458)	(11)
<b>Net Deficit/Surplus Before Use of Reserves</b>	<b>1,191</b>	<b>(1,580)</b>	<b>(2,771)</b>
<b>Earmarked reserves net movement</b>	<b>(1,191)</b>	<b>335</b>	<b>1,526</b>
<b>Net Surplus</b>	<b>0</b>	<b>(1,245)</b>	<b>(1,245)</b>
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
<b>Total:</b>	<b>(1,191)</b>	<b>335</b>	<b>1,526</b>

<b>Supplementary Budget</b>	<b>£000</b>
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
<b>Total: Supplementary Budget</b>	<b>199</b>

<b>February 2023 budget corrections:</b>	<b>£000</b>
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
<b>February 2023 budget corrections:</b>	<b>786</b>

- 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)	-	-	-
<b>Total:</b>	<b>19,135</b>	<b>0</b>	<b>(722)</b>	<b>1,057</b>	<b>19,470</b>

- 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 Meadows	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
<b>Total Capital Programme</b>	<b>42,716</b>	<b>8,354</b>	<b>51,070</b>	<b>34,536</b>	<b>(16,534)</b>	<b>5,355</b>	<b>13,472</b>	<b>18,827</b>
<b>Funded by:</b>								
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)
<b>Total funding:</b>						<b>(5,355)</b>	<b>(13,472)</b>	<b>(18,827)</b>

## 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
<b>Base Budget:</b>	<b>9,085</b>	<b>12,433</b>	<b>12,433</b>	<b>12,855</b>	<b>11,158</b>	<b>10,955</b>
<b>Anticipated Budget Variations:</b>				<b>Incremental changes</b>		
<b>Total: Portfolio changes</b>	<b>335</b>	<b>119</b>	<b>119</b>	<b>(574)</b>	<b>412</b>	<b>486</b>
<b>Corporate Income &amp; Expenditure changes:</b>						
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	-	-
<b>Total: Corporate Income &amp; Expenditure</b>	<b>2,629</b>	<b>6,657</b>	<b>6,431</b>	<b>(950)</b>	<b>(480)</b>	<b>114</b>
<b>Central Government Funding changes:</b>						
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)	-	-	-
<b>Total: Central Government Funding</b>	<b>(5,835)</b>	<b>(6,125)</b>	<b>(6,128)</b>	<b>(174)</b>	<b>(135)</b>	<b>(139)</b>
<b>Total: Budget requirement</b>	<b>6,214</b>	<b>13,085</b>	<b>12,855</b>	<b>11,158</b>	<b>10,955</b>	<b>11,416</b>
<b>Less Collection Fund (Surplus)/Deficit</b>	<b>(10)</b>	<b>(23)</b>	<b>(23)</b>	<b>23</b>	<b>-</b>	<b>-</b>
<b>Less Council Tax</b>	<b>(7,448)</b>	<b>(7,683)</b>	<b>(7,683)</b>	<b>(7,816)</b>	<b>(8,063)</b>	<b>(8,313)</b>
<b>Net Deficit Funded from reserves</b>	<b>(1,245)</b>	<b>5,379</b>	<b>5,149</b>	<b>3,365</b>	<b>2,892</b>	<b>3,103</b>
Note - figures showing in ( ) indicate a favourable change from budget						
<b>Cumulative reserve requirement if zero mitigation:</b>		<b>5,379</b>	<b>5,149</b>	<b>8,514</b>	<b>11,407</b>	<b>14,509</b>
<b>Estimated reserve balance:</b>						
Opening balance	(10,649)	(10,560)	(12,229)	(7,199)	(3,768)	(875)
Budgeted service movement	(335)	(119)	(119)	66		
<b>Actual/Forecast deficit</b>	<b>(1,245)</b>	<b>5,379</b>	<b>5,149</b>	<b>3,365</b>	<b>2,892</b>	<b>3,103</b>
<b>Remaining reserve</b>	<b>(12,229)</b>	<b>(5,300)</b>	<b>(7,199)</b>	<b>(3,768)</b>	<b>(875)</b>	<b>2,227</b>
<b>Working Balance: min required £2m:</b>	<b>(2,000)</b>	<b>(2,000)</b>	<b>(2,000)</b>	<b>(2,000)</b>	<b>(2,000)</b>	<b>(2,000)</b>
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.

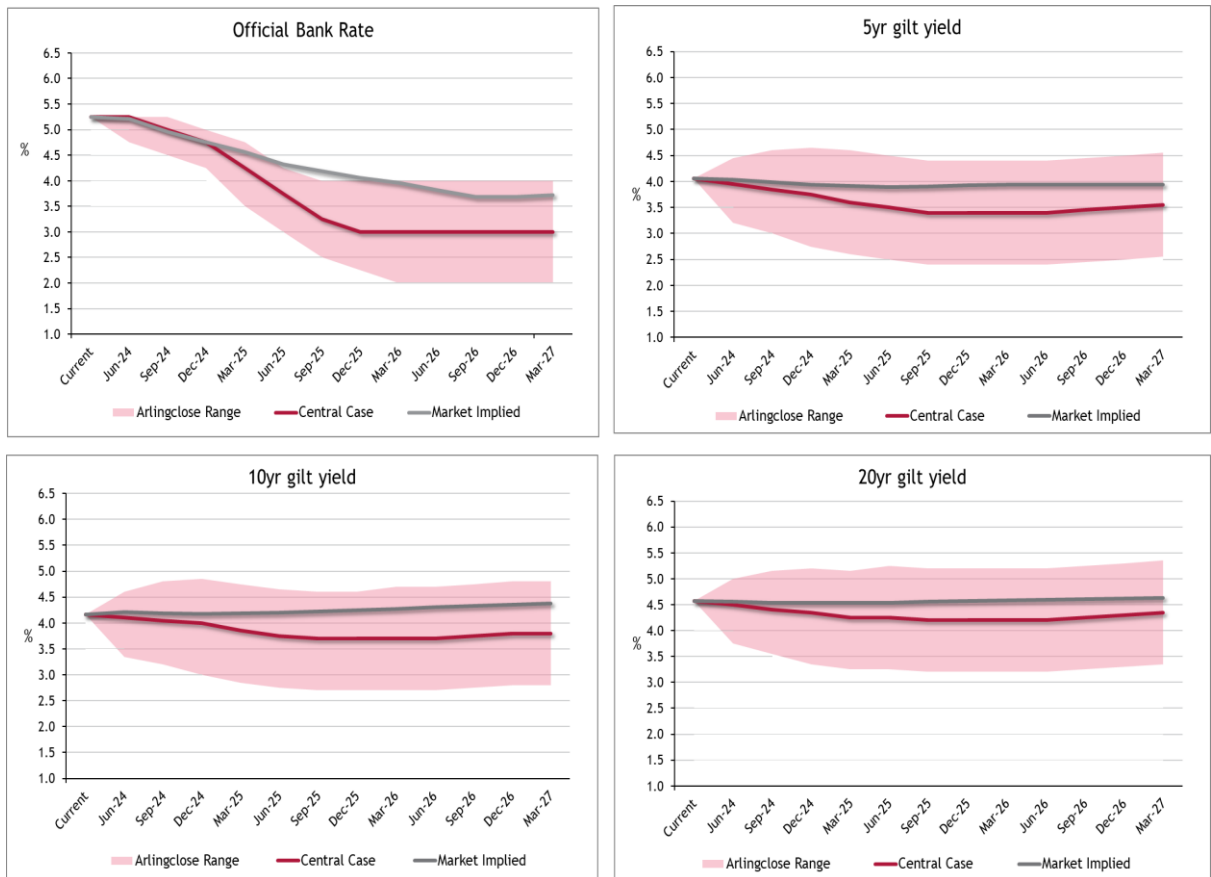
Analysis of change in projected deficit prior to mitigating savings	2024-25 July Update £'000	2025-26 Projected £'000	2026-27 Projected £'000	2027-28 Projected £'000
Cumulative change in base budget	0	(230)	266	416
RHL interest	205	(0)	0	0
Minimum Revenue Provision (MRP)	(66)	185	150	74

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%	
<b>Total</b>	<b>166,000</b>		



- 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
<b>Remaining reserve</b>	<b>(7,199)</b>	<b>(2,740)</b>	<b>1,181</b>	<b>5,311</b>
<b>Working Balance: minimum required £2m:</b>	(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
<u>Assumed Interest rate</u>	4.80%	3.86%	3.10%	3.10%
<b>Capital receipts</b>	<b>20m</b>	<b>20m</b>		
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)
<b>Total interest and MRP reduction</b>	<b>(240)</b>	<b>(1,558)</b>	<b>(2,040)</b>	<b>(2,040)</b>
<u>Service adjustment:</u>				
2024-25	(500)	(500)	(500)	(500)
2025-26		(500)	(500)	(500)
2026-27			(500)	(500)
2027-28				(500)
<b>Total annual recurrent service savings</b>	<b>(500)</b>	<b>(1,000)</b>	<b>(1,500)</b>	<b>(2,000)</b>
<b>In year saving permanently out of base</b>				
Interest and MRP reduction	(240)	(1,558)	(2,040)	(2,040)
Services cost reduction	(500)	(1,000)	(1,500)	(2,000)
<b>Total recurrent savings:</b>	<b>(740)</b>	<b>(2,558)</b>	<b>(3,540)</b>	<b>(4,040)</b>
Net deficit before savings	5,149	4,393	3,920	4,131
Net deficit after savings	4,409	1,835	380	91
<b>Estimated reserve balance:</b>				
Opening balance	(12,229)	(7,820)	(5,985)	(5,604)
Forecast deficit	4,409	1,835	380	91
<b>Remaining reserve</b>	<b>(7,820)</b>	<b>(5,985)</b>	<b>(5,604)</b>	<b>(5,514)</b>

- 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)
<b>Total Borrowing</b>	<b>160,242</b>	<b>133,456</b>	<b>122,064</b>	<b>120,632</b>
<b>Revenue Position after savings:</b>				
Interest cost	3,002	8,461	5,672	3,961
<b>MRP</b>	<b>2,170</b>	<b>1,758</b>	<b>1,786</b>	<b>1,392</b>
<b>Total cost of borrowing</b>	<b>5,172</b>	<b>10,218</b>	<b>7,458</b>	<b>5,352</b>
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 MTF5 period resulting in a 2027-28 projected reserve balance of £3.9m versus £5.5m.

	2024-25 July Update £'000	2025-26 Projected £'000	2026-27 Projected £'000	2027-28 Projected £'000
<b>Reprofiled Savings Target effect on reserves: July 2024 Update</b>				
<b>In year saving permanently out of base</b>				
Interest and MRP reduction	(60)	(534)	(1,608)	(2,040)
Services cost reduction	(500)	(1,000)	(1,500)	(2,000)
<b>Total recurrent savings:</b>	<b>(560)</b>	<b>(1,534)</b>	<b>(3,108)</b>	<b>(4,040)</b>
In year deficit before mitigating savings	5,149	4,393	3,920	4,131
<b>Revised deficit/outrun</b>	<b>4,589</b>	<b>2,859</b>	<b>813</b>	<b>91</b>
<b>Opening reserve balance:</b>	<b>(12,229)</b>	<b>(7,640)</b>	<b>(4,781)</b>	<b>(3,968)</b>
<b>Revised deficit</b>	<b>4,589</b>	<b>2,859</b>	<b>813</b>	<b>91</b>
<b>Reserve annual closing balance</b>	<b>(7,640)</b>	<b>(4,781)</b>	<b>(3,968)</b>	<b>(3,877)</b>
<b>Working Balance: minimum required £2m:</b>				
	(2,000)	(2,000)	(2,000)	(2,000)
<b>Capital receipts:</b>	<b>4.80%</b>	<b>3.86%</b>	<b>3.10%</b>	<b>3.10%</b>



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
<b>In year saving permanently out of base</b>				
Interest and MRP reduction	(60)	(647)	(1,933)	(2,440)
Services cost reduction	(500)	(1,150)	(1,800)	(2,450)
<b>Total recurrent savings:</b>	<b>(560)</b>	<b>(1,797)</b>	<b>(3,733)</b>	<b>(4,890)</b>
In year deficit before mitigating savings	5,149	5,090	4,617	4,828
<b>Revised deficit/outturn</b>	<b>4,589</b>	<b>3,293</b>	<b>885</b>	<b>(62)</b>
<b>Opening reserve balance:</b>	<b>(12,229)</b>	<b>(7,640)</b>	<b>(4,346)</b>	<b>(3,461)</b>
<b>Revised deficit</b>	<b>4,589</b>	<b>3,293</b>	<b>885</b>	<b>(62)</b>
<b>Reserve annual closing balance</b>	<b>(7,640)</b>	<b>(4,346)</b>	<b>(3,461)</b>	<b>(3,524)</b>

- 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
<b>In year saving permanently out of base</b>				
Interest and MRP reduction		-	(205)	(1,220)
Services cost reduction	(500)	(1,550)	(2,600)	(3,650)
<b>Total recurrent savings:</b>	<b>(500)</b>	<b>(1,550)</b>	<b>(2,805)</b>	<b>(4,870)</b>
In year deficit before mitigating savings	5,149	5,090	4,617	4,828
<b>Revised deficit/outturn</b>	<b>4,649</b>	<b>3,540</b>	<b>1,812</b>	<b>(42)</b>
<b>Opening reserve balance:</b>	<b>(12,229)</b>	<b>(7,580)</b>	<b>(4,040)</b>	<b>(2,227)</b>

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
<b>Reserves that can be repurposed</b>		
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
		<b>12,229</b>
<b>Reserves supporting specific initiatives</b>		
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
		<b>1,828</b>
<b>Reserves not available for deficit relief</b>		
S106/SANG		5,934
Pipeline -Environment Improvement reserve		134
Farnborough Airport Environmental Fund		129
Insurance Reserve MMI run off		253
Workforce Reserve		312
		<b>6,762</b>
<b>Total Earmarked Reserves</b>		<b>20,819</b>
	Excess working balance	1,349
	EMR schedule total	19,470
<b>Total reserves in addition to £2m working balance</b>		<b>20,819</b>

- 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
<b>Forecast deficit prior to savings plan</b>		5,149	4,393	3,920	4,131
July reprofiled savings target		(560)	(1,534)	(3,108)	(4,040)
<b>Forecast deficit to be funded from reserves</b>		<b>4,589</b>	<b>2,859</b>	<b>813</b>	<b>91</b>
<b>Reserves that can be repurposed</b>					
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)			
<b>Reserves applied to fund deficit</b>		<b>(4,589)</b>	<b>(2,859)</b>	<b>(813)</b>	<b>(91)</b>
<b>Annual Earmarked reserve balance</b>	<b>12,229</b>	<b>7,640</b>	<b>4,781</b>	<b>3,968</b>	<b>3,877</b>

### 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 be 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 31<sup>st</sup> 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 22<sup>nd</sup> February 2024: including the MTFS and Capital strategy reports.

CLLR GARETH WILLIAMS  
LEADER OF THE COUNCIL