

Rushmoor Borough Council: Financial Resilience Review

Final

June 2024

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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-streams 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.

	2021/22	2022/23	2023/24
	£000s	£000s	£000s
Summary 2021/22 to 2023/24			
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.

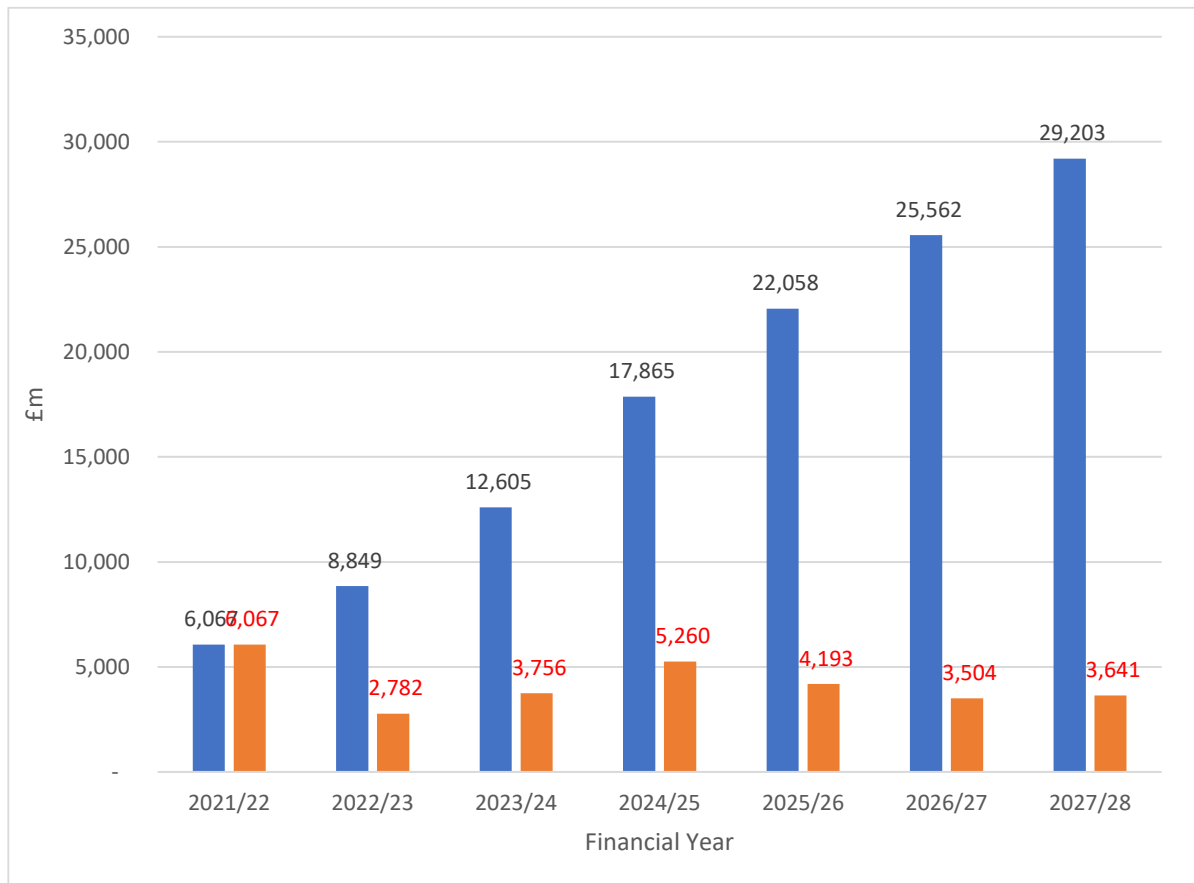
At that time, the forecast use of reserves in 2023/24 identified in the report and in Appendix 4 to the report was £2.500m. The Q3 2023/24 forecast reported to Cabinet on 12th March 2024 revised this upwards by £1.256m as is set out in the table below.

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.

	2023/24 £000s	24/25 £000s	25/26 £000s	2026/27 £000s	2027/28 £000s
Adjusted MTFS Deficit and Reserve Balance					
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	13,060	9,304	4,044	- 149	- 3,653
Planned Use of Earmarked Reserve	- 1,578	119	- 66	-	-
General Fund Deficit	- 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 Earmarked Reserve	- 1,578	119	- 66		-
General Fund Deficit	- 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.

	2024/25 £000s	2025/26 £000s	2026/27 £000s	2027/28 £000s
MTFS Savings Target				
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 Earmarked 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.

	2024/25	2025/26	2026/27
Disaggregation of MTFS 2024/25 to 2025/27	£000s	£000s	£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/Borrowing)	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	<u>(13,060,100)</u>
 SANG/Developers Reserves Sub Total	 (6,076,128)
Total Reserves:	<u>(19,136,228)</u>

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.

Key Corporate Risk	Risk Rating		
	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 below¹.

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	Local authority	Total borrowing	Borrowing to income ratio
1. Spelthorne	£1.1bn	86.9x	11. Brentwood	£226m	9.7x
2. Woking	£2.0bn	62.0	12. Mole Valley	£103m	9.6
3. Eastleigh	£522m	41.1	13. East Hampshire	£120m	9.5
4. Runnymede	£643m	23.4	14. Thurrock	£1.5bn	7.5
5. Worthing	£204m	14.4	15. Adur	£165m	7.1
6. Surrey Heath	£170m	13.7	16. Epsom and Ewell	£64m	6.8
7. Rushmoor	£120m	10.6	17. Broxbourne	£58m	6.3
8. Cherwell	£188m	10.3	18. Guildford	£295m	6.0
9. Uttlesford	£302m	10.0	19. Chorley	£78m	5.9
10. Warrington	£1.8bn	9.9	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	-
Replaced borrowing in year to date	115,000,000
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	16,474
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 change 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.

	2024/25	2025/26	2026/27
MRP as % of CFR	£000s	£000s	£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.

	2024/25	2025/26	2026/27	2027/28
	£000s	£000s	£000s	£000s
Debt Servicing Costs 2024/25 to 2027/28				
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.

	2024/25	2025/26	2026/27	2027/28
	£000s	£000s	£000s	£000s
Impact of Savings Target on Debt Servicing Costs				
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 (PWL) 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 take 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 through 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.

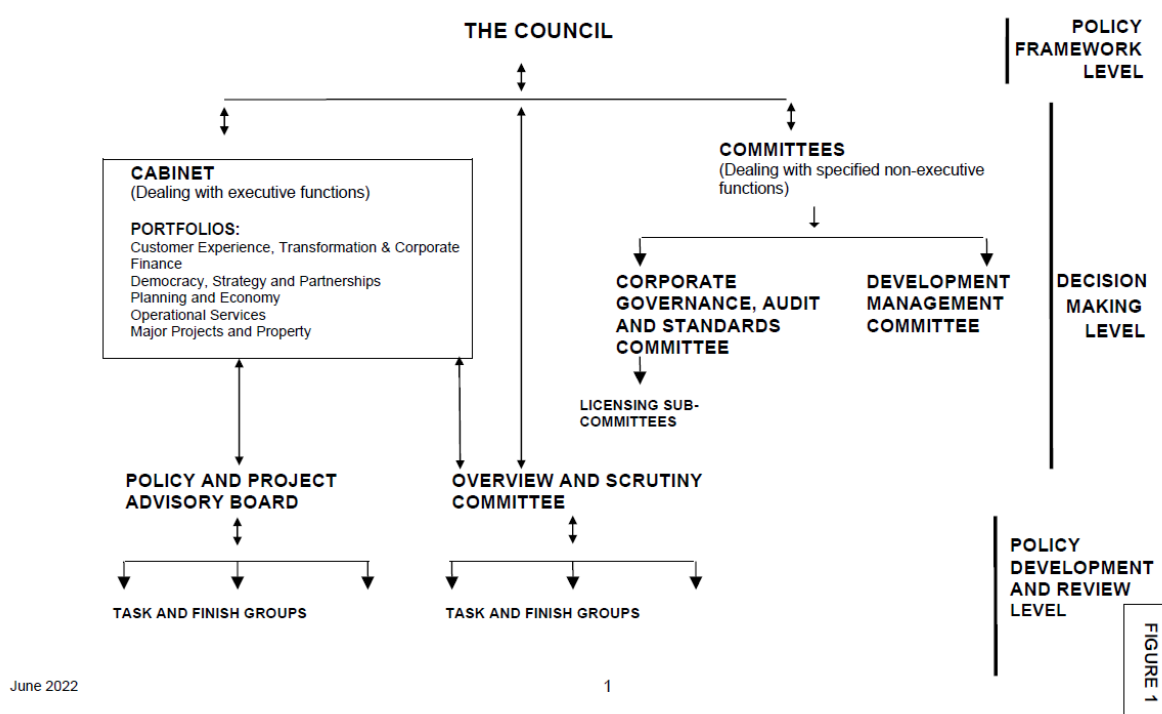
It also has to be considered, in developing the next iteration of the Council plan whether the Council's priorities still align with the Council's financial situation, especially given the scaling back of the capital programme and the need to reduce the level of borrowing in order to achieve the interest 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

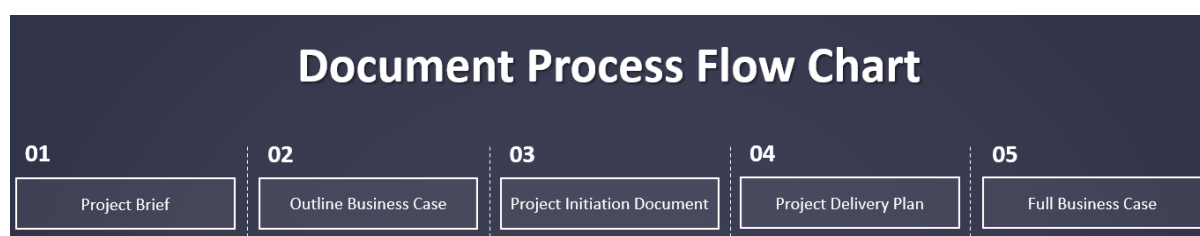
We have been provided with the following in relation to capital programme governance.



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 undertaken 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 taken 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-streams 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.

	2021/22 Original Budget (£'000)	2021/22 Latest Budget (£'000)	2021/22 Outturn (£'000)	2021/22 Variation (£'000)
General Fund Revenue Budget				
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.

	Original Per Q1 £000s	Approved Per Q1 £000s	Approved Per Q2 £000s	Approved Per Q3 £000s	Change £000s
Changes in 2023/24 Budget Per Q1, Q2 and Q3					
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.

	Budget £000s	Q2 Forecast £000s	Budget £000s	Q3 Forecast £000s	Forecast +/- £000s
Q2 & Q3 2023/24 Forecasts					
Net Service Revenue Budget	12,029	12,498	12,503	11,731	- 767
Corporate 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.

	2021/22	2022/23	2023/24
	£000s	£000s	£000s
Summary 2021/22 to 2023/24			
Net Service Expenditure	9,273	9,738	11,731
Corporate Income & Expenditure	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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> a) Review the development schemes supported to reduce the impact on the Council's revenue budget and minimise risk to the Council
Transformation Review	<ul style="list-style-type: none"> 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; <ul style="list-style-type: none"> 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