

RISKS TO MEDIUM TERM FINANCIAL STRATEGY

The Medium-Term Financial Strategy outlines how the council will achieve its corporate strategic priorities whilst recognising the budgetary pressures of that are expected over the coming 3 years. Within the strategy are a number of risks that are outlined below;

RISKS TO REVENUE BUDGET

HIGH RISK

Changes to the Business Rates Retention Scheme and the Fair Funding Review

Forecasting the level of business rates income beyond 2022/23 remains complicated due to the level of uncertainty in this area. Following various government announcements, councils have been expecting reforms to the business rates system for over four years. In March 2020, the government published the Terms of Reference for the Business Rates Review, setting out that the objectives of this were to reduce the overall burden on business, to improve the current business rates system and to consider more fundamental changes in the medium-to-long term. In March 2021, the government published the Interim Report of the review, with the final report issued in October 2021

The government has concluded from their review;

- that business rates are a vital component of the business tax mix;
- that they wish to preserve the benefits of business rates but will make changes to make their operation fairer and more effective for businesses;
- that they are not proposing changing the nature of the tax, or the basis of valuation;
- moving forward, they have concluded that increasing the frequency of revaluations would represent a fundamental and meaningful improvement to the business rates system and would help to ensure greater distributional fairness; currently, revaluations are scheduled to take place every 5 years although in practice, and due in part to the pandemic, these have only taken place about every 6-7 years. As such government has announced a 3-yearly cycle for business rates revaluations, starting from the next revaluation in 2023.

In light of the above, the quantum of business rates that will remain available to the council after the reset is uncertain. It is likely that the level of funding that councils retain from business rates will be reviewed across the country as part of the government's 'levelling up' agenda. This is expected to flow from the outcome of the Fair Funding Review, however no date has been set for these reforms. As such, in the absence of any further information, the budget assumes the council will retain the current level of business rates enjoyed as part of the Lancashire Pool throughout the three year period of the MTFS.

Post-Covid Recovery

The pandemic has impacted on the council finances as well as the wider economic environment. This has created uncertainty in the MTFS.

To help manage this uncertainty the council has set aside reserves from government grant funding, received;

- £300k Covid-19 recovery reserves

These reserves will help the council manage the Covid recovery period however the full, medium-term impact of this recovery is not yet clearly understood. This could impact further on council expenditure, income and government funding levels.

MEDIUM RISKS

Business Rates Appeals and Other Business Rates Adjustments

The council's share of the provision for business rates appeals stands at £1.620m in 2021/22. Allowance has been made for an additional provision of £0.348m to allow for any further appeals against the 2017 rating list and any appeals resulting from the impact of Covid 19 e.g. reduced demand for office accommodation.

The impact of appeals will be continually monitored, however based upon current information, this increased level of provision is deemed to be sufficient.

Pay Inflation

The 2020 Government Spending Review announced a pay freeze for 2021/22 for the majority of public sector staff, with a guaranteed a pay rise of at least £250 for all staff that earn less than £24,000 per year. At the time of writing this report, the pay negotiations are still ongoing for 2021/22, with the current offer of 1.75% made by the Employers having been rejected by the Trade Unions. The budget has however been adjusted to reflect an uplift of 1.75% in line with the current offer.

In the Spending Review in October 2021, the Chancellor said that pay awards for public sector workers in 2022/23 would be in line with CPI. With the negotiations for 2021/22 yet to conclude, and no fixed point in time announced for the determination of CPI, a provision of 2% has been made in the pay budget, which equates to approximately £200k per year, for Chorley Council in 2022/23; the government's proposals are not yet agreed with public sector unions.

Delivery of Budgeted Savings and Additional Income

The MTFs includes forecast cumulative gross budget deficits of £1.117m and £1.178m in 2023/24 and 2024/25 respectively. To balance the budget over the course of the MTFs we will need to continue to develop the Transformation Programme and savings programme, including opportunities for income generation. The monitoring and robust challenge of all proposals is overseen by the council's Shared Services Management Team and Shared Senior Leadership Team. Risks are reported to the Shared Services Management Team as well as Members, and actions are taken when required. Given the council's likely increased dependency on generating income there will always be some risks that sit outside of the council's control and are therefore more difficult to manage.

The council's minimum general fund balance of £4m has been set such that potential delays in bringing forward income or generating savings can be temporarily managed within council resources.

As noted in the report, the council is still able to borrow from PWLB at low rates to fund its capital programme. However, government reforms have meant that in order to utilise these funds the council is prohibited from investing 'primarily for yield'. This will not however prevent investment in schemes that meet the economic, regeneration and/or housing needs of the borough, and which may generate an income as a consequence or by-product of the investment. Although this will not affect the council's current capital programme, this will need to be carefully considered when making future investment decisions.

Existing Income

The major income streams that the council benefits from include planning, garden waste subscriptions and car parking, as well as commercial income from assets the council owns. Reductions in income outside the control of the council could leave services underfunded

Inflation

The council's expenditure is subject to annual inflation. In December 2021 the CPI inflation figure rose to 5.1%, with the Bank of England forecasting for inflation to peak at 6% next April.

The impact upon the Council will be mitigated where possible through cost control and effective contract management.

The impact of inflation will be assessed continually through the budget monitoring process, and budgets will be reviewed annually when updating the MTFS.

RISKS TO CAPITAL BUDGET

MEDIUM RISKS

Overspends on Capital Projects

All capital projects are monitored on a quarterly basis, with the major capital projects monitored on an ongoing basis by council officers and commissioned external project managers. Any potential overspends are highlighted by the relevant project group or officer and reported to the Director of Finance.

Actions plans are agreed to manage potential overspends and managed by the project officer. If necessary, financing is identified within the capital programme to meet any additional required resources. Changes to the capital programme are reported quarterly to Executive Cabinet. Changes to a capital project between these periods are taken on a separate report to Executive Cabinet or Full Council, in line with the council's financial regulations.

LOW RISK

Insufficient Financing to Delivery Capital Programme

The council continues to have a significant gap between its capital funding requirement and current borrowing levels. As such borrowing is available to the council if funding sources previously allocated to projects no longer become available.

Insolvency of Major Contractor

As part of the tender process the financial standing of each contractor has been thoroughly