APPENDIX B2

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

Business Rates and the Business Rates Retention Scheme

Forecasting the level of business rates income beyond 2024/25 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 five years now.

The government has stated that it will not change the funding system within the next 2 years, which has provided some stability for 2023/24 and 2024/25, but beyond this, future funding levels are uncertain. As Business Rates account for approximately 40% of the council's income, this is a significant risk;

- Whilst the government has announced that Business Rate Pools, including the Lancashire Business Rates Pool, will continue into 2024/25, beyond that the future financial benefit of this is uncertain. At present, under the Lancashire Pool arrangements, we retain a levy (£1.066m expected in 2023/24) which we would otherwise pay over to government on any growth above our baseline of 'need'; should the baseline change, or indeed the pools be dissolved, then the council is exposed to a high level of financial risk.

- Each year we have to make assumptions on the level of write-offs (bad debts), appeals, growth, Business Rates reliefs awarded etc; this continues to be difficult and is made more complex due to the 2023 Revaluation of all properties (hereditaments) subject to Business Rates.

Fair Funding Review

The government has clarified that the Review of Relative Needs and Resources (and a reset of accumulated business growth (baselines) will not be implemented in the current Parliament; this is known as the Fair Funding Review. The impact of the review, following the evaluation and comparison of a myriad of socio-economic indicators for the borough against others in the country, together with the resulting assessment of financial need, is expected to be significant. In the absence of any information on how this will be calculated, the council is faced with a significant financial risk.

New Homes Bonus

This is almost certainly the final year of the NHB scheme. In 2023/24 we will receive a significant reduction in our allocation which is now £0.297m compared to £0.886m in the previous year, and down from a high of £4.007m in 2017/18.

It's removal, if not replaced by another form of income or grant funding as we have assumed, will have a significant impact on the Council's budget if future years.

MEDIUM RISKS

Pay Inflation

Given the increases in inflation over the course of 2022 and the forecasts moving forward, the pay award assumption for 2023/24 has been reviewed and this has been increased from 2% for the year to 5%, increasing costs by a further £465k. The assumptions for 2024/25 and 2025/26 have also been adjusted and included in the MTFS at 5% and 2% respectively.

Given the economic uncertainty, inflation, rising interest rates and the cost of living crisis, pay inflation presents a significant financial risk to the council.

Delivery of Budgeted Savings and Additional Income

The MTFS includes forecast cumulative gross budget deficits of £0.537m and £1.484m in 2024/25 and 2025/26 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 in schemes that are 'primarily for yield'. This will not however prevent investment in schemes that support the economic, regeneration and/or the housing needs of the borough, and which may generate an income as a consequence or as a 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 under-funded. Therefore the council has been prudent when budgeting for income and has set aside an income equalisation reserve for Market Walk and Logistics House.

Inflation

CPI rose by 11.1% in the 12 months to October 2022, up from 6.2% in February 2022 when the 2022/23 Budget and MTFS were approved. Following the announcement of the household energy price cap, CPI forecasts have been revised with full year estimates of 7.4% for 2023 and a reduction down to 0.6% in 2024.

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 is under-borrowed, i.e. it continues to have a significant gap between its capital funding requirement and the amount it has actually borrowed. As such, provision is available for the council to borrow whilst remaining within the Prudential Indicator framework, should funding sources previously allocated to projects no longer be available.