

Risks

Key Areas of Financial Risk (Revenue)

In considering this updated forecast, Members should be aware that there are still a number of significant risks which are set out below. In assessing each risk, the following has been taken into account:-

High Risk

- Potentially a significant sum;
- A high probability of occurrence;
- Relatively little mitigation available to spread or defer the impact; and,
- Probable need for major change to the forecast if it materialises.

Medium Risk

- Potentially a large sum with a medium probability of occurrence;
- Some mitigation possible to spread or defer the impact; and,
- Possible need for change to the forecast if it materialises.

Low Risk

- Potentially a substantial sum, with a low probability of occurrence;
 - Some mitigation possible to spread or defer the impact; and,
 - Impact should be capable of being dealt with without major forecast changes.
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Medium Term Financial Strategy Risks	Level of Risk		Risk Mitigation
	Likelihood	Impact	
Business Rates & Future Government Funding	Medium	High	
The Government delayed the change in the Business Rates scheme. It is still unknown how the Business Rates scheme will operate from 2024/25 onwards. Future detailed allocations and splits between two-tier authorities are still unknown. The outcome of the fair funding consultation carried out early in 2018 is the suggested basis of the baseline calculation. Until further information is known we are highlighting this as a significant financial risk for the Council.			Scenario analysis has been carried out on the financial forecast to evaluate the impact of future potential changes in business rate income
Cost of Living	High	High	
Expected increase in the demand on services due to the impact of the cost of living increases on residents, such as delivering energy rebate and grants schemes, along with financial risk that could impact future years such as impact on council tax collection rates, impact on NNDR collection rates, increase in the cost of council tax support. The Council is also seeing increases in its own utility costs and general costs of supplies and services.			This has an unknown impact and is difficult to estimate.
Council Tax income – new housing build not in line with projections	Medium	High	
The Council Tax income projections include increases based on housing projections. If the level of anticipated new housing build is less than expected Council Tax income projections may have to be reduced.			New house building is closely monitored as part of the City Deal.
Impact on forecast from delays in identifying and implementing savings plans	Medium	High	
Savings plans to be identified to achieve the required target to balance the forecast. If there are delays to the identification and implementation of the savings targets this could have a negative impact on the forecast.			Savings plans are reviewed by CMT and Budget Working Group.
New Homes Bonus (NHB)	Medium	Medium	
The Government indicated that NHB legacy payments will be honoured but the scheme for 2023/24 will be a one-year allocation. We are still awaiting confirmation for future funding, whether there will be an allocation for 2024/25 or if alternative funding will be put in place.			Changes to NHB is closely monitored.

Pension Triennial Review	Medium Medium	
<p>The Triennial Review covering the period 2023/24 to 2025/26 is currently being finalised, although a surplus is forecast. Pension costs continue to be a future risk for the Council.</p>		<p>An estimate for potential pension costs from the next triennial review has provisionally been included.</p>
Council Tax Support Scheme	High Medium	
<p>The Council agreed a Council Tax Support Scheme which applies a 20% deduction to the amount of Council Tax support payable to working age claimants. The Council reluctantly approved the Local Scheme which was cost neutral to the Council when introduced in 2013. Covid-19 and the cost-of-living crisis has impacted on the levels of council tax support and the scheme has seen significant increases in recent years. The risks associated with the scheme remain:-</p> <ul style="list-style-type: none"> • an increase in claimant numbers resulting in greater number of discounts being allowed and thus reducing Council Tax collected • a reduction in Council Tax collection rates. 		<p>The Council closely monitors Council Tax collection rates.</p>
Stock Transfer Issues	Low High	
<p>There are still a number of residual financial risks associated with the Council Housing stock transfer mainly (i)The Disposals Clawback Agreement provides that the Community Gateway Association (CGA) has a full warranty for land transferred in respect of ground conditions and (ii) The Council provided (as standard practice) a 35 year Asbestos Warranty (which ends in 2040) based on the criteria that the first £4.2m of any expenditure would be met by the Community Gateway Association (CGA); the next £5.8m would be shared 50/50 between the CGA and the Council; and, any expenditure above £10m would be met fully by the Council. An Asbestos Management Policy is in place. The Council is monitoring CGA’s progress with asbestos removal from their properties; to date the cost of removal does not give cause for concern. Members should note the balance set aside in an earmarked capital reserve is currently £3.8m.</p>		<p>These risks continue to be monitored</p>
Preston Bus Pension Guarantee	Low Medium	
<p>Under the terms of the 1993 buyout agreement Preston City Council entered into an agreement to act as Pension Fund guarantor, in perpetuity, for former Council employees who transferred to Preston Bus (now owned by Rotala PLC). Rotala agreed to take on the pension liabilities of Preston Bus and have been making pension contributions in line with the Actuaries requirements.</p>		<p>The Council continues to monitor the situation.</p>

GLL

Under the terms of the Leisure Transfer agreement with GLL, Preston City Council are the Pension Fund guarantor, in perpetuity, for former Council employees who transferred to GLL.

Universal Credit

Medium Medium

The Government is consolidating a number of current welfare benefit allowances into a revised Universal Credit Scheme which went live in July 2018 in Preston. One of these is Housing Benefits which is currently administered by the Council. The new Universal Credit Scheme will be provided on-line and administered by Department of Work and Pensions with support required from the Council. The scheme is being rolled out in stages and has had minimal impact on the Council's operations to date.

This is being monitored closely including seeking information on how the introduction of universal credit has impacted in those authorities where it was introduced earlier.

Pay Inflation

Medium High

The forecast includes the agreed pay award of £1,925 on all salary points for 2022/23 and an estimate for a 4.5% for 2023/24 and 2% from 2024/25 onwards. Any variation above this estimate will impact on the Council's resources. The cost of an additional 1% increase is c£225k per annum. This will be kept under review and the assumption in the forecast may need to be changed.

The agreed offer for 2022/23 is £1,925 on all salary points which exceeds our previous forecast.

Income Streams

Medium Medium

Some income streams continue to face pressure as a result of the cost-of-living crisis. These are being monitored closely.

All income streams continue to be closely monitored within the budget monitoring to Budget holders, CMT and Cabinet Members

Council Tax Administration Grant

Medium Medium

The Council previously received a combined Housing and Council Tax Administration grant of approximately £0.7m per annum paid by the Department of Work & Pensions (DWP) and Department of Levelling Up, Housing and Communities (DLUHC). The Council Tax element has now been "rolled up" into our baseline funding assessment from 2023/24 onwards.

Vehicle Fleet	Medium	High	
The vehicle fleet requirements continue to be evaluated, linked to future service needs. However, a risk remains that current revenue provision may be insufficient to meet future long term requirements.		The Council has a 10 year vehicle replacement plan in place which monitors costs of vehicle replacements and if funds are sufficient.	
Guild Hall	High	High	
The Guild Hall is a major asset which incurs significant costs.		The Council seeks to mitigate the financial risk of all assets.	
Towns Fund and City Centre Projects - Impact on Revenue Budget	High	High	
Volatile markets, changing interest rates, changing project scope and increasing construction costs are impacting on the borrowing costs of the major Towns Fund and City Centre projects.		The Council will continue to engage its expert Treasury advisors to ensure borrowing is taken at the optimum time and ensure all funding options are considered in order to minimise costs.	
KEY AREAS OF FINANCIAL RISK (CAPITAL)			
The following risks are relevant in respect of the Capital Programme:			
Vehicle Replacement Programme	High	Medium	
The Council has a large vehicle fleet which requires replacing on a rolling programme. The procurement of vehicles can take a significant length of time which can mean delays in replacing the fleet and result in additional revenue costs from ad hoc maintenance costs.		A review of the replacement programme is carried out annually resulting a list being compiled of those vehicles ready for replacement.	
City Centre Assets	Medium	High	
The Council has ambitious plans for the City and has been successful in achieving significant levels of external funding. The Council will be accountable body for these funding streams and therefore this brings risk of clawback and requires the Council to have strong governance arrangements in place.		The Council is putting in place specific governance arrangements for the Towns Fund scheme on top of the existing controls.	

Capital Receipts	Medium Medium	
<p>Capital receipts are a best estimate. The actual sales are dependent on future market conditions and cannot be predicted with certainty.</p> <p>This results in an inherent risk in the forecast level of programmed resources particularly in the latter years of the Programme.</p>		<p>Updates on potential sale of assets is supplied by Property Services</p>
Disabled Facilities Grant (DFG)	Medium Low	
<p>From 2015/16 the budget became the responsibility of the Department of Health who incorporated the Disabled Facilities Grant (DFG) into a much larger pooled social care and health fund known as the Better Care Fund (BCF). The DFG is paid to upper-tier authorities within their BCF allocation. However, the statutory duty is on the Local Housing Authorities to provide DFG to those that qualify. Currently Lancashire County Council has agreed to transfer the funding allocations to the Districts in line with grant received. Any future reduction in DFG received by the Council will have a direct impact on the level of Capital Programme work that can be undertaken or would require additional resources from the Council.</p>		<p>Updates are provided as part of the quarterly capital performance monitoring.</p>
Towns Fund and City Centre Projects	High High	
<p>The Council is currently undertaking a major programme of Towns Fund and city centre development schemes which bring with them significant financial and operational risk. There is the potential for cost increases, delays and project overruns, and an impact on the capacity of officers. Furthermore, there are substantial monitoring and reporting requirements in relation to Towns Fund schemes which must be met.</p>		<p>The Council closely monitors progress on capital schemes. Additionally, the Towns Fund has its own Board responsible for delivery and a sub-board responsible for Monitoring and Evaluation of the schemes.</p>
TREASURY MANAGEMENT RISKS	High High	
<p>The main risks to the Medium Term Financial Strategy as a result of Treasury Management activity are:</p> <ul style="list-style-type: none"> • Unexpected movement in cash flow - income not received or delayed and/or unplanned payments made. • Unexpected movement in interest rates – generated by changes made by the Bank of England. • Difference between actual interest rates and rates used in the forecast – actual investment returns or borrowing costs may differ from the forecasts used to set budgets. • Security of monies invested with counterparties – in the event of a collapse of a financial institution with whom the Council has invested funds e.g. Icelandic banks. 		<p>The Council has expert external treasury advisors.</p>