

Appendix H 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	
Impact of Covid-19	High	High	
The risks associated with the Global pandemic Covid-19 are being monitored through a number of sources. The Council's corporate risk register sets out this risk. There are significant financial risks which are highly likely to be an impact in future years:- such as the impact on the council tax collection rates, impact on NNDR collection rates, increase in the cost of council tax support, reduced car parking income and other income sources. This will have an impact on both the local and global economy. The Council has been receiving funding during 2020/21 and it has already been notified of funding available for 2021/22. Members will be kept updated on the Covid-19 financial impact both for the Council and the impact on the economy.			The Council is receiving Government funding in 2020/21 towards the cost of responding to the global pandemic. The financial impact is being closely monitored by the finance team in liaison with other managers and directors.
Business Rates & Future Government Funding	Medium	High	
The Government has published a one year settlement for 2021/22 and have not introduced a new scheme or reset the baseline like previously expected. Therefore, it is still unknown what scheme will be in place for 2022/23 onwards and what levels of future funding we will receive. Until further information is known we are highlighting this as one of the most significant financial risks 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
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.
New Homes Bonus (NHB)	Medium	Medium	
The Government previously indicated that any NHB legacy payments prior to 2020/21 will be honoured but the scheme for 2020/21 would be a one year allocation. However, in the recent Local Government Finance Settlement announcement the Government have made a one year allocation for 2021/22. Any NHB due to the Council now transfers to the City Deal therefore any change to the current system will impact on the City Deal. The Government are currently consulting on the future of New Homes Bonus.			Changes to NHB is closely monitored.

Pension Triennial Review	Medium Medium	
<p>The next Triennial review will be for the period 2023/24 to 2025/26. There is a risk that Covid-19 could have an impact on investments held by the Fund and thereby increase future pension costs therefore this is a highlighted risk.</p>		<p>The Pension Fund consults with all local authorities in the Pension Fund. They have been high performing and have diversified investments.</p>
Council Tax Support Scheme	High High	
<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. Whilst the Government did at the time transfer grant this has reduced over the years due to being incorporated with the Council's main Government grant allocation, therefore increases in council tax support impact on the Council and the other major precepting Authorities.</p> <p>The main risks with the scheme are:-</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 impact of Covid-19 is seeing a significant increase in council tax support numbers. There is a significant risk that the numbers of Council Tax Support will continue increasing.</p>		<p>The Council closely monitors Council Tax collection rates. The Government have allocated additional funding in 2020/21 and 2021/22 for Council Tax Hardship.</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>

<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.</p>		
Pay Inflation	Low	Medium
<p>The forecast includes an estimate for a net 2% pay award from 2021/22 onwards. This assumes higher levels of increases to those on lower grades and a smaller % for the remaining grades. The Government have indicated a pay freeze for 2021/22 however this has not been formally agreed. For reference the cost of an additional 1% increase is c£200k per annum. This will be kept under review and the assumption in the forecast may need to be changed.</p>		<p>The forecast includes an estimate for % increases</p>
Income Streams	High	High
<p>Income streams are under considerable pressure as a result of Covid-19. Notable examples include income from car parking charges, licensing fees, cultural and leisure fees. These are being monitored closely. Planning Fee income is still on target in 2020/21 however there is a risk this may reduce in future years. We are receiving compensation grant towards a % recovery of lost income in 2020/21 and the first quarter of 2021/22.</p>		<p>All income streams continue to be closely monitored within the budget monitoring to Budget holders, CMT and Cabinet Members.</p>
Council Tax Administration Grant	Medium	Medium
<p>The Council currently receives a combined Housing and Council Tax Administration grant of approximately £0.7m per annum paid by the Department of Work & Pensions (DWP) and Ministry of Housing, Communities and Local Government (MHCLG). It is expected that this grant will reduce as it is under review as part of the Government's Welfare Reforms.</p>		
Vehicle Fleet	Medium	High
<p>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.</p>		<p>The Council has a 10 year vehicle replacement plan in place which monitors costs of vehicle replacements and if funds are sufficient.</p>
Guild Hall	High	High
<p>In June 2019 the Council forfeited the lease on the Guild Hall. This is subject to an outstanding legal challenge</p>		<p>The Council has expert external legal representation.</p>

KEY AREAS OF FINANCIAL RISK (CAPITAL)		
The following risks are relevant in respect of the Capital Programme:		
Capital Receipts	Medium	Medium
Capital receipts are a best estimate. The actual sales are dependent on future market conditions and cannot be predicted with certainty.		Updates on potential sale of assets is supplied by Property Services.
Disabled Facilities Grant (DFG)	Low	Medium
The Disabled Facilities Grant (DFG) is incorporated 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 transfers the funding allocations to the Districts in line with grant received. Any future reduction in DFG received by the Council would have a direct impact on the level of Capital Programme work that can be undertaken or would require additional resources from the Council.		Updates are provided as part of the quarterly capital performance monitoring. In recent years the Council has received additional allocations not reduced amounts.
Covid-19 Impact on Schemes	High	Medium
A number of schemes are being delayed due to the Global pandemic. These include disabled facilities grants and a number of the City Centre schemes.		The Council closely monitors progress on capital schemes
TREASURY MANAGEMENT RISKS	Medium	High
The main risks to the Medium Term Financial Strategy as a result of Treasury Management activity are: <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. 		The Council has external treasury advisors.