

DECISION ITEM



REPORT OF		DATE	ITEM NO
CHIEF FINANCIAL OFFICER	FINANCE AND DEMOCRACY COMMITTEE	21 st NOVEMBER 2022	4
MEDIUM TERM FINANCIAL STRATEGY - FINANCIAL FORECAST UPDATE (INCLUDING REVENUE, CAPITAL & TREASURY MANAGEMENT) 2022/23 TO 2026/27			

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

SUMMARY

The report provides Members with an update of the Council's Medium Term Financial Strategy and financial forecast for the five years 2022/23 to 2026/27. It includes changes arising since the Budget was set by Council in March 2022.

RECOMMENDATIONS

The Committee is recommended: to note the implications of this updated financial forecast, and to also note that this report will be presented to the Council meeting on 5th December 2022.

SUMMARY OF PREVIOUS DECISIONS

The Council set its budget for 2022/23 at its meeting of 3rd March 2022. This report provides Members with an update of the financial position of the Council, including changes since that date.

CORPORATE PRIORITIES	
Economy – To create a vibrant and healthy economy	√
Environment – To deliver services customers expect	√
Efficiency – By spending money in the most efficient way	√
Tourism – To create a great place to live and visit	√

REPORT

1. PURPOSE OF THE FINANCIAL FORECAST UPDATE

- 1.1 This report is the mid-year and preliminary forecast of the Council's financial position and takes account of latest reserve balances, revenue and capital spending forecasts and treasury management issues. It also identifies and updates the financial risks and challenges facing the

Council. The assumptions set out in this forecast are the latest best estimates and will be updated as and when further information becomes available.

1.2 This latest financial forecast update is designed to:

- Present an updated five-year financial forecast for revenue and capital spending based upon the best information available at the time;
- Review and update the currently identified risks and opportunities;
- Alert Members to any new specific risks and opportunities;
- Inform Members of any changes required to budgets due to external factors outside the Council's control; and,
- Provide a basis on which Members can begin to make future spending decisions.

2. BACKGROUND TO THE FORECAST

2.1 In order to 'scene set', the current financial position of the Council is summarised for Members as follows:

(i) Original Budget 2022/23

At the Council meeting on the 3rd March 2022 the budget for 2022/23 and the medium term financial forecast were agreed. The resolution included a 1.99% increase in the average Council Tax amounts and a total net budget requirement of £11.429m for 2022/23. The General Fund balance at that time was forecast at the end of 2025/26 to be £1.651m. In agreeing the Original Budget for 2022/23 a number of key high level financial risks and assumptions were highlighted in the MTFS budget report.

(ii) General Fund Revenue Outturn Position 2021/22

The revenue outturn position for 2021/22 was reported to Members in July 2022. The impact of the outturn position, including slippage items in the total sum of £0.485m, has been reflected in this updated forecast.

The favourable outturn position for revenue allowed for a total contribution of £1.715m to be made into the Capital Investment Reserve.

(iii) Covid-19 Impact

In the weeks following the setting of the budget for 2020/21 the impact of the Covid-19 outbreak became increasingly apparent and resulted in a series of both national and local lockdowns which were unprecedented and had a substantial impact on both the national and the local economy. Consequently, 2020/21, and to a lesser extent 2021/22 were dominated by the impacts of the pandemic. In response the Council played a significant role in delivering a range of support measures to the community which since the start of the pandemic have included: the provision of a substantial package of support grants to businesses; support for clinically extremely vulnerable residents; support for Council Tax-payers (including the processing of payments to those required to self-isolate); the inspection of premises to ensure compliance with covid restriction measure; support to the Community Hub (including the provision and delivery of food parcels to residents forced to self-isolate or 'shield'); supporting the programme of track and trace; and support in the delivery of the vaccination programme. The majority of this work has been delivered by existing Council employees who have necessarily been diverted from the "day job" to prioritise the response to the pandemic, and as a

result there has been consequential impacts on some of the planned work which would otherwise have been carried out.

In acknowledgement of the significant impacts the pandemic has had on the local government sector, central government introduced a range of national funding measures that assist in off-setting some of those negative financial effects to support councils in continuing to deliver services and support the national response. Fylde Council was allocated general covid support grant funding for 2020/21 totalling £1.151m and £0.392m for 2021/22, and a range of further grant allocations for specific purposes. In addition, a scheme to compensate councils for reduced sales, fees and charges income was introduced for the whole of 2020/21 and was subsequently extended into 2021/22.

The financial impact of the pandemic, in terms of reduced levels of income and the cost of providing services, together with the financial support provided by the government continues to be carefully monitored and reflected in the updated financial forecast included within Appendix E of this report.

(iv) Budget Right-sizing Exercise

During the autumn each year officers undertake a budget right-sizing exercise to identify any in-year budget variances and any future budget adjustments that might be appropriate. The exercise includes an analysis of underspends which have occurred over the last 3 financial years in order to identify structural variances and trends in income and expenditure levels. This has become part of the annual budget process. As a result, a number of budget adjustments are included within Appendix Ci of this report under the heading 'Budget Rightsizing'. The efficiencies and savings captured by the right-sizing exercise are a combination of one-year-only and recurring savings. It is anticipated that in future years the level of efficiencies and savings that are achievable through the right-sizing exercise will be more limited.

(v) Capital Outturn Position 2021/22

The latest approved expenditure budget in the capital programme for 2021/22 was £8.729m. After adjusting for slippage of £3.544m, the overall outturn position for 2021/22 was an in-year favourable variance of £0.021m against the latest updated estimate. The capital programme has been updated to reflect scheme re-phasing approved as part of the outturn report.

(vi) General Fund Revenue Quarterly Budget Monitoring 2022/23

Revenue budget monitoring reports for the period to 30th September 2022 have been presented to each of the Programme Committees during the November cycle of meetings and are included later on the agenda for this meeting as information items. These reports identified a number of budget areas for further consideration. As a result, a number of changes have already been included in this latest forecast update report. These include revised fee income estimates and the latest estimate of employee costs.

3. THE GENERAL FUND REVENUE FORECAST

- 3.1 Appendix A of this report sets out the original revenue budget forecast as agreed at the Budget Council meeting on 3rd March 2022.
- 3.2 Appendix B shows the general assumptions underpinning the base forecast, whilst Appendix Ci shows the financial impact of changes to general assumptions and the impact of other significant changes that have been identified since the budget was approved, including the impact of outturn 2021/22 and the budget right-sizing exercise. Appendix D sets out the

narrative which explain the significant changes made to the forecast.

The impact of these changes is summarised in Appendix E which summarises the latest updated financial forecast for the council. The forecast needs to be considered carefully in the light of the identified risks which cannot be fully quantified at this time but may have an impact on the forecast at some future point.

The following items have been considered as part of this update:

3.3 Business Rates: Membership of the Lancashire Business Rates Pool 2023/24 and Future Year Income Estimates

Fylde Council has been part of the Lancashire Business Rate Pool since 2017/18. This is an arrangement whereby participant authorities are able to retain locally a larger share of business rate growth above a pre-determined 'baseline' rather than pay 50% of the growth to central government as a 'levy'.

In 2018 the government announced plans to introduce '75% Business Rate Retention' for all authorities with effect from 2020/21 (as opposed to the existing '50% Business Rate retention' arrangements). As part of the development of these revised arrangements the government invited bids from existing Business Rate Pools to act as 'pilots' for the proposed scheme. An analysis of the impact of the 'pilot' scheme arrangements for the Lancashire Business Rates Pool indicated that a significant net beneficial impact would result across Lancashire authorities. Consequently, the Lancashire pool applied for inclusion in the pilot scheme and was subsequently accepted as a participant for 2019/20.

The implementation of the '75% Business Rate Retention' scheme is closely linked to the Fair Funding Review which has been delayed since first proposed in 2019/20. Section 4 below provides further details.

As a result of the delay to the review, there has been a reversion to the arrangements that were in place prior to the 'pilot' scheme i.e. that the Lancashire Business Rate Pool continued to operate but without the benefit of the '75% pilot' arrangements.

Although there remains a degree of uncertainty at this stage, it is currently anticipated that the business rate regime that operates for 2023/24 will be a continuation of the arrangements for the current year. Consequently, each of the existing Lancashire pool members have indicated their support for a continuation of the pool for 2023/24.

However, as the nature of the Business Rate regime for 2023/24 is uncertain, it may be that following the announcement of the provisional Local Government Finance Settlement, due to be announced in late 2022, a pool member may find themselves disadvantaged by the proposed 2023/24 Business Rate arrangements. It is open to each pool member to decide to withdraw from the pool within 28 days of the provisional Settlement. If any Lancashire pool member were to decide to withdraw from the pool for 2023/24 the pool would effectively be dissolved, and pooling would not be possible for Lancashire for 2023/24.

Based upon the assumption that the business rate regime that operates for 2023/24 will be a continuation of the arrangements for the current year, the latest in-year monitoring and future years modelling suggests that continued participation in a Lancashire Business Rate Pool for 2023/24 would be financially beneficial to Fylde Council, and as such we have indicated our intention to remain in the pool alongside all other pool members. The Financial Forecast has therefore been updated to reflect the estimated pooling benefit for 2023/24, albeit that this is subject to change depending on the outcome of the Local Government Finance settlement.

3.4 Pay and Price Increase Pressures

There are a number of cost pressures which impact on the cost base of the council, including:

Pay award: The employee pay award for the current year has recently been agreed at a £1,925 flat rate increase on each spinal column point on the pay scale, which equates to approximately 6.5% on the pay bill, including oncosts. This is significantly in excess of the budget provision for 2.75% for the current year. The forecast has been updated to reflect the agreed settlement. Budget provision for 2.75% pay award is included for each future year throughout the forecast.

Health and Social Care NI contribution: Following the government's announcement in September regarding the cancellation of the additional health and social care NI contributions of 1.25% from November 2022, the forecast has been updated to reflect the anticipated saving from this reduction in employer contributions.

Price Inflation: Provision for inflation has been included within the forecast where it is considered to be a contractual obligation and where known inflationary pressures exist, for example utility costs. Wherever possible inflationary pressures are sought to be contained within existing budget provision. Further details on inflation are included in section 5.

3.5 Estimated Transfers to Earmarked Reserves

The MTFS report presented at the Budget Council meeting of 3rd March 2022 estimated transfers into the Capital Investment Reserve in 2021/22 and 2022/23 equivalent to the balance of the revenue surplus for those years (after allowing for all approved transfers to other reserves), estimated at that time to be £1.486m for 2021/22 and £0.428m for 2022/23.

Following a favourable outturn position for 2021/22 and a review of the budget position for 2022/23 as part of the preparation of this financial forecast update, including the identification of additional income and expenditure for the year and the outcome of the budget right-sizing exercise, the revised forecast revenue surplus for 2022/23, currently stands at £0.568m as detailed at Appendix E. The budgeted transfer into the Capital Investment Reserve has been amended to reflect this latest position.

4. **CENTRAL GOVERNMENT FUNDING, THE NATIONAL ECONOMIC POSITION AND THE LOCAL GOVERNMENT SPENDING REVIEW**

4.1 **Autumn Budget and Spending Review**

On 27th October 2021 the then Chancellor, Rishi Sunak, delivered the Autumn Budget and Spending Review which outlined the Government's spending plans for the three years period 2022/23 to 2024/25 by setting budgets for each central government department. [The full set of documents is available on the Treasury website here.](#)

Included in the announcement was the headline that the government was providing councils with £1.6 billion of new grant funding in each of the 3 years from 2022/23 to 2024/25 for social care and other services. This funding ensures that "Core Spending Power" for local authorities is estimated to increase by an average of 3% in real terms each year over the 3 year Spending Review period. It should be noted that the "Core Spending Power" measure assumes that councils maximise council tax increases to take the full benefit of the increased spending power.

Whilst the headlines from the Spending Review were encouraging for the overall level of funding for the local government sector as a whole, it is possible that the detailed Local

Government Finance Settlements for each of the 3 years, which are usually announced in December each year, include a re-assessment of relative need and the re-distribution of funding between upper-tier and lower-tier authorities within the local government family, or that key funding streams mechanisms are reformed in a way that adversely affects individual authorities.

Since the 3 year Spending Review was announced in Autumn last year there has been significant turbulence and uncertainty in the national financial and economic outlook, and significant turbulence in the national political landscape.

The mini budget and its impact

As Chancellor, Kwasi Kwarteng, presented a mini budget on 23 September 2022. He announced significant tax cuts that would reduce Treasury revenues by around £45 billion in 2026/27. He also launched the Growth Plan 2022. The mini budget didn't set out a wider plan for the public finances, nor were economic forecasts from the OBR requested for it. A medium-term fiscal plan was promised in "due course".

Financial markets reacted negatively to the mini budget and have been turbulent since. The rate at which investors will lend to the Government is higher than it was before the mini budget. Kwasi Kwarteng was replaced as Chancellor by Jeremy Hunt on 14th October. By the 17th October, most of the mini budget's tax cuts had been reversed by the new Chancellor to "provide confidence in the government's commitment to fiscal discipline".

The medium-term fiscal plan

Subsequently, a date of 17th November was announced for an updated "Medium-term Fiscal Plan". It is likely that the medium-term fiscal plan may change some of the existing targets for the public finances, which were formally set in January 2022 following last year's autumn statement. The economic situation has worsened since the OBR last produced a forecast – largely due to Russia's invasion of Ukraine and soaring inflation. Some of the tax cuts from the mini budget also remain.

The Chancellor has said recently that the medium-term fiscal plan will require decisions of "eye-watering difficulty", both on spending and taxes. Government departments are drawing up ways to cut spending. The Chancellor says that he is "not taking anything off the table, whether that means tax increases or spending reductions".

Economic Situation

To try and bring inflation down to its 2% target, the Bank of England has raised interest rates from 0.1% in December 2021 to the current level of 3%. Further increases are likely. In reaction to the mini budget, financial markets lifted their expectations for the peak in interest rates to rise above 6% at one stage, before easing recently to around 5%. Economists generally expect official rates to reach at least 4%.

The squeeze on household incomes from high inflation and rising interest rates has led to steep falls in consumer confidence. Prospects for consumer spending, a key driver of economic growth, are therefore weak.

The medium-term fiscal plan seems likely to lead to lower public spending and/or tax rises in order to reduce the national budget deficit. Unusually, this tightening of fiscal policy will occur at the same time as rising interest rates. The combined effect will act as a drag on economic growth over the short term.

Local Government Finance Settlement

In previous years detailed funding allocations for local government have only been published the week before Christmas and there has been no indication that the timescale will be different this year.

Integral to the settlement are the following key income streams which provide a significant element of Fylde Council's core funding:

4.2 Retained Business Rates

The government had previously announced a reform to the Business Rates system due to be implemented for all authorities in 2020/21 as part of a Fair Funding Review into overall funding arrangements for Local Government. This was delayed from 2019/20 due to Brexit, and again from 2020/21 due to the Covid-19 pandemic. It is currently uncertain when this review and the reform to the Business Rates system will take place. A fundamental element of the proposed reforms is a "reset" of the business rate "baseline" for each local authority against which any growth and business rate retention can be measured. Fylde council has benefitted significantly from retained growth against the existing baseline, and there is a risk that the amount of Business Rate income retained by Fylde Council in future years will be at a lower level.

As detailed in paragraph 3.3 above, the financial forecast has been updated for 2023/24 to reflect an expected benefit from the continuation of pooling into 2023/24, followed by an estimated reduced level of business rate income from 2024/25 onwards at a level that is closer to the existing baseline level in anticipation of a potential reduction. This will be reviewed as part of the next Financial Forecast update and future estimates of business rate income will be updated when more information is known.

4.3 New Homes Bonus (NHB)

During 2021/22 the [government consulted on the future of the national New Homes Bonus scheme](#) with the consultation indicating the possibility of changes to the existing arrangements. The outcome of the consultation is yet to be published. It is conceivable that NHB funding for 2023/24 will be restricted to the legacy payments in respect of previous years; or that there will be no NHB funding whatsoever to local authorities in 2023/24; or that there will be a further single-year allocation for 2023/24.

The Financial Forecast summary at Appendix E assumes a reduced level of New Homes Bonus for 2023/24 onwards based upon the confirmed allocation for the current year and a 5% reduction per annum in future years.

Once the outcome of the consultation and an updated scheme design is announced the estimated grant receipts from the scheme will be updated in the financial forecast.

No allocation of New Homes Bonus grant to town and parish councils for 2023/24 has been assumed in this update. Following consideration of this issue by the Finance and Democracy Committee at the November meeting of the committee, any changes necessary to the forecast will be reflected in future updates.

- 4.4 Once full details of council-by-council funding allocations are announced as part of the Local Government Finance Settlement an updated financial forecast will be prepared and presented to Members.

5. KEY AREAS OF FINANCIAL RISK TO THE GENERAL FUND REVENUE BUDGET FORECAST.

- 5.1 In considering this forecast Members should note that there are a number of significant risks. In assessing each risk, the following broad principles have been considered:

High Level Financial Impact Risk

- Potentially a significant sum, with the potential for impact over a number of years
- Relatively little mitigation available to spread or defer the impact
- The possibility of a significant financial impact on the council if the risk materialises
- Probable need for change to the forecast if it materialises

Medium Level Financial Impact Risk

- Potentially a large sum, with the potential for impact over a number of years
- Some mitigation may be possible to spread or defer the impact
- The possibility of a sizeable financial impact on the council if the risk materialises
- Possible need for change to the forecast if it materialises

Low Level Financial Impact Risk

- Potentially a less significant sum
- Some mitigation may be possible to spread or defer the impact
- Impact should be capable of being absorbed without major forecast changes

5.2 High Level Financial Impact Risks – Revenue Budget

(i) Future Central Government Funding

As detailed in Section 4 of this report there is a clear risk that the actual levels of central government funding beyond the current year may differ from the amounts for those years that are reflected within the updated financial forecast contained in this report.

Given that both retained Business Rates and New Homes Bonus are major sources of funding for the Council and that both are subject to ongoing review represents a significant risk to the

overall level of future central government funding.

Currently we await the funding settlement for 2023/24, which is expected to be announced in December 2022. It remains unclear whether the settlement will again be for a single year (i.e. for 2023/24 only) or whether it will be for multiple years

Any amendments to the levels of central government funding levels within the Financial Forecast will be made as and when any revised allocations are provided and will be reflected in future updates to the Financial Forecast.

(ii) Announcement of a 'Fair Funding Review'

Intrinsically linked to the risks as described above relating to future Central Government funding levels, the long awaited Fair Funding Review has been further delayed with implementation of a revised funding mechanism being postponed until at least 2023/24 (delayed initially from the intended review during 2019/20 and again from the planned review in 2020/21 due to the Covid-19 outbreak).

The Government has previously issued a consultation document which focussed specifically on potential approaches that have been identified to measure the relative needs of local authorities. In particular, it:

- presents the idea of using a simple foundation formula to measure the relative needs of local authorities, based on a small number of common cost-drivers;
- considers a number of service areas where in addition, a more sophisticated approach to measuring relative needs may potentially be required; and
- outlines the statistical techniques that could be used to construct relative needs.

The consultation did not cover the relative resources adjustment, transition or other technical matters but noted that these will be the subject of a later series of discussion papers.

Although no details are known at this stage it is possible that, given the financial pressures on upper-tier and unitary councils with responsibility for services with escalating costs such as adult social care, that the review could result in shire district councils being regarded as requiring a reduced share of national resources. Any implications arising from this review will be reported within future updates to the financial Forecast when they are known.

(iii) Retained Business Rates – Business Rates Pooling

The decision to continue membership of the Lancashire Business Rates Pool for 2023/24, should that prove to be a viable option for that year following the announcement of the provisional Finance Settlement for 2023/24, would provide for additional retained Business Rate income for 2023/24 as compared to the financial forecast approved by Budget Council in March this year.

Currently the Financial Forecast has been updated to reflect the potential beneficial impact of pooling in 2023/24, followed by estimated reductions of 5% per annum thereafter in line with the possibility of government spending reductions being announced as part of the Chancellor's Medium-Term Fiscal Plan statement. There remains a risk that the business rate regime is changed as part of the financial settlement and the pooling benefit is diminished.

Any amendments to the levels of forecast Business Rate income to be retained will be reflected in future updates to the Financial Forecast.

5.3 Medium Level Financial Impact Risks – Revenue Budget

i) Price Inflation

UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations, exacerbated by the ongoing conflict in Ukraine. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for September 2022 registered 10.1% year on year, up from 9.9% in August 2022.

Provision made within the budget is limited to areas where the council has no choice but to pay increased prices, e.g. due to contractual terms. Price increases represent a significant cost pressure to the council and increase the risk that existing budget provision is insufficient to cover the cost of service delivery. The position will be kept under continuous review by Management Team.

(ii) Employee Costs - Pay Award

Whilst the updated forecast includes the impact of the agreed pay award for the current year as detailed in section 3.5 above, future years budget provision is included at 2.75% per annum thereafter. It is possible that pay awards may be agreed in excess of 2.75%, which will incur additional costs beyond those currently budgeted for. Each additional 1% increase in pay equates to an estimated £100k additional cost on the pay bill of the council per annum.

(iii) Borrowing Cost Assumptions

In light of the current level of reserves and balances held by the Council, the forecast currently assumes that no external borrowing will be required during the life of the Financial Forecast, that internal cash balances will be utilised to fund capital expenditure, and that the council remains debt-free. This means that the base forecast contains no provision for any external borrowing costs.

There is a risk therefore that if circumstances change over the forecast period and it is necessary to take out external borrowing to fund existing capital commitments, there is no budget cover for such an eventuality. It is not currently envisaged that such circumstances will occur during the life of the forecast, and the position will be monitored carefully on an ongoing basis.

(iv) Reduction in Housing Benefit Administration Grant

The Council receives an annual grant to support the cost of the administration of Housing Benefit and Council Tax. The grant that the Council receives for these purposes has reduced in recent years, particularly in respect of the Housing Benefit element, as the government moves away from a system of Housing Benefit payments and towards a Universal Credit Scheme. This financial forecast reflects the latest estimates of reduced grant levels for 2022/23 and for subsequent years.

As updated grant notifications are received in respect of future years it may be necessary to update the forecast accordingly.

(v) Universal Credit

The Government has commenced the consolidation of a number of welfare benefit allowances into a revised Universal Credit Scheme. One of these is Housing Benefit which is currently administered by the Council through the shared service with Blackpool Council. The intention is that the new Universal Credit Scheme will be provided on-line and will be administered by Department of Work and Pensions. The roll-out of the new arrangements are gradual and began in Fylde in respect of a small number of the less-complex cases in November 2014. The timing and financial implications of future developments of the scheme remain uncertain.

(vi) Grounds Maintenance – External Contracts

Throughout the future life of the forecast a number of grounds maintenance contracts with external parties will come to an end or will be due for renewal/re-tender. At the same time other opportunities will arise for additional contract work and these will be actively pursued as appropriate. Income from contracts supports the work of the Parks and Leisure Service teams by way of a contribution to management costs and corporate overheads. Officers will endeavour to seek extensions to contracts as they become due for renewal/expiry and will continue to seek suitable alternative new work. Should this not be possible there may be an adverse impact on the forecast.

5.4 **Low Level Financial Impact Risks – Revenue Budget**

(i) The Living Wage

In March 2015 the Council agreed a policy to adopt the Living Wage Foundation pay rates for all employees, excluding apprentices, with effect from 2015/16, such that the Council became a 'Living Wage Employer' from that point forward. Additionally, in the autumn of 2015, the government announced the introduction of a statutory National Living Wage to apply from April 2016 for all employees over the age of 25.

The revenue estimates include annual amounts for the estimated impact of the annual increases in the hourly rates for the Foundation Living Wage and the National Living Wage. In the event that actual future year increases are higher than the estimated levels such that the increases cannot be contained within the approved budgets future adjustments to the Financial Forecast may be necessary.

6. GENERAL FUND RESERVE AND OTHER EARMARKED RESERVES & PROVISIONS

6.1 The Council carries a General Fund Reserve (often referred to as General Reserves) and a number of other earmarked reserves and provisions. These are held for various purposes:

- As a working balance to help cushion the impact of uneven cash flows and avoid the need for temporary borrowing;
- As monies specifically set aside for future events or liabilities (known as earmarked reserves and provisions); and
- As a contingency to cushion the impact of unexpected events or emergencies.

6.2 The Council's General Fund Reserve Balance as at 1st April 2022 was £4.571m after taking account of revenue slippage items totalling £0.485m.

6.3 The Council has a Useable Reserves and Balances Policy in place, which is reviewed and approved annually as part of the budget setting process. If any reserves can be released, proposals will be presented in a future financial forecast update.

7. CONCLUSIONS – GENERAL FUND REVENUE FORECAST

- 7.1 The overall position on the Council's financial forecast, as summarised in Appendix E of this report, shows a forecast surplus of resources for 2022/23 and 2023/24, followed by budgeted deficits in the following years as central funding arrangements remain unclear. The improved financial forecast position for 2023/24 is due largely to the estimated increase in business rate income based upon the assumptions around continuation of the Lancashire Business Rate pooling arrangements as set out in paragraph 3.3 of this report, together with the net favourable impact of the forecast changes itemised in Appendix Ci.
- 7.2 Further commentary on the overall financial position of the council is provided within the conclusions of this report at section 16.

8. COLLECTION FUND

- 8.1 As a Council Tax and Non-Domestic Rates (NDR) Billing Authority, Fylde Council is required by legislation to collect council tax and business rates within the borough on behalf of central government, Town and Parish Councils and major preceptors (being Lancashire County Council, and the Fire and Police Authorities), and to account for that income through a 'Collection Fund'. Under the Collection Fund accounting arrangements any surplus or deficit on the fund each year, which occur as a result of actual income being higher or lower than that budgeted for, is split between the Government and the other precepting bodies in proportion to their shares.
- 8.2 In July 2020 the Government announced that local authorities would be allowed to spread the estimated deficit on the 2020/21 Collection Fund over three years – from 2021/22 to 2023/24. The normal process of sharing surpluses and deficits is that they are spread over two years. As a result of Covid-19 and the extra reliefs business rate awarded to businesses during 2021/22, there is a larger than normal deficit on the 2021/22 Collection Fund.
- 8.3 **For Council Tax only**, there was a surplus on the fund as at 31st March 2022 of £125k. This will be shared between Fylde Council, the County Council, the Police Authority and the Fire & Rescue Authority in 2022/23 to 2023/24. Fylde Council's share of the surplus is £16k, the impact of which has been reflected in the Council Tax income forecast within Appendix E.
- For Non-Domestic Rates only**, there was a deficit on the fund as at 31st March 2022 of £11.309m. A large proportion of this arises from the decision from Government due to the impact of Covid-19 to continue to increase business rate reliefs during 2021/22 to support businesses during the pandemic. This has the impact of reducing business rates collectable by the council, thus creating a shortfall in income. The deficit will be shared between Central Government, Fylde Council, the County Council, and the Fire & Rescue Authority in 2022/23 to 2023/24. Fylde Council's share of the deficit is £4.524m, the negative impact of which will be funded in 2022/23 from the specific government grant allocated for this purpose (i.e. to offset collection fund deficits caused by the additional reliefs awarded to businesses) which has been set aside into the Collection Fund Deficit Reserve in 2020/21 and 2021/22. The remaining balance on the Collection Fund Deficit Reserve is likely to be required to offset collection fund deficits in 2022/23 and later years as business rate reliefs are extended and compensatory government grants are awarded. It will again be necessary to set aside this specific grant during 2022/23 in order to offset the Fylde Council share of the deficit, which will impact the Council in 2023/24. The net impact of these movements is reflected within the business rate income forecasts within Appendix E.

9. THE CAPITAL PROGRAMME

9.1 The Capital Programme is updated continually for approved changes and reported to Members during the financial year on a periodic basis. The latest position on monitoring of the current year's programme on a scheme by scheme basis is set out in an information item report which has been before each of the programme committees during the current cycle of meetings and is included on the agenda of this meeting.

9.2 The latest updated Capital Programme Summary for the years 2022/23 to 2026/27 is set out in Table 1 below. The Programme has been updated for changes to the end of September 2022. A prudent approach is taken in preparing the programme to ensure that financing resources are only recognised when there is reasonable certainty that they will be received:

TABLE 1 - SUMMARY CAPITAL PROGRAMME

	Estimate 2022/23 £000	Estimate 2023/24 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000
Committee:					
Finance & Democracy Committee	71	0	0	0	0
Tourism & Leisure Committee	1,819	40	40	40	40
Operational Management Committee	3,957	8,588	2,691	1,281	389
Environment, Health & Housing Committee	2,018	1,317	1,317	1,317	1,317
Planning Committee	10,605	1,630	0	0	0
Total Capital Payments	18,470	11,575	4,048	2,638	1,746
Financing:					
Availability of Resources	18,470	11,575	4,048	2,638	1,746
Total surplus (-) / shortfall in year	0	0	0	0	0
Cumulative surplus (-) / shortfall	0	0	0	0	0

9.3 Capital schemes are directly linked with the Council's priorities as set out in the Corporate Plan. Major items of enhancement or renewal are identified via the Council's Asset Management Plan and work is underway to review and update this. The planned spend over the life of the programme is continuously reviewed. If any scheme profiling amendments are required these will be reflected in future periodic update reports.

9.4 Financing the Capital Programme

The Council finances the Capital Programme from a variety of sources. These include:

- (i) Specific Capital Grant Allocations;
- (ii) Disabled Facilities Grant;
- (iii) Capital Receipts;
- (iv) External Funding (such as Heritage Lottery Funding and the Environment Agency);
- (v) Prudential Borrowing/Leasing;
- (vi) Revenue Funding; and
- (vii) Capital Investment and Funding Volatility Reserves

9.5 Members are asked to note the current balanced position on the Capital Programme.

10. VEHICLE PURCHASES

- 10.1 The Council has adopted a Service Modernisation Strategy for Operational Services which includes a rolling programme of vehicle replacement that assumes the replacement of vehicles on a like-for-like basis at the end of their useful economic life. The approved capital programme includes significant capital expenditure for scheduled operational vehicle replacements during the life of the forecast. This expenditure has been reviewed and re-phased to reflect the currently expected profile of vehicle replacements.

11. KEY AREAS OF FINANCIAL RISK TO THE CAPITAL PROGRAMME

There are a number of risks within the Capital Programme for Members to be aware of: these include the risk that the council does not deliver any specific scheme within the specified deadlines where external funding is provided, and as a result the scheme is not delivered as expected, and the risk that the costs of any specific scheme exceed the available funding and the council is required to pick up additional un-budgeted costs as a result.

11.1 High Level Financial Impact Risks – Capital Programme

i) Town Centre Regeneration Kirkham

Following the Government's Future High Street funding initiative (FHSF), the Planning Committee resolved, in the autumn of 2019, to choose Kirkham Town Centre as its choice to pursue any bids for funding under the scheme. The first opportunity, being part of the broader FHSF, named the High Street Heritage Action Zone initiative (HS HAZ) was launched. This was a competitive process and seeks to enhance the historic environment of high streets that have conservation area status. Following the expansion of the funding for the scheme, due to unprecedented bids from a national perspective, the Kirkham bid proved to be successful, following a recommendation to Government from Historic England (HE). HE is the body responsible for administering the scheme. The grant award is £1.8m and will be match funded from a number of sources including Fylde Council, Kirkham Town Council and Section 106 payments for public realm improvements attributed to residential planning permissions. The scheme will run over 4 years, commencing in April 2020, and includes a wide range of projects. Delays have resulted from the pandemic and officers have been working with Historic England to agree a reprofiling of the spend to minimise any loss of grant. Historic England have confirmed that £224k has been removed from the scheme funding and the programme has been adjusted for this reduction in grant and the related expenditure.

In line with many other authorities, due to COVID 19, the implementation of the scheme has been delayed and a revised project plan, which sets out the projects to be delivered and the associated funding, has been agreed with Historic England.

A further bid for £9.1m was also submitted under the main body of the Future High Street Fund during 2020 and proposed to deliver a number of schemes across the whole of the town centre including the re-purposing of buildings, traffic management measures, building reuse and enhancement and public realm projects. This was once again a competitive process. The bid was well founded, and the economic case was very strong. In April 2021 an award of £6.29m for the Kirkham scheme was announced from the Ministry of Housing, Communities and Local Government (MHCLG) which was approved at Council on the 5th July 2021. A report was approved by Planning Committee and Council in December 2021 to authorise various property acquisitions as part of the project. During 2021/22 the Council has purchased 2 properties within Kirkham Town Centre for restoration alongside the Kirkham Heritage Action Zone scheme

The Kirkham Futures Regeneration Programme, which encompasses the funding streams identified above is a complex multi-stranded programme with strict delivery timeframes. As such the Programme has been added to the Council's Strategic Risk Register in order that the identified risks can be managed.

Due to the complexities of the scheme, its high value, the strict delivery timescales, and the potential for additional costs beyond those in the approved budget, the scheme is classified as a high level risk.

ii) St Annes Sea Wall

St Annes Seawall is 660m long and was constructed in 1935. It reduces the risk of coastal erosion and flooding to over 400 properties. The seawall surrounds The Island, which is one of three strategic headlands which are critical to maintaining healthy beaches, dunes and reducing the risk of coastal erosion along Fylde Council's frontage. St Annes Seawall is at the end of its design life and is in poor condition; it is cracking and crumbling and is subject to ongoing repairs and maintenance. Voids have previously been identified resulting in settlement of the promenade. The crest level is low and overtopping during storms results in damage to the promenade and flooding of the car park, swimming pool and fitness centre plant room, and flooding up to the thresholds of the cinema, casino, amusement, and restaurant complex.

In 2020 the council were awarded £300k Pipeline acceleration funding to develop the St Annes Seawall Outline Business Case. Following this a bid has now been submitted to the Environment Agency formally for their appraisal and consideration and if EA funding is approved the planning phase will commence consisting of technical surveys including topographical, geotechnical, detailed design, ecological and bird surveys and an environmental impact assessment. It will include securing all the necessary licenses, consents and approvals including: Marine License, Planning Permission and Environment Agency Flood Risk Activity Permit (FRAP) licence. The scheme will be in the sum of £11.8m funded by Environment Agency grant of £9.5m and the council's contribution of £2.3m towards the total project cost which was approved at Council on the 5th July 2021. EA have now approved the scheme and the final award is a total scheme cost of £12.1m funded by EA Grant of £9.7m and the council's contribution of £2.4m. This has now been reflected within the capital programme. Following the planning phase it is proposed to start the construction in 2 phases. Phase 1 is anticipated to commence in Autumn 2023 and complete in late Spring 2024. Phase 2 will commence in Autumn 2024 and complete late Spring 2025 to minimise business disruption.

Due to the complexities of the scheme with multiple businesses and other stakeholders affected in the locality during delivery, and its high value, the scheme is classified as a high level risk.

11.2 Medium Level Financial Impact Risks – Capital Programme

i) Price Inflation

As explained in section 5.3 of this report, UK CPI currently stands at 10.1% year on year to September. This is exerting significant upward pressure on prices for utilities and on supplies and services across all sectors of the economy, which in turn increases the base costs for both

revenue and capital budget items. The situation is particularly acute in the construction sector where supply chain issues and price increases are combining to put increased risks on the delivery of capital programme schemes. This is likely to be a continuing issue for the council during 2022/23 and this has resulted in current scheme delays and reviews on scheme costings. The position will be kept under continuous review by Management Team.

ii) Vehicle Replacement Programme

The estimated vehicle purchase profile to replace existing fleet at the end of its useful economic life from 2022/23 to 2026/27 within the Capital Programme totals £4.0m.

It is important to note that there is currently significant upward pressure on purchase prices for replacement vehicles and technological/legislative changes are likely to increase prices further. As a result it is necessary to reality check the costs associated with new vehicles on an annual basis and make any necessary adjustments to the capital programme to ensure that ongoing fleet replacement is accurately budgeted for in future years.

Due to the significant value of the vehicle replacement programme and the potential for changes in vehicle costs, specifications and emissions regulations this scheme has been highlighted as a potential future financial risk.

iii) Fairhaven Lake and Gardens Heritage Lottery Scheme

In December 2018, the council was notified that it had been successful in securing the second round capital grant from the Heritage Lottery Fund in the sum of £1.4m for the restoration of Fairhaven Lake & Gardens, with further match funding provided by Fylde Council and other external financial contributions. Works have progressed albeit at a reduced pace as a result of the pandemic and the Adventure Golf is now complete and open to the public and the remaining works are due to be completed during 2022.

Until the scheme is fully delivered there remains the possibility of additional contract costs beyond those in the approved budget this scheme is considered a medium level risk.

11.3 Low Level Financial Impact Risks – Capital Programme

i) St Annes Regeneration Schemes

The next section of works has been agreed along St. Annes Road West between The Pier and The Square (known as the Square-Pier Link). A scheme designed to the available budget was presented and approved by Planning Committee, but the Regeneration Manager was asked to look at extending the scheme, potentially widening pavements to provide an enhanced pedestrian ambience and increased paving space capacity to absorb high levels of footfall that is encountered at peak times. As matters stand, the potential for achieving these enhancements to the scheme is being discussed with Lancashire County Council as any further amendments would have to be agreed, since there would be changes to the highway configuration. It is now proposed to pursue the scheme as part of a wider programme of works in the town centre following the preparation of a masterplan which has been commissioned.

ii) Lytham Regeneration Schemes

Work has commenced on the redesign and re-planning of the public realm of Lytham Centre. The Corporate Plan currently programmes the commencement of the Clifton Street Works (£750k) during 2022/23. Additional funding has been applied for as part of the UK Shared Prosperity Fund (UKSPF) submission, the outcome of which is expected in October/November.

The UK SPF funding award will be phased and so delivery of the project will need to be reviewed accordingly. The Lytham Beach Lighting Scheme (£50k) is programmed for delivery during the current financial year.

iii) Project Slippage

It is important that the Council monitors capital scheme slippage to ensure that no loss of external grant is imposed due to conditions associated within specified timescales.

iv) Other Capital Receipts

The approved programme for 2022/23 assumes "Right to Buy" receipts of £25k per annum and "General Asset Sales" of £75k per annum based on actual receipts received to date. From 2023/24 onwards the forecast assumes "Right to Buy" receipts of £25k per annum and "General Asset Sales" of £45k per annum. Future receipts are dependent on prevailing market conditions and values cannot be predicted with certainty. This will be monitored and reviewed during the year and adjusted accordingly in future quarterly monitoring reports, along with the impact this may have on the financing of the programme.

v) Better Care Fund (Formerly Disabled Facilities Grants)

As the local housing authority, the Council has a statutory duty to provide disabled adaptations within the Borough. In order to fund these works the Council receives grant support which previously was provided by the Department for Communities and Local Government (DCLG). From 2015/16 the Government established the 'Better Care Fund', and under these new arrangements the funding for Disabled Facilities Grants transferred to the Department of Health, with funding being distributed to all Councils via the upper-tier authority for that area. As such, in Lancashire the fund is administered by Lancashire County Council. Each upper-tier authority then allocates the funding to their respective housing authorities (i.e. district councils within their area) to enable them to continue to meet this statutory responsibility.

The level of government funding has increased significantly under the 'Better Care Fund' arrangements and the budget for 2022/23 (including slippage) totals £1.503m which provides for the delivery of disabled adaptations. It is anticipated that for 2022/23 all identified need for disabled adaptations can be met from the existing resource.

vi) M55 Link Road (Inc. S106 monies for design work)

The accelerated delivery of the £27m M55 Heyhouses Link Road is subject to a funding package made up from a number of sources. This funding is now in place and work has started on site with the earthworks being the first phase. The road will then be constructed by Lancashire County Council's in-house team and is due for completion in early 2024. It is expected that LCC will require the funding to be transferred to them during the latter stages of the project and so is likely to be spent during 2022/23.

11.4 St Annes Masterplan – Levelling Up Fund Capital Bid Submission Round 2 - £14.6m

A Levelling Up Fund capital bid was submitted on the 27th July 2022 for £14.6m and the outcome is expected in Autumn 2022. Consultants were appointed to prepare a comprehensive masterplan to shape the future development of St Annes Town centre and the Island site on the Promenade and to help the council to access external funding. The views of the public and key stakeholders have been sought during a consultation exercise and these views had helped to shape the development of the masterplan. A bid was prepared and

submitted to the second round of the governments Levelling Up fund. The round had three investment themes being transport; regeneration and town centre investment, and cultural investment. There was an opportunity to secure funding to help deliver different phases of the masterplan, in particular the public realm improvement to the area around the train station, dedicated pedestrian and cycle links, an events space in the Square and improving the connection to the town centre and the sea front. If successful it is expected that the bid will deliver a transformation of the town centre with 4 hectares of new public realm and 460 metres of active travel links, encouraging increased walking and cycling and an enhanced events programme to increase both day and overnight visitors to Fylde.

If the bid for funding is successful, then a further detailed report will be brought before planning committee and full council to provide full details and add the project to the capital programme.

12. CONCLUSIONS – CAPITAL PROGRAMME

- 12.1 The current Capital Programme as updated is showing a balanced position for 2022/23 onwards.
- 12.2 The programme and its associated financing will be subject to discussion with members during the coming months as part of the annual budget setting process for 2023/24.
- 12.3 Increasing inflation is exerting significant upward pressure on prices for utilities and on supplies and services across all sectors of the economy, which in turn increases the base costs for both revenue and capital budget items, as explained in section 5 of this report. The situation is particularly acute in the construction sector where supply chain issues and price increases are combining to put increased risks on the delivery of capital programme schemes. This is likely to be a continuing issue for the council during 2022/23 and this has resulted in current scheme delays and reviews on scheme costings.
- 12.4 Any additional expenditure which is not fully funded by external finance would normally require the generation of capital receipts or further borrowing (the latter placing further pressure on the Revenue Budget from the consequent repayment costs). However, Budget Council on 4th March 2013 approved the creation of a Capital Investment Reserve to finance future capital expenditure. The balance of this reserve at 31st March 2022 was £6.094m. Of this £2.765m is already committed to deliver existing approved capital schemes leaving an uncommitted balance of £3.329m. The latest revenue financial forecast contained at Appendix E of this report estimates further contributions into the reserve of £0.568m in 2022/23 and £0.176m in 2023/24 which would result in an unallocated balance on the reserve at 31st March 2024 of £4.073m. The estimated transfers into the reserve are subject to change as costs and income will undoubtedly fluctuate over the next 2 financial years.

To Note: Council in July 2022 approved the underwriting to the sum of £0.943m for 2022/2023 financial year from the capital investment reserve in the event that approval is not ultimately confirmed from the Future High Street Fund team at DLUHC for the Kirkham Futures programme for Public Realm phase 1 works (this underwriting being required in order for the contract to be awarded for delivery of the public realm works) so the potential Capital Investment Reserve balance would reduce from £4.073m to £3.130m if this was required.

An updated position in respect of the Capital Investment Reserve will be included within future updates of the financial forecast presented to the Finance and Democracy Committee and to Council. Additional future projects will be subject to further consideration as part of the budget setting process for 2023/24. Whilst it remains the case that this reserve is the

preferred source of finance for any further additions to the Capital Programme, continuing contributions to the reserve are required in order to maintain a sustainable funding source for future years.

13. TREASURY MANAGEMENT

- 13.1 The Treasury Management Strategy and Prudential Indicators for the current financial year were approved by Council on 3rd March 2022.
- 13.2 The regulatory framework for treasury management requires Councils to receive a mid-year Treasury Review report. Such a report, which includes details of the economic background and outlook, interest rate forecast, and details of investment activity was presented to the Audit and Standards Committee for scrutiny on 10th November 2022 and will subsequently be presented to Council on 5th December 2022.

14. KEY AREAS OF FINANCIAL RISKS FOR TREASURY MANAGEMENT

- 14.1 There are a number of potential areas of risk associated with Treasury Management activities, the most significant of which are:
- (i) Differences between the actual interest rate and interest rates used in the forecast;
 - (ii) Unexpected movements in cash flow; and
 - (iii) The security of monies invested with counterparties.

15. SUMMARY POSITION – TREASURY MANAGEMENT

- 15.1 The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumer's cost of living and no imminent end in sight to the conflict in Ukraine. Consequently, the economic outlook for UK and world growth remains weak.

The Bank of England has incrementally increased the official Bank Base Rate from 0.75% to its current level 3.00% over the period. As a result, the council has benefited from increased investment yields which are reflected in the updated financial forecast within this report. That said, the council's Treasury Management Strategy prioritises the security of any investment over the return achieved. The council has complied with all aspects of the 2022/23 Treasury Management Strategy and Prudential Indicators as approved by Council in March and will continue to conduct all treasury management activities prudently and in line with those approvals.

16. OVERALL CONCLUSIONS ON THE LATEST FINANCIAL FIVE YEAR FORECAST UPDATE

- 16.1 The overall position on the Council's financial forecast, as summarised in Appendix E of this report, shows an estimated surplus of resources for 2022/23 and 2023/24, followed by budgeted deficits in the following years as central government funding arrangements remain unclear. The improved financial forecast position for 2023/24 is due largely to the estimated increase in business rate income based upon the assumptions around continuation of the Lancashire Business Rate pooling arrangements as set out in paragraph 3.3 of this report, together with the net favourable impact of the forecast changes itemised in Appendix Ci. The Council continues to approve and fund capital investment in a measured way, the approved

capital programme is fully financed, and the council remains debt-free.

- 16.2 Since the council set its budget in March 2022 there has been significant turbulence and uncertainty in the national financial and economic outlook, as described in section 4 of this report. As a result, the possibility of funding reductions for local government in future years appears more likely than was previously the case.
- 16.3 As a result of this future funding uncertainty the Council needs to continue with the approach to delivering savings and efficiencies which have helped deliver balanced budgets and contributed to reserves over recent years which has enabled continuing delivery of the priorities set out in the council's Corporate Plan. Through continued focus on the importance of financial stability the Council has delivered a significant savings and efficiencies programme over the last decade and has continued to reduce overheads. Ongoing modernisation work and business improvement will continue to make Council services more efficient, save money and maintain high quality frontline services to customers. This work has yielded ongoing savings to help improve the Council's overall financial position over that period. For Fylde Council to continue to successfully meet the new challenges that it faces it is vital that this approach is re-doubled and that all reasonable opportunities for further cost-reduction measures and for the generation of additional income are seriously considered. Prudent financial management in previous years has provided a level of reserves which allows the necessary time to determine how this council can best respond to future challenges.
- 16.4 Although challenges may be encountered in the future the reserves and balances of the council are at healthy levels as compared to earlier periods. The outcome of the long-awaited Fair Funding Review into Local Government Financing is eagerly awaited and may provide a degree of greater clarity regarding the future financial landscape. Furthermore, Fylde Council has a past record of taking actions in order to meet and overcome financial challenges. The Council will continue to take pro-active measures to maintain a robust financial position in the face of a challenging and changing financial environment. This approach will ensure that the Council continues to achieve and sustain a balanced budget position on an ongoing basis and is able to deliver the priorities set out in the Corporate Plan.
- 16.5 The assumptions set out in this forecast are the latest best estimates and will be updated as and when further information becomes available. External pressures outside the Council's control are being experienced by all local authorities, and instructions remain in place that officers should not commit to any unnecessary expenditure. Budget planning work for 2023/24 is well underway and further updates of the financial forecast will be brought before members in due course.
- 16.7 **The financial position of the Council as set out in this report remains robust. Members should, however, continue to be cognisant of the risks that are detailed within the report in order to maintain a sustainable financial position for the Council.**

IMPLICATIONS	
Finance	The financial implications are contained within the body of the report.
Legal	None arising from this report
Community Safety	None arising from this report
Human Rights and Equalities	None arising from this report
Sustainability and Environmental Impact	None arising from this report

Health & Safety and Risk Management	None arising from this report
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LEAD AUTHOR	CONTACT DETAILS	DATE
Paul O'Donoghue Chief Financial Officer	01253 658566	November 2022

BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Medium Term Financial Strategy (MTFS) Update, Including General Fund, Capital Programme and Treasury Management for 2021/22 – 2025/26	Budget Council meeting 3 rd March 2022	www.fylde.gov.uk
MTFS – Outturn Position For 2021/22 (Including General Fund, Capital Programme & Treasury Management)	Finance and Democracy Committee meeting 23 rd June 2022	www.fylde.gov.uk
Revenue Budget Monitoring Report 2022/23 – to 30 th September 2022	Finance and Democracy Committee meeting 21 st November 2022	www.fylde.gov.uk
Capital Programme Monitoring Report 2022/23 – to 30 th September 2022	Finance and Democracy Committee meeting 21 st November 2022	www.fylde.gov.uk

Appendices:

1. Appendix A – Forecast approved at Council on 3rd March 2022
2. Appendix B – Schedule of general assumptions underpinning the forecast
3. Appendix Ci – Schedule of changes to the forecast
4. Appendix D – Explanation of changes to the forecast
5. Appendix E – Updated latest financial forecast position

General Fund Budget Forecast 2021/22 to 2025/26 - Approved at Budget Council March 2022

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Adverse / Favourable
Forecast approved at Council on 4th March 2021	10,934	11,000	11,697	11,909	11,909	
Forecast Changes - per Appendix C of March 2022 MTFS report to Budget Council	219	308	172	218	525	
Revenue Budget Growth Items - Appendix F of March 2022 MTFS report		121	82	85	88	
Forecast Budget Requirement	11,153	11,429	11,951	12,212	12,522	Adverse
Financed by:						Adverse
Council Tax Funding:						
Council Tax - Precept	6,656	6,881	7,096	7,317	7,544	
Sub Total - Council Tax Income	6,656	6,881	7,096	7,317	7,544	
Business Rates Funding:						
Retained Rates (including pooling benefit & pilot impact 2019/20)	4,501	3,580	2,800	2,800	2,800	
Sub Total - Business Rates Income	4,501	3,580	2,800	2,800	2,800	
Other Funding:						
Lower Tier Services Grant	379	89				
2022/23 Services Grant		133				
New Homes Bonus (NHB)	1,161	1,236	1,136	1,136	1,136	
Less - NHB distribution to Town & Parish Councils	- 58	- 62				
	1,482	1,396	1,136	1,136	1,136	
Forecast Financing	12,639	11,857	11,032	11,253	11,480	
Forecast surplus(-)/deficit for year	- 1,486	- 428	919	959	1,042	
Reserves						
Forecast surplus/deficit (-) for year from above:	1,486	428	- 919	- 959	- 1,042	
Less: Proposed Transfer to Capital Investment Reserve	- 1,486	- 428				
Balance of surplus/deficit(-) remaining:			- 919	- 959	- 1,042	
Balance of General Fund Reserves b/f	4,571	4,571	4,571	3,652	2,693	
Less transfer to/from(-) General Fund Reserves in year			- 919	- 959	- 1,042	
Forecast Reserves at Year End	4,571	4,571	3,652	2,693	1,651	
Band D Council Tax (Excl Parish Precepts)	£214.91	£219.19	£223.56	£228.01	£232.55	
Band D Average Council Tax Increase	£4.20	£4.28	£4.37	£4.45	£4.54	
Band D Average Council Tax Increase	1.99%	1.99%	1.99%	1.99%	1.99%	

General Base Budget Assumptions

The forecast has been prepared on the basis of the following assumptions:

- General Prices Inflation – a freeze or cash-limiting of all general revenue expenditure budgets with the exception of payroll budgets and where contractual commitments require increases;
- Slippage – approved underspend items from 2021/22 agreed by the Finance and Democracy Committee in June 2022 have been slipped into 2022/23;
- Pay award – the impact of the agreed 2022/23 pay award of £1,925pa for each pay point has been reflected in the updated forecast, with future pay awards estimated to be 2.75% per annum for 2023/24 and each year thereafter;
- Employers Pension Contributions – the Council's contributions to the Lancashire pension fund scheme are set in accordance with the indicative outcome of the 2022 Triennial Pension Review which is currently being carried out by the scheme actuaries, Mercer. The draft figures provided by the pension fund indicate contributions at 19.2% per annum, reduced by scheme surplus payments of 4% per annum for the period from 2023/24 to 2025/26; with future years estimates provided on a continuation basis. The forecast has been updated accordingly;
- Employer's National Insurance contributions – the forecast reflects the statutory contribution rates currently in place, including a reduced contribution rate as a result of the Council being part of the pension scheme;
- Council tax increases – assumed at 1.99% increase per annum from 2022/23 onwards;
- New Homes Bonus Grant – the forecast for 2023/24 onwards assumes a reduced level of New Homes Bonus based broadly upon the current year's allocation reducing by an estimated 5% per annum. No allocation of New Homes Bonus grant to town and parish councils has been assumed beyond the current year at this point – these will be updated annually as and when national allocations to local authorities are announced each year under the national scheme;
- Fees and Charges – The forecast takes account of the revised fee levels as approved by Budget Council in March 2022. For future years budget-holders have reviewed fee levels as appropriate and any proposed changes to fees & charges will be considered at the Budget Council in March 2023 following consideration by the appropriate programme committee;
- Vacancy Savings – the forecast assumes vacancy savings of £300k per annum from 2022/23 onwards; and
- Localisation of Council Tax Benefit Scheme – the forecast assumes a fully funded scheme with no additional cost to the Council from 2022/23 onwards.

General forecast changes since Budget Council March 2022

	2022/23	2023/24	2024/25	2025/26	2026/27	
	£000	£000	£000	£000	£000	<u>ADVERSE /</u> <u>FAVOURABLE /</u> <u>NEUTRAL</u>
1 CHANGES AS A RESULT OF MEMBER APPROVALS:						
Lowther Trust - Renewal of Service Level Agreements inc New Subsidy Request <i>(Council 25/04/22)</i>	12	12	12	0	0	ADVERSE
North Beach Toilets <i>-(OM 15/06/22)</i>	0	1	1	14	14	ADVERSE
MTFS Financial Outturn Report - Slippage from 2021/22 <i>(F&D 23/06/22)</i>	485	0	0	0	0	ADVERSE
MTFS Financial Outturn Report - Use of monies transferred into GF reserves to fund slippage <i>(F&D 23/06/22)</i>	-485	0	0	0	0	FAVOURABLE
Holiday Activity and Food Programme (HAF) Update - FBI - Expenditure <i>(F&D 23/06/22)</i>	160	0	0	0	0	ADVERSE
Holiday Activity and Food Programme (HAF) Update - FBI - Income <i>(F&D 23/06/22)</i>	-160	0	0	0	0	FAVOURABLE
Energy Rebate - Discretionary Scheme - FBI - Expenditure <i>(F&D 23/06/22)</i>	181	0	0	0	0	ADVERSE
Energy Rebate - Discretionary Scheme - FBI - Income <i>(F&D 23/06/22)</i>	-181	0	0	0	0	FAVOURABLE
Household Support Fund - FBI - Expenditure <i>(Council 04/07/22)</i>	270	0	0	0	0	ADVERSE
Household Support Fund - FBI - Income <i>(Council 04/07/22)</i>	-270	0	0	0	0	FAVOURABLE
Replacement Waste Containers Fee Increase <i>-(OM 06/09/22)</i>	-5	-12	-12	-12	-12	FAVOURABLE
2 BUDGET RIGHTSIZING EXERCISE:						
Revenue impact of budget right-sizing across all budget areas of the Council	-179	-167	-162	-83	-2	FAVOURABLE
3 STAFFING COSTS:						
Net impact of current year pay award and changes to employers NI contributions	248	209	207	204	202	ADVERSE
Estimated 2.75% pay award for 2026/27	0	0	0	0	275	ADVERSE
Estimated savings arising from 2022 triennial pension fund review	0	-364	-420	-437	-192	FAVOURABLE
4 UPDATED ESTIMATES OF INCOME BUDGETS:						
Windsports Centre - income from new lease	0	-11	-21	-21	-21	FAVOURABLE
Green waste subscription service - updated income estimates based on current subscription level	20	20	20	20	20	ADVERSE
Public Conveniences - additional income due to price increase and staycations	-25	-25	-25	-25	-25	FAVOURABLE
Trade Waste - additional income from increased useage of the service	-25	-25	-25	-25	-25	FAVOURABLE
Housing Standards - additional income from enforcement notices	-10	-10	-10	-10	-10	FAVOURABLE
Cemetery & Crematorium - updated income estimates based upon most recent income levels	20	20	20	20	20	ADVERSE
Updated estimates of investment interest receipts	-479	-344	-239	-159	-129	FAVOURABLE
Planning application fee income - updated income estimates based upon most recent income levels	25	25	25	25	25	ADVERSE
Building control Fee Income - updated income estimates based upon most recent income levels	-7	-7	-7	-7	-7	FAVOURABLE
5 OTHER FORECAST CHANGES						
Additional Running Costs for Public Offices - reflecting latest estimated date of disposal	30	0	0	0	0	ADVERSE
Removal of Planning Appeals Budget	-50	-45	-45	-45	-45	FAVOURABLE
External Audit Fees - 150% cost increase as advised by PSAA - procurement for audit services for opted-in boc	38	89	87	89	87	ADVERSE
Kirkham Property Acquisitions - 52-64 Poulton Street Kirkham (Former TSB) - estimated annual running costs	10	10	0	0	0	ADVERSE
Kirkham Property Acquisitions - 48 Preston Street (Hillside) - estimated annual running costs	10	10	0	0	0	ADVERSE
Fleet - updated estimate of fuel costs	48	48	48	48	48	ADVERSE
Utilities including water - budget increases to reflect estimated increased costs	154	264	283	302	323	ADVERSE
Replacement Waste Containers - additional cost of purchase	25	25	25	25	25	ADVERSE
TOTAL	-140	-277	-238	-77	571	

The following notes relate to specific adjustments made to the Forecast set out in Appendices Ci:

Ci - General forecast changes since Budget Council March 2022

(1) Changes as a Result of Member Approvals

The forecast that was approved at the Council meeting in March 2022 has been updated to reflect the financial impact of Member decisions made since then. The significant decisions in terms of their financial effect are detailed within the body of the report.

(2) Impact of budget-right-sizing exercise across all budget areas of the Council

Each year officers carry-out a budget right-sizing exercise focussing on a review of underspends across all budget areas and these have been updated and reflected through the forecast.

(3) Staffing Costs

The agreed pay award for 2022/23 has been reflected in this update and increases of 2.75% per annum have been assumed in each future year of the forecast, as detailed in the report. The final year of the forecast, 2026/27 is included for the first time as part of this November 2022 update. The forecast has also been updated to reflect the indicative outcome of the 2022 Triennial Pension Review which is currently being carried out by the scheme actuaries, Mercer.

(4) Updated Estimate of Income Budgets, including:

- Green waste subscription service income, public conveniences income, trade waste services income and planning application fee income estimates have all been updated to reflect the latest estimated levels throughout the life of the forecast.
- Revised Estimate of investment interest receipts:

The forecast has been updated to reflect the positive impact of increased interest yields receivable on the council's treasury management investments as the bank base rate has increased from 0.10% to its current level of 3%.

(5) Other Forecast Changes:

A number of other changes have been made to the forecast as itemised in the appendix, including increased estimates of utility costs across the council's asset base, increased estimates of external audit fees as advised by PSAA following the procurement for audit services for opted-in bodies, and increased estimates of fuel costs for the council's operational fleet vehicles.

Latest General Fund Budget Forecast 2022/23 to 2026/27 - as at November 2022

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Adverse / Favourable
Forecast approved at Council on 3rd March 2022	11,429	11,951	12,212	12,522	12,522	Favourable
Forecast Changes - Appendix Ci (November 22)	- 140	- 277	- 238	- 77	571	
Forecast Budget Requirement: TOTAL	11,289	11,674	11,974	12,445	13,093	
Financed by:						
Council Tax Funding:						
Council Tax - Precept	6,881	7,096	7,317	7,544	7,778	
Sub Total - Council Tax Income	6,881	7,096	7,317	7,544	7,778	
Business Rates Funding:						
Retained Business Rates	3,580	3,580	3,401	3,231	3,069	
Sub Total - Business Rates Income	3,580	3,580	3,401	3,231	3,069	
Other Funding:						Favourable
Lower Tier Services Grant	89					
2022/23 Services Grant	133					
New Homes Bonus (NHB)	1,236	1,174	1,115	1,060	1,007	
Less - NHB distribution to Town & Parish Councils	- 62					
Sub Total - Other Income	1,396	1,174	1,115	1,060	1,007	
Forecast Financing: TOTAL	11,857	11,850	11,833	11,835	11,854	
Forecast surplus (-) / deficit for year	- 568	- 176	141	610	1,239	
Reserves						
Forecast surplus/deficit (-) for year from above:	568	176	- 141	- 610	- 1,239	
Less: Proposed Transfer to Capital Investment Reserve	- 568	- 176				
Balance of surplus/deficit(-) remaining:			- 141	- 610	- 1,239	
Balance of General Fund Reserves b/f	5,056	4,571	4,571	4,430	3,820	Favourable
Less in year transfer to fund slippage from 2021/22	- 485					
Less estimated transfer to/from(-) General Fund Reserves in year			- 141	- 610	- 1,239	
Forecast Reserves at Year End	4,571	4,571	4,430	3,820	2,581	
Band D Council Tax (Excl Parish Precepts)	£219.19	£223.56	£228.01	£232.55	£237.18	
Band D Average Council Tax Increase	£4.28	£4.37	£4.45	£4.54	£4.63	
Band D Average Council Tax Increase	1.99%	1.99%	1.99%	1.99%	1.99%	