

Report of:	Head of Finance
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Portfolio Leader:	Leader of the Council
Key Decision:	No
Report Track:	Cabinet: 12/11/20

Cabinet
12 November 2020
Financial Plan 2020-21 to 2023-24

1 Purpose of Report

- 1.1 The purpose of this report is to present an updated financial forecast for the Council for the next three years together with a forecast outturn for 2020-21.

2 Recommendation(s)

- 2.1 That Cabinet note that the Council faces a period of financial uncertainty reflecting the ongoing impact of COVID 19 and fundamental changes to the Local Government Finance Regime. The pandemic has had a major financial impact on the Authority with a loss of income and additional cost pressures and this is likely to continue through 2021-22. No specific details exist in relation to the levels of funding the Council will receive from the Government for the new funding scheme with effect from 2022-23. The proposed new funding regime has been delayed a year and the Council awaits the outcome of the Spending Review and Local Government Settlement for 2021-22. The Financial Plan at this stage therefore represents an extrapolation of both the ongoing impact of COVID 19 and this authority's interpretation of the new funding regime.
- 2.2 That subject to 2.1 Cabinet:-
- (a) Note the Financial Plan 2020-21 - 2023-24, and the various scenarios that exist in relation to the impact of COVID 19 and individual funding streams.;
 - (b) Approve the forecast outturn for 2020-21 of £15.073 million;
 - (c) Note the draft Capital Programme 2020-21 - 2023-24;
 - (d) set the General Fund working balance at a minimum of £1.0 million;
 - (e) adopt the principles set out in the Council's Financial Plan and Budget Strategy in finalising the preparation of the 2021-22 budget.

- 2.3 That in accordance with the Councils Recovery Strategy the Financial Plan reflects the four key work streams of Economic; Financial; Community and Organisational Recovery.

To that end the initial focus is on providing an interim financial strategy that

- (a) maintains the financial resilience of the Council in the short term whilst ensuring the maintenance of service provision and responding to the impact of COVID 19
 - (b) delivers a balanced Budget for 2021-22 pending development of a sustainable medium term financial plan reflecting the New Local Government Funding Regime.
 - (c) That lays the foundation to realign resources with priorities and provide a sustainable medium term budget
- 2.4 To note that the Best Case Scenario still identifies a deficit of £549,000 in 2023-24 and that the Council will over the next 12 months need to identify saving options to potentially implement as part of the 2022-23 budget process or sooner as our financial position becomes clearer.
- 2.5 That the Financial Plan will be updated as a result of the Spending Review and if any further details of the Governments proposed changes to its funding become available during the budget process.

3 Key Issues and Reasons for Recommendations

Key Issues

- 3.1 The report sets out the Council's forecast financial position for the next three years incorporating anticipated spending pressures and savings already identified. Financial resources available to the Council over the three year period are also set out. The Financial Plan refreshes the current approved plan and reflects the Governments current Funding Regime as adjusted for proposals currently being considered in the design of the new regime.
- 3.2 The existing Financial Plan has however been dramatically changed with COVID 19 impacting directly across the District. A major incident was declared by the Staffordshire Resilience Forum on 24 March 2020. The Council has received Government support to address the additional cost pressures borne by the Council in responding to the pandemic however the Council is being required to meet a large proportion of the loss of income from sales, fees and charges, whereas the degree to which its leisure provider will be compensated remains uncertain. The economic impact of the pandemic has seen the opening of the West Midlands Designer Outlet Village put back with a direct impact on the Business Rates retained by the Council. The impact of COVID 19 will have a material impact on the financial position of the Council for the foreseeable future.

- 3.3 A new Financial Regime for Local Government was intended to be introduced with effect from 1 April 2021 but as a result of the pandemic, and the need to provide certainty of funding levels for 2021-22, this has now been delayed until 2022-23 although no funding levels have yet been confirmed for 2021-22.
- 3.4 Although this provides a degree of certainty for 2021-22 the ongoing funding for this Council remains unclear with detailed work on the new regime being delayed and hence no indicative funding levels being available.
- 3.5 As detailed last year potential scenarios in changes in funding have been developed to enable a Budget Strategy to be put in place and due to the lack of up to date information remain unchanged
- 3.6 The overall position can be summarised as follows:

	2020-21	2021-22	2022-23	2023-24
	£'000	£'000	£'000	£'000
Approved Feb 2020	(1)	93	583	583
Revised October 2020	706	2,015	1,001	1,571
Movement	707	1,922	418	988
Analysis				
COVID Related	645	2,353	807	403
Net Expenditure	62	(263)	(150)	291
Net Funding		(168)	(239)	294

Reasons for Recommendations

- 3.7 Material variances exist between the best /worst case scenarios and it is essential that a prudent approach is adopted until further details become available. This is particularly relevant in relation to the assumptions made in relation to COVID19 and the potential for further Government support if the above scenario materialises in 2021-22. Nevertheless the Council will need to continue to progress the development of saving options over the next 12 months to address the underlying deficit and potentially implement as part of the 2022-23 budget process or sooner as our financial position becomes clearer
- 3.8 The Financial Plan therefore provides the framework for the preparation of detailed budgets. Its principles and those detailed in the approved Budget Strategy, subject to approval, will be used to prepare both the Revenue Budget and Capital Programme for consideration by Cabinet in January.
- 3.9 Key elements of the delivery of service budgets will be the maintenance of existing levels of service provision and, the implementation of actions as contained in the Corporate Plan, currently being refreshed, and the Councils COVID19 Recovery Plan. Due regard also being taken to the emerging changes to Services of partner organisations within Staffordshire.

4 Relationship to Corporate Priorities

- 4.1 The revenue budget and capital programme reflect the Council's priorities.

5 Report Detail

5.1 Background

5.1.1 The Financial Plan sets the framework for the determination and setting of the budgets for Revenue and Capital, and ultimately, arriving at the level of Council Tax to be set for the next Financial Year.

5.1.2 Council approved its 3 year Budget/Financial Plan at its meetings in January/February 2020. A Balanced Budget existed for 2020-21, with a minor deficit in 2021-22. The material deficit of £0.583 million in 2022-23 reflected the full year effect of a new local government funding regime (based upon the councils prudent scenario) coming into effect.

Table 1: Revenue Budget Recommended to Council January 2020

	Budget 2020-21	Budget 2021-22	Budget 2022-23
	£000	£000	£000
Transfer to Working Balances	1		
Saving Requirement		93	583

5.1.3 At the time of approving the current Financial Plan a great deal of uncertainty existed in relation to the funding of Local Government. No details were available re the introduction of the 75% Business Rates Retention Scheme in 2021-22 with core funding or baselines determined by a Fair Funding Review. Similarly a new/ revised Housing Incentive Scheme replacing the New Homes Bonus system was muted.

5.1.4 The immediate budget of the Council has however been dramatically changed in 2020-21 with COVID 19 impacting directly across the District. A major incident was declared by the Staffordshire Resilience Forum on 24 March 2020. The Council has received Government support to address the additional cost pressures borne by the Council in responding to the pandemic however the Council is being required to meet a large proportion of the loss of income from sales, fees and charges, whereas the degree to which its leisure provider will be compensated remains uncertain.

5.1.5 COVID 19 represents a unique major incident that entails Response, Recovery and Reshape phases that are likely to last some time and each element is likely to overlap / retreat to a previous stage. All phases will have material financial implications, and will impact not only on the delivery of the Corporate Plan but will greatly influence its future development.

5.1.6 Cabinet at its meeting on the 15 October 2020 received a report on its Covid-19 Recovery Strategy. The report established a Financial Recovery Work Stream , one of four recovery work streams, with the aim to :

- Review the short, medium and long-term financial resilience of the Council
- Formulate as appropriate an Interim Financial Management Strategy.
- Evaluate the financial impact of ongoing response initiatives but in particular the Economic / Community and Organisational Recovery work stream action plans.

5.2 Financial Impact of COVID 19

2020-21

5.2.1 In relation to the Response phase to the pandemic the Councils priorities were to:

- Keeping essential Council services operational
- Support Businesses
- Establish Community Vulnerability Hub
- Supporting our workforce
- Working with our LRF partners across Staffordshire.
- Communicate with all stakeholders

5.2.2 The Council has incurred significant additional expenditure as a result of its Response to COVID 19 and the role given to it by government, whilst our income has plummeted.

Additional cost pressures were incurred at the height of the pandemic and included

Vulnerability Hub – Provision of Food, PPE etc.	£35,000
Additional cost of Homelessness Service	£87,000
Financial support to Leisure Contractor re unmitigated costs	£117,000
Administration of Business Support Grant	£35,000
Provision of additional burial capacity	£20,000

5.2.3 The major impact however arose from the loss of income to the Council from sales, fees and charges arising from the effective closure of car parks, markets together with the impact on economy related income.

5.2.4 Table 2 below shows the impact on sales, fees and charges for the first six months together with projections for the remaining six months. The projections tend to be on the pessimistic side reflecting the ongoing national/local restrictions and assume the continuation of income levels experienced in August and September for the forthcoming six months

Table 2: Projected reduction in Sales, Fees and Charges 2020-21

	April-September	Oct- Mar	Total
	£'000	£'000	£'000
Off Street parking	285	123	408
Markets	63	25	88
Court Costs	141	72	213
Planning Fees	42	43	85
Market shops	25		25
Licensing	32		32
Building Control	20	10	30
Parks	17	11	28
Other	24	0	24
TOTAL	649	284	933

- 5.2.5 The loss of income from sales, fees and charges has been particularly experienced by our leisure partner. All leisure facilities were closed in accordance with government guidelines with this initial loss of income being mitigated by eligibility for Job Retention Scheme (Furlough) combined with the Councils management fee. However this is now no longer possible. The gradual restoration of Leisure services has seen the release of staff from Furlough but income is only a proportion of previous income levels due to both social distancing / capacity of leisure centres and customer confidence. Income normally is in excess of £400,000 per month but is currently running at 45% of that. The loss of income is not subject to the Governments Income Guarantee scheme as detailed in Section 5.3 and the Council have continued to lobby the Government for some form of redress for this loss to the provider.
- 5.2.6 A scheme to support leisure providers was announced as part of the Governments additional £1 billion funding to support local authorities on the 22 October 2020. The allocation includes £100m for leisure centres to be distributed via a bidding process to be managed by the Department for Culture, Media and Sport (DCMS). No further details of the scheme are currently available
- 5.2.7 The Council is also experiencing a reduction in Council Tax and Business Rate collections. The true extent cannot be determined at this stage since the Council suspended recovery actions in the first part of the year, reflecting the prevailing circumstances, and in particular the focus on providing Business Support Grants.

5.2.8 As at the 30 September 2020 the collection rates for Council Tax was 54.5% as compared with 55.1% the previous year and for Business Rates 55.5% as compared to 61.1%. The latter does not provide a true comparison due to the additional government reliefs provided in the form of Business Rate Holidays in the Leisure, Retail and Hospitality sector and the consequent change in payment profiles.

5.2.9 The impact of COVID 19 on the economy will continue throughout this year and as seen the intended opening of the West Midlands Designer Outlet Village (WMDOV) put back 5 months to February 2021. This represents a loss of Business Rates income retained by the Council of some £500,000 for 2020-21.

2021-22

5.2.10 It is inevitable that if the current measures remain in place there will be a continuing effect of COVID-19 and recovery in 2021-22. The pace of economic recovery and customer confidence will be key to this and three potential scenarios have been developed.

5.2.11 In relation to sales fees and charges the pessimistic (worst case) scenario reflects the current level of income continuing throughout next year whereas an optimistic assessment (best case) assumes income is some 90% of normal.

5.2.12 The impact of COVID 19 on the economy will be fundamental to the determination of income generated through Business Rates and Council Tax. A key milestone has just taken place with the Governments Job Retention Scheme (Furlough) terminating in October and being replaced with a revised viability based scheme

5.2.13 The main issues in relation to Business Rates include:

- **Impact of Covid 19 on Net collectable rates**

It is unlikely that any net new growth in gross business rates will occur for the foreseeable future with new businesses utilising vacant properties. Businesses /Property owners will still be liable for Business Rates, unless they are in Administration etc. however reliefs etc. are likely to increase as properties become vacant and are subject to 3/6 month exemption periods and tax avoidance is likely to increase

- **Government Reliefs**

The economic impact in 2020-21 has been partly masked by the Business Rates holiday for the Retail/Leisure and Hospitality sector that applies for this year. Any continuation of the scheme into 2021-22 would guarantee a large proportion of volatile business rates via government grant. Whereas a discontinuation of the scheme is likely to see an increase in the level of Appeals, which is likely to arise in other sectors reflecting a “change in Circumstances” to the 2017 Valuation.

- **Increase in business rates arrears**

Cash flow losses and dealing with irrecoverable is likely to be the largest impact in the current and following year but is difficult to forecast at the current stage.

Such losses can be spread over three years by individual authorities as part of changes to the Collection Fund accounting rules

5.2.14 Reductions in the collection rate is also likely to apply to Council Tax as described above with the continuation of the Governments Hardship scheme for the Local Council Tax Reduction scheme being a potentially mitigating factor.

5.2.15 The assumptions will continue to be updated throughout the budget process with the Financial Plan assuming the mid-point of the ranges for the summary levels as shown in the table below:

Table 3: Potential Impact of COVID 19 re 2021-22

	Pessimistic	Financial Plan	Optimistic
	£'000	£'000	£'000
Cost pressures	1,554	1,217	613
Income Losses	747	498	249
Council Tax	242	75	0
Business Rates	857	563	270
TOTAL	3,400	2,353	1,132

5.3 Governments Financial Support re COVID19

5.3.1 The Government have announced three measures to address the impact of COVID 19 on Local Government. These include an un ring fenced grant, an income guarantee scheme and the facility to spread tax losses over a 3 year period.

5.3.2 The Council have received 4 tranches of Grant to deal with the immediate cost pressure impact of COVID 19 amounting to £1.586 million.

5.3.3 To address the loss of income an Income Guarantee scheme is also in place. As part of the scheme each council is expected to bear a 5% volatility allowance based upon their Total Budget for sales, fees and charges for the year, thereafter the Council bears 25% of income losses and the Government 75%. Income from commercial undertaking and investment income are excluded from this scheme. The scheme only applies to the sales, fees and charges from direct service provision and although funding has been received from the Arts Council Culture Recovery Fund for the Prince of Wales Theatre, Museum etc. with funding for leisure centres to be provided via a bidding basis as referred to in paragraph 5.2.6.

5.3.4 In relation to Council Tax and Business Rates losses the government is proposing that repayments to meet collection fund deficits accrued in 2020-21 will be phased over a three-year period (2021-22 to 2023-24) rather than solely 2021-22. In addition on 2 July 2020, the Secretary of State committed that in the Comprehensive Spending Review an apportionment of irrecoverable Council

Tax and Business Rates losses between central and local government would be made (As a result of Collection Fund accounting rules the 2020-21 deficits materialise in future year's budgets) .No details are yet available.

2021-22

- 5.3.5 In addition to the above and to provide a degree of certainty in relation to short term pressures the government has deferred the introduction of the changes to the Local Government Finance Regime until 2022-23. However although 75% Business Rates Retention and Fair Funding have been deferred the government are still considering how to deal with business rates growth achieved to date in 2021-22 with the Reset of such business rates growth being potentially introduced in advance of the new Regime.
- 5.3.6 An announcement on this and other measures to address the potential ongoing impact of COVID 19 on 2021-22 will be made as part of the Comprehensive Spending Review in late November /Early December and then the 2021-22 Provisional Local Government Settlement.
- 5.3.7 Any such measures will be ultimately dependent upon the scenarios for recovery and hence will be contingent upon the actual ongoing impact.
- 5.3.8 A key element for the District will be the treatment of Business Rates Growth achieved to date / Reset of Business Rates. This is particularly important to Cannock Chase with the Medium Term Financial Plan being based upon the additional retained business rates from the WMDOV (the income offsetting the loss of such income from Rugeley Power Station). The Reset of Business Rates is discussed in more detail in the Medium Term Financial Outlook.
- 5.3.9 The Business Rates System was due to be reset as part of the introduction of 75% Business rates in 2021-22 and hence is reflected in the current Financial Plan .The plan assumed a 50% reset and hence the following scenarios exist in relation to a Reset in 2021-22 pre the impact of COVID 19.

Table 4: Implications of options to Reset Business Rates Growth

Impact	Worst Case Full Reset	50% Reset	Best case No Rest
	£'000	£'000	£'000
2021/22	0.753		(0.693)

5.4 Business Rates Pool

- 5.4.1 The council is currently a member of the Staffordshire & Stoke on Trent Business Rates Pool. Membership of the pool enables the Council in 2020-21 to retain an additional 20% of business rates growth achieved plus a fixed additional payment of £215,000.

- 5.4.2 The ongoing benefits of pooling are dependent upon how the new Local Government Finance Regime works but in particular the degree to which a Reset of growth achieved to date is implemented. A full reset would negate the immediate benefits from pooling.
- 5.4.3 Following the deferment of the introduction of the 75% Business Rates Scheme, and pending a decision on the Reset, the Government have circulated an Invitation to Pool for 2021-22.
- 5.4.4 Pooling of business rates for 2021-22 is however particularly complicated due to the Reset issue and the impact of Covid 19 on the economy and business Rates. Whereas it is similarly unknown whether the current government measures to mitigate the impact on businesses/business rates will remain in place next year.
- 5.4.5 Budget modelling has been undertaken to take into account scenarios in relation to the Reset and the potential impact of COVID 19 in 2021-22. A valid business case for a pool exists even for a pessimistic reduction in income if “No Reset” takes place with £2.99 million being retained within Staffordshire. However if a 50% Reset takes place the current pool, with existing membership, remains marginal
- 5.4.6 The deadline for the Invitation to Pool was the 23 October and all authorities have agreed to retain membership of the pool pending the outcome of the CSR and Provisional Local Government Settlement. A member of the pool withdrawing at that stage would require the pool to be dissolved with no option of an alternative pool being created.
- 5.4.7 The impact of no pool being in place for the various scenarios is as follows:-

Table 5: Loss of income if Business rates Pool Dissolved for 2021-22

	Full Reset	50% Reset	No Reset
COVID Impact	£'000	£'000	£'000
Pessimistic		37	680
Mid Point		198	807
Optimistic		392	921

5.5 Future changes to Local Government Funding

- 5.5.1 As indicated above the changes to the Local Government Finance Regime are now due to come into force with effect from the 1 April 2023. The changes include
- 75% Business Rates Retention
 - Reset of Business Rates (if not implemented in 2021-22)
 - Fair Funding

- Potential new housing incentive scheme

5.5.2 Each of these issues were discussed in some detail as part of last year's budget process with the conclusion that it was impossible to determine how both Core and Incentive based funding will change under the new regime.

5.5.3 Due to the impact of COVID 19 the government have not been able to progress any of the details of the new Regime and hence the assumptions made by the authority in providing an indicative budget for 2022-23 remain the same at this stage

5.5.4 As referred to in paragraph 5.3.8 the methodology of the Reset will have major implications for the Council in relation to the WMDOV. In particular the delay in the introduction of the Reset could result in the additional business rates growth from the Outlet Village being cancelled in part or whole dependant upon the new baseline year selected. The Council have raised this issue with MHCLG and now await consultation on how and when a Reset will be implemented.

5.6 2021-22 to 2023-24 Financial Plan - Revenue

5.6.1 The current Financial Plan covers the period 2020-21 to 2022-23 with indicative budgets for each of these years with a new budget being constructed for 2023-24. Pending the determination of the ongoing impact of COVID 19 in each of these years the budget is being constructed on the basis of the existing Corporate Plan and the maintenance of existing service provision. The potential impact of COVID 19 being maintained as a separate Contingency Element – Items to be allocated as part of the Corporate Improvement Portfolio.

5.6.2 The core day to day net expenditure is still subject to external influences and the Financial Plan has now been updated to reflect a number of key changes involving:-

- Inflation
- The outturn for 2019-20 and the first half of 2020-21 (non COVID)
- Cost pressures together with changes in income generated.
- The cost of maintaining service provision in 2023-24

Inflation

5.6.3 Agreement has now been reached between the National Employers and the Trade Unions in relation to the 2020-21 pay award with a 2.75% increase being applicable. The current budget assumed a 2% increase and hence an additional charge of £0.060 million will exist for 2020-21 and future years.

5.6.4 No changes have been made to the 2021-22 assumptions for CPI and the provision for pay awards and these have been assumed to remain at 2% for throughout the Financial Plan.

5.6.5 Inflation for fees and charges for 2021-22 is therefore to be set at the forecast change in service costs for 2021-22 of 3%, reflecting not only pay award increases but the annual uplift in pension contributions of 2% per annum.

The outturn for 2019-20 and the first half of 2020-21

Spending Pressures

5.6.6 The detailed budgets have been refreshed to reflect the outturn for 2019-20 and latest spending patterns with both a small number of cost pressures and income variances being experienced/projected.

5.6.7 An assessment has been made of the ongoing nature of such changes although the variances to date have been reflected in the forecast outturn for 2020-21.

Anticipated Changes in Available Revenue Resources

5.6.8 The Council's revenue budget covers day to day spending on the services provided by the Council. It is currently financed from the following sources:-

- Business Rates Retention Scheme
- New Homes Bonus Grant
- Council Tax income; and
- Use of reserves - both general and earmarked.

5.6.9 Proposed changes to Local Government funding have been outlined in Section 5 and the following paragraphs reflect the indicative impact upon the current Approved Resources Forecast (Council January 2020).

5.6.10 The current Financial plan reflects the Governments proposals re New Homes Bonus Grant as outlined last year. The 2020-21 settlement papers stated

"It is the Government's intention to look again at the New Homes Bonus and explore the most effective way to incentivise housing growth. We will consult widely on proposals prior to implementation. As the roll forward is for one year, with any funding beyond 2020-21 subject to the 2020 Spending Review and potential new proposals, any new allocations in 2020-21 will not result in legacy payments being made in subsequent years on those allocations."

5.6.11 As a result 2020-21 represents the last year of the existing four year rolling programme with allocations covering 2017-18 to 2020-21. At present payments for 2021-22 will only cover 2018-19 and 2019-20 as 2017-18 legacy payments ceases with the 2020-21 payment not being subject to legacy payments.

5.6.12 It was anticipated that the government would consult on the future of the housing incentive in the Spring of 2020 and this would include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes we need.

- 5.6.13 The impact of COVID 19 has deferred this consultation and it is not clear at this stage whether a new allocation will be made in 2021-22 or resources redistributed across all sectors of Local Government.
- 5.6.14 Provisional estimates reflecting the Council Tax Base as at the beginning of October indicate that an allocation of £0.344 million would have been achieved for 2021-22. However at this stage the Financial Plan has assumed a redistribution of resources across the sector since no details are available re the new scheme.
- 5.6.15 The Council Tax Base for 2020-21, despite the impact of lockdown on the number of new properties being built, is broadly in line with the Financial Plan. The Council Tax Base assumptions for future years remain unaltered with an increase of 1% per annum forecast.
- 5.6.16 The assumptions in relation to the level of Council Tax are in accordance with the indicative increases as approved in February 2020. Council Tax is therefore assumed to increase by 1.95% per annum over the duration of the Financial Plan.

Detailed Revenue Budget 2021-22

- 5.6.17 In refreshing the current budgets, the starting point is the base budget for the 2020-21 financial year, and indicative budgets for 2021-22 and 2022-23 reflecting the current level of services provided by the Council including spending on its priorities.
- 5.6.18 The detailed budget for each of the three years covered by the Financial Plan will be refreshed based upon the outturn for 2019-20; monitoring up to 30 October 2020 and any other known changes that have arisen since last years detailed budgets were prepared. Although the outturn for 2020-21 will reflect the impact of COVID 19, the potential impact in future years will be maintained as a separate contingency budget. Nevertheless it is essential that the Council is diligent in reviewing its budgets and in particular any potential underspends or efficiency savings are identified.

5.7 Refreshed Financial Plan

- 5.7.1 **APPENDIX 1** to this report provides the updated position for the 2020-21 to 2023-24 Financial Plan, with an analysis of changes being included as **APPENDIX 2**.
- 5.7.2 The Financial Plan is based upon assumptions relating to changes in future government funding streams and now the impact of COVID 19 in each of the years. The potential impact of the latter means that a material deficit exists in 2021-22 ,without further government support, and each year thereafter with the 2023-24 deficit being compounded by the existing New Homes Bonus scheme coming to an end.

**Table 6: Changes to Financial Plan 2020-21 to 2023-24
Surplus indicated in Brackets ()**

	2020-21	2021-22	2022-23	2023-24
	£'000	£'000	£'000	£'000
Approved Feb 2020	(1)	93	583	583
Revised October 2020	706	2,015	1,001	1,571
Movement	707	1,922	418	988
Analysis				
COVID Related	645	2,353	807	403
Net Expenditure	62	(263)	(150)	291
Net Funding		(168)	(239)	294

5.7.3 As detailed previously, there exists a worse and best case, for each element of changes to the various Government Funding Regimes and Table 7 shows the potential impact of these cases.

Table 7: Financial Plan Best and Worst Case Scenario

	20-21	21-22	22-23	23-24
	£'000	£'000	£'000	£'000
Revised October 2020	706	2,015	1,001	1,571
Change arising from Best Case				
Covid Impact		(1,221)	(610)	(305)
Reset		(693)		
New Homes Bonus		(177)	(450)	(717)
Best Case October 2020	706	(76)	(59)	549

	20-21	21-22	22-23	23-24
	£'000	£'000	£'000	£'000
Change Arising Worst Case				
Covid Impact		1,047	525	260
Reset		753	753	753
New Homes Bonus				
B Rates Pool Dissolved				
Worst Case October 2020	706	3,815	2,279	2,584

5.8 Budget Strategy

5.8.1 The Financial outlook for Local Government remains very uncertain from a funding perspective with clarification required in relation to the 2021-22 settlement and a new regime thereafter. The ongoing impact of COVID19 is likely to have a material impact upon the Councils net expenditure beyond 2021-22.

5.8.2 In addition to determining the impact of the pandemic on the District and the initiatives required by the Council to undertake Recovery and Reshape there will be an ongoing impact on net expenditure and in particular a loss of income from sales, fees and charges for both the Council and its leisure provider.

5.8.3 The introduction of 75% Business Rates/Fair Funding and a Reset of Business Rates in 2022-23 will have a material impact on funding and at best 75% Business Rate will be financially neutral. Proposed changes to the New Homes Bonus scheme could also provide severe financial challenges to the Council. In addition any such changes will also have an impact on service provision for other tiers of the public sector within Staffordshire and could create additional cost pressures arising from changing service demands.

5.8.4 In light of the current uncertainty but more importantly to reflect the Councils Recovery Strategy Cabinet at its meeting of the 15 October 2020 undertook to consult and engage with the community on a new Corporate Plan for 2021 -24. The plan included three proposed priorities:

1. Supporting Economic Recovery
2. Supporting Health & Wellbeing
3. Financially Resilient District

5.8.5 The latter priority included the following short and medium to long term objectives

To protect front line services by:

- being a financially sustainable Council that lives within its means

- making the best use of limited resources – managing our people, money and assets
- maintaining a robust corporate infrastructure which underpins the delivery of critical services

To realign and attract resources that enable the Council to facilitate an economy, community and environment that is more resilient in the future

5.8.6 In accordance with the Financial Recovery Action Plan an interim budget strategy is therefore proposed for 2020-21 and 2021-22 whereby the focus is on Recovery and in particular the maintenance of service provision as a minimum. To that end earmarked reserves and working balances will be used to maintain a balanced budget in the short term.

Table 8: Interim Budget Strategy

	20-21	21-22	22-23	23-24
	£'000	£'000	£'000	£'000
Revised October 2020	706	2,015	1,001	1,571
Use of Earmarked Reserves	(706)	(748)		
Use of Working Balances		(1,267)		
Efficiency Requirement			1,001	1,571

5.8.7 The Council will continue with its ambitions to Reshape the District provided it is prudent, affordable and sustainable with the aim to provide a balanced and a sustainable medium term financial plan thereafter reflecting the New Local Government Funding Regime

5.8.8 In light of the potential deficits that exist in 2022-23 and 2023-24 the Council will need to continue to progress the development of saving options over the next 12 months to address the underlying deficit, to be identified, and potentially implement as part of the 2022-23 budget process or sooner as our financial position becomes clearer

5.9 Reserves and Balances

5.9.1 Reserves and Balances comprise the Council's general reserves, the Working Balance, and Earmarked Reserves. The general strategy for using unallocated reserves is that they are used to meet shortfalls in the net budget during the year. The impact of COVID 19 has necessitated a fundamental review of reserves and balances and the level of reserves is particularly important in the current economic circumstances when sources of income are particularly volatile. Measures have been put in place to address the deficit in 2020-21 (Earmarked Reserves) and to enable a transitional funding regime to exist in advance of the new funding regime being introduced in 2022-23 (Balances)

The Working Balance

- 5.9.2 The overall General Fund balance at 31 March 1 April 2020 was £2.624 million, and consisted of the General Fund balance set at a minimum of £1.0 million, together with an earmarked reserve of £1.624 to support the Capital Programme.
- 5.9.3 The impact of COVID 19 has necessitated that the reserve is now required to support the budget and the full utilisation of this reserve will still leave a forecast deficit in 2022-23 of £0.644million and 2023-24of £1.571 million. Subject to the assumptions of the changes to the funding regime arising Efficiency savings etc. will need to be implemented in advance of the 2022-23 budget process if not earlier in order to maintain Working Balances at £1million.
- 5.9.4 The Chartered Institute of Finance and Accountancy (CIPFA) guidance states that a well-managed authority with a prudent approach to budgeting should be able to operate with a relatively low level of general reserves and that, in assessing the level of reserves, the Section 151 officer should take into account the strategic, operational and financial risks facing the authority.
- 5.9.5 **APPENDIX 3** highlights the risk areas that need to be taken into consideration when deciding on the minimum level of the General Fund balance

Earmarked Reserves

- 5.9.6 The Council maintains a number of earmarked reserves which have been set aside for specific risks, for known future spending requirements or for specific projects.
- 5.9 .7 In light of the impact of COVID 19 a full review of Earmarked Reserves has been undertaken to address the deficit facing the Council in 2020-21. Unfortunately that has required the Council to release previously earmarked reserves of £1.454 million to support the budget process and maintain service provision. As at 31 March 2020 Earmarked Revenue Reserves, amounted to £3.58 million (excluding the Business rates reserve) and based on the Financial Plan assumptions, are expected to reduce to £2 million by March 2023. The actual level will vary as the utilisation of Ring Fenced Grants and General Earmarked Reserves are approved over the duration of the Financial Plan. A further full review will be required if the scenarios as identified above materialise.
- 5.10 **Capital Programme 2020-21 – 2023-24**

- 5.10.1 Council approved the current Capital Programme in January 2020 and the list of schemes included in the programme is set out in **APPENDIX 4** for information. The Programme has been reviewed to reflect slippage from the 2019-20 financial year whereby uncommitted resources were estimated to be £0.592 million at 31 March 2023. The inclusion of new schemes approved in 2020-21 now results in £0.492 million of uncommitted receipts, although it should be noted that this balance is dependant upon the earmarked capital receipts proceeding.

5.10.2 No Provision has been made for any new schemes at this stage with the Capital Programme and Asset Management Plan subject to detailed review as part of the Budget Process.

5.10.3 In light of the dependency of the existing uncommitted balance, and the potential requirements of the asset management plan , future programmes will therefore be financed by the generation of Capital Receipts and the potential use of Prudential Borrowing subject to its financing being prudent, sustainable and affordable.

6 Implications

6.1 Financial

The financial implications have been referred to throughout the report.

6.2 Legal

None.

6.3 Human Resources

None.

6.4 Section 17 (Crime Prevention)

None.

6.5 Human Rights Act

None.

6.6 Data Protection

None.

6.7 Risk Management

None.

6.8 Equality & Diversity

None.

6.9 Best Value

None.

7 Appendices to the Report

Appendix 1: Draft Financial Plan – Revenue October 2020

Appendix 2: Revenue Known Variations to Approved Budget

Appendix 3 Working Balance – Financial Risks facing the Authority

Appendix 4 General Fund and Section 106 Capital Budgets 2020/21 to
2023/24

Background Papers

File available in Financial Services

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DRAFT FINANCIAL PLAN - REVENUE OCTOBER 2020

		2020-21	2021-22	2022-23	2023-24
		£'000	£'000	£'000	£'000
Line No.	Portfolio spending				
1	Base (Council 12 February 2020)	13,177	13,437	13,864	13,864
2	Pay inflation	80	80	80	290
3	Other inflation				225
4	Income				-150
5	Recharges	-20	-20	-20	-138
6		13,237	13,497	13,924	14,091
7	Known variations	1,836	1,710	758	587
8		15,073	15,207	14,682	14,678
9	Investment Income/Technical Items	-271	-250	-250	-250
10	Cap Fin etc	275	254	234	234
11	Reserves	330	292	-241	-241
12	Other	-36	-24	-24	-24
13	Known variations	168	-530	-161	192
14	Net spending	15,539	14,949	14,240	14,589
	Financed By				
15	New Burdens	-97	-97	-97	-97
16	Business Rates Retention	-5,430	-5,747	-5,413	-5,413
17	New Homes Bonus Grant	-1,478	-1,090	-611	-611
18	Council Tax	-6,471	-6,682	-6,879	-6,879
19	Known variations	-1,357	682	-239	-18
20	Net financing	-14,833	-12,934	-13,239	-13,018
21	Efficiency Requirement	706	2,015	1,001	1,571

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<u>REVENUE KNOWN VARIATIONS TO APPROVED BUDGET</u>					
		2020-21	2021-22	2022-23	2023-24
		£'000	£'000	£'000	£'000
Line No.	Known Variations				
	<u>Approved /Committed Variations</u>				
1	Cemetery	39	15	-5	-42
2	District Elections	-108	108		
3	Sub Total	-69	123	-5	-42
	<u>Potential Variations</u>				
4	Actuarial Valuation				206
5	Dem Growth				22
6	Cost pressures COVID Income Guarantee	863	1,217	559	279
7	Off Street Car Parking	408	215	108	54
8	Markets - reduce Income	135	11	6	3
9	Bereavement Fees	16		0	0
10	Dev Control	85	72	36	18
11	Land Charges		6	3	2
12	Building Ctrl	30	0	0	0
13	Court Costs	213	16	8	4
14	Licensing	32	7	3	1
15	Parks	28	0	0	0
16	Other Income	24	3	0	0
17	Outturn	71	40	40	40
18	Sub Total	1,905	1,587	763	629
19	Total Known Variations	1,836	1,710	758	587
	<u>Investment & Technical</u>				
20	Reserves				
21	Business Rates Reserve		-245	-245	150
22	Investment Income	168	168	84	42
23	Contingency Reserve		-453		
24	Sub Total	168	-530	-161	192
25	Net spending	2,004	1,180	597	779

REVENUE KNOWN VARIATIONS TO APPROVED BUDGET					
		2020-21	2021-22	2022-23	2023-24
		£'000	£'000	£'000	£'000
Line No.	Known Variations				
	Financed By				
	<u>Potential Variations</u>				
26	Grant Covid	-1,586			
27	Income Guarantee	-541			
28	New Burdens etc. Covid Impact	-130			
29	Business Rates	340	563		-108
30	Mill Green	452			
31	Council tax	108	75		
32	Reserve Release		212		
33	Council Tax Base				-70
34	Council Tax inflation				-134
35	New Homes Bonus				611
36	NHB returned		-168	-239	-317
37	Net financing	-1,357	682	-239	-18
38	Deficit Ref to Working Balances	647	1,862	358	761
R1	As approved By Council	-1	93	583	583
R2	Pay Award/Inflation	60	60	60	227
R3	Variations	647	1,862	358	761
R4	Revised	706	2,015	1,001	1,571

Working Balance - Financial Risks facing the Authority

RISK	Level of risk	Explanation of risk/justification for cover
Inflation	Medium	Inflation has been included in the Financial Plan in accordance with Government policy.
Investment interest	Medium	The amount earned depends on the prevailing interest rates and the level of cash balances held.
Major income sources:		
<ul style="list-style-type: none"> • Planning fees 	Medium	Dependent on economic conditions.
<ul style="list-style-type: none"> • Land charges fees 	Low	Dependent on the housing market / basis of determining recoverable expenses/ proposed transfer to Land Registry.
<ul style="list-style-type: none"> • Car parking 	High	Certain amount of volatility based on demand.
<ul style="list-style-type: none"> • District Markets 	High	Dependent on occupancy levels.
<ul style="list-style-type: none"> • Environmental services 	Low	Licensing income dependent on renewals.
<ul style="list-style-type: none"> • Bereavement services 	Medium	Some risk as it is a main source of income.
Spending pressures:		
<ul style="list-style-type: none"> • Waste and recycling targets 	Low	The Council will need to reach recycling targets in order to maximise income from recycling credits and avoid penalties. Recycling Credit regime operated by County Council
Funding Sources		
<ul style="list-style-type: none"> • New Homes Bonus 	High	Although allocations for 2021-22 can be predicted accurately, the future level of funding is now not only dependent upon completions of new properties but what incentive scheme will exist instead of New Homes Bonus. A prudent approach has been set for the outcome of the scheme with only legacy payments existing post 2020/21`

RISK	Level of risk	Explanation of risk/justification for cover
<ul style="list-style-type: none"> 75% Business Rates Scheme and Resets 	High	<p>A new scheme is to be introduced wef April 2023. In addition a reset of growth achieved under the current system will take place at the same time This will not only impact on growth achieved to date but also potentially that of the WMDOV and hence could have a material impact.</p>
<ul style="list-style-type: none"> Volatility in Business Rates 	High	<p>The Council will be exposed to volatility or reduction in its business rates due to the failure or temporary closure of a key industry and successful back dated appeals against Rateable Values. Although this gives councils greater freedoms and removes dependency on central funding it passes on greater risks core funding will reduce if Business Rates contracts.</p>

General Fund and Section 106 Capital Budgets 2020/21 TO 2023/24					
	2020/21	2021/22	2022/23	2023/24	Approved
	Revised				
	£000	£000	£000	£001	£000
HOUSING					
Disabled Facilities Grants	1,396	926	926	-	296
Private Sector Decent Homes	27	-	-	-	-
Total Housing General Fund	1,423	926	926	-	296
ENVIRONMENT					
Home Security Grants	19	18	-	-	-
Wheelie Bin Replacement	146	100	90	-	80
Replacement Vehicles - cleansing	-	-	-	-	15
Replacement Vehicles - countryside	40	-	-	-	38
Car Park Improvements	90	-	-	-	202
Replacement Vehicles - Grounds	86	-	-	-	19
Total Environment	381	118	90	-	316
CRIME AND PARTNERSHIPS					
CCTV	-	-	-	-	67
Total Crime & Partnerships	-	-	-	-	67
CULTURE AND SPORT					
Additional Cemetery Provision	1,410	-	-	-	-
Stile Cop Cemetery Modular build	60	-	-	-	-
Hednesford Park Improvements (part s106 funding)	-	-	-	-	174
Stadium Development (Phase 2)	-	-	-	-	276
Relocation Arthur Street Play Area (s106)	-	-	-	-	3
Multi Use Games Area, Laburnum Avenue (s106)	-	-	-	-	121
Heath Hayes Park/Pitch Refurbishment	-	-	-	-	115
Replacement Vehicles - Cemeteries	-	-	-	-	51
Play Area and Open Space Rugeley	48	-	-	-	-
Play Area and Open Space Penny Cress Green	186	-	-	-	-
Rugeley ATP	844	-	-	-	-
Cannock East (CIL)	-	-	-	-	210
Total Culture and Sport	2,548	-	-	-	950
ECONOMIC REGENERATION AND PLANNING					
Economic Development & Physical Assets	176	-	-	-	-
District Investment	-	-	-	-	5,545
Commonwealth Games	-	100	-	-	100
Lets Grow Grants	38	-	-	-	-
Hawks Green Rationalisation	204	-	-	-	-
Total Economic Regeneration and Planning	418	100	-	-	5,645

General Fund and Section 106 Capital Budgets 2020/21 TO 2023/24					
	2020/21	2021/22	2022/23	2023/24	Approved
	Revised				
	£000	£000	£000	£000	£000
CORPORATE IMPROVEMENT					
Financial Management System	250	-	-	-	-
IT Infrastructure	-	-	-	-	202
Total Corporate Improvement	250	-	-	-	202
TOWN CENTRE REGENERATION					
Prince of Wales Theatre	53	-	-	-	-
Rugeley Pedestrian Cycle Linkage (S106)	219	-	-	-	-
Total Town Centre Regeneration	272	-	-	-	-
TOTAL CAPITAL PROGRAMME	5,292	1,144	1,016	-	7,476