ITEM NO. 9.1

Joint Report of:	**Managing Director and Head of Finance**
Contact Officer:	**Tony McGovern Bob Kean**
Telephone No:	**01543 464553 01543 464334**
Portfolio Leader:	**Leader of Council**
Key Decision:	**No**
Report Track:	**Cabinet: 21/07/16**

CABINET

21 JULY, 2016

2016-17 TO 2018-19 BUDGET UPDATE AND FINANCIAL RECOVERY PLAN

1 Purpose of Report

1.1 To update Members on the impact of the closure of Rugeley Power Station , the request for Transitional Funding and the latest developments in relation to the Councils Budget and the overall Local Government Financial Regime.

1.2 To outline the Councils proposed Financial Recovery Plan including Budget Strategy and Timetable based upon an updated General Fund Revenue Budget for 2016-17 to 2019-20.

2 Recommendations

Cabinet is asked to

2.1 Note the financial impact of the closure of Rugeley Power Station on the Council's financial position from 2016-17 onwards;

2.2 Note the outcome of the request for Transitional Funding for 2017-18 and 2018-19 from the Department of Communities and Local Government;

2.3 Approve the implementation of the revised Financial Plan for 2016-17 to 2019-20 and Budget Strategy;

2.4 Approve the timetable set out in Appendix D to produce a Financial Recovery Plan to address the material change in financial circumstances facing the Council.

3 Key Issues and Reasons for Recommendation

3.1 Cabinet at its meeting of the 1 February, 2016 made its recommendations to Council in relation to the 2016-17 Budget and set a balanced budget for 2016-17 and 2017-18 but faced a material deficit in 2018-19.

3.2 The announcement of the premature closure of Rugeley Power Station necessitated a revised Budget being approved by Council with working balances being used to offset the £700,000 reduction in business rates income in 2016-17 when the power station ceased production on 6th June 2016. The ongoing full year loss of business rates for the Council amounts to over £1 million per annum.

3.3 In determining the Budget for 2016-17 and indicative Budgets for 2017-18 and 2018-19, Members had been advised that projections for future years need to be treated with a great deal of caution and the implementation of fundamental policy decisions deferred until a clearer financial plan became available during 2016-17. Key elements included changes to New Homes Bonus; 100% Business Rates Retention; business rates income from Mill Green Retail Outlet Centre and the outcome from the Councils request for Transitional Funding from the Government.

3.4 Transitional Funding totalling £300m at national level has been allocated to a number of Councils for 2016-17 and 2017-18 "to ease the pace of reductions during the most difficult first two years of the 4 year Local Government settlement". The earlier than anticipated closure of Rugeley Power Station , and the subsequent loss of business rates of over £1m per annum put all key services at risk and a meeting was arranged with the Minister for Local Government to discuss the unusual and unfortunate circumstances the Council faced. The reduction in business rates income by 25% and the overall reduction in spending power of 15% are significant and immediate reductions and the Council formally wrote to the DCLG in February 2016 requesting transitional financial relief to mitigate these unusual circumstances until Mill Green Outlet Village was established which mitigates 73% of the loss of business rates from the power station.

3.5 Pending the meeting, a draft Financial Recovery Plan has been developed and the Council's Budget Strategy reviewed. The financial predicament that the Council now faces, taking into account the savings already made over the last five years is extremely challenging. Officers are currently drafting financial savings options that cover all the services of the Council with the exception of the recently let Refuse and Recycling Waste Contract, and all budget strategies for each service are being explored from Invest to Save to cessation of the service.

3.6 The Leader and Deputy Leader of the Council, together with the Managing Director and Head of Finance and Amanda Milling MP met with the Parliamentary Secretary of State and civil servants on 11 July 2016. Although the Minister acknowledged the unfortunate position the Council was in, he stated that transitional funding was no longer available and no mechanism existed to provide such funding to take account of the Council's unusual circumstances. The Minister would however examine ways to support the re-development of the Power Station site. In addition the Government were keen to identify how the new Self Sufficient Local Government 100% Business Rates Retention Scheme, to be introduced in 2020, could insulate against such shocks and provide a smooth transition for Councils subject to a significant loss of business rates income from a change in national policy or closure.

3.7 The lack of any Transitional Funding support from Government means that the Council has to address an immediate deficit of £0.700 million in the current year, a deficit that peaks at £2.15 million in 2018-19 with an ongoing deficit of £1.6 million from 2019-20 onwards (subject to Mill Green Retail Outlet Centre being opened on time) . The utilisation of working balances will potentially enable the shortfall in 2016-17 and the additional deficit of £0.550 million in 2018-19 to be addressed. Nevertheless, the lack of transitional funding will require the Council to produce a Financial Recovery Plan to be implemented immediately and savings delivered from 1 April 2017. The savings are some 33% in excess of that forecast pre the closure of Rugeley Power Station and are required to be implemented some 12 months earlier than initially thought. This will require some difficult decisions that will affect frontline services across the District.

3.8 Appendix 4 to the report shows the timeline for the Financial Recovery Plan. It will be noted that Officers are currently working up options for consideration by Cabinet in September. The implementation of the Financial Recovery Plan will require the Council to initially engage with all its partners /organisations in receipt of funding /concerned with service provision to make them aware of the Councils predicament and determine options and timescales for consideration by Cabinet

3.9 Cabinet will consider all potential options at its meeting in September. Consultation on proposed savings options will then commence for a six week period. The outcome will feed into a Draft Budget for consultation in December in advance of the formal budget setting timeline. Formal decisions will be taken in early 2017.

3.10 The Recovery Plan includes a Peer Review which the Council has volunteered for. This is co-ordinated by the Local Government Association and consists of a team of peers (Elected Members and Officers) spending three days in the organisation during September 2016. The Peer challenge has been commissioned to provide an external check and reassurance that what the Council is doing, and planning to do, looks relevant and realistic – particularly in terms of the strategy for realising savings and achieving a balanced budget over the medium and longer term to enable future financial viability and sustainability.

3.11 It should be noted that Cannock Chase Council has delivered a very strong performance on business rates growth over the past three years; has facilitated just under 1,000 houses on site and under construction in 2016/17; supported the growth of small businesses via rates relief and reduced the costs of Council services whilst protecting levels of service provision by a long term partnership with a charity to provide leisure services, reduced management and shared services with Stafford Borough Council.

3.12 However, the Council is now facing the most difficult financial position for many years as a result of the closure of Rugeley Power Station combined with the expected loss of Government Grant plus the reduction in New Homes Bonus and other smaller scale funding reductions. The consequent decisions that the Council will need to make to achieve financial balance in the next Budget period will require both consultation with the public and with trade unions and a timetable for this process is attached for approval. Potential risks are that services to the public will be affected and the capacity of the Council to continue to deliver economic growth, housing growth and jobs may be materially impacted.

4 Relationship to Corporate Priorities

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

5 Report Detail

Pre Closure Budget

5.1 Cabinet at its meeting of the 1 February, 2016 made its recommendations to Council in relation to the 2016-17 budget. The recommended Budget reflected the 4 year Local Government Settlement (Provisional) and included effectively a balanced budget for 2016-17 and 2017-18 but a budget shortfall of £1.22 million in 2018-19 as shown in Table 1.

Table 1 :Budget position pre- closure of Rugeley Power Station			
	2016-17	**2017-18**	**2018-19**
	£'000	**£'000**	**£'000**
Surplus	**(167)**		
Deficit		**11**	**1,222**

5.2 Council at its meeting of the 16 February received a Budget Update report amending the Recommendation to Council. The update followed two announcements post the Cabinet Meeting relating to a) the expected closure of Rugeley Power Station and b) the Final Local Government Settlement.

Expected Closure of Rugeley Power Station

5.3 Engie the joint owner, with Mitsui & Co Ltd, of Rugeley Power Station announced on the 8 February 2016 that, due to the deterioration in market conditions for UK coal fired power stations, Rugeley Power Station was expected to cease market operations in early summer 2016.

5.4 Rugeley Power Station (RPS) at that time had a Rateable Value of £7.85 million representing nearly 9% of Business Rates for the District. The Business Rates payable for 2016-17 was then estimated to be £3.9 million with a direct loss to the Council from the Business Rates Retention Scheme of in excess of £1million per annum (The Council due to the level of business rates growth it had achieved was not protected by the Business Rates Safety Net provision which would have limited the Councils exposure to £0.206 million per annum). The Budget update report of the 16 February indicated the worst case scenario was a loss of some £700,000 for 2016-17 –based upon a June 2016 closure- rising to the £1,054,750(including inflation) in 2017-18 and beyond.

Final Local Government Settlement - Transitional Funding

5.5 The Final Local Government Finance Settlement was announced on the 8 February 2016. The settlement contained no changes to the determination of the Spending Assessment but had made three changes of a transitional nature as follows:-

- Rural Services Delivery Grant increased in 2016-17 and 2017-18
- Transitional grant, totalling £150 million nationwide, awarded in each of the 2016-17 and 2017-18 financial years for the councils most adversely affected by the change in revenue support grant.
- Removal of additional tariff / top-up adjustment (no negative RSG) in 2017-18 and 2018-19.
- The option to increase Council Tax by the maximum of £5 or 2% for all district councils.

5.6 Transitional funding was provided "to ease the pace of reductions during the most difficult first 2 years of the settlement for Councils with the sharpest reductions in Revenue Support Grant". The methodology for determining the settlement had however changed from previous settlements. District Councils have been identified as a unique funding element within the settlement with a standard % reduction being applied to each district based upon its combined Spending Assessment (Business Rates Baseline and Revenue Support Grant) and Council Tax requirement. The application of transitional funding to Revenue Support Grant alone was flawed.

5.7 The Council although subject to the standard reduction in the Settlement Spending Assessment did not receive Transitional Funding (and was also not subject to Rural Services Delivery Grant / removal of additional tariff/top up adjustment).

Approved Budget

5.8 In light of the potential material impact in the authorities' finances, as a result of the proposed closure of the Power Station in 2016-17, an equivalent transfer from Working Balances was recommend to set a Balanced Budget. The Budget Recommended to Council was revised as follows with a new shortfall of £1.066 million in 2017-18 and an increased deficit of £2.308 million in 2018-19.

Table 2: Approved Budget as approved by Council February 2016.			
	2016-17	**2017-18**	**2018-19**
	£'000	**£'000**	**£'000**
(Surplus)/Deficit	**(167)**	11	1,222
Impact of closure	700	1,055	1,086
Use of Balances	(700)		
Revised (Surplus)/Deficit	**(167)**	**1,066**	**2,308**

5.9 Council at its meeting of the 16 February 2016 approved the updated budget and noted that a request for Transitional Funding resulting from the expected closure of Rugeley Power Station had been made to the Parliamentary Under Secretary of State (Minister for Local Government)- Appendix A.

5.10 Cabinet and Council in determining the Budget for 2016-17 and Indicative Budgets for 2017-18 and 2018-19 had been advised that projections for future years needed to be treated with a great deal of caution and the implementation of fundamental policy decisions deferred until a clearer financial plan becomes available during 2016-17.Although a 4 year settlement was on an offer covering the period 2016-17 to 2019-20 the Government had recently announced a consultation in relation to New Homes Bonus and had proposed that, in the future ,Local Government would be able to retain 100% of Business Rates income. The latter was however to be fiscally neutral with additional responsibilities to be transferred to offset the additional funding available.

100% Business Rates Retention

5.11 A great deal of uncertainty still exists in relation to these two schemes. The Government published a consultation document on the 5 July 2016 in relation to Business Rates. However the scheme is still in the design stage with the Timetable for Reform as follows:

Consultation ending 26 September 2016	Consultation on the approach to 100% business rates retention.
Autumn 2016	There will be a further, more technical, consultation on specific workings of the reformed system.
Early 2017	As per the Queen's Speech, the Government will introduce legislation in this Parliamentary session to provide the framework for the reforms; with the expectation that the legislation will be

	introduced later in the Parliamentary session.
April 2017	Piloting of the approach to 100% business rates retention to begin.
By end of the Parliament	Implementation of 100% business rates retention

5.12 The Consultation Document includes a number of questions re the approach to be adopted in designing a scheme. A schedule of the consultation Questions is attached as Appendix B. The consultation runs from 5 July to 26 September 2016.

New Homes Bonus

5.13 Details of the Governments response to the New Homes Bonus Consultation are still awaited.

Financial Plan 2016-17 to 2019-20

5.14 In light of the above uncertainty and the Councils financial predicament the Medium Term Financial Plan / Position of the Council continues to be updated. The latest Financial Plan (Appendix C) has been updated to reflect the Financial Outturn for 2015-16; projected levels of income and expenditure for 2019-20; the direct financial impact of the County Councils Medium Term Financial Plan and other known changes.

5.15 The Financial Outturn for 2015-16 (see separate report else where on the Agenda) includes a transfer to Balances of £0.664 million. The transfer will act to mitigate the closure impact in 2016-17 however it is anticipated that only £0.113 million of the transfer can be translated into ongoing savings. The latest plan includes the deferral of the reduction in recycling credits from 2018-19 to 2019-20 (County Council MTF) together with latest projections for Business Rates and New Homes Bonus.

Mill Green Retail Outlet Centre

5.16 The Business Rates projections include the proposed opening of the Mill Green Retail Outlet Centre from 2019-20. It is difficult to accurately forecast business rates income from the development due to the pending revaluation of all business rates from 2017-18, the introduction of a new Business Rates Scheme and the resultant abolition of Business Rate Pools. Neverthless based upon current revaluations Phase 1 of Mill Green is forecast to represent 73% of RPS, leaving a shortfall of £0.270 million. Phase 2 of Mill Green which would potentially fully offset RPS is however not guaranteed with no timeframe currently in place and is ultimately dependant upon the success of Phase 1.

5.17 The latest forecast for the Council is as follows

Table3: Updated Financial Plan July 2016				
	2016-17	**2017-18**	**2018-19**	**2019-20**
	£'000	**£'000**	**£'000**	**£'000**
(Surplus)/Deficit	(170)	1,337	2,147	1,579

Budget Strategy and Financial Recovery Plan

5.18 Members will be aware that pre the closure announcement of RPS a Budget Strategy existed to identifying options to mitigate the deficit facing the Council in 2018-19.The announcements of the 8 February 2016 triggered the development of a Financial Recovery Plan pending the outcome of the application for Transitional Funding.

5.19 The Draft Financial Recovery Plan is set against the great deal of uncertainty that existed with the council facing an ongoing minimum saving requirement ranging from £1.2 million rising to £2.4 million if Mill Green does not progress.

5.20 The first stage of the Financial Recovery Plan attempted to identify a) the true level of ongoing savings and b) measures to address any short term gap between the ongoing saving and the peak in 2018-19.

5.21 Officers of the Council have therefore, following discussions with the Leader of the Council:-

- Undertaken an initial review Base budgets to identify any potential ongoing underspends/efficiencies/potential to capitalise expenditure
- Requested a review of ear marked reserves and capital resources to identify any additional one off resources
- Set saving targets for each Head of Service
- Established an officer steering group to ensure each service is subject to review against the Cabinets Budget Strategy and the priorities of the Council as contained in the Corporate Plan.

5.22 The Budget Strategy involves

a) Invest to Save – The Council will review its assets/plant and equipment and other investment opportunities to determine whether initial upfront investment will deliver ongoing revenue savings.The review will not only focus on capital expenditure but a review of service delivery and the potential for cross cutting initatives. In addition to the current sharing of accommodation initiatives, all other aspects of asset management including rationalisation of assets; disposal of land and building and invest to save initiatives including energy efficiency measures will be explored.In relation to service delivery the Council continues to review its procurement strategy to ensure services are commissioned that provide value for money and that prices are not only competitive but the services actually reflect the right level of demand. A key element of the Strategy is to ensure that key funding streams such as Business Rates and Housing growth are invested in. The Financial Recovery Plan will review both existing and forecast borrowing requirements/financing strategies. However as a result of Transitional Funding not being available the proposed use of Revenue Contribution To Capital Outlay to provide ongoing savings of £135,000 per annum has been put on hold until 2019-20

b) Maximising Income - A significant amount of support for the Council's Budget comes from fees and charges. Key sources of fees and charges under the direct control of the Council are development control (planning), building control fees, car parking, and bereavement income and market rents. In addition to reviewing the scope for increasing fees and charges for current Council services it is possible to consider charging for discretionary services and introducing new charges to raise new income streams. In addition the availability of all forms of external funding will be explored ,subject to the funding releasing existing resources and resulting in an ongoing revenue saving.

c) Sharing Services - Efficiencies and service variations are constantly under review to deliver savings. Alternative methods of service delivery exist including in–house provision; trust and partnership working and shared services and all such options provide opportunities to ensure services are provided in the most effective and efficient manner. The Council currently shares services with Stafford Borough Council and the option to extend this service or share with another authority will be explored and business cases developed. The Council is a member of two LEPS and GBSLEP Business Rate pool and scope exists for efficiency saving/ contributions to core funding by the pooling and alignment of revenue and capital resources; sharing and developing economic development activities and re-allocating resources to grant earning activities.

d) Integration with other Services –

The necessary downsizing of the organisation will require services to be reconfigured/re-aligned, not only to identify further efficiency savings, but also to make them more resilient.

e) Reduction in Service Provision --

Any reduction in service provision represents the last resort to the Council however reductions are unavoidable based upon the financial deficit facing the Council. The Council will review services to determine its statutory /mandatory requirement and will determine whether the specification can be reduced; minimum service provision only or whether certain services need to cease entirely.

f) Senior Management - A review of senior management is also to be undertaken. A key element of the restructure will be the residual service provision of the Council following implementation of the Financial Recovery Plan. The last restructure took place in February 2015 with a resultant reduction in the capacity of the organisation. Hence any restructure will need to be linked to a reduction in management workload/activities which may also have an impact on service provision

Application for Transitional Funding

5.23 A key element of the Financial Recovery Plan was seeking transitional funding from the Government. A further request was made for a meeting following the confirmation by Engie in May 2016 that RPS would cease power production in June (actual production ceased on the 6 June)

5.24 A meeting was therefore arranged with the Parliamentary Under Secretary for State; Cannock Chase's MP Amanda Milling; The Leader and Deputy Leader and the Managing Director and Deputy MD on the 11 July 2016.

5.25 The Council's ask from the Government, as articulated by the MP, the Leader of the Council and Managing Director was for transitional funding for 2017-18 and 2018-19 to offset the loss of Business Rates in relation to Rugeley Power Station (RPS) pending the opening of Mill Green Retail Outlet Centre. The Transitional funding request amounts to £0.840 million in 2017-18 and £0.857 million in 2018-19 and was net of the cost the Council would have borne if it had been subject to safety net protection.

5.26 The Minister for Local Government acknowledged the unfortunate position the Council was in but stated that transitional funding was no longer available and no mechanism existed to provide such funding to take account of the Councils unusual circumstances. The Minister however would examine ways to support the re-development of the Power Station site. In addition the Government were keen to identify how the new Self Sufficient Local Government:100% Business Rates Retention Scheme to be introduced in 2020 could insulate shocks and provide a smooth transition for Councils subject to national policy change or closure .

5.27 The Leader of the Council reiterated that without transitional funding the only other alternative available to this Council would be to make unprecedented reductions to the remaining level of services that remain within our direct control. The reductions in essence would be 33% higher than without transitional funding; implemented 12 months earlier than anticipated and made without full knowledge of the local government funding regime.

Implementation of financial recovery plan

5.28 Confirmation that transitional funding is not available necessitates that a Financial Recovery Plan is initiated based upon delivering a minimum of £1.6 million of savings with effect from 1 April 2017.

5.29 A copy of the Financial Recovery Timeline is attached as Appendix D. It will be noted that Officers are currently working up Options for consideration by cabinet in September. The implementation of the Financial Recovery Plan will require the Council to initially engage with all its partners /organisations in receipt of funding /concerned with service provision to make them aware of the Councils predicament and determine options and timescales for consideration by Cabinet.

5.30 Cabinet will consider all potential options at its meeting in September Consultation on Draft Options will then commence for a six week period. The outcome of which will feed into a Draft Budget for consultation in December in advance of the formal budget setting timeline.

5.30 The Recovery Plan includes a Peer Review of the Council. The peer challenge has been commissioned to provide an external check and reassurance that what the Council is doing, and planning to do, looks relevant and realistic – particularly in terms of the strategy for realising savings and achieving a balanced budget over the medium and longer term to enable future financial viability and sustainability.

6 Implications

6.1 **Financial**

The Financial Implications have been referred to throughout the report.

6.2 **Legal**

The Legal Implications have been referred to throughout the report.

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 A	Letter to Parliamentary Secretary of State (Dated 15 February 2016).
Appendix B	Self-sufficient local government: 100% Business Rates Retention Consultation Document Summary of Questions
Appendix C	Financial Plan 2016-17 to 2019-20
Appendix D	Financial Recovery Plan Timeline

Previous Consideration

General Fund Budget and Capital Programme 2016-17 to 2018-19	Cabinet	1 February, 2016
2016-17 to 2018-19 Budget Update - Rugeley Power Station & Local Government settlement	Council	16 February,2016

Background Papers

ITEM NO. 9.13

Appendix A

15th February 2016

Mr. Marcus Jones MP
Parliamentary Under Secretary of State
Minister for Local Government
Department for Communities and Local Government
2 Marsham Street
London
SW1P 4DF

Dear Mr. Jones

Final Local Government Settlement – expected closure of Rugeley Power Station

I am writing to draw your attention to the implications of the expected closure of Rugeley Power Station on the ability of Cannock Chase Council to deliver effective services in the medium term. The closure of the Power Station, now anticipated to be June 2016, will result in a direct ongoing loss to this Council of £1 million in Business Rates. This will culminate in a shortfall of £3.4 million on its working balances by 31st March 2019, unless transitional funding can be provided by the Government.

If transitional funding is not forthcoming, then the only other alternative available to this Council would be to make unprecedented reductions to the remaining level of services that remain within our direct control. Obviously, the majority of these services would need supplementing, rather than reducing, in order to support the impact of the closure on the workforce, the local economy and the entire community of Rugeley.

The earlier than anticipated announcement of the closure of the Power Station by owners Engie (made on 8th February 2016) was devastating for both the local community and the Council. As you will be aware, this was the same date that the Final Local Government Settlement was approved by Parliament and transitional funding allocated to a number of authorities. The unfortunate timing of this announcement prevented the financial predicament of the Council being highlighted as a major concern in our response to the Local Government Provisional Settlement.

There has been various correspondence between this authority and the Government on the over reliance on Rugeley Power Station as a key source of Business Rates funding. In fact, a detailed analysis was provided in relation to the Business Rates Review Consultation (June 2015) and as recently as 23rd November 2015 we had written to the Secretary of State in relation to the Reform of Local Government Funding and the closure of Coal Fired Power Stations. The focus of that letter, in response to the consultation document by the Secretary of State for Energy and Climate Change on a “New direction for UK energy policy”, related to the impact of the anticipated closure of unabated coal fire power stations by 2025. In particular, it raised issues to be considered as part of the proposed new 100% Business Rates retention system rather than an imminent closure of the Power Station and the associated shortfall in revenue budgets.

Consequently, since the premature announcement of closure in June 2016, the financial stability of this Council has been compromised thus, I believe, this shortfall in funding cannot wait to be addressed by the introduction of the new Business Rates system and transitional funding is required with immediate effect.

The General Fund Budget to be considered by Cannock Chase Council tomorrow (Tuesday 16th February 2016) identifies a shortfall in the current year of £700,000 rising to £2.3 million in 2018/19. The deficit in 2016/17 arises solely as a result of the anticipated closure of the Power Station with the 2018/19 deficit reflecting the closure (£1 million) and the reduction in Government support over this period.
Rugeley Power Station (RPS) currently has a rateable value of £7.85 million representing nearly 9% of Business Rates for the District. The Business Rates payable for 2016-17 is estimated to be £3.9 million. The Council, in accordance with the current Business Rates retention scheme, can retain/is liable for 40% of any change in rateable value. It should also be noted that the closure also impacts on Staffordshire County Council (9%) and to a lesser extent Staffordshire Fire Authority (1%).

This Council is currently in a growth position in terms of Business Rates. The Council’s retained income prior to the closure announcement was expected to be £4.275 million with a funding baseline of £2.786 million; hence any Business Rates above the Council’s baseline are subject to a 50% levy, reducing the retention liability to 20%. The Council is a member of the Greater Birmingham and Solihull Business Rates Pool with the current distribution methodology also enabling the Council to receive 32.5% of its levy (amounting to 6.5% of the growth/contraction element.).

As you will be aware, a safety net exists within the Business Rates scheme to protect local authorities whose Business Rate decreases; the protection is only equal to 92.5 % of its Business Rates baseline. The Business Rates income before levy is now expected to be £2.715 million as compared to the safety net guaranteed income from Business Rates of £2.578 million, hence the safety net will **not** apply to Cannock Chase Council.
The net impact in retained funding of the closure for this Council in a full year therefore amounts to £1,033,500 (26.5% of RPS Business Rates) and represents 8.3% of this Council’s net spending.

If the Council had not achieved growth and had been in a safety net position the impact to this Council would have only been £209,000 representing 7.5% of its baseline figure thus has been penalised for achieving the required growth.

In response to the Business Rates review, this Council highlighted the dependency of authorities on major businesses. A number of the high dependencies included the stellar/gold plated businesses such as Airport/Telecommunications and Channel Tunnels together with the more high risk businesses incorporating coal fired power stations.

The latter authorities included Selby, Rushcliffe, Bassetlaw and Cannock Chase. With the exception of this Council, the respective Power Stations for each authority were either successful as part of the Capacity Auction rounds, the National Grids Supplemental Balancing Reserve and/or are operating at or close to the baseline and hence are protected in the medium term.

Furthermore, the opportunity exists to address the major issues these Councils will face following eventual closure which can/and should be addressed as part of determining the “needs” level within the new Business Rates system. It is believed that although consultation will start this Summer on the new scheme, it is unlikely to be in place before the financial year 2020/21. Unfortunately, this time frame is unachievable for this Council without reductions being made in the level and quality of the services it provides.

In context of this Council’s growth situation, the amount of retained income has already been tempered by a reduction in the rateable value of RPS post determination of the Business Rates baseline. The Council’s overall rateable value has increased by £3.7 million, (4.4%) since 2012, despite a £1.3 million reduction in the rateable value of the Power Station. The increase reflects the Council driven regeneration initiatives in Hednesford, Rugeley and Chase Gateway, combined with successfully attracting businesses such as APC Distribution Ltd. into the local area. Business Rates retained income has also been tempered by the material reduction in Business Rates for GP Surgeries and Health Centres with the applications for Mandatory Rate Relief for NHS Trusts now posing a material threat to future retained income.

The remainder of the £2.3 million deficit of the Council relates to the changes and reductions in Government support between 2015/16 and 2018/19; the Council has been able to offset a large part of this already. A comparison of funding between 2015/16 and 2018/19 reveals that the Council will see a £2 million reduction in overall funding of which £0.9 million has already been found by efficiency savings and income growth.

Cannock Chase Council faces exactly the same problems as other authorities now in receipt of transitional funding in 2016/17 and 2017/18, but did not refer to it specifically in our response to the provisional settlement in January 2016 (a copy of the response is enclosed). The Council, although facing a significantly higher reduction in Revenue Support Grant than envisaged in our Medium Term Financial Plan, did not consider that this created a short term viability issue however, it did create a very challenging situation.

The combining of Council Tax with the Settlement Funding Assessment to determine the level of Revenue Support Grant reduction, together with the proposed New Homes Bonus changes resulted in the following additional shortfall on the Council's Budget:

Additional Impact of Provisional Settlement			
	2016-17 £'000	**2017-18 £'000**	**2018-19 £'000**
Assumed Reduction			
Spending Formula assessment	610	1,103	1,532
New Homes Bonus	(200)	(347)	(316)
Provisional Settlement Reduction			
Spending Formula assessment	783	1,413	1,805
New Homes Bonus allocation	(202)	(206)	104
Net Impact of Provisional Settlement	**171**	**451**	**693**

You will note that the Council had budgeted prudently for the reduction; our financial plan including a reduction in resources over the three years totalling £3.25 million as compared to an actual reduction of £4 million.

The impact on the Council resulted in the following overall budget being recommended to Council, inclusive of a 1.95% Council Tax increase:

Budget position pre- closure of Rugeley Power Station			
	2016-17	**2017-18**	**2018-19**
Surplus	**(167)**		
Deficit		**11**	**1,222**

This Council was prepared to address the issues of the 2018/19 deficit (£1.222 million) as part of its ongoing budget strategy. However, it needs to be recognised that meeting the overriding (non Power Station) deficit of £1.2 million is going to be extremely challenging, since the Council over the last number of years has already achieved ongoing efficiency savings of £3.5 million. These ongoing savings include:

	£m
• Shared back office services with Stafford Borough Council	0.576
• Outsourcing of Leisure Services	0.758

- Shared accommodation etc. with Partners 0.259
- Outsourcing of Refuse Collection Service 0.497
- Senior Management Restructure 0.604
- Returning of Ground Maintenance to in-house 0.113
- Capital Financing Savings 0.135

Large elements of the Council's service provision are now subject to contractual or partnership arrangements, thus any contractual amendments will be subject to financial penalties. The ten year (Plus10) Leisure contract at £1.8 million per annum commenced in 2012; whereas the recent seven year (Plus7) Waste Management contract at £2.0 million per annum initially runs to 2023.

The residual services, not subject to contractual or partnership arrangements, include Economic Development, Planning, Development Control, Environmental Health, Food and Safety, Environmental Protection and Licensing, CCTV and Grants to Third Sector (Citizens Advice Bureau etc.). A number of these services are seen as being fundamental in providing support to the workforce and the local community, following closure, and to the future development of the Power Station site both from an economic and regulatory perspective.

As stated previously, the Council had adopted the Government's growth incentive agenda and hence the decision of the Secretary of State in December 2015 not to call in the proposed outlet village at Mill Green was welcomed. In relation to this development, the Council had secured the land to enable development to take place, and over the last four years worked with Rioja Developments Ltd. to potentially see the first phase open by October 2018. It is hoped that on completion of Phase 2 the gross Business Rates will mitigate almost entirely the loss of Business Rates from RPS and hence we are only requesting time limited transitional funding. Unfortunately, the Mill Green development will now merely compensate for RPS rather than offsetting the Council's deficit.

Our response to the provisional settlement focused on the need to balance needs/incentives and protection and stated that:

> *"The Council welcomes the "growth" incentive regime but stresses that there must be a duty to protect front line services where authority's are unable to grow its economy or housing due to circumstances beyond its control and at the same time face challenges due to income, employment, education and healthy deprivation etc.*"

This Council did not request separate/special treatment as part of the Provisional Settlement response and acknowledged that since the Government proposed to allocate central funding in a way that ensures Councils' delivering the same set of services receive the same percentage change in 'settlement core funding' everyone would be treated the same and fairly.

The Council did however highlight, in relation to transitional measures, that:

"*some form of floors and ceilings mechanism needs to be in place to ensure any changes in overall funding to an authority is not subject to excessive increases or decreases. This mechanism should relate to overall spending power, including New Homes Bonus and Business Rates".*

The Council acknowledges that the forecast £3.4 million deficit in working balances was not reported as part of the Provisional Settlement, and that the Final Local Government Settlement has been approved by Parliament. The Council is however, encouraged by the fact that in his final settlement the Secretary of State has attempted to address material reductions in funding for other authorities.

The Secretary of State for Communities and Local Government in his response to the consultation on the provisional local government settlement stated:

"So, much in the provisional settlement was welcomed, but specific points were made about: the sharpness of changes in Government Grant in the early years of this Parliament concerns about the costs of service delivery in rural areas. Another very important point was made. Many Councils' felt that too much time has passed since the last substantial revision of the formula which assesses a Council's needs, and the costs it can be expected to incur in delivering services. These responses to the consultation seem to me reasonable and ought to be accommodated if at all possible. I have agreed to the responses to the consultation, which recommended additional funding to ease the pace of reductions during the most difficult first 2 years of the settlement for Councils with the sharpest reductions in Revenue Support Grant. I will make additional resources available in the form of a transitional grant, as proposed in their responses to the consultation by colleagues in Local Government. The grant will be worth £150 million a year, paid over the first 2 years."

Unfortunately, Cannock Chase Council just missed out on the Transitional Funding available with the Council appearing to be just on the cusp of the transitional grant threshold (with a 35% reduction in Revenue Support Grant between 2015/16 and 2016/17). In addition, the Council is only subject to negative Revenue Support Grant in 2019/20, and hence misses out on the abatement of any negative Revenue Support Grant in 2017/18 and 2018/19. It should, however, be noted that some authorities - which are only facing the same level of overall reduction in Settlement Funding Assessment as this Council – are in fact receiving an allocation of transitional funding and the abatement of negative Revenue Support Grant.

In summary, Cannock Chase Council believes it is experiencing an unusual and unfortunate set of circumstances. Although it is subject to the standard reduction in the

Settlement Spending Assessment and proposed reduction in New Homes Bonus it is in addition:

- facing the much earlier than anticipated closure of Rugeley Power Station with an additional ongoing shortfall of £1 million per annum with a subsequent impact on service provision;

- not in receipt of the transitional funding and the abatement of negative Revenue Support Grant; and

- is not subject to the Business Rates safety net.

In light of the above, I request that consideration be given to the allocation of transitional funding to this Council in 2016/17 to 2018/19.

We and Officers would welcome the opportunity to discuss with your representatives this Council's financial situation in more detail, and look forward to hearing from you at your earliest convenience.

Yours sincerely

George Adamson	Tony McGovern
Leader of the Council	Managing Director

Cc: The Rt Hon. Greg Clark MP, Secretary of State for Communities and Local Government
Amanda Milling MP for Cannock Chase

ITEM NO. 9.20

Appendix B

Self-sufficient local government: 100% Business Rates Retention Consultation Document Summary of Questions

Question 1: Which of these identified grants / responsibilities do you think are the best candidates to be funded from retained business rates?

Question 2: Are there other grants / responsibilities that you consider should be devolved instead of or alongside those identified above?

Question 3: Do you have any views on the range of associated budgets that could be pooled at the Combined Authority level?

Question 4: Do you have views on whether some or all of the commitments in existing and future deals could be funded through retained business rates?

Question 5: Do you agree that we should continue with the new burdens doctrine post-2020?

Question 6: Do you agree that we should fix reset periods for the system?

Question 7: What is the right balance in the system between rewarding growth and redistributing to meet changing need?

Question 8: Having regard to the balance between rewarding growth and protecting authorities with declining resources, how would you like to see a partial reset work?

Question 9: Is the current system of tariffs and top-ups the right one for redistribution between local authorities?

Question 10: Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?

Question 11: Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives, as set out above?

Question 12: What has your experience been of the tier splits under the current 50% rates retention scheme? What changes would you want to see under 100% rates retention system?

Question 13: Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages and disadvantages of this approach?

Question 14: What are your views on how we could further incentivise growth under a 100% retention scheme? Are there additional incentives for growth that we should consider?

Question 15: Would it be helpful to move some of the 'riskier' hereditaments off local lists? If so, what type of hereditaments should be moved?

Question 16: Would you support the idea of introducing area level lists in Combined Authority areas? If so, what type of properties could sit on these lists, and how should income be used? Could this approach work for other authorities?

Question 17: At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area (including Combined Authority), or national level (across all local authorities) management ***as set*** out in the options above?

Question 18: What would help your local authority better manage risks associated with successful business rates appeals?

Question 19: Would pooling risk, including a pool-area safety net, be attractive to local authorities?

Question 20: What level of income protection should a system aim to provide? Should this be nationally set, or defined at area levels?

Question 21: What are your views on which authority should be able to reduce the multiplier and how the costs should be met?

Question 22: What are your views on the interaction between the power to reduce the multiplier and the local discount powers?

Question 23: What are your views on increasing the multiplier after a reduction?

Question 24: Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?

Question 25: What are your views on what flexibility levying authorities should have to set a rateable value threshold for the levy?

Question 26: What are your views on how the infrastructure levy should interact with existing BRS powers?

Question 27: What are your views on the process for obtaining approval for a levy from the LEP?

Question 28: What are your views on arrangements for the duration and review of levies?

Question 29: What are your views on how infrastructure should be defined for the purposes of the levy?

Question 30: What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?

Question 31: Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?

Question 32: Do you have any views on how to increase certainty and strengthen local accountability for councils in setting their budgets?

Question 33: Do you have views on where the balance between national and local accountability should fall, and how best to minimise any overlaps in accountability?

Question 34: Do you have views on whether the requirement to prepare a Collection Fund Account should remain in the new system?

Question 35: Do you have views on how the calculation of a balanced budget may be altered to be better aligned with the way local authorities run their business?

Question 36: Do you have views on how the Business Rates data collection activities may be altered to collect and record information in a more timely and transparent manner?

ITEM NO. 9.23

Appendix C

General Fund Revenue Budget 2016-17 to 2019-20

Cabinet 21 July 2016

	Standstill Budget 2016-17 £m	Standstill Budget 2017-18 £m	Standstill Budget 2018-19 £mn	Standstill Budget 2019-20 £m
Original Budget 2016-17				
Portfolio Budgets	12.060	11.808	12.460	12.460
Technical	0.323	0.328	0.310	0.310
	12.383	12.136	12.770	12.770
Potential Changes				
SCC Recycling Credits			-0.164	
RCCO		0.135	0.135	
Actuarial Valuation				0.150
Inflation				0.090
Estimated Net Spending	12.383	12.271	12.741	13.010

General Fund Revenue Budget 2016-17 to 2019-20

Financing

	2016-17	2017-18	2018-19	2019-20
Anticipated Grant Income, Use of Balances & Reserves				
Business Rates	-2.787	-2.842	-2.898	-2.956
Revenue Support Grant	-1.406	-0.776	-0.384	0.000
	-4.193	-3.618	-3.310	-2.956
Growth	-0.476	-0.256	-0.261	-0.744
GBS LEP/100% Retention	-0.155	-0.083	-0.085	-0.420
Actuarial Val reserve		-0.140		
NHB	-1.403	-1.069	-0.997	-1.192
Section 31 Grant	-0.041	-0.041	-0.041	-0.041
Council Tax	-5.562	-5.727	-5.900	-6.078
Balances	-0.700			
Collection Fund	-0.023			
0 **Total Grant Income, Use of Balances &**	-12.553	-10.934	-10.594	-11.431
Transfer to Balances				
Transfer From Balances	-0.170	1.337	2.147	1.579
Amount to be found from Council Tax	5.562	5.727	5.900	6.078
	27,149	27,420	27,695	27,972
Estimated Council Tax Level	204.87	208.86	213.04	217.30
Balances				
Opening Balances at 1 April	1.472	1.527	0.190	-1.957
outturn	0.585			
Use of Balances to Support Budge	-0.700			
	-0.170	1.337	2.147	1.579
Closing Balances at 31 March	1.527	0.190	-1.957	-3.536

Appendix D
Financial Recovery Plan Timeline

2016	**April**	• WMT briefed about financial position • Trade Union representatives briefed
	May	• 3rd - FRP Working Group convenes • 12th - Deadline for indicative savings to be notified to MD
	June	• Working up detailed savings proposals (Officers) • 16th (1pm) - Cabinet session on financial savings (1) • 20th - Brief Trade Unions - prior to staff briefings • 29th - Staff briefings (face to face) - CCDC
	July	• Working up detailed savings proposals (Officers) • Pre-consultations, early engagement • 1st - Staff briefing (face to face) - SBC • 15th - Deadline for working up detailed savings proposals (Officers) • 18 July Financial Briefing to Shadow Cabinet / all Members of the Council • 21st (4pm) - Cabinet - Budget update/outcome of application for transitional funding
	August	• Production of HR documentation (Officers)
	September	• 7th - Cabinet sessions on emerging options (2) – 1st week of September • Between 12th - 23rd - Peer Challenge (3 days) • 12th - Brief Trade Unions • 12th & 13th - All Managers to keep free to brief Staff • 14th - Publication of Cabinet Papers • 22nd - Cabinet Meeting • 23rd - Brief Trade Unions - outcome of Cabinet Meeting • 23rd - 30 day staff consultation commences (individual or groups) • 23rd - All Managers to keep free to brief Staff • 23rd - 6 week Public consultation commences on draft options
	October	• Consultation (Staff and Public)
	November	• HR Feedback Selection • Peer Challenge reports • Collate feedback from Consultation • 7th onwards - Redundancy selection process • 4th week - Staff Briefings
	December	• 7th - Cabinet session to receive consultation feedback and decide final options (3) • 7th - Publication of Cabinet Papers

		• 7th - Trade Union Briefing - Draft Budget/New Policy Options • 15th (4pm) - Cabinet Meeting (Draft budget for consultation) • 16th - Possible additional employee consultation • 16th - Trade Union Briefing - From Cabinet Meeting • 16th - Public consultation on draft budget
2017	**January**	• 6th onwards - Commencement of staff notice period (from first consultation) • 26th (4pm) - Cabinet (Budget recommendation to Council)
2017	**February**	• 1st - Commencement of staff notice period (from second consultation) • 8th (4 pm) - Council (Budget) • 15th (4pm) - Cabinet (Provisional subject to budget referral) • 22nd (4pm) - Council (Council Tax)
	March	• Communication to Public re. service changes • HR Issues
	April	• Savings options to be implemented