ITEM NO. 6.1

Report of:	**Deputy Managing Director**
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Portfolio Leader:	**Leader of the Council**
Key Decision:	**Yes**
Report Track:	**Cabinet: 08/11/18**

CABINET

8 NOVEMBER 2018

FINANCIAL PLAN 2018-19 TO 2021-22

1 Purpose of Report

1.1 To present an updated financial forecast for the Council for the next three years with a forecast outturn for 2018-19.

2 Recommendation(s)

2.1 That Cabinet note that no specific details exist in relation to the levels of funding the Council will receive from the Government with effect from 2020-21. The Financing element of the Financial Plan therefore represents this authority's interpretation of how new funding regimes, yet to be finalised, will impact on existing forecasts , as compared to actual Indicative funding levels provided by the Government.

2.2 That subject to 2.1 Cabinet:-

(a) Note the Financial Plan 2018-19 - 2021-22 , and the various scenarios that exist in relation to individual funding streams.;
(b) Approve the forecast outturn for 2018-19;
(c) Note the draft Capital Programme 2018-19 - 2021-22;
(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 2019-20 budget.

2.3 That the Financial Plan be updated as further details of the Governments proposed changes to its funding become available during the budget process.

3 Key Issues and Reasons for Recommendation

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 reflects the Governments current Funding Regime as adjusted for proposals currently being considered in the design of the new Regime.

3.2 A great deal of uncertainty still exists in relation to the future funding of Local Government. A 75% Business Rates Retention Scheme is planned for implementation in 2020-21, with the funding baseline determined by a Fair Funding Review currently being determined. No specific details exist in relation to these changes and proposed settlements for this Council are not likely to be known until the Autumn of 2019. In addition the government are proposing further changes to the New Homes Bonus scheme and this remains a material risk in relation to the financial sustainability and resilience of the Council with the current financial plan being underpinned by £0.8 million per annum of such resources.

3.3 The Technical Consultation on the 2019-20 Local Government Settlement provides further assurances in relation to the forthcoming Financial Year. However the New Homes Bonus Scheme is likely to see a change in the "deadweight" allowance that will directly impact on 2019-20.

3.4 Potential scenarios in changes in funding have been developed to enable a Budget Strategy to be put in place. The Strategy is based upon an interpretation of the "issues" being evaluated as part of the design stage of the new regime. An interpretation of potential changes- adopting a middle ground stance- is likely to result in a:

- Deterioration of Business Rates following the reset of £0.7 million in 2020/21.
- A compensating increase in Business Rates from growth relating to Mill green.
- An ongoing reduction in New Homes Bonus of £0.157 million in 2021-22. However, due to the material amounts involved in best /worst case scenarios it is essential that a prudent approach is adopted until further details become available.

3.5 In addition to the above the revised opening of Mill Green from the Spring to Autumn 2020 will have a detrimental impact in 2020-21 but can be offset by a transfer from Working Balances.

3.6 The overall position can be summarised as follows :-

Table 1: Changes to Financial Plan 2018-19 to 202-21				
	2018-19	***2019-20***	***2020-21***	***2021-22***
	£'000	**£'000**	**£'000**	**£'000**
Approved Feb 2018	(121)	522	(169)	
Revised October 2018	**72**	**437**	**744**	**105**
Planned Use of Balances		522		
Revised Use of Balances		437	744	
Potential ongoing shortfall				105

3.7 The revised 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 February 2019.

3.8 No material changes to the Budget Strategy arise with the impact of the shortfall in 2020-21 being pre-empted by the increase in Working Balances over recent years. The ongoing shortfall in 2021-22 being considered to be manageable within the existing strategy.

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 Business Plan. Due regard also being taken to the emerging changes to Services of partner organisations within Staffordshire.

3.10 A Staffordshire Wide Business Rates Pilot application has again been submitted. The application relates to 2019-20 and the outcome is likely to be known in late November /Early December of this year. No account has been made in relation to the financial Impact of a successful application in the Financial Plan.

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 2018. In accordance with the Financial Recovery Plan the use of Working Balances was envisaged for 2019-20, pending the opening of Mill Green Designer Outlet Village , with a Balanced Budget , based upon the existing Government funding regimes, existing in 2020-21.

Table 2 : Revenue Budget Recommended to Council January 2018			
	Budget 2018-19	**Budget 2019-20**	**Budget 2020-21**
	£000	**£000**	**£000**
Transfer to Working Balances	**121**		**169**
Transfer from working Balances		**522**	

5.1.3 At the time of approving the Financial Plan a great deal of uncertainty existed in relation to the funding of Local Government. The introduction of the 75% Business Rates Retention Scheme was envisaged for 2020-21 with core funding or baselines determined by a Fair Funding Review. No details of the proposed regime existed and hence Budgeted figures for 2020-21 simply reflected an extrapolation of the current Local Government Regime pending the outcome of the latter.

5.1.4 Details in relation to 2018-19 and 2019-20 reflect details as contained in the 2018-19 Settlement, based upon the four year settlement of 2016-17 to 2019-20. Although the Council did not accept this settlement, and hence figures are determined annually, there had been to date no material change to the level of Revenue Support Grant as compared to that of the initial four year proposals. The conditions of the New Homes Bonus Grant scheme were not covered by the four year figures and hence are subject to annual review by the Government.

5.2 Proposed New Funding Regimes.

5.2.1 The current funding stream is based upon a 50% Business Rates Retention (BRR) Scheme. The regime effectively enables local government to retain 50% of its growth in addition to its core funding. Each Tier of Government having as set percentage of the 50% share retained within the Sector.

5.2.2 Baselines for BRR had been established reflecting the net relative needs of each authority based upon an historical formula funding system dating back to 2006. Data had been refreshed on an annual review prior to the introduction of BRR however the current baselines have not been updated since the introduction of the 50% scheme in 2013-14.

5.2.3 The Chancellor of the Exchequer announced a series of major reforms to Local Government Finance on 5 October 2015. These included local government being able to retain 100% of local taxes, subject to new responsibilities being undertaken: the abolition of a Uniform Business Rate and the phasing out of Revenue Support Grant. The Government subsequently announced its intention to rebalance support to those authorities with social care responsibilities via a Fair Funding Review.

5.2.4 It was originally envisaged that a new 100% Business Rates Retention scheme would be in place by 2019-20. However, due to the timing of the 2017 General Election, the necessary legislation, as contained in the Local Government Finance Bill, was not enacted.

5.2.5 In order to progress the reforms to Local Government funding, within the existing legislative programme, the Provisional Local Government Settlement for 2018-19 indicated that the introduction of 100% Business Rates Retention would be done in phases. The aim being that in 2020-21 local authorities would be able to retain 75% of Business Rates. This would be achieved by incorporating existing grants (to a lesser degree than under 100% retention) with Revenue Support Grant and Public Health Grant in particular to be absorbed within Business Rates funding.

5.2.6 Joint working groups have been established, between the Local Government Association (LGA); Ministry for Housing, Communities and Local Government (MHCLG); the public sector accounting body, CIPFA and financial representatives from the various tiers of local government, to progress the 75% Business Rates Retention scheme and Fair Funding.

5.2.7 Both schemes are still at option appraisal scheme. The Business rates scheme is particularly complicated and contains a number of individual components such as Appeals Provision; Tier Splits; Central /Local Rating Lists; Section 31 Grants; Resets and pooling. To date the only consultation on the 75% scheme related to the treatment of Appeals has been undertaken. Options continue to be discussed at the Working Groups including most recently a proposal to completely simplify the system.

5.2.8 A formal consultation on the new Business Rates Retention scheme is now due at the end of the year and is to be supplemented with more detailed consultations in the spring or summer of 2019.

5.2.9 The Fair Funding changes are even more complicated with three strands of work: Relative Needs; Relative Resources and Transitional arrangements. A consultation document was issued in December 2017 on determining options for measuring Relative Need for different services together with general and specific service cost drivers. How cost drivers are weighted and allocated across tiers together with the quantum of resources allocated to Fair Funding is yet to be determined

5.2.10 A formal consultation on Relative Needs, Resources and principles for Transitional arrangements is again expected this Autumn. The setting of baselines and finalising transitional arrangements is unlikely to be determined in advance of Autumn 2019.

5.2.11 In reviewing the work undertaken nationally in deigning a scheme the following key issues have been identified for this Authority :

- Core Funding/Fair Funding Baseline
- Tier Splits
- Transitional Funding
- Resets.

5.2.12 As detailed above it is impossible to determine how Core Funding will change under the new regime. In addition different options exist to determine proportionate shares for baselines and the Council awaits the formal consultation on such proposals.

5.2.13 In relation to Tier splits it is possible to outline the range of options being considered as shown in Table 3. A 75% scheme although increasing the amount retained within Staffordshire by 25% will be financially neutral with additional responsibilities or grants absorbing the core funding element.

5.2.14 The impact of Tier splits focuses more on risk and reward rather than Core Funding. Any growth above the new baseline will be subject to 75 % retention, rather than 50%, and similarly any reduction will be borne in the same proportion. The distribution of tier splits will ultimately depend upon how Government (or the local government sector itself) want the risk and rewards to be determined. Options for a 75% scheme vary from the District receiving the additional 25% (best case) to the County Council (worst case) receiving the full addition. However a completely radical review of tier splits cannot be ruled out.

Table 3: Potential Range of Tier Splits					
	Current Retention Scheme		**Potential 75%**		
	50%		**Best**	**Worst**	**Pro R**
Government	50%		25%	25%	25%
County Council	9%		9%	34%	13.5%
Borough	40%		65%	40%	60%
Fire	1%		1%	1%	1.5%

5.2.15 The Business Rates System is due to be reset for 2020-21. The reset is effectively about how much growth generated between resets (in this case 2013-14 to 2019-20) is retained by the local authority and how much is redistributed in the sector. Three options exist in relation to the basis notably No Reset (all growth retained); Full reset (No growth retained) or Partial Reset (proportion of growth retained) with the growth not retained being redistributed across the local government sector.

5.2.16 Business cases exist for either extreme. For the former a number of authorities have undertook capital investment based upon business rates proceeds over the useful life of the asset and not five years . Whereas authorities subject to core funding pressures are advocating that the quantum of resources to be redistributed under Fair Funding needs to be significantly increased.

5.2.17 It is likely that a partial reset will prevail and, there again, different options could exist a) that growth is retained on a five year rolling program basis or b) growth is averaged out over the five years – again on a rolling program or c) a fixed percentage.

5.2.18 The forecast growth above baseline for the District for 2018-19 currently amounts to £5.2 million and in accordance with a 50% scheme £2.6 million is retained as part of pooling arrangements with the GBS LEP. Cannock Chase retains £1.37 million (or 26.25% of overall growth) and this will increase to 28% as part of revised distribution methodology for 2019/20. The balance of the 50% retention is distributed to the County Council and Fire and Recue Service based upon tier splits with a balance being allocated to the Business Rates Pool.

5.2.19 In Comparison Core Funding currently amounts to £3.0 million and hence it can be seen that the basis of the Reset represents a material risk to the Council. The resources saved from a Reset will be redistributed across the sector however, using the Councils proportion of the Governments current Spending

Assessment as a guide, the redistribution could be less than £0.100 million on a 50% Reset.

5.2.20 Table 4 shows the potential implications for the Reset options

Table 4: Implications of options to Reset Business Rates Growth			
	Worst	**Best**	**Indicative**
	£'000	**£'000**	**£'000**
2020/21 Impact	1,410	(708)	705

5.2.21 The Government have in the past provided transitional funding between funding regimes and between settlements. In particular a system of floors and ceilings existed that limited the impact both positively and negatively. Transitional Funding has however not applied to the two Incentive funding regimes i.e. New Homes Bonus and Business Rates. In relation to the latter a Safety Net existed to secure 95% of core funding, but not growth.

5.2.22 It is possible that the Council could lose in excess of % of its incentive funding and officers will continue to lobby for transitional funding mechanism to be in place based upon actual losses in funding rather than the notional figures as included in Government "Core Spending Powers".

5.3 Local Government Finance Settlement 2019-20 – Technical Consultation

5.3.1 MHCLG published a Technical Consultation on the 2019-20 Settlement on the 24 July 2018. The consultation covered:-

- the multi-year settlement
- outlined the Governments position on the New Homes Bonus threshold
- Council Tax referendum principles for 2019-20
- the Governments preferred approach for dealing with Negative Revenue Support Grant

5.3.2 In relation to Central Government Grant (RSG and Business Rates Baseline) no changes have been made to the assumptions and figures approved in February of this year. The Council is not covered by the multi year settlement and hence its actual settlement is not determined until the relevant year's settlement is considered by Government. Nevertheless no changes have yet been made to the indicative settlements so far (2016-17 to 2018-19) and there is no indication in the 2019-20 consultation that this will change for next year.

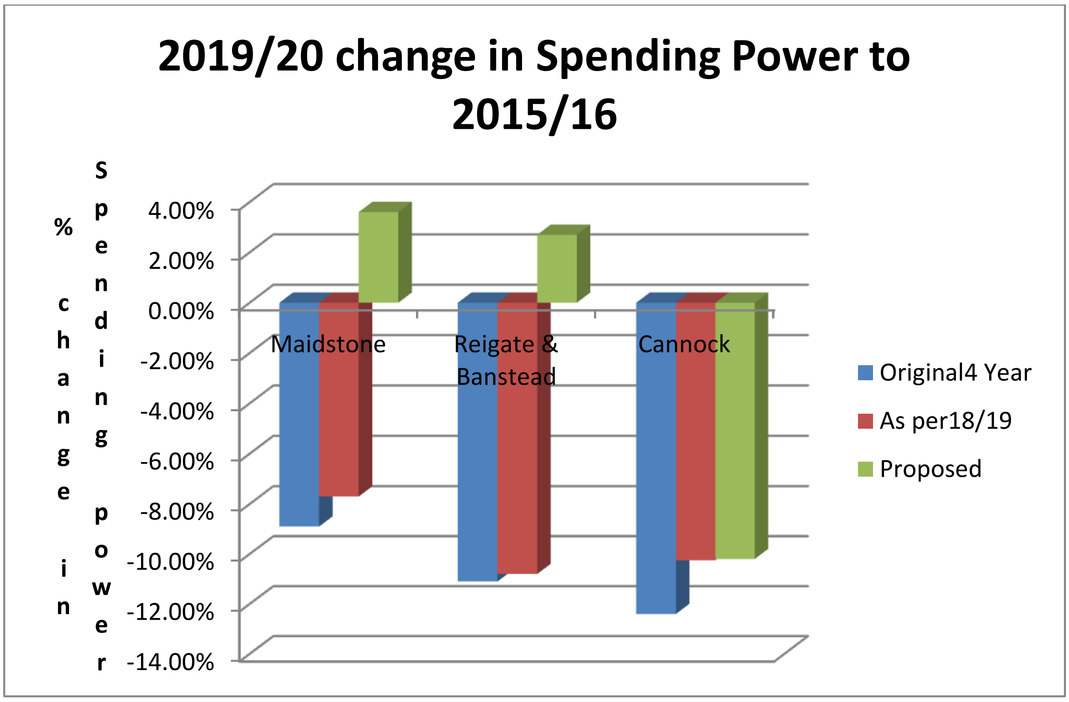
Negative RSG

5.3.3 However the initial settlement in 2015 included an adjustment to the Tariff or Top up of a number of authorities to ensure that a standard reduction in the core spending power for each tier was implemented. This effectively, if the reduction exceeded the residual amount of Revenue Support Grant, created Negative

RSG. Cannock Chase has received a reduced level of RSG in 2016-17 to 2018-19 and will only be subject to Negative RSG in 2019-20 of £0.054 million.

5.3.4 A number of authorities impacted in the first two years of the 4 year settlement made representation in relation to this and the Tariff Adjustment has been abated for authorities subject to such adjustments in 2017-18 and 2018-19. No announcement was made in relation to 2019-20 since it was envisaged that a new Business Rates Regime (100% retention) would be in place by 2019-20 that could mitigate the effect.

5.3.5 In light of the Business Rates Regime not now applying until 2020-21 the Technical Consultation proposes that 2019-20 adjustment is similarly eliminated. Although this represents effectively additional resources of £0.054 million being received in 2019-20, it actually further distorts the disparity with the changes in Spending Power as compared to other authorities. The Council, as in previous years, has objected to this change in its response to this consultation. The impact as a result of the 2019-20 proposal is particularly pronounced as shown in Graph 1



5.3.6 The Graph shows a comparison between Maidstone /Reigate & Banstead with the highest level of Negative RSG and this Council. . If RSG is abated Maidstone will have, excluding New Homes Bonus, a 3.6% increase in Spending Power and Reigate 2.7%, as compared to a reduction of 10.2% for Cannock Chase

5.3.7 In the event that the proposal is enacted, the resources are effectively a one off, although the higher Baseline may form part of the deliberations on Transitional Funding between 2019/20 and 2020/21.

New Homes Bonus

5.3.8 The Technical Consultation however indicates that the Government expects to increase the baseline below which the New Homes Bonus will not be paid. The national baseline for housing growth was introduced from 2017-18 and represented 0.04% of the Council Tax Base (weighted by band) for each authority.

5.3.9 A caveat existed in the settlement whereby the baselines are subject to annual review , and although no changes were made as part of last years settlement this consultation states

"*Due to the continued upward trend for house building, the Government expects to increase the baseline in 2019-20. New Homes Bonus calculations are based on additional housing stock reported through the council tax base and decisions on the baseline for 2019-20 will be made following a review of the data when it is published in November. Any changes intended for the baseline in 2019-20 will be detailed at the time of the provisional settlement.* "

5.3.10 No details are available of the proposed changes in the "deadweight" baseline. However the only change made to the deadweight to date arose from the Government reviewing its initial baseline during the 2017-18 consultation process. The original proposal referred to a baseline of 0.025% and this was subsequently increased to 0.04% with two comparators used to justify the change

- The average growth in the ten years before NHB (0.07%)
- The average growth in Band D properties in 2015-16 (0.94%)

5.3.11 The average growth in 2017-18 was 0.096% and two scenarios to adjust deadweight reflecting a similar increase to 2017-18 have been costed

Table 5: Potential Impact of changes to NHB Baselines (Deadweight)			
	0.055% Deadweight	**0.07% Deadweight**	**Each 0.01% change**
	£'000	**£'000**	**£'000**
2019-20 Impact	69	138	46
2020-21 Impact	138	276	92

5.3.12 Table 5 shows the impact in 2020-21 of the deadweight applying for 2019-20 and 2020-21 as part of the current 4 year rolling programme. However the Technical consultation indicates a revised system could be in place for 2020-21. The Consultation documents states :

"*2019-20 represents the final year of funding agreed through the Spending Review 2015. In light of this, it is the Government's intention to explore how to incentivise housing growth most effectively, for example by using the Housing Delivery Test results to reward delivery or incentivising plans that meet or* *exceed local housing need. Government will consult widely on any changes prior to implementation*.

5.3.13 It is impossible to quantify the impact of this change on the Council. In addition to seeking further details the Council in response to the Technical Consultation also sought clarification that the legacy payments of the existing schemes would continue. New Homes Bonus grant generated in 2019-20 should have 3 year further payments due and 2018-19 2 years etc.

Council Tax Increases

5.3.14 Proposals in relation to Council Tax referendum principles replicate the arrangements for 2018-19 with shire district councils being allowed council tax increases of less than 3% or up to and including £5, whichever is higher

Business Rates Retention Pilots

5.3.15 The Ministry for Housing, Communities and Local Government (MHCLG) published at the same time as the Technical Consultation an “Invitation to local authorities to pilot 75% Business Rates Retention in 2019/20”.

5.3.16 A Staffordshire and Stoke on Trent application had been submitted for 2018-19 and this has formed the basis of an application for 2019-20. The application is based upon all eleven authorities within Staffordshire and also now includes the Office of the Crime and Police Commissioner.

5.3.17 Income for the District based upon a successful pilot application is estimated to be approximately £0.59 million for 2019-20. The 2019-20 process is expected to be particularly competitive with the 2018-19 pilots required to re-apply. Pilots will only exist for one year only. An announcement is expected as part of the Provisional Local Government Settlement and hence no account of any proceeds has been reflected in the current Financial Plan.

5.4 **2019-20 to 2021-22 Financial Plan - Revenue**

5.4.1 The Council has far greater control over its own net expenditure and projections were provided up to and including 2020-21 as part of the 2018-19 budget process. However it’s 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 2017-18 and the first half of 2018-19
- Cost pressures together with changes in income generated.

Inflation

5.4.2 The Financial Plan has been updated to reflect the current rate of Inflation in relation to CPI for 2018-19 and this therefore represents an additional ongoing cost. No changes have been made to CPI forecasts for 2020-21 to 2021-22 and these have been assumed to remain at 2%.The provision for pay awards has been increased to 2% for 2020-21 and 2021-22 , reflecting a continuation of the existing 2 year agreement and the prevailing level of CPI. No other material changes have been made to the inflation assumptions.

The outturn for 2017-18 and the first quarter of 2018-19 Spending Pressures

5.4.3 The detailed budgets have been refreshed to reflect the outturn for 2017-18 and latest spending patterns.

5.4.4 Additional cost pressures have arisen in relation to the residual cost of the Social Alarms service following its transfer to Redditch Borough. In addition the cost of the Waste Collection service reflects the higher than anticipated increase in properties and in particular the reaching of the trigger point for cost increases.

5.4.5 The 2021-22 budget also makes provision for Employer Contributions to increase by a further 2% as a result of the next triennial Actuarial Valuation of the Pension Fund. The Waste Contract also provides for the additional costs of demographic growth for that year.

Income Variances

5.4.6 Income from fees and charges is mainly in line with the overall budget although service variances do exist. Market income is expected to be £4,000 down on the budget. Licensing Income is also forecast to be down by £4,000. The above have however been offset by additional Land Charges income of £17,000.

5.4.7 No account has been made for additional Land Charge income in future year's budgets pending its transfer to the Land Registry service.

5.4.8 The 2019-20 and subsequent years budgets reflect the reduced income from recycling credits . This forms part of the County Councils Medium Term Financial Strategy with reductions being phased in over a four year period.

Anticipated Changes in Available Revenue Resources

5.4.9 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:-

- Central government grant called Revenue Support Grant (RSG);
- Business Rates Retention Scheme
- New Homes Bonus Grant
- Council Tax income; and
- Use of reserves - both general and earmarked.

5.4.10 Proposed changes to Local Government funding have been outlined in sections 5.2 and 5.3 and the following paragraphs reflect the indicative impact upon the current Approved Resources Forecast (Council January 2018) notably:-

- **New Homes Bonus Grant** – The current New Homes Bonus grant is a now a four year rolling programme that commenced in 2011-12. The cumulative level of grant allocation for 2018-19 amounts to £1.032 million and was forecast to increase to £1.106 million in 2019-20.

The latest estimates based upon the Council Tax Base as at the beginning of October indicates that New Homes Bonus would have increased to £1.370 million in 2019-20. Assuming a Deadweight allowance of 0.055% in 2019-20, New homes Bonus will reduce to £1.301 million. In relation to future years a great deal of uncertainty exists. For 2020-21 a hybrid system is envisaged, representing a transition year between the two systems, however for 2021-22 it has been assumed that the Council will only receive legacy payments.

- **Business Rates Retention-** Gross Income from business rates in 2018-19 is higher than expected however this has been offset by the void period allowance for recently completed and now vacant units. The budget for 2019-20 also reflects a reduction in the Appeals Provision.

  In relation to 2020-21 the Budget assumes that a Partial Reset will apply in this year with a loss of income to the Council of approximately £0.7 million.

  Provision has also been made for the potential delayed opening of the Mill Green DOV with an autumn rather than spring opening now envisaged.

- **Council Tax Base** - The Council Tax Base continues to increase reflecting the upturn in the number of new properties being built as reflected in the New Homes Bonus allocations. The assumptions have now been refreshed to take into account the experiences over the last 12 months and developments in progress with an increase in the forecast for the current year. The Council Tax Base assumptions for future years remain unaltered with an increase of 1.25% per annum forecast.

Council Tax Level

5.4.11 The assumptions in relation to the level of Council Tax are in accordance with the indicative increases as approved in February 2018 with a 1.95 % increase in each of the years of the Financial plan.

Detailed Revenue Budget 2019-20

5.4.12 In refreshing the current budgets the starting point is the base budget for the 2018-19 financial year, and indicative budgets for 2019-20 and 2020-21 reflecting the current level of services provided by the Council including spending on its priorities.

5.4.13 The detailed budget for each of the three years covered by the Financial Plan will be refreshed based upon the outturn for 2017-18; monitoring up to 30 September 2018 and any other known changes that have arisen since last years detailed budgets were prepared. It is essential that the Council is diligent in reviewing its budgets and in particular any potential underspends or efficiency savings are identified.

5.5 **Refreshed Financial Plan**

5.5.1 **APPENDIX 1** to this report provides the updated position for the 2018-19 to 2021-22 Financial Plan, with an analysis of changes being included as **APPENDIX 2**.

5.5.2 The Financial Plan is based upon assumptions relating to changes in future government funding streams. They therefore represent a "middle ground"/ "Likely" outcome. A number of material changes have arisen over the period nevertheless taking into account that it was anticipated that the Business Rates income from Mill Green DOV would in the main offset the loss of such income from Rugeley Power Station , and working balances would cover this loss until the opening of the centre , the budget effectively remains in balance. A deficit of £0.129 million exists in 2021-22 however its impact can be accommodated within the existing Budget strategy

Table 6: Changes to Financial Plan 2018-19 to 202-21				
	2018-19	***2019-20***	***2020-21***	***2021-22***
	£'000	**£'000**	**£'000**	**£'000**
Approved Feb 2018	(121)	522	(169)	(169)
Revised October 2018	**72**	**437**	**744**	**105**
Movement	193	(85)	913	274
Cumulative				1,295
Analysis				
Net Expenditure	193	90	201	503
Net Funding		(175)	712	(229)

5.5.3 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 extremities.

Table 7: Best and Worse Case Scenarios Financial Plan 2018-19 to 2021-22				
	18-19	**19-20**	**20-21**	**21-22**
	£'000	**£'000**	**£'000**	**£'000**
Approved Feb 2018	(121)	522	(169)	(169)
Revised October 2018	**72**	**437**	**744**	**105**
Change arising from Best Case				
Reset			(1,570)	(1,601)
Growth			(556)	(567)
New Homes Bonus - Deadweight		(69)	(138)	(208)
- New Scheme				
Best Case October 2018	**72**	**368**	**(1,520)**	**(2,271)**
Change Arising Worst Case				
Reset			711	725
Growth			304	310
New Homes Bonus - Deadweight		115	230	
- New Scheme			1,146	1,033
Worst Case October 2018	**72**	**552**	**3,135**	**2,173**

5.6 Reserves and Balances

5.6.1 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. This is particularly important in the current economic circumstances when sources of income are particularly volatile.

The Working Balance

5.6.2 The General Fund balance at 1 April 2018 was £3.136 million .Although the Councils Risk analysis has identified a Minimum requirement of £0.673 million for 2018-19 this is forecast to rise to approximately a £1.0 million over the medium term, resulting in £2.136 million remaining to support the Revenue Budget.

5.6.3 The forecast surplus on Working Balances as at 31 March 2022 is £0.778 million (this includes offsetting the delay in opening of the DOV and the deficit in 2021/22).

5.6.4 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.

5.6.5 **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

5.6.6 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.

5.6.7 Earmarked Revenue Reserves as at 31 March 2018, amounted to £6.3 million (excluding the business rates reserve) and based on the Financial Plan assumptions, are expected to reduce to £4.8 million by March 2021. 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 full review is to be undertaken as part of the preparation of the 2019-20 and subsequent year's budget and will form part of Cabinets Budget recommendations.

5.7 Medium Term Financial Outlook

5.7.1 The Financial outlook for Local Government remains very uncertain from a funding perspective with only clarification existing in relation to the 2019-20 settlement. This represents the final year of its 4 year settlement yet potential changes to the New Homes Bonus regime for that year has created additional uncertainty.

5.7.2 The introduction of a Reset of Business Rates in 2020-21 will have a material impact on funding and at best the changes arising from 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. In particular the recently published Medium Term Financial Strategy for Staffordshire County Council will have both a direct impact on our funding and could create additional cost pressures arising from changing service demands.

5.7.3 The Council's current budget strategy is based upon delivering its Corporate Plan 2018-23 and is focused on the maintenance of current service provision as a minimum.

5.7.4 The current approved Budget Strategy sought to reduce the dependency on New Homes Bonus by reducing the amount allocated to fund service provision by 10% per annum. It was envisaged that the dependency would reduce to 62% by 2021-22, with the residual grant being used to provide a source of capital funding for investment /invest to save initiatives and in addition provide potential transitional funding if a fundamental change in the grant regime occurs over the duration of the Financial Plan. The reserve is anticipated to be in the region of £1.1 million by 2021-22 and in light of the uncertainty as indicated above it is recommended it remains as a source of transitional funding.

5.8 Capital Programme 2018-19 – 2021-22

5.8.1 Council approved the current capital programme in January 2018 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 2017-18 financial year, new schemes approved by Council since the programme was approved in January 2018 as well as changes in circumstances that have impacted on schemes in the Programme.

5.8.2 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.

5.8.3 At this stage of the budget process, pending determination of potential capital receipts and the 2021-22 rolling programme requirement, there are no uncommitted capital resources.

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 Appendix to the Report

Appendix 1: Draft Financial Plan – Revenue October 2018

Appendix 2: Revenue Known Variations to Approved Budget

Appendix 3: Working Balances – Financial Risks facing the Authority

Appendix 4: 2018-19 Capital Programme

Previous Considerations

None.

Background Papers

File available in Financial Services

ITEM NO. 6.17

Appendix 1

DRAFT FINANCIAL PLAN - REVENUE OCTOBER 2018

Line No.	Portfolio spending	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000
1	Base (Council 7 February 2018)	11,411	11,689	12,050	12,050
2	Pay inflation			97	301
3	Other inflation		24	24	207
4	Income				-266
5	Recharges			-29	-29
6		11,411	11,713	12,142	12,263
7	Known variations	270	226	290	462
8		11,681	11,939	12,432	12,725
9	Investment Income/Technical Items	234	576	714	714
	Known variations	146	275	160	-243
10	Net spending	12,061	12,790	13,306	13,196
	Financed By				
11	Formula Grant	-384	54	54	54
12	Section 31 Grant	-61	-92	-92	-92
13	Business Rates Retention	-4,130	-4,357	-5,262	-5,262
14	Reserves				
15	New Homes Bonus Grant	-1,032	-1,106	-1,190	-1,190
16	Special grant – Council Tax freeze				
17	Council Tax	-6,047	-6,242	-6,443	-6,443
18	Collection Fund Surplus	-112			
	Known Variations	-223	-610	371	-158
19	Net financing	-11,989	-12,353	-12,562	-13,091
20					
21	Efficiency Requirement				
22	Surplus Ref to Working Balances	72	437	744	105

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Appendix 2

REVENUE KNOWN VARIATIONS TO APPROVED BUDGET

Line No.	Known Variations	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000
	Approved Variations				
1	CAB Saving			-10	-20
2	Increments				13
3	Social Alarms	81	74	75	77
4	Property Services Restrcutures		58	58	58
5	Green Waste Recycling Credits		59	120	180
6	Members Allowances		9	9	9
7	Cannock Market Shops		-42	-42	-42
8	District Elections				-108
9		81	158	210	167
	Potential Variations				
10	Demographic Growth	28	39	51	73
11	Cost Pressures	29	29	29	29
12	Actuarial Valuation				193
13	Revenue Impact of Capital Programme	132			
14	Other				
15		189	68	80	295
16	**Total Known Variations**	**270**	**226**	**290**	**462**
17	Inflation	0	24	92	213
	Investment & Technical				
18	Contingency		-141	-141	-141
19	Capital financing	-77			-12
20	Earmarked Reserve NHB/BRR	223	435	341	-71
21	Investment Income		-19	-40	-19
22	**Net spending**	**416**	**525**	**542**	**432**
	Financed By				
	Potential Variations				
23	Inflation				-231
24	Negative RSG		-54		
25	Business Rates				
26	- Mill Green			434	-72
27	- Reset			705	707
28	- Growth/appeals	-223	-240	-645	-617
29	New Homes Bonus				
30	-Dependancy				103
31	- Growth		-264	-239	-239
32	- Deadweight		69	138	208
33	- Legacy				85
34	Council Tax Base		-21	-22	-102
35	Collection Fund		-100		
36	Net financing	-223	-610	371	-158
37	Surplus Ref to Working Balances	193	-85	913	274
R1	As approved By Council	-121	522	-169	-169
R2	Variations	193	-85	913	274
R3	Revised	72	437	744	105

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Appendix 3

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:		
• Planning fees	Medium	Dependent on economic conditions.
• Land charges fees	Medium	Dependent on the housing market / basis of determining recoverable expenses/ proposed transfer to Land Registry.
• Car parking	Medium	Certain amount of volatility based on demand.
• Markets	Medium	Dependent on occupancy levels.
• Licensing	Low	Licensing income dependent on renewals.
• Cemeteries	Low	Dependant upon capacity of cemeteries
Spending pressures:		
• 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		
• New Homes Bonus	Medium	Although allocations for 2019-20 can be predicted accurately, a proposed change to the deadweight baseline is now envisaged for that year. The future level of funding is now not only dependant upon completions of new properties but what incentive scheme will exist instead of New Homes Bonus.
• 75% Business Rates Scheme and Resets	High	A new scheme is to be introduced wef April 2020.In addition a reset of growth achieved under the current system will take place at the same time The council is a high growth achiever hence how the rest is implemented could have material implications.
• Volatility in Business Rates	Medium	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.

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Appendix 4

		Total Programme	2018/19	2019/20	2020/21	Approve d
			£000	£000	£000	£000
HOUSING GF						
Private Sector Housing		27	27			
Disabled Facility Grants		2,443	859	792	792	
Affordable Housing		644				644
Total Housing General Fund		**3,114**	**886**	**792**	**792**	**644**
ENVIRONMENT						
Home Security Grants		56	19	19	18	
Wheelie Bin Replacement		530	90	90	90	260
Replacement -Vehicles- cleansing		130	40			90
Replacement -Vehicles- cemeteies		51				51
Replacement -Vehicles- countryside		117				117
Car Park Improvements	*	492				492
Wolseley Road POS Improvements (s106)		20	20			
Total Environment		**1,396**	**169**	**109**	**108**	**1,010**
CRIME & PARTNERSHIPS						
CCTV		50	50			0
Total Crime & Partnerships		50	50	0	0	0
CULTURE AND SPORT						
Additional Cemetery Provision		984	984			
Stile Cop Cemetery		3	3			
Hednesford Park Improvements		65	65			
Hednesford Signal Box		25	25			
Stadium Development		506	456			50
Relocation Arthur Street Play Area (s106)		3				3
Multi Use Games Area, Laburnum Avenue (s106)		121				121
Replacement -Vehicles- Grounds Maintenance		350	104			247
Refurbishment Heath Hayes Park/Pitch		115				115
Cannock Park Replacement		14	14			
Ravenhill		171	171			
Total Culture and Sport		**2,357**	**1,822**	**0**	**0**	**536**
ECONOMIC REGENERATION AND PLANNING						
Economic Development & Physical Assets		320	320			
Engineering Training Facility		0				
District Investment		6,476				6,476
Lets Grow Grants		47	47			
Total Economic Regeneration and Planning		**6,843**	**367**	**0**	**0**	**6,476**
TOWN CENTRE REGENERATION						
Market Shops		510	510			
Total Town Centre Regeneration		**510**	**510**	**0**	**0**	**0**
CORPORATE IMPROVEMENT						
Civic Centre Car Park		443	443			
Vehicle Workshop		70	70			
Total Corporate Improvement		513	513	0	0	0
Capitilsation						
Replacement -Vehicles- cleansing		270				270
Replacement -Vehicles- Country side		26				26
Rugeley Pedestrian/Cycle Linkage (s106)		219	219			0
TOTAL CAPITAL PROGRAMME		15,298	4,536	901	900	8,962