CHIEF FINANCE OFFICER'S STATUTORY REPORT

1 Introduction

The Local Government Act 2003 requires the Chief Finance Officer (CFO) to report to Members, when setting the level of Council Tax, on the robustness of the budget presented and adequacy of reserves. The report below provides a strategic overview of the Council's financial position as a context before making specific considerations on the 2016/17 budget.

2 Strategic Overview

Government's Autumn Statement November 2015

The Government was able to confirm that public finances had improved faster than expected, and that over the next four years the deficit would be eliminated and replaced with a surplus. These changes would mean that departmental spending would fall at less than half the rate of the previous five years, and that planned changes to tax credits would no longer be made.

There are a significant number of new initiatives and other measures included in the proposed overall Government spending estimated at £4 trillion over the next five years. The precise impact on Wokingham of all these measures is being assessed. The various education changes and proposals are identified in the following paragraph, while many other proposals will affect local government and other public services, in particular NHS England will receive an extra £10bn a year in real terms by 2020, compared to 2014/15. Public Health grant will remain ring fenced until 2017/18, but be cut by 3.9% each year to 2020/21, leading to reduced expenditure; it is also proposed that councils will fund public health from retained business rates as part of the move towards 100% business rate retention. Other key projects include a new Help to Buy equity loan scheme for London to give buyers 40% of the home value from early 2016, as opposed to 20% under the current scheme, plus other schemes including Shared Ownership to help people onto the housing ladder, and these schemes will be funded by extra taxes on buy to let properties and second homes. The police budget will also be inflation proofed, reversing a planned reduction set out in last year's Autumn Statement, and funding provided for the National Crime Agency, and more firearms officers, while the defence budget will be increased to meet the 2% NATO target by 2020-21. The cost of green energy will be reduced by £30 a year for on average 24 million households from 2017, while 300,000 homes will be better protected from flooding at a cost of £2.3bn. Regional investment will include £400m for the Northern Powerhouse investment fund to help small businesses to grow, while Scotland, Wales and Northern Ireland will all receive more money for infrastructure projects.

The Government also announced a number of funding changes, those affecting local government include the proposal to allow councils to keep 100% of business rates by 2020 in place of formula grant, but the current "tariff/top up" system will stay to protect those councils with insufficient business rates to replace their formula grant. Councils will be able to cut business rates in part or all of their area, in order to make their area more attractive to businesses. An Apprenticeship Levy will come into place in April 2017, at 0.5% of employers' pay bills, while councils would be able to raise up to 2% on council tax towards social care costs as highlighted above, and police forces will also be raise council tax by 2%. A change previously flagged is the 1% cumulative annual reduction in council tax rent for four years from April 2016, the effects of which are addressed in more detail in the section on the HRA. Changes are proposed on the New Homes Bonus, subject to consultation, which will reduce the length of payments from six years to four, generating savings of £800m to be used for social care. Councils will be incentivised to dispose of capital assets to provide land for house building and regeneration by allowing 100% of the receipts to be used (excluding right to buy), subject to spending the extra funds on qualifying “reform projects”

This announcement provides a high level context for the Local Government Funding Settlement and illustrates that the financial climate is expected to be extremely challenging for a number of years.

Local Government Funding Settlement

Due to years of Local Government funding driven by a formula biased toward deprivation factors (as opposed to recognising the basic cost of providing services) and grant increases calculated on the amount received in previous years, Wokingham Borough Council went into the 2016/17 Settlement as the lowest funded Unitary Authority (per head of population) in the country. This also meant that, because of such poor funding settlements in the past, more of Wokingham’s local services are funded by its’ Council Taxpayers than any other Unitary Authority. It is important to emphasise that while some Unitary Authorities benefit from almost 70% of their service costs funded by Government, the corresponding figure is just over 20% in the case of Wokingham, and is set out in the graph on SFA.

Wokingham has been hit the hardest because Wokingham’s Council Taxpayers already pay for most of its’ Local Authority services (as previously illustrated). The new Funding Settlement proposal seeks to impose a triple taxation effect on them; firstly they have been required to pay the largest contribution to local services as a result of previous poor settlements, then their significant contribution is used as a basis on which to calculate their penalty (grant reduction) and lastly, the highest possible local taxation levy is assumed each of the 4 years (2% Council Tax plus 2% Adult Social Care precept) in order to maximise the penalty calculation. Although this punitive approach has been applied to all Local Authorities, it has a significantly disproportional effect on Wokingham’s Council taxpayers who have, through previous poor Settlements, been required to make the highest percentage contribution to their local services.

Wokingham’s situation is further compounded by the way New Homes Bonus has been introduced into the grant cut calculation. We have endeavored to embrace the intention of the NHB since its introduction and play our part in both regeneration and taking a responsible approach in meeting housing demand. This means that our NHB has been used primarily in the past on regeneration related activities, and to deliver effectively on our future plans we need to use NHB on regeneration activities going forward. Now that our housing supply projects are underway and delivering on their intention, our NHB is also increasing. Previously such an increase provided the Council with more resources to plough back into services and regeneration, as was the stated intention of the scheme on its inception. Under the new Settlement, NHB funding is assumed to fall by at least $1/3^{rd}$ by 18/19 and a consultation is underway to consider its’ future. Furthermore the NHB has been introduced into the Council’s ‘Core Spending Power’ calculation, which indicates it should be used on core Council services and therefore not available specifically for Regeneration activity.

Over the next 4 years, the indicative grant cuts assume the Council increases Council Tax by 2% and Adult Social Care (ASC) precept by 2% each year. If the Council does not apply both these levies, it compounds what already looks like an unmanageable savings target created by such severe reductions on an already meagre grant allocation. As a result, our residents will inevitably by charged more and more each year, whilst experiencing the service cuts needed to ‘balance the books’.

The impact in 2016/17 is that the Council is approximately £3m worse off (when taking into account the ‘rolled in’ Care Act funding) from an already pessimistic estimate. Almost £2m of this will have to be funded from balances in 2016/17, with the problem effectively ‘pass-ported’ into 2017/18 (to provide some time for a considered response). The ASC precept, although initially seen as a helpful introduction, becomes problematic for Wokingham. The Precept is assumed to be taken at 2% every year in the Settlement calculation and as such, contributes to the size of the Grant cut (as previously explained). Having contributed to the size of the Grant cut it must then ‘step away’ from helping meet the Council savings challenge, or it may be in danger of not being able to demonstrate net growth of £1.6m (needed to justify the Precept).

There is more of the same in 2017/18 with a Grant cut of £5.8m which is a reduction of almost 100% (again the worst hit Unitary Authority in the country) and takes almost all of the remaining RSG. By 2019/20 we are in negative grant by over £7m. Although the Council’s financial plans entertained the notion of losing all of the RSG over the period of time, negative grant was unimaginable and raises the question of the future financial viability of the Council. It is hard to understand how the new Local Authority Business Rates retention scheme will work when introduced in 2020; at a time when we are not permitted to retain any, or little, of our own.

More immediately, the Council’s approach to the use of NHB will need to be reviewed. The size of re-investment in regeneration no longer looks sustainable and we are effectively being forced to use NHB to fund core service budgets. This will of course have a detrimental impact on the Council’s regeneration ambitions and with it, its pursuit of financial self-sufficiency.

Recommended Representations

In the interests of its council tax payers, the Council should fundamentally disagree with the new approach to using their income in calculating grant cuts. It is simply unfair on the residents of Wokingham to be hit by this ‘triple taxation’ impact. The logical conclusion to this new approach is that all costs of our local services are paid for by our Council Taxpayers, a contribution which is used to create a penalty (theoretical grant cut), meaning their money simply transfers to other Local Authorities. This is effectively what is happening under the new settlement and we would seriously question the morality of this.

If the fundamental flaw cannot be addressed in time for the 2016/17 final settlement the Council would suggest that the following ‘tinkering’ could be made to the proposed new methodology;

(i) Retain the original New Homes Bonus scheme and remove it from the general income calculation (Core Spending Power).

(ii) Do not inflate future Council Tax levels by 4%. This gives a very unfortunate message to Local Authorities and the public, in that it is seen as an expectation. Also, by doing this you maximise the penalty on our Council Taxpayers

Dispense with the notion of negative RSG which has the effect of distributing Council Taxpayers money out of the Borough and creates an unviable financial platform for 2020 when Business Rates are ‘returned’ to Local Authorities. Wokingham would start off this new regime without any Revenue Support Grant and less than £7m of its £60m+ business rates.

Adult Social Care (ASC) Reforms

The Government's aim set out in the Autumn Statement 2015 is that by 2020 health and social care will be integrated across England, with joined up services between social care providers and hospitals, and that it should feel like a single service for patients.

The Care Act 2014 set out a new framework for local authority duties in relation to the funding of social care, along with a number of changes to the regulation of social care providers. The grant anticipated, to address the consequences of this act, has been 'rolled into' the RSG and therefore the cut in RSG would have been even more if it were not 'topped up' by this grant. The potential service implications, and the number of additional clients, are still being quantified as the system has only been operational since April 2015, however the extra costs are likely to be in the millions of pounds annually and will need to be met within an overall council budget suffering severe reductions in its funding. Councils will be able to add up to 2% on council tax, by way of a precept, to pay towards social care from April 2016 onwards. This precept puts the Council at a perverse financial disadvantage. It is assumed to be levied at the maximum amount by the Government as a way of justifying the highest possible grant cut. The resulting grant and subsequent budget shortfall can only be addressed by cuts to non ASC services (or it will lose its ability to levy the precept). This significantly compounds the pressure on the Council's environmental and children's services.

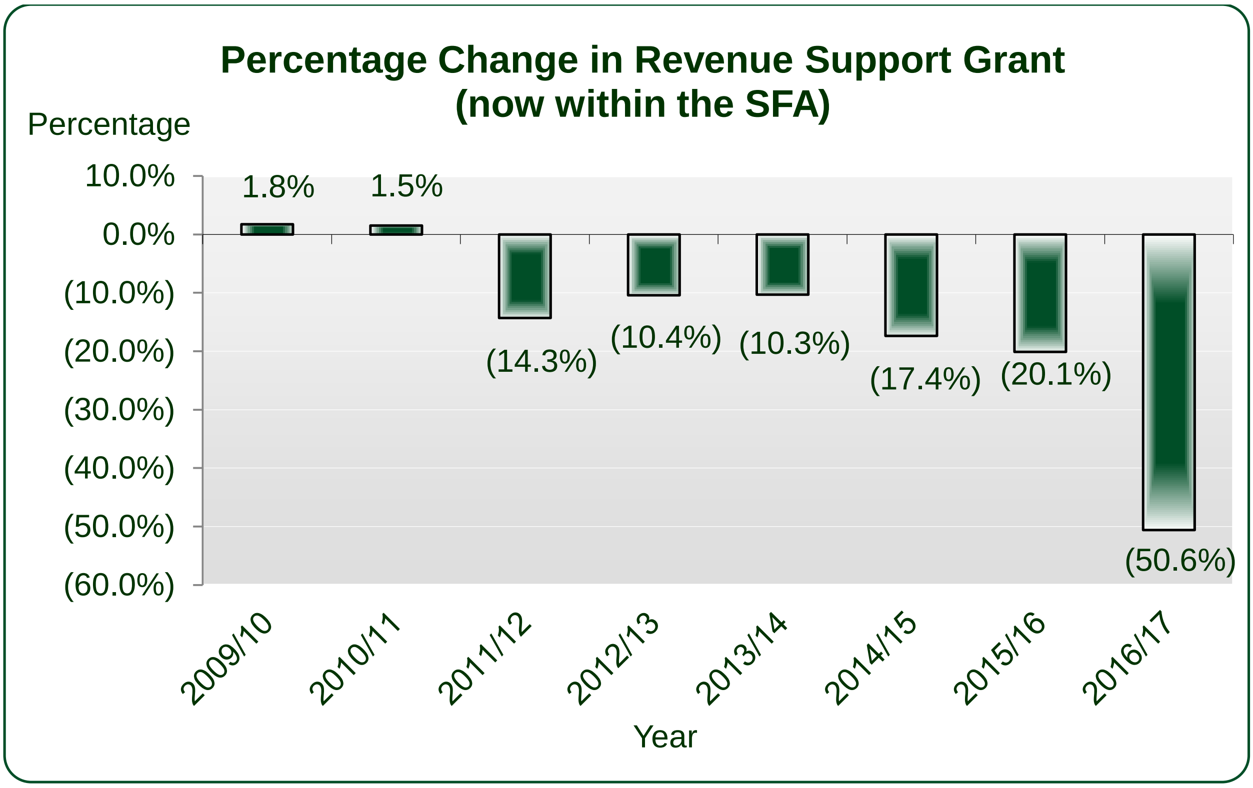
Regeneration and Strategic Developments

The Council is continuing the development of Wokingham Town Centre to ensure that it remains an attractive location for businesses, and for people to visit for shopping and recreation. In addition, the four Strategic Development Locations (SDLs) which the Council has identified are starting the process of generating new housing and employment opportunities. The budget submission, contained in the Medium Term Financial Plan (MTFP), will again identify considerable investment in these areas.

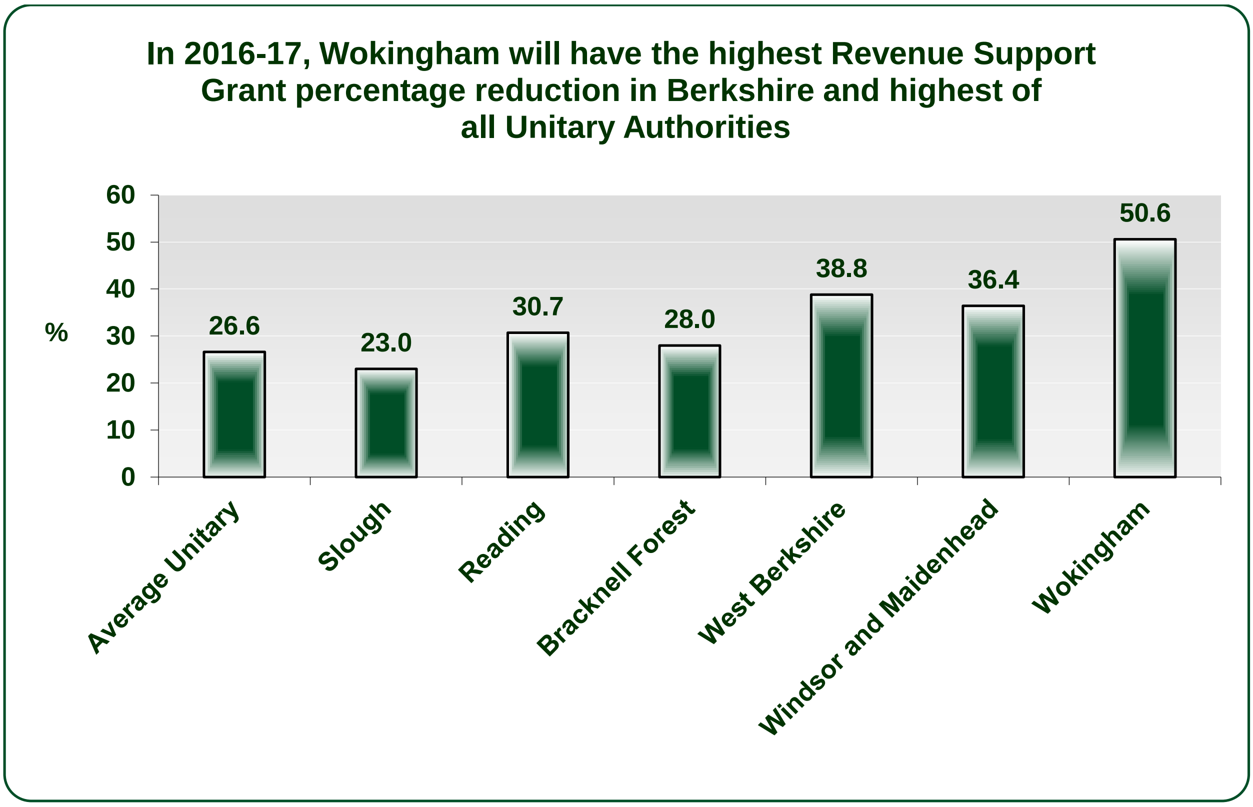
3 Analysis of Reductions in Government Funding

The percentage changes in Government Funding since 2009/10 are shown below. Following the December 2010 Local Government Finance Settlement, Wokingham suffered a reduction in Revenue Support grant (Previously called Formula Grant) for the first time in 2011/12 (of 14.3%), followed by reductions of 10.4% in 2012/13, 10.3% in 2013/14, 17.4% in 2014/15, 20.1% in 2015/16 and 50.6% in 2016/17.

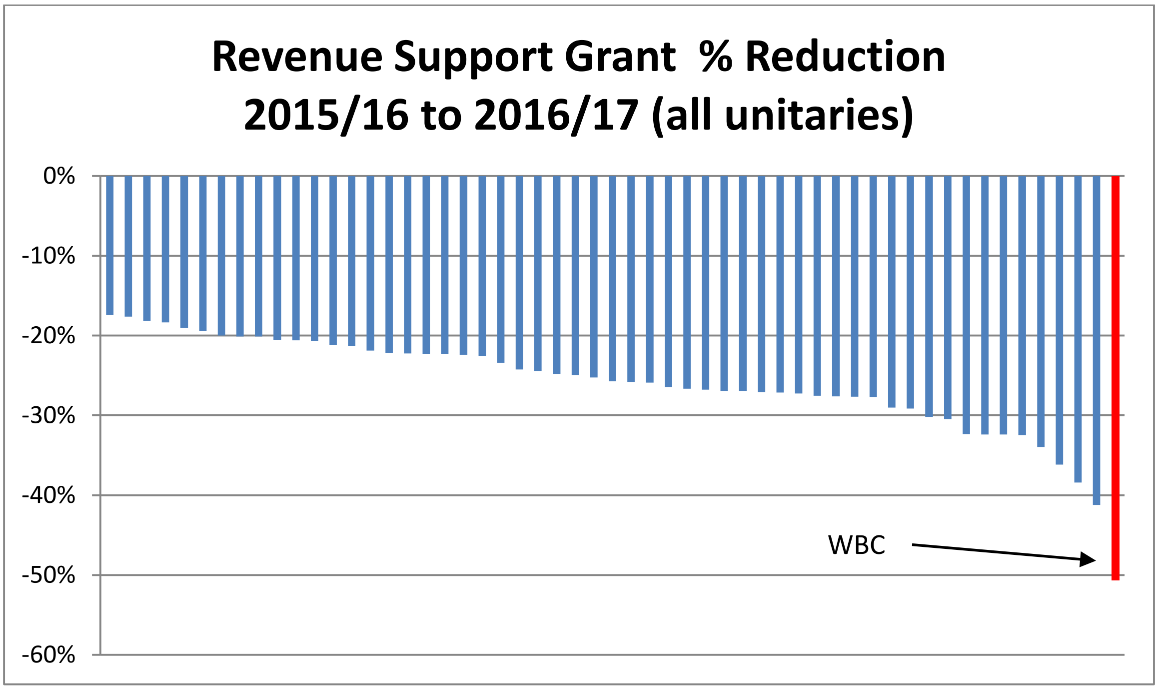
Revenue Support Grant was previously the significant unringfenced grant that supported the council's ongoing revenue expenditure. From 2013/14 it has been incorporated within the Settlement Funding Assessment (SFA). The graph below reconstructs the revenue support grant to enable a year on year and like for like comparison. The 50.6% reduction for Wokingham is significantly higher than the Berkshire average reduction of 34.6%, and the average for all unitary authorities of 26.6%.
The graph below shows the year upon year reductions in grant for Wokingham, followed by a further graph which compares the 2016/17 RSG reductions across Berkshire Councils, and the average for all Unitaries. Despite already being the lowest funded Unitary Authority prior to the 2016/17 settlement, incredibly Wokingham managed to suffer the highest percentage reduction in RSG of all Unitary Authorities in the country, at over 50%.



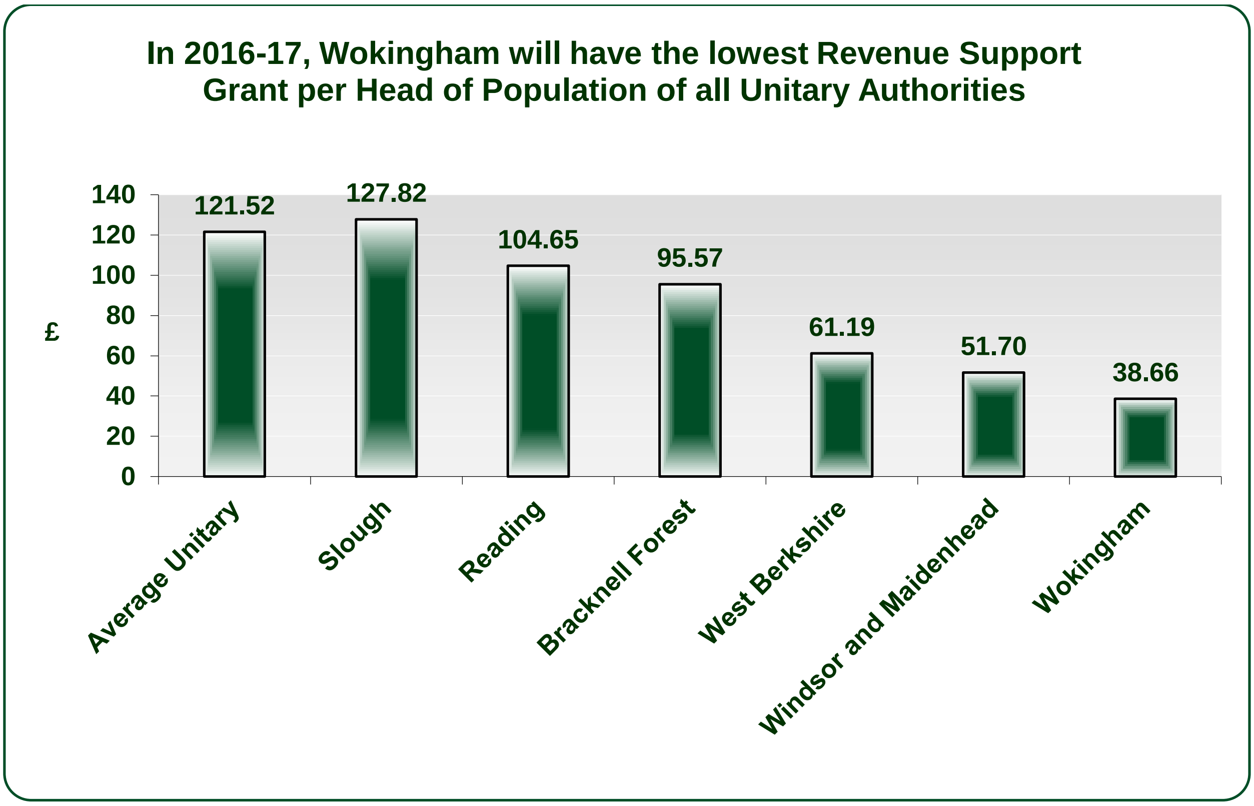
The Revenue Support Grant loss for Wokingham in 2016-17 is the highest at 50.6% in percentage terms of all Berkshire councils, and also of all 55 unitary authorities as shown in the following two graphs.



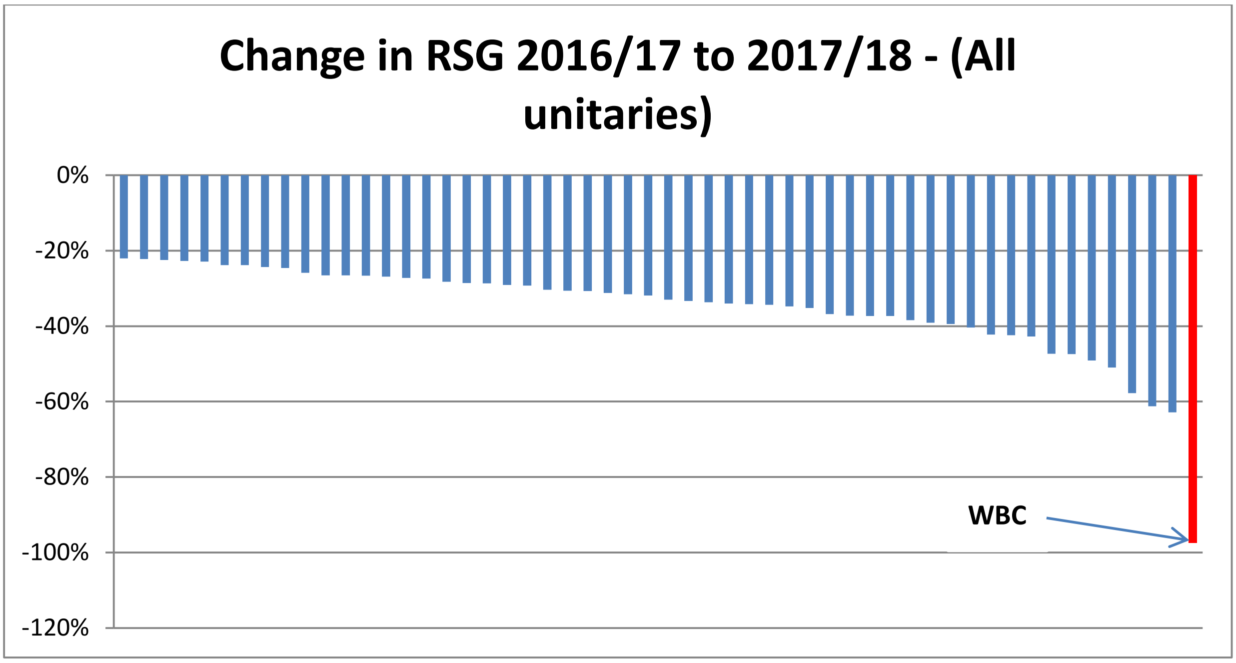
However, when taking into account that Council Tax Freeze grant and Care Act grant were ‘rolled into’ the 16/17 RSG, the real reduction is 56%, much higher than the 50.6% figure shown in the RSG reduction below.



The graph below reconstructs the formula grant for 2016/17 on a per head basis to enable a year on year and like for like comparison. The Wokingham figure of £38.66 per head is again the lowest in Berkshire as well as the lowest of any unitary authority. It is only 32% of the average for all unitary authorities of £121.52.



The graph below shows the change in Revenue Support Grant from 2016/17 to 2017/18 and again shows that Wokingham has the largest reduction of all Unitaries.



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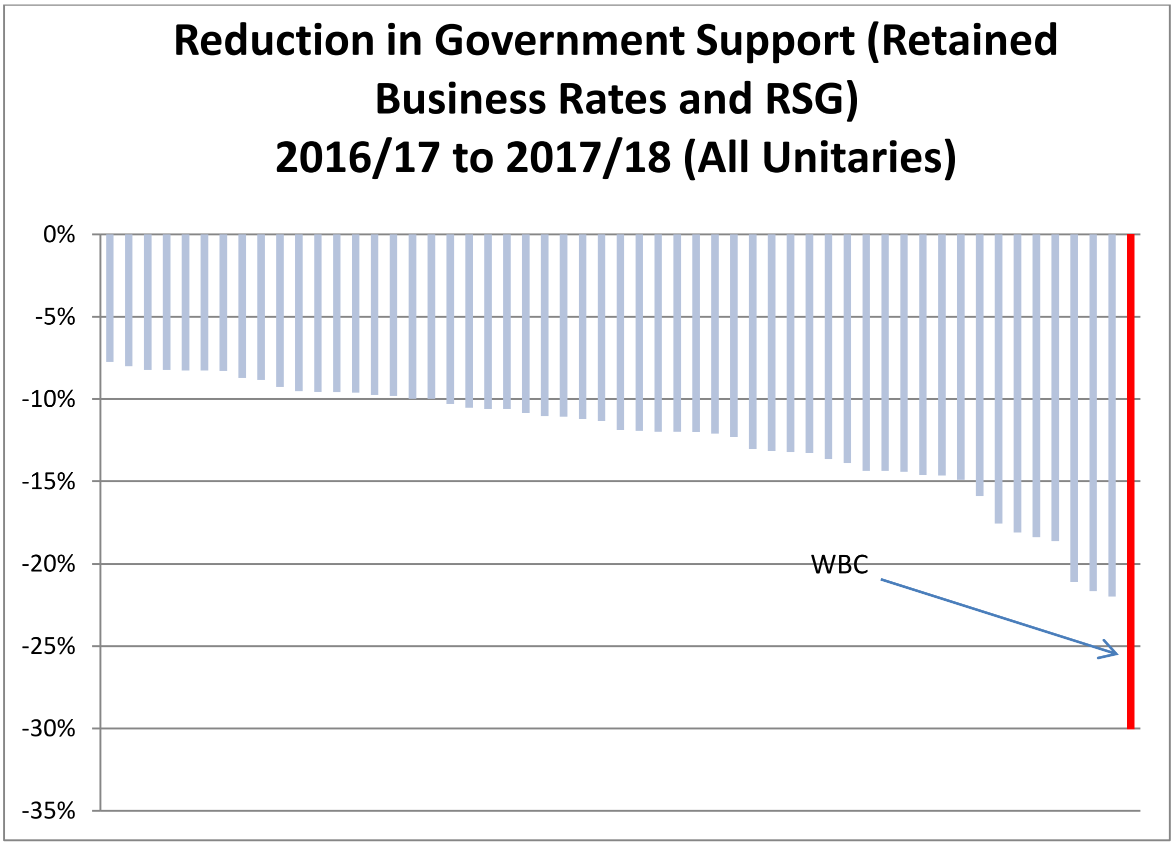
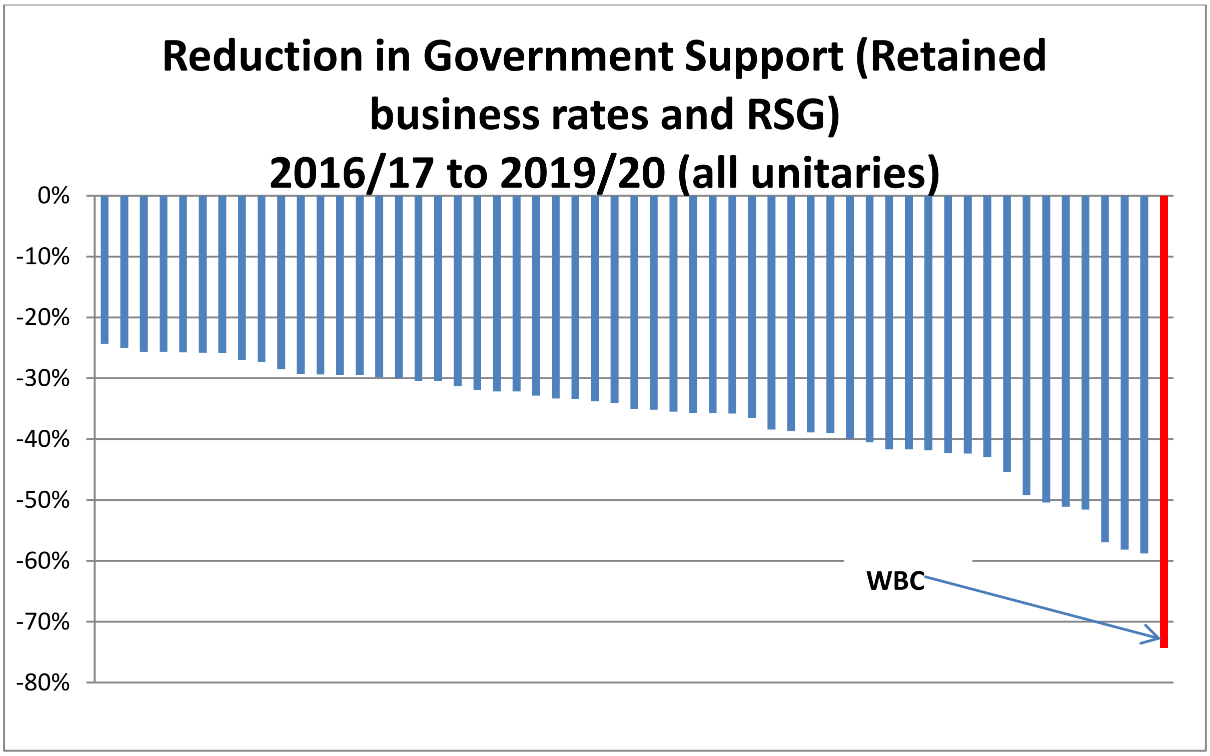
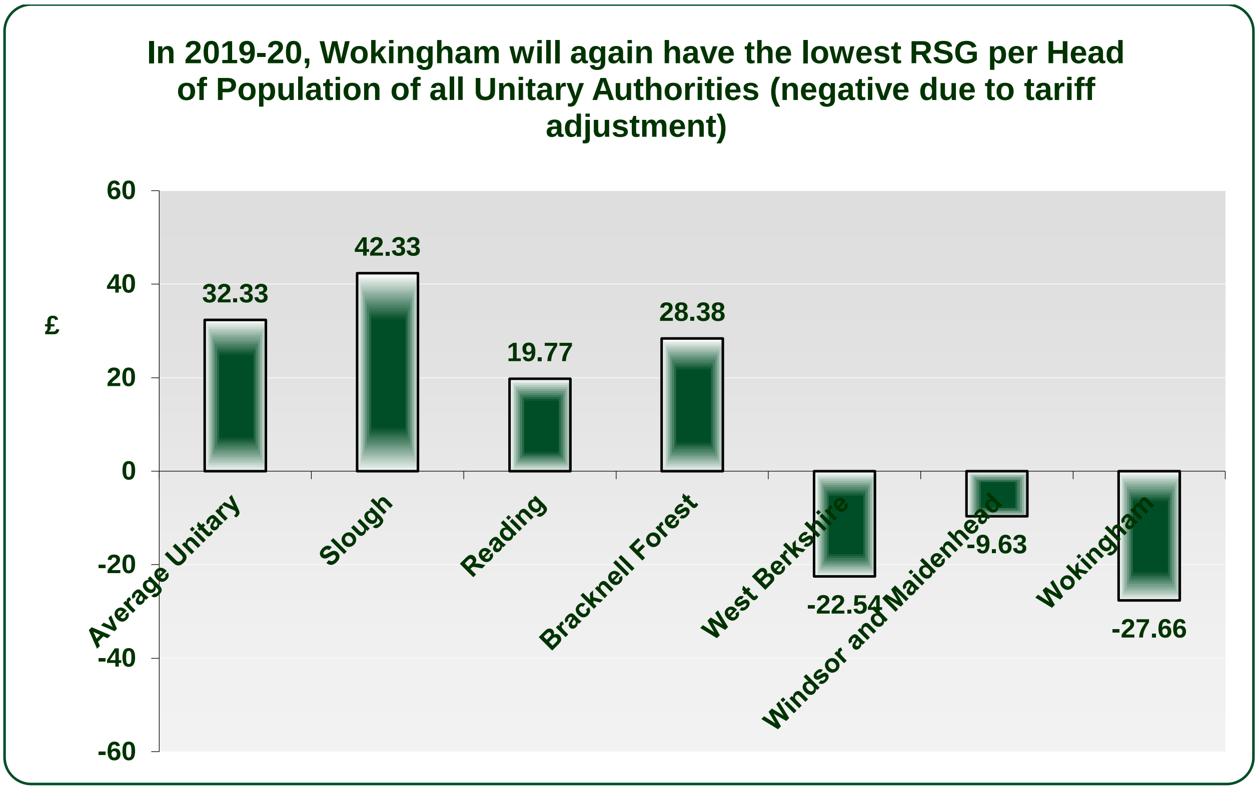
The above reductions are also reflected in respect of overall Government support which comprises retained business rates and RSG. Wokingham will also have the largest reduction, at 30%, of all unitaries from 2016/17 to 2017/18 as shown in the graph below :



When looking at the 4 year horizon of the Settlement, the picture becomes even bleaker for Wokingham. Our remaining RSG is reduced by almost 100% in 17/18, down to £0.2m. A negative RSG is introduced when all of its' RSG has been removed. This negative RSG is enacted through a 'special' increase to its' Business Rates Tariff, which increases by £7.1m in 2019/20. As a result, by 2019/20 Wokingham retain less than £10m of the £60m Business Rates we collect. The four year Settlement Funding Assessment (made up of both RSG and retained Business Rates) also shows Wokingham suffer greater than any other Unitary Authority in the country. So, when looking at Wokingham's Settlement from a RSG or SFA perspective we fare worst over the both the short term (2016/17) and the longer term (2020). Remember, these cuts are on top of our position going into this Settlement; already the lowest funded Authority per head of population. The graph below confirms that Wokingham will suffer the biggest reduction in Government support from 2016/17 to 2019/20 of all unitaries :



The graph below shows the specific impact by 2019-20 on a per head basis of the reductions in Formula grant.

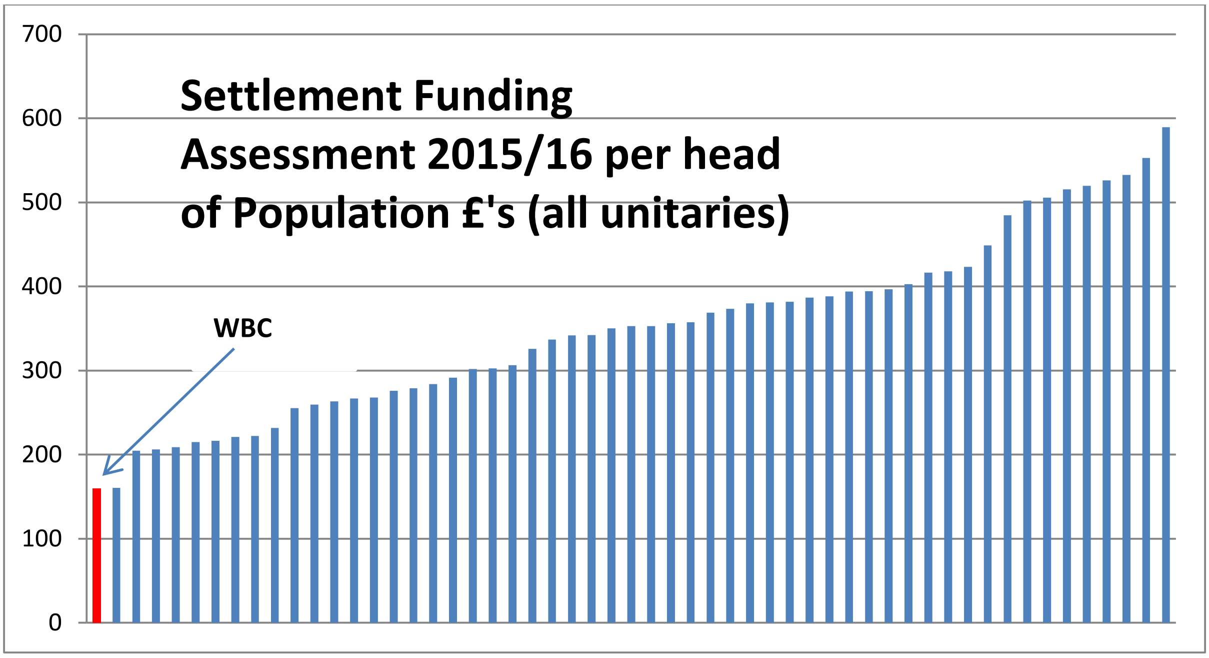


Wokingham Borough Council is the lowest funded unitary authority per head of population. Source: Communities and Local Government website.

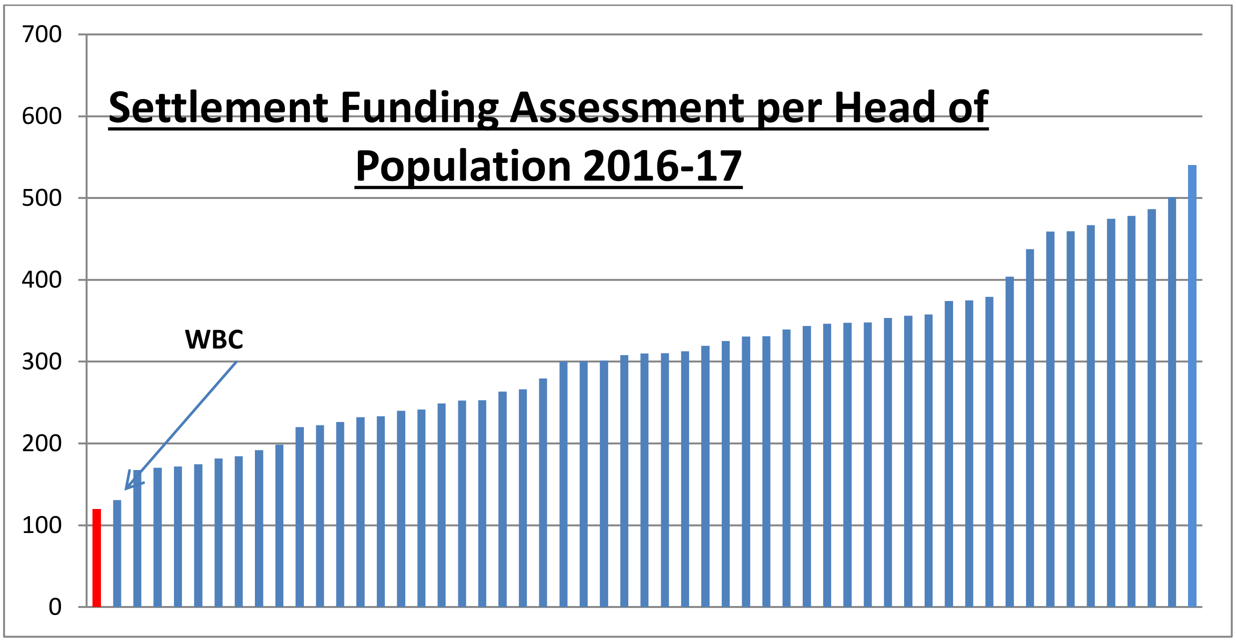
Settlement Funding Assessment (SFA)

In 2014/15 the Government introduced the new terminology of 'Settlement Funding Assessment' which has continued in 2015-16. This comprises the Revenue Support Grant (former Formula Grant), plus grants previously provided for specific activities (ring-fenced), and for new responsibilities, as explained in the table below. Wokingham's total SFA will be £19.07m in 2016-17, compared to an adjusted £26.72m in 2015-16, a reduction of 28.6%. The ongoing reduction is £7.65m year on year.

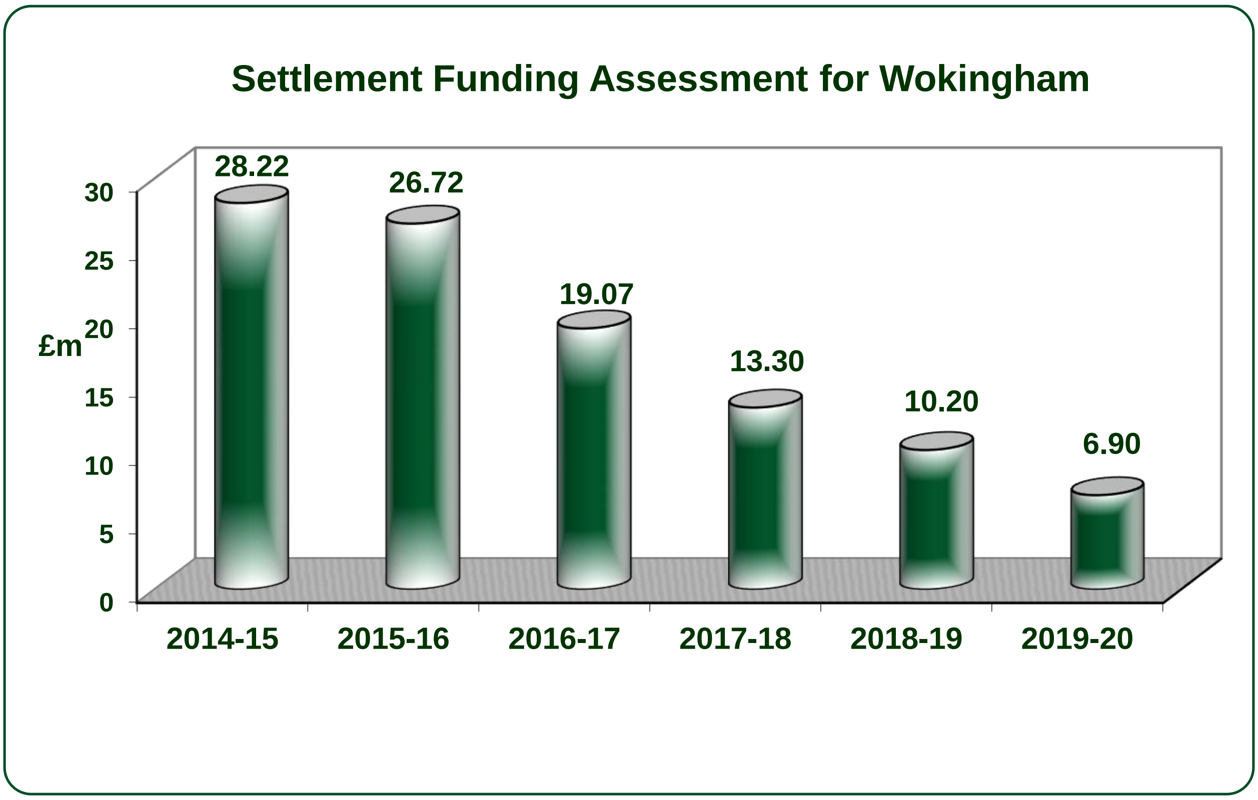
The graph below confirms that Wokingham was starting from the position of being the lowest funded unitary authority in SFA terms in 2015-16, while the other graphs confirm that this position of being lowest funded is continued into later years.



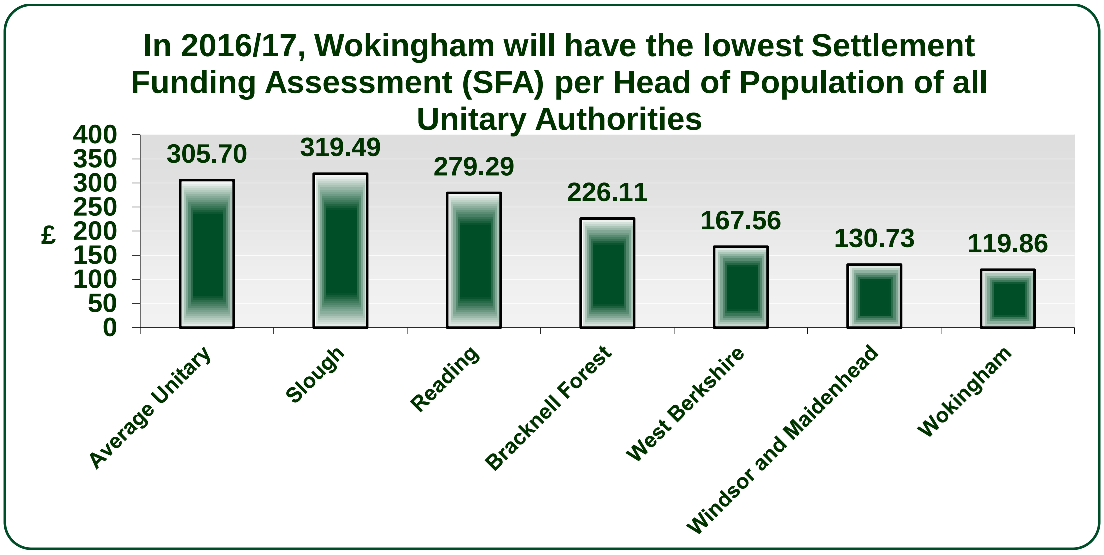
The graph below shows the position for 2016/17 and confirms that Wokingham remains the lowest funded, well below the unitaries average, and less than 25% of the highest funded authority :



The graph below shows the Settlement Funding Assessment for Wokingham and the significant reduction in 2016-17 (28.6%) and further significant reductions planned for later years in the December 2015 settlement including a tariff adjustment in 2018-19 and 2019-20. The cumulative changes from £26.72m in 2015-16 to £6.9m in 2019-20 represent a 74% reduction.

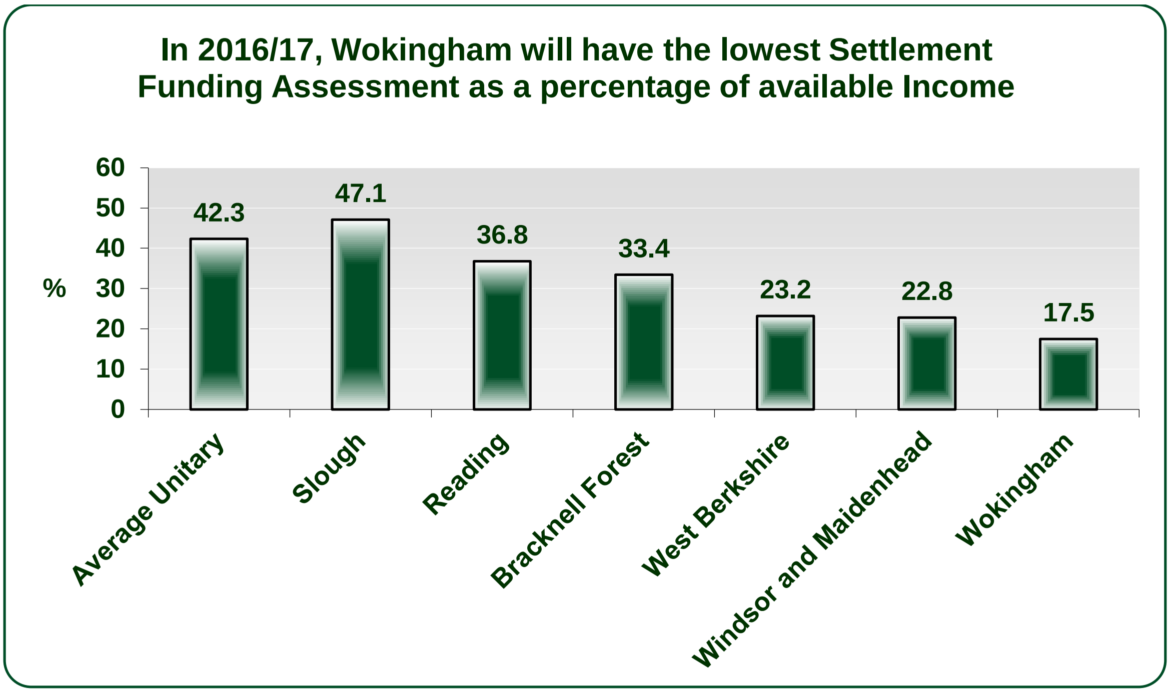


The graph below shows the Settlement Funding Assessment on a per head of population basis for each Berkshire council as well as an average for all unitary authorities. Wokingham will receive the lowest grant per head of £119.86, which is less than half (39%) of the unitary authorities average of £305.70. It is also less than half the two highest Berkshire authorities.



Wokingham's Settlement Funding Assessment Grant is only 17.5% of its 2016-17 total available income (known as Spending Power). This is less than half the highest funded Berkshire council (47.1%), and approximately half the average for all 55 unitary councils of 42.3%. The practical implication for Wokingham is that it must fund a higher proportion of the council's expenditure through its council tax than any other Unitary Authority, and therefore increases/decreases in council tax have a greater proportional impact on services.

The following graph shows the SFA per head of population for 2016-17 for each unitary authority, with Wokingham at the foot of the graph with the lowest SFA per head (£119.86), and Blackpool at the top with the highest SFA (£539.82).



In 2016/17, Wokingham will receive the lowest percentage of SFA grant as a share of its total income, of any unitary authority. Wokingham will receive 17.5%, compared to some unitary council`s for whom government grants will fund over 60%, and an average of 42.5%. As a result, the percentage of expenditure met by Wokingham council tax payers is the highest of any unitary authority.

Analysis of Spending Power Changes

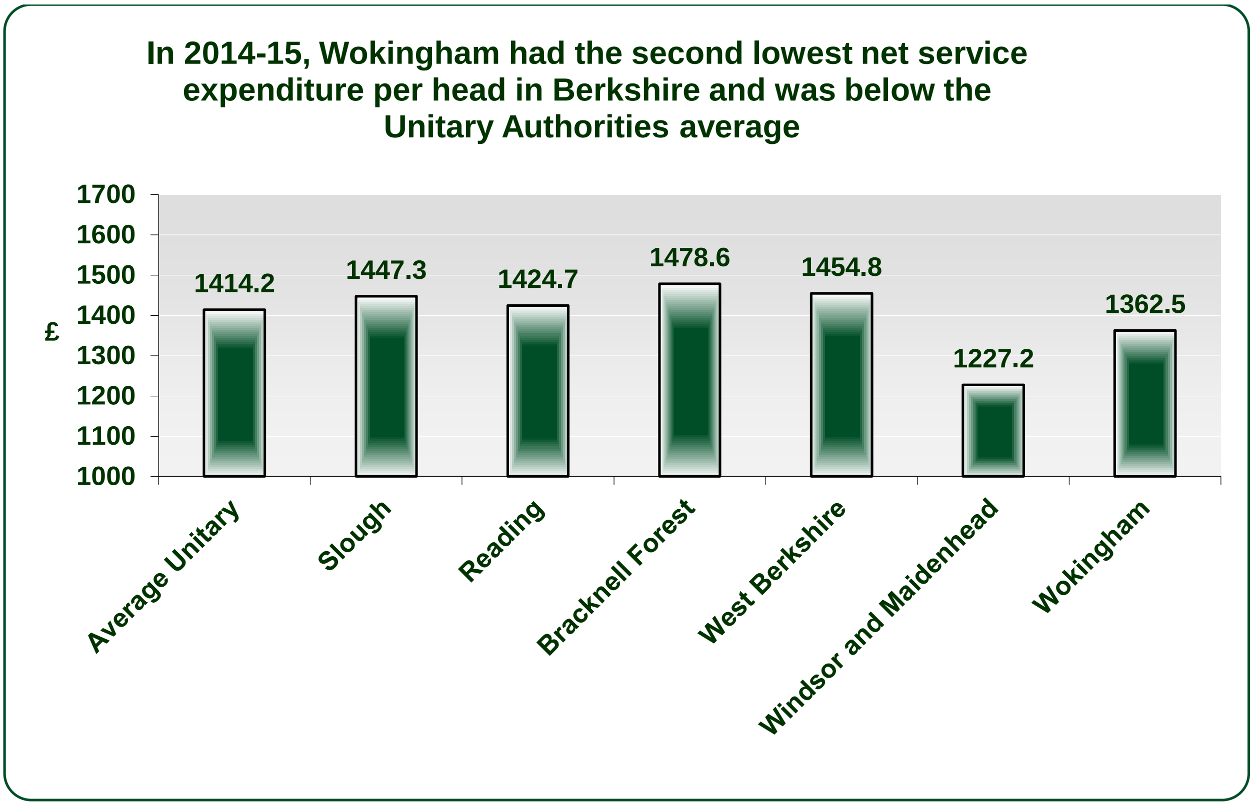
A 'headline' that follows the Local Government Finance Settlement is the change in an authorities spending power. This can be misleading as it masks the real ongoing income position for the council that it must consider in its budget setting process. The table below shows that a £2.5m reduction increase in spending power assumes it will be funded by a 2% increase in council tax, plus a further 2% increase in council tax for the ASC precept, and a £1.3m increase in New Homes Bonus. These assumed increases are required to offset the reductions in Government funding, and without the assumed total increases in council tax of £3.8m, the spending power would have fallen by £6.3m,not £2.5m. The change in spending power therefore substantially transfers the burden of funding council services to the council tax payer in 2016-17, since council tax as a percentage of SFA increases from 72.9% in 2015-16 to 78% in 2016-17.

Spending Power	**2015-16 Adjusted**	**2016-17**	**Change**	**Analysis**
	£m	**£m**	**£m**	
Settlement Funding Assessment (SFA)	26.7	19.1	-7.6	£6.3m RSG reduction and £1.2m miscellaneous changes
Assumed Council Tax	81.2	83.4	2.2	2% increase plus increase in council tax base of 0.75%

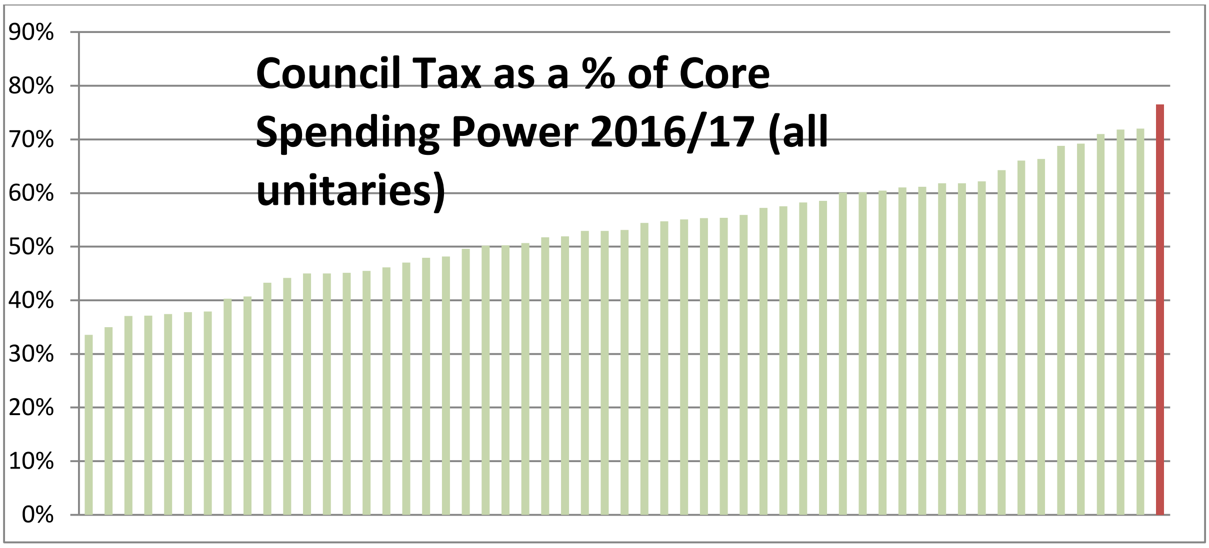
New Adult Social Care (ASC) Precept	0	1.6	1.6	2% increase assumed
New Homes Bonus	3.5	4.8	1.3	
Total Spending Power	**111.4**	**108.9**	**-2.5**	**2.2% reduction**
% of spending power funded by assumed levels of Council tax	**72.9%**	**78.0%**	**5.1%**	

Net Revenue Expenditure per Head and Council Tax per head

The Government statistics for local authority expenditure in 2014-15 confirm that while Wokingham spent below average on services per head, the council tax levied per head was considerably above average. The graph below shows expenditure head, while the following graph confirms the high level of council tax which Wokingham tax payers had to pay in 2014-15. This diversion between expenditure and council tax will significantly increase from 2016-17 onwards due to Wokingham's high council tax base.



The graph below shows that for Wokingham, council tax a percentage of core spending is forecast to be the highest of all unitary authorities in 2016-17.



Education Services Grant (ESG, formerly LACSEG)

The Government introduced the Education Services Grant in 2013/14 to replace the LACSEG grant (Local Authority Central Spend Equivalent Grant). It is a method of providing funding for the transfer of local authority central education budget to academies and free schools. The grant is payable on a per pupil weighted basis, and whenever a school becomes an academy or free school, the council loses grant in the region of £250,000-£300,000 per year for each secondary school. Although the Council works hard to reduce its education support costs when responsibilities move to academies, it is very difficult to achieve reductions anywhere near the level of lost income because of the fixed cost involved and the assumed element of Education Services Grant being far greater than actual costs.

The Government confirmed in the Autumn Statement 2015 that ESG would reduce in 2016/17 and cease entirely over the spending review period. The implications for Wokingham are a loss in grant income of over £1.5m over the next 4 years, which is an additional cut to those previously set out under the Settlement Funding Assessment section of this report.

The Dedicated Schools Grant (DSG)

DSG was introduced in 2006/07 and had the effect of turning a significant part of the Council's Revenue Support Grant into a ring fenced specific grant. The Council receives DSG annually and it must be used in support of the Schools Budget as defined in the Early Years and Schools Finance (England) Regulations 2013. The purpose of the Schools Budget is defined in legislation as the provision of primary and secondary education.

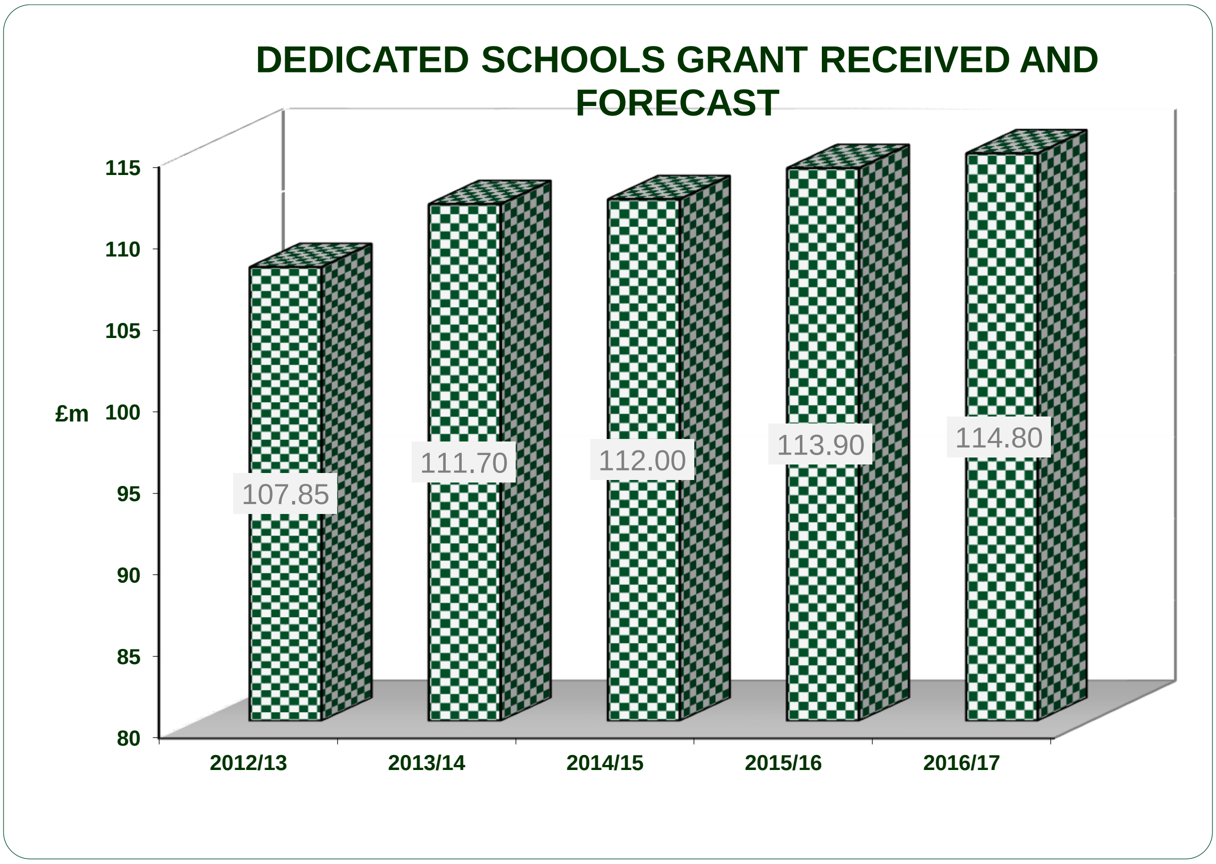
The amount of DSG the Council has received in previous years for maintained schools and academies is shown below. An amount of £116.8m for 2016/17 was notified by the DfE in December 2015, however approximately £2m of this amount is in respect of free schools and must be paid to them. The allocation available to the Council is therefore approximately £114.8m, compared to £113.9m for 2015/16. The increase from 2015/16 is accounted for by changes in the age ranges of pupils, as pupil numbers have not changed from 2015/16 to 2016/17 numbers, and there is no allowance for inflation. The actual DSG available to the Council in 2016-17 is estimated to fall by £5.2m representing a transfer of funding of £5m in respect of Waingels College which became an academy school in 2015-16, and a small amount for other pupils transferring from maintained schools to academies. Due to the funding reforms introduced from April 2013 schools will continue to have more direct control over how money is spent. This is particularly relevant when looking at the support services the Council provides to the Schools and the reduction in Education Services Grant.

Effect of DSG 2012/13 Reforms from 2014/15 onwards

The Government's funding reforms of 2013/14 were intended to move into the second phase of a longer term plan for a National Funding Formula by 2015/16. The over-arching objective is to have a simpler, transparent and more equitable approach to funding pupils irrespective of where they live in the country. The implications for Wokingham schools is that a number of them may lose out, as there is less ability for the Council to target funding to the most vulnerable schools and pupils. This will have the effect of compounding the financial challenge already being faced schools across the borough resulting in an increased need for 'licensed deficits' to help them manage their finances.

In summary, the DSG changes mean that schools block money is much more aligned to pupil numbers, but there is no growth mechanism in the High Needs Block (HNB), and schools have less ability to incorporate fixed budget allocations. Schools with falling pupil numbers will therefore be more affected than others. Furthermore there are growing SEN pressures on the overall budget which may reduce the money available for allocation.

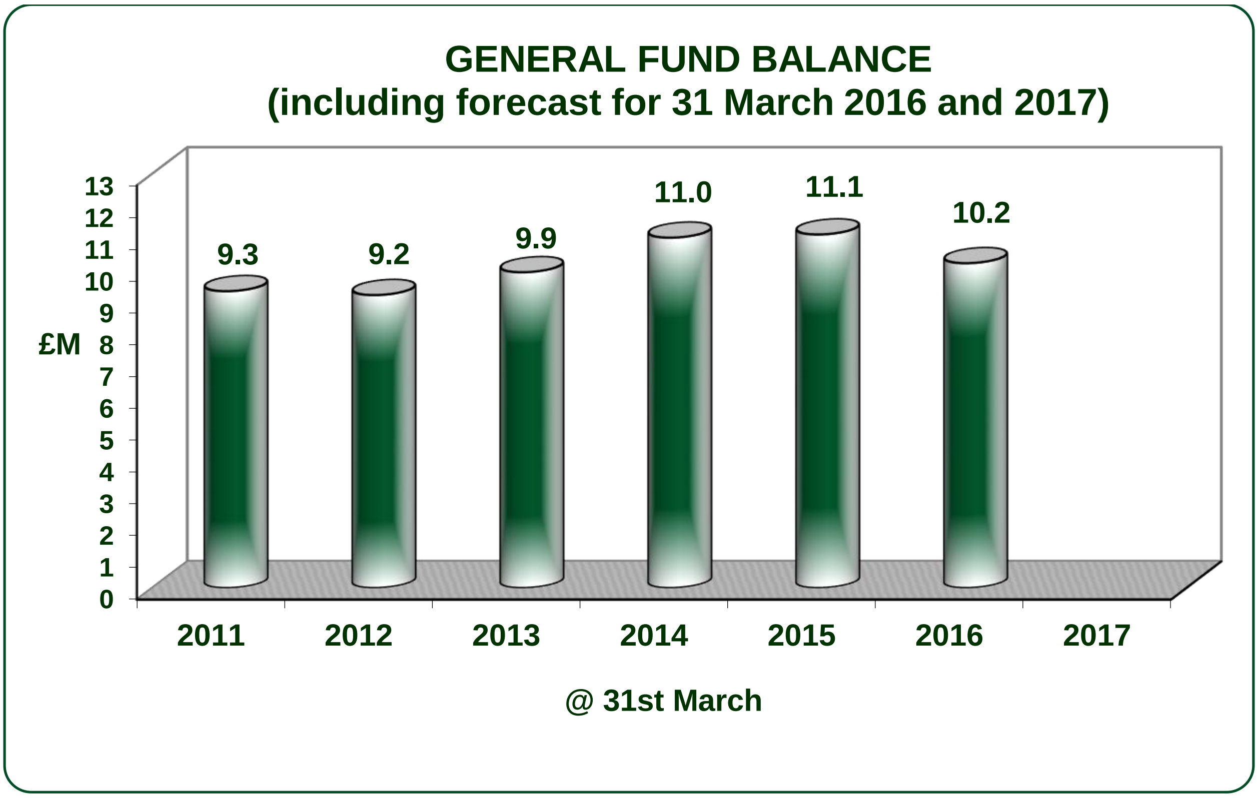
The Government confirmed in the Autumn Statement 2015 that the National Funding Formula would be introduced in 2017/18, subject to consultation on the content.



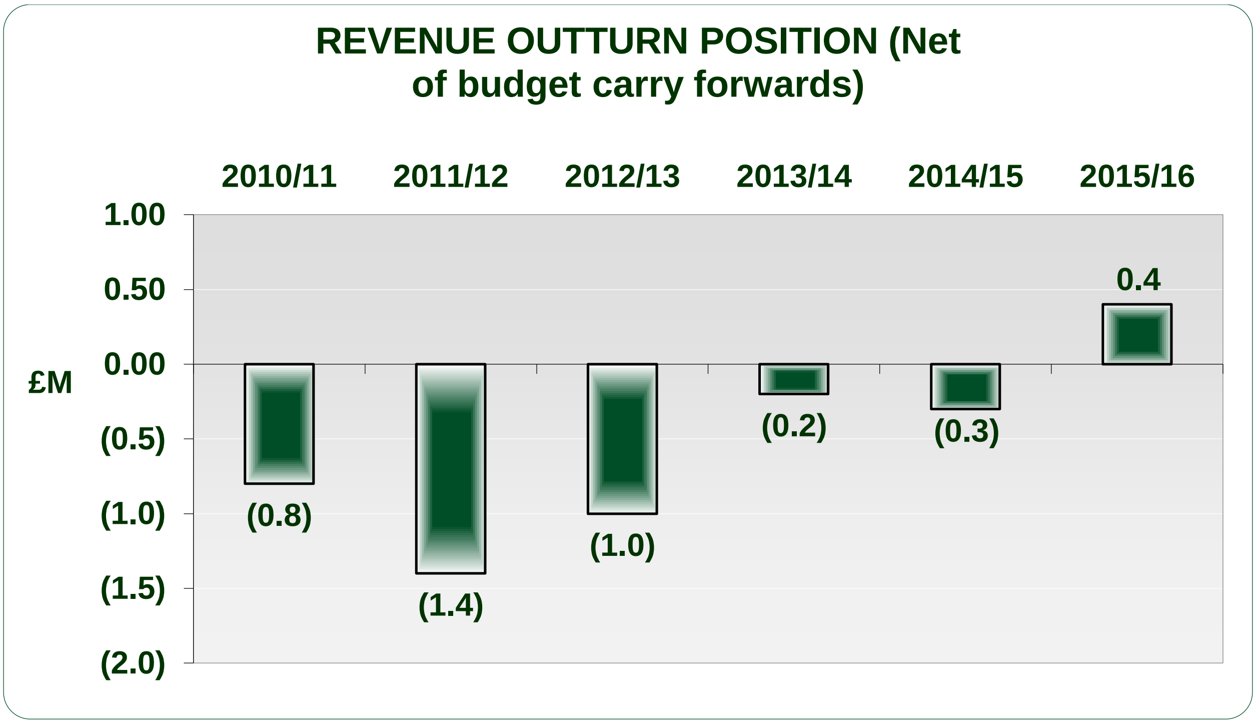
4 General Fund Balances (GFB)

The GFB is required as a contingency to meet unforeseen spending requirements and to provide stability in Medium Term Financial Planning (e.g. by using balances to contain growth in future years). The level of balances is informed by a budget risk analysis. This approach was introduced in 2003/04 when the Council agreed the policy on General Fund Balances. The budget risk analysis for 2016/17 is included in the Medium Term Financial Plan. The table below shows actual general fund balances at 31 March 2015 and a forecast for 31 March 2016. The figure for 31 March 2017 will be updated for February 2016.

General Fund balances need to remain in the region of £10m going forward as the number and level of risks facing the Council's finances have increased significantly. They include the implication of future years of austerity and further grant reductions, additional service pressures, substantial regeneration programmes requiring forward funding of interest costs on SDL schemes, risks around NDR receipts and the level of retained business rates, and significant risks around the Care Act potentially in the millions of pounds.



A further consideration in setting a prudent level of General Fund balances and setting a safe budget, is the underlying trend of under/over spending against the budget set at the beginning of the year (see below):-



It is important that the Council ensures that sufficient budget is approved to deliver the agreed levels of service to avoid base budget deficiencies (inadequate budgets).

The forecast budget variance in 2015/16 currently shows an overspend of £0.4m compared to the budget approved in February 2015, and in addition there has been a supplementary estimate of £0.35m. It should be recognised that within the overall position there are significant underlying cost pressures within the 2015/16 budget including, for example, pressures on child placements above expectations; this will need to be considered within the 2016/17 budget submission.

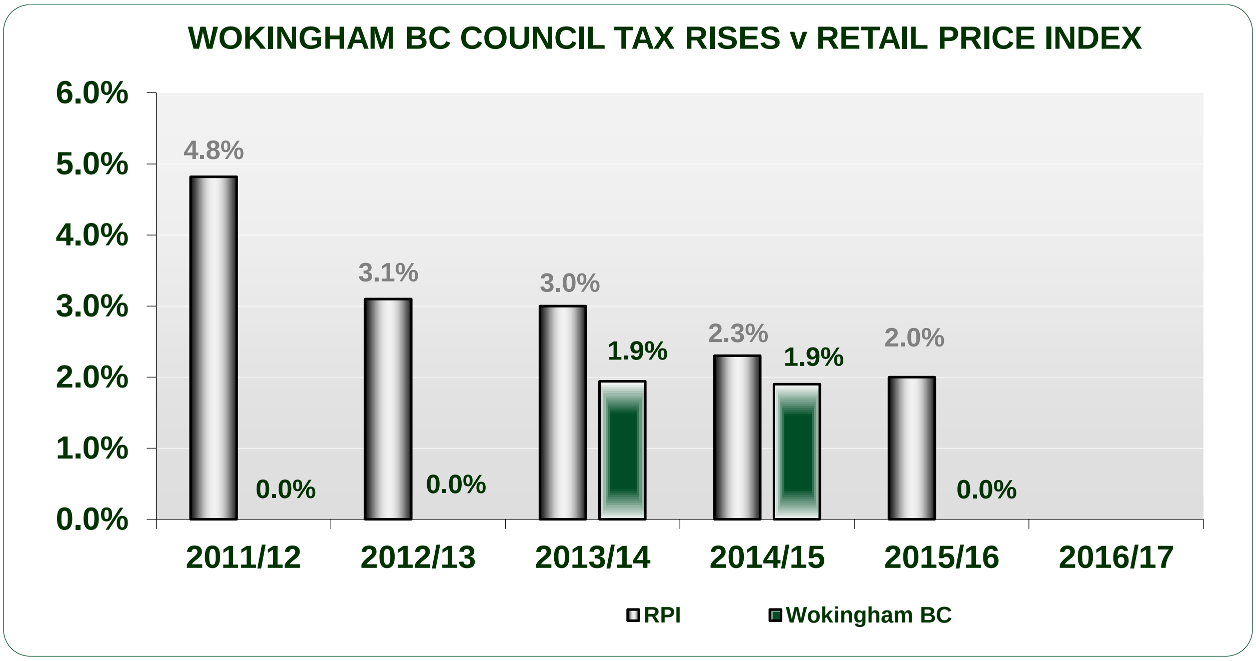
5 Other Balances

The Council holds other balances in addition to the General Fund balance. These should be reviewed as part of the budget submission and in the context of their benefit and opportunity cost.

6 Council Tax

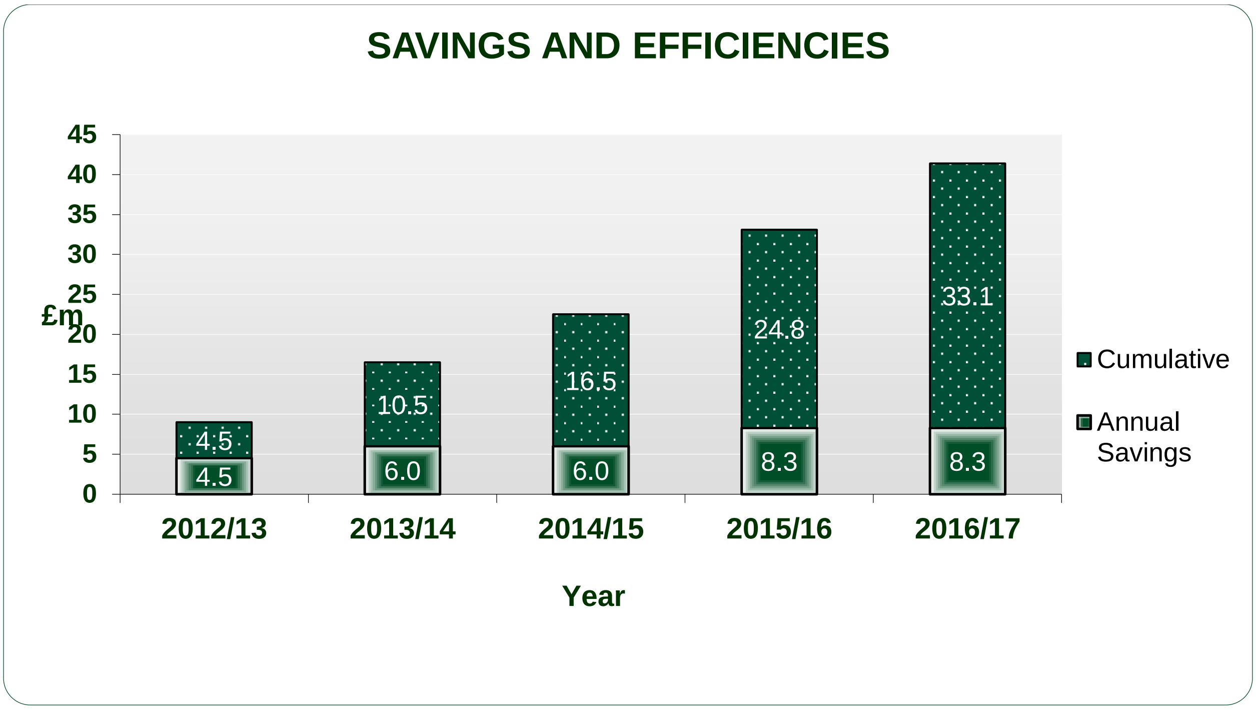
Funding is fixed by the Government and therefore, increases in service funding impacts on the level of Council Tax that must be levied. This is a major area of tension in every budget setting year; the increase in Council Tax versus the quality and level of service delivery. This is a particularly difficult tension in the context of public affordability (e.g. those on a fixed income) and also because a high proportion of the Council's services are statutory with escalating costs driven by increasing client needs and numbers.

The expenditure pressures for Council Tax increases above inflation are similar each year: client increases (particularly in social care); increase in statutory requirements (e.g. recycling, standards of care); unavoidable expenditure increases above inflation (e.g. maintenance contracts, social care contracts and land fill tax) and pressures to improve services from both the public and the Government. In recent years Wokingham has succeeded in keeping Council Tax increases in line with or below inflation (achieving a freeze in 2011/12, 2012/13 and 2015/16) as shown in the graph. This is a reflection of the Council's continuing pursuit of efficiencies and value for money, particularly relevant in the context of it being the lowest grant funded Unitary Authority per head of population. The figure for 2016/17 will be updated in February 2016.



Savings

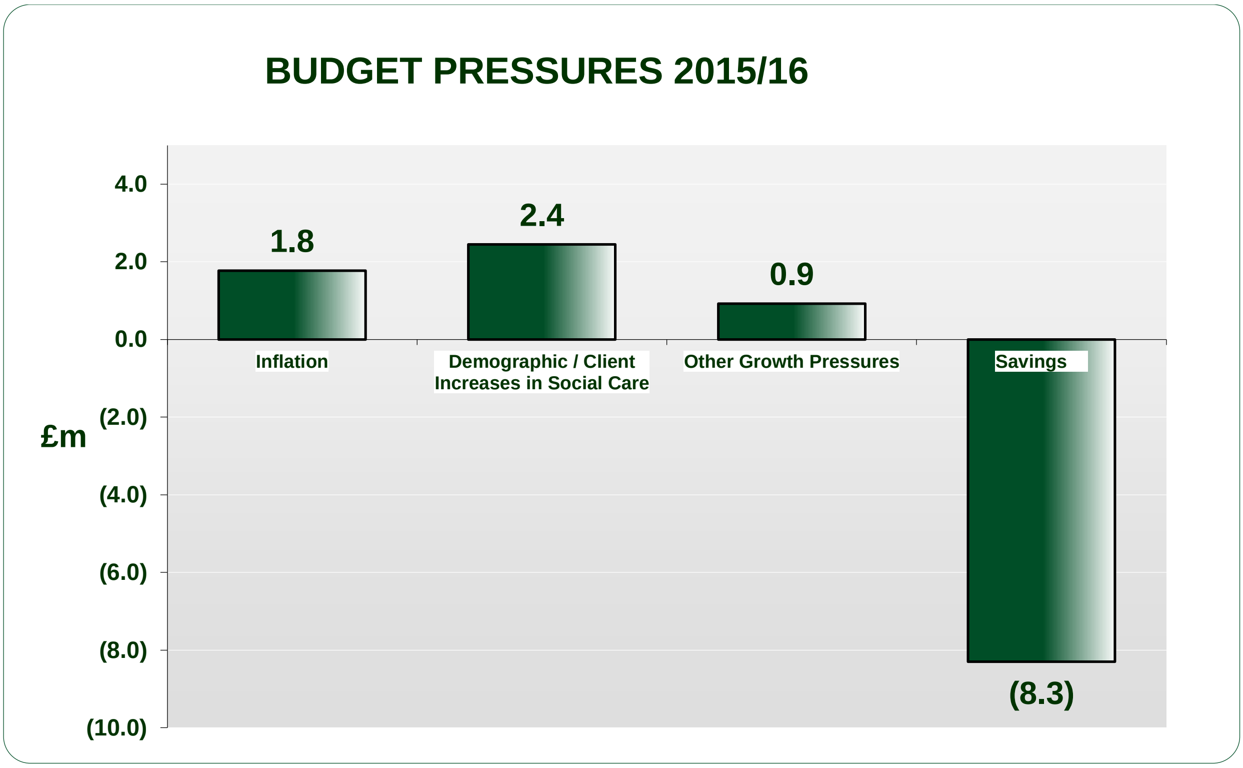
The total savings and efficiencies that have been identified in setting the council tax in previous years are shown below. It equates to over £33m over the 5 years below. Savings are used to fund growth, inflation and reductions in Government grants.



The savings shown for 2016/17 of £8.3m are those included in the 2015/16 MTFP as part of the budget setting process; they will be updated in February 2016.

7 Budget Pressures

An overview of the 2016/17 budget pressures is shown below. The detail of the full and updated set of budget movements will be contained in the Summary of Budget Movements (SoBM) section of the Medium Term Financial Plan (MTFP).



The demographic growth relates to pressures in adults services and home to school transport. The other growth includes pressures such as: investment in adult care preventative services, highways maintenance and drainage, and home to school transport. The above represents the figures reported in the MTFP in February 2015 and they will be updated in February 2016.

8 Revenue Resources Outlook and Risks 2017/18 and beyond

The financial future remains very challenging and the Council will experience pressure on its resources in a way it has not had to endure previously. Under the Council's budget management protocol, Members are required to agree budgets based on the best estimate for the agreed level of service.

A budget risk analysis will be undertaken for 2017/18 (annually updated) and is detailed in the MTFP. This identifies budgets where there remains a risk of overspending, given the best estimate is included in the budget submission. The budget risk analysis will be used as a guide to determine the level of General Fund balance required. Many of the risks are largely those that featured in the budget submission February 2015, updated where appropriate, and some such as the economic downturn, include capital as well as revenue risks.

Given the growing unavoidable expenditure pressures to meet the Council's statutory responsibilities, coupled with significant reductions in overall Government Grants, the budget will inevitably contain a degree of risk. A reasonable measure of caution is included to mitigate some of the risks. However, there are considerable unknowns at this stage and the Council will need to keep a close watching brief on developments.

The Capital Resources Outlook and Risks are covered in paragraph 9 below.

The major issues that may impact on future revenue resources are;

Statutory Costs of Care

The Care Act has introduced a new national threshold and the potential demand from extending eligibility to certain adult services from the Critical threshold to the Substantial threshold is expected to be significant, with a potential cost in the millions of pounds each year to the Council. In addition, budget pressures in Children's Services in 2015/16 are approximately £1.4m and include £1.1m for additional children's residential placements. These pressures will need to be considered along with other budget pressures in the 2016-17 budget and beyond.

Funding the Council's Ambitions for Regeneration

The Council is at the stage of significant investment in its Strategic Development Locations (SDL's) and Town Centre Regeneration (TCR) ambitions. This requires significant up front funding pending the receipt of developer contributions of income from commercial assets. As such the Council must meet the initial capital costs of investment which generates a sizeable funding pressure on the Council's revenue account.

New Homes Bonus (NHB)

The Autumn Statement 2015 has proposed changes to the New Homes Bonus which make the scheme less attractive for Wokingham by reducing the length of payments from six years to four. The council is due to receive £4.8m for New Homes Bonus in 2016/17. This is expected to be a similar amount in 2017/18, but the grant in later years is expected to be at least a 1/3rd less than, and a consultation is currently underway on its' future. Furthermore the NHB has been included in the Council's 'Core Spending Power' calculation. These developments appear to fundamentally undermine the initial intention behind the NHB scheme; to incentivize housing growth and reinvest in regeneration. Although the Council's previous approach has been to use NHB to fund special items, most notably for regeneration, the sustainability of such an approach has been brought into question due to its impact on the funding of essential council services.

Impact of the Economic Downturn

Although the impact of the economic downturn has significantly reduced, and economic growth has been considerable in certain areas of the economy, it is still having an impact in certain areas of the Council's budget as set out below. Particular consideration as ever will need to be given to the following in the budget proposals:

- Loss of interest from investments arising from the low bank base rates;
- Loss of income including business rates and rent related to development, and developer contributions for infrastructure;
- Increase in benefit claimants and bad debts;
- Reduced capital receipts realised on planned asset disposals;
- Reduction in income from Fees and Charges

Services directly related to meeting the needs of those suffering from the impacts of the economic downturn will need to continue to meet the increased level of demand.

Demand Led Budgets (including increasing responsibilities from the Government)

Further to the pressures identified under the Care Act there are additional statutory services pressures, which are notoriously difficult to control. Although best efforts have been made to accurately forecast budget requirements and contain escalating demand through prevention, there will always be a considerable degree of uncertainty. This uncertainty is compounded in the current economic climate and increasing service needs. Significant increases in statutory responsibilities also arose from the transfer of Public Health services and from meeting the cost of Council Tax Support (Benefits). Both of these became the Council's direct responsibility from April 2013.

Sustainability

The Council faces potential new and increasing penalties or taxes from the Government if it does not meet certain targets in the future. Most notable areas are around waste landfill, with landfill tax increasing year on year and more waste generated through an increased number of dwellings.
The Carbon Reduction Commitment which commenced in April 2010 (largely involving collecting and reporting data) went live in 2013 with the payment of "carbon emission allowances". The 'credit' recycling element of the scheme was removed in the Comprehensive Spending Review 2011, thereby increasing the potential net costs to the Council. The 'league table' rewards/penalties element has also been removed.

A further concern arises from the potential risk of fines from the European Union relating to issues such as air quality. The power for the Government to pass on these fines to local authorities is contained in the Localism Act. Although this is being strongly resisted by bodies such as the Local Government Association, it is an area that needs to be kept under close review.

Localisation of Business Rates and Council Tax

All local authorities are facing significant extra financial risks from 2013/14 onwards due to Government legislation on localisation of business rates and council tax. From 2013/14 onwards local authorities have been able to share part of any growth in business rates, which is an incentive to encourage growth. However, councils will also have to bear a share of any shortfall on business rates, due to closures of premises, successful appeals against valuations of which many are still outstanding from the 2010 revaluation, bad debts and other factors. These factors significantly add to the council's financial risk profile. In addition the Council now directly meets the cost of Council Tax Benefits and will bear the risk of economic conditions giving rise to an increase in claims.

More recent Government announcements make clear an intention to return all business rates to local authority control in 2020. Given that is the year they intend to increase our tariff payment back to them by a further £7m, it is hard to know what this means. At this stage we will be able to keep a mere £6m of our £65m business rates.

Economic Outlook

The UK has experienced the strongest rate of growth on average of the G7 countries (the former G8 major world economies, less Russia, suspended in March 2014) since 2010, and for 2015 growth is currently estimated by the OBR (Office of Budget Responsibility) at 2.4%. Growth of 2.4% and 2.5% respectively is forecast for 2016 and 2017 as forward surveys show business investment is also strongly recovering. The manufacturing sector has also been encouraging though recent figures indicate a weakening in the future trend rate of growth. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance.

In the Autumn Statement in November 2015, the Chancellor stated that inflation would fall below 1% to near zero in 2015, and is forecast to remain below the 2% target level until at least 2019. The first increase in Bank Rate is now expected in the second quarter of 2016 and increases after that are expected to be at a slow rate.
Employment hit a record 31.2 million in work in the three months to September 2015, 2.1 million more than the same quarter in 2010. A record 73.7% of adults are now employed, and the female employment rate has also hit a record. The unemployment has fallen to 5.3%, the lowest since 2008, while real wages have increased by 2.9% in the last year. The National Living Wage will increase pay for many people by 40% in five years.
The return to strong growth has also helped lower forecasts for the increase in Government debt over the next five years, and a budget surplus is forecast for 2019-20. Government borrowing as a percentage of GDP is forecast to reduce to 71.3% in 2020/21.

9 Capital

Capital Strategy

A 10 year capital strategy has been developed with the aims of realising the Council's vision, raising the quality of life of residents and improving medium to long term planning.

To finance the capital strategy, an approach to funding has been taken that: optimises assets; seeks flexible use of future Section 106 contributions, Community Infrastructure Levy and attracts new funding sources where available (particularly through the bidding for Government grants).

Under the Prudential Code, all authorities are able to borrow as much as they require to fund their capital programme provided it is affordable, prudent and sustainable. As Wokingham is on the 'floor' the financing costs of any new borrowing falls more directly upon the council tax payer. The annual revenue cost of new borrowing is approximately 7.5% of the sum borrowed (4% principal, 3.5% interest).

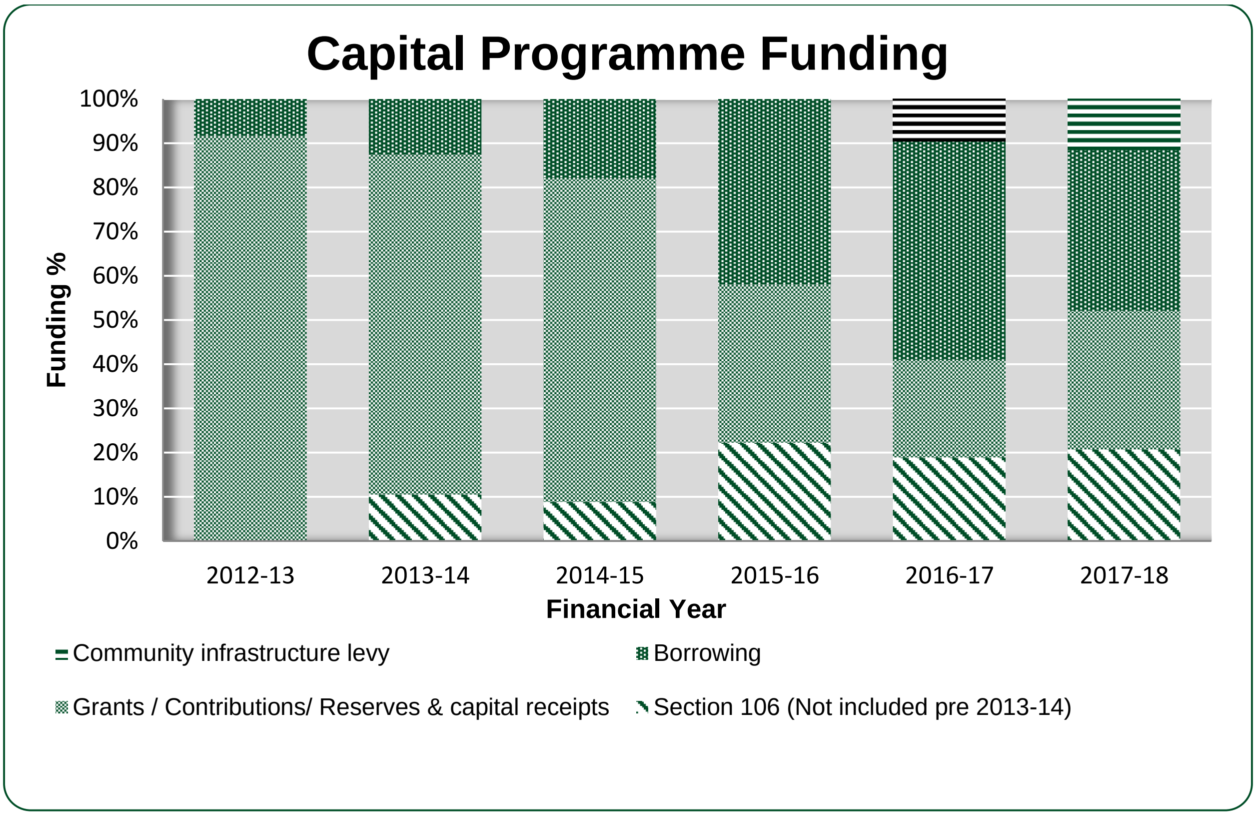
Capital Programme

The first three years of the capital vision is effectively the capital programme. This has been developed following an assessment against key Council priorities, including a value for money and risk analysis.

The capital programme over the next 3 years will include existing asset investment (predominantly school buildings and infrastructure assets) and schemes that seek to deliver the Council's vision.

The capital programme is funded from a variety of sources; capital receipts, borrowing, grants and other contributions. The relative reliance on each funding source is set out below and shows a greater dependency on developer contributions as the Council embarks on its ambition to develop its four Strategic Development Locations.

The two tables below show the funding for the standard capital programme and include the resourcing for the Wokingham town centre regeneration, Strategic Development Locations (SDL's) and Wokingham Housing Ltd investments. They are from the MTFP approved in February 2015 and will be updated for February 2016. The capital programme funding is expected to increase considerably over the period of the MTFP in order to fund the council's investment ambitions.



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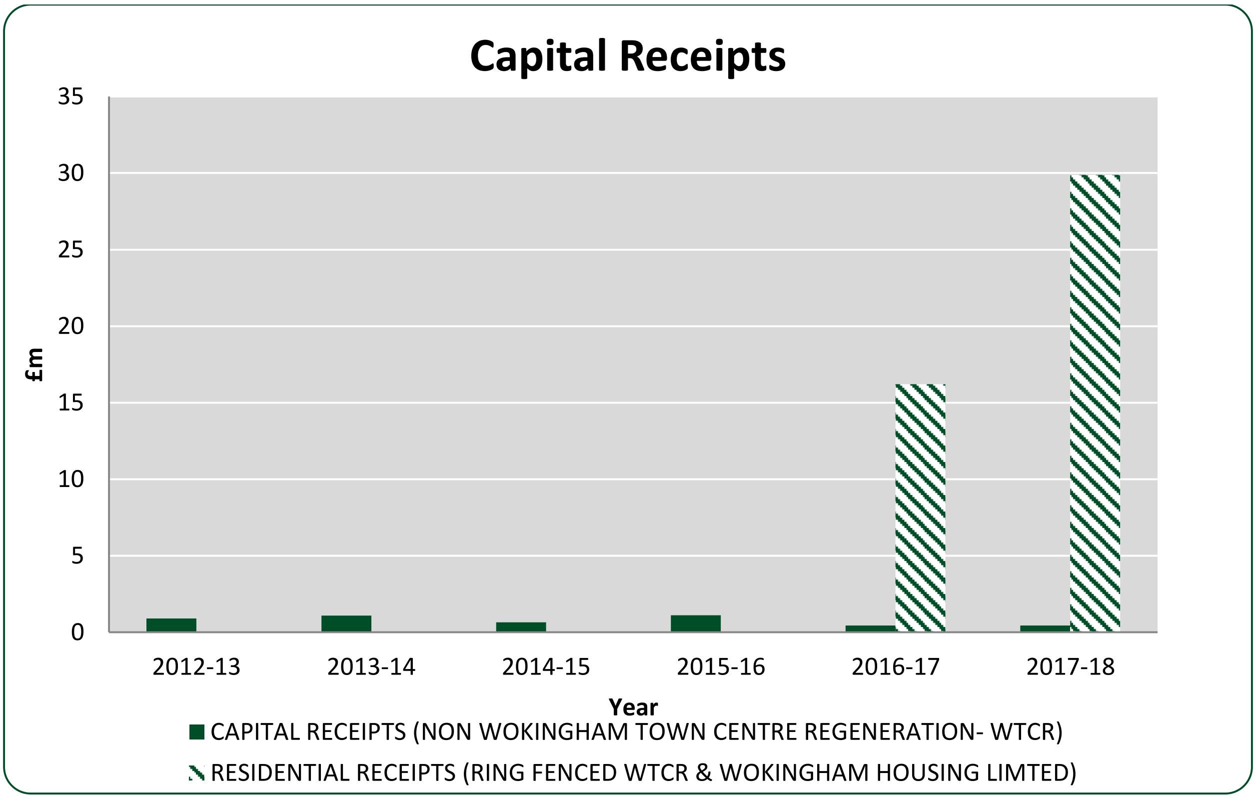


Note: Receipts from 2014-15 to 2017/18 are estimates

The significant amount of capital receipts forecast from 2016-17 onwards is due to forecast receipts from sale of houses arising from the Wokingham town centre regeneration.

Capital Resources and Borrowing Outlook

There are some significant developments in the Council's capital programme.

Town Centre Regeneration

The first phase of Wokingham Town Centre Regeneration, which is one of the Council's key investment priorities, has now finished with the refurbishment of Peach Place. The Peach Place planning application for the Redevelopment of Peach Place has now been submitted. Subject to planning consent, Peach Place Redevelopment works are expected to commence late 2016. Scoping works for Elms Field and Carnival Pool are progressing for the final stages of Wokingham Town Centre Regeneration. It is essential that anticipated build costs and forecast capital receipts are closely monitored as small variations could have a significant impact on capital resources.

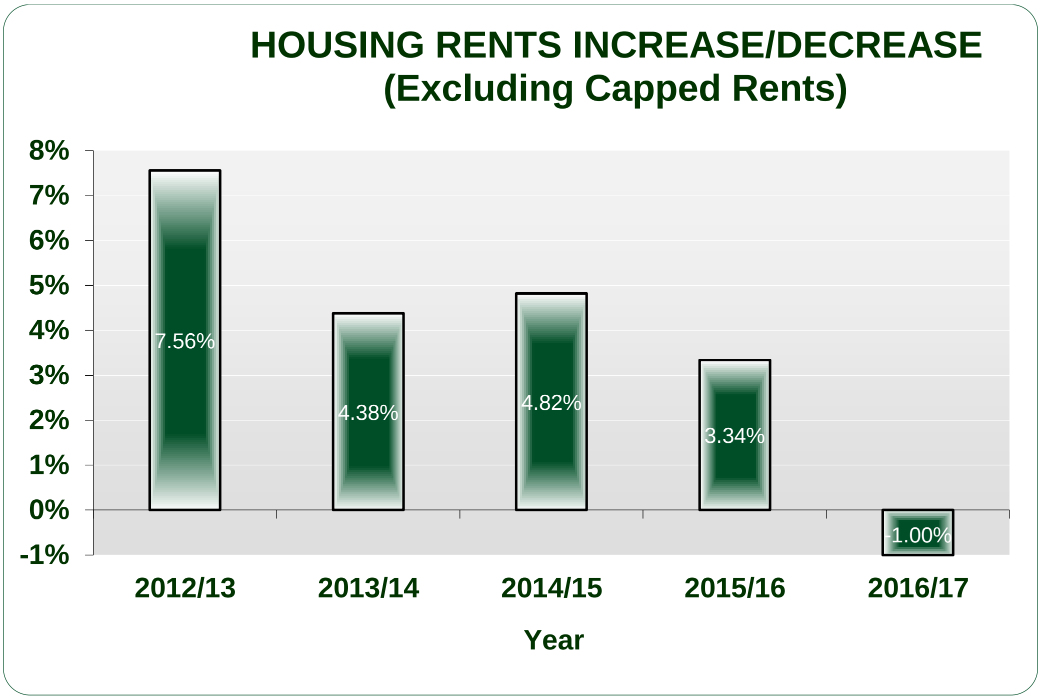
Capital Receipts/Contributions

Significant costs relating to the development of SDL's are in respect of building major roads and schools. Developer contributions through S106 contributions or Community Infrastructure Levy are key to funding these and minimizing the burden on general council capital resources. Given the size of the investment required the timing of the capital receipts becomes important as the capital financing costs of any timing lag falls on the general fund. Years two and three in the capital programme show a rising deficit in investment ambition verses funding available. This will be bridged by through a combination of maximising resources, prioritising and modifying schemes.

10 Housing Revenue Account (HRA)

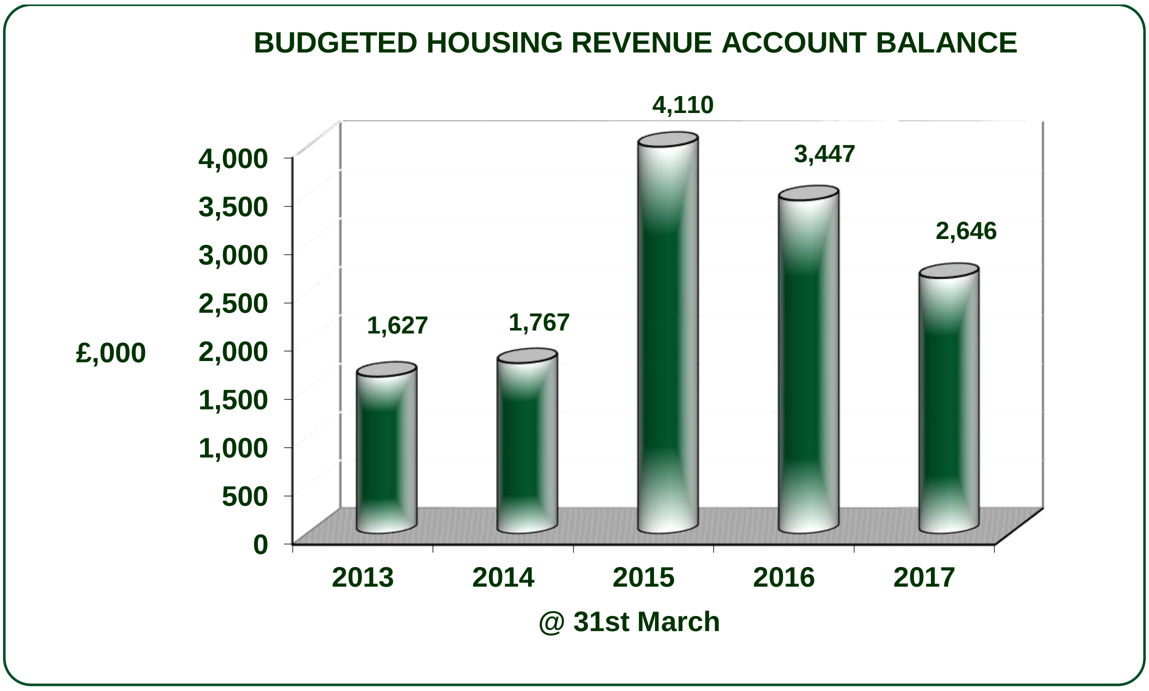
The HRA is a ring-fenced account and as such has no impact on the level of Council Tax. The money spent maintaining the Council's housing stock (valued at approximately £150m) and providing a service to council tenants is mainly funded by housing rents paid by council tenants. Gross expenditure on the HRA is in the region of £16.6m and is predominately in the areas of repairs and maintenance, capital financing, investment in capital works, and management. Housing rents are required to be increased annually in accordance with Government guidelines.

Under the Localism Act the Council took control of its housing rental income thus enabling more effective planning for the long term management of these key assets. In return Wokingham took on its share of the £28bn national housing debt as part of the self-financing settlement. Although the Council took on significant debt to do this, the scheme should be beneficial to the Council and its tenants in the longer term both with regard to retaining income and generating capacity to invest in the housing stock.



In line with the Government's 2016 budget, housing rents must be reduced by 1% each year on a cumulative basis for the four years from 2016/17 to 2019/20. The real terms reduction in the HRA forecast rental income will be greater than 1% annually as HRA rents were based on increasing them as part of the convergence policy whenever new tenancies were commenced; the Government policy no longer permits a convergence policy of increasing rents when tenancies are relet.

The HRA requires a balance in the same way as the General Fund. A risk analysis is also undertaken on HRA budgets to inform a prudent level of balance.



The table above shows actual HRA balances at 31 March 2015, and a forecast for 31 March 2016 and 31 March 2017. The estimated balance at 31 March 2016 will be used to fund capital expenditure in 2016/17 and later years, and fund the loss of rental income due to the 1% reduction. .

11 Local Authority Trading Companies

Optalis Ltd
Optalis provides care and support services to older people and adults with a disability. The objective of Optalis is to provide a sustainable social care service that is known for its quality and commitment to service delivery. There are plans in place to grow the business over the next few years and this growth will be reflected in the MTFP when the financial impact is clearer. Savings are included in the MTFP in respect of a reduction in contract payment.

Wokingham Housing Ltd
This company is now developing a range of high quality affordable and market housing schemes for the residents of Wokingham Borough. Work is well underway developing schemes identified by the council and more schemes will be included into the development pipe-line in future years. The financial implications of the WHL business plan will be included in the MTFP. Significant investment has been included in the Capital Programme for two major developments, at Eustace Crescent and Foster's. The cost of borrowing will be funded by the company. The company has a detailed business plan and the financial impact of this is incorporated into the Council's MTFP.

Graham Ebers
Director of Finance & Resources (and Chief Financial Officer)

Graham Ebers

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