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 2017/18 budget.

2. Strategic Overview

Government's Autumn Statement November 2016

The Government declared that the UK economy is resilient despite government finances being £122bn worse off than expected by 2020. The government is no longer planning to deliver a budget surplus in 2019/20, but remains committed to balancing public sector expenditure "as soon as practicable". Departmental spending plans which were set out in the 2015 Spending Review will remain in place.

The national living wage will increase to £7.50 (from £7.20) from April 2017. A housing infrastructure fund of £2.3bn will help provide 100,000 new homes in high demand regions. £1.4bn will help provide 40,000 affordable homes. An additional £1.1bn will help provide extra investment in local transport networks across England.

The announcement provides a high level context for the local government funding settlement and illustrates that the financial climate is expected to remain extremely challenging for a number of years.

Other financial notifications

The following items remain from previously announced government statements, and impact on the financial context for the 2017/18 budget setting. The apprenticeship levy will come into place in April 2017, at 0.5% of employers' pay bills, but can be partially offset by using these funds for apprenticeship training. The education services grant is being reformed for 2017/18, and is expected to take £1.8m of grant away from the authority. A 1% cumulative annual reduction in council dwelling rent will continue for three more years from April 2017.

Local government finance 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 reductions calculated on the amount received in previous years, Wokingham Borough Council went into the 2017/18 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 12% in the case of Wokingham, and is set out later in the report.

Wokingham has been hit the hardest because Wokingham's Council taxpayers already pay for most of its' local authority services (as previously illustrated). This is the second year of the current four year funding settlement. The settlement seeks to impose a triple taxation effect on Wokingham residents. 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, a high local taxation levy is assumed each year of the settlement (Council tax at inflation plus a 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 the new homes bonus (NHB) has been included within the grant cut calculation. We have endeavoured 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 NHB had previously been allocated towards regeneration activities. Previously NHB provided the Council with resources to plough back into services and regeneration, as was the stated intention of the scheme on its inception. Now that our housing supply projects are underway and delivering on their intention, our NHB should be increasing. Under the current four year settlement, NHB funding has been cut, despite the significant new homes being built in the borough. This is a consequence of the Government's cut to NHB funding. Furthermore the NHB is included with 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.

The Council's approach to the use of NHB has needed to respond to these changes. It will no longer significantly be used for regeneration projects but will be required 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.

Over the next three years, the indicative grant cuts assume the Council increases Council tax by inflation and an additional adult social care (ASC) precept of 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 be charged more and more each year, whilst experiencing the service cuts needed to 'balance the books'. The Council has the opportunity to increase the adult social care precept by up to 3% in 2017/18 and 2018/19, but would then not be able to implement an adult social care precept in 2019/20, as the precept is capped at 6% over the three years.

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). The Council is required to spend this money on adult social care only, and so this restricts the Council's ability to allocate its own spending internally which is needed to justify the precept.

There is more of the same in future years: revenue support grant (RSG) will be cut to absolutely nothing in 2018/19. The Council will receive transitional funding for the second year in 2017/18 to help mitigate the impact of these stringent cuts, but for 2018/19 this transitional relief drops out.

Negative revenue support grant

The Council remains against the concept of negative RSG, which is forecast at £7.14m in 2019/20. Negative RSG 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 RSG and less than £7m of its £60m+ business rates.

Adult Social Care (ASC)

The Government’s continued aim 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 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. Councils are now able to add up to 3% on to council tax, by way of a precept, to pay towards social care in 2017/18, 2018/19, and 2019/20, but this has been capped at 6% over the three years.

The settlement has provided the Council with a grant of £0.4m in 2018/19 towards adult social care, but this will do little to address the ongoing increasing costs arising from an aging population.

The adult social care precept puts the Council at a perverse financial disadvantage. It is assumed to be levied at 2% every year 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 departments.

Regeneration and strategic developments

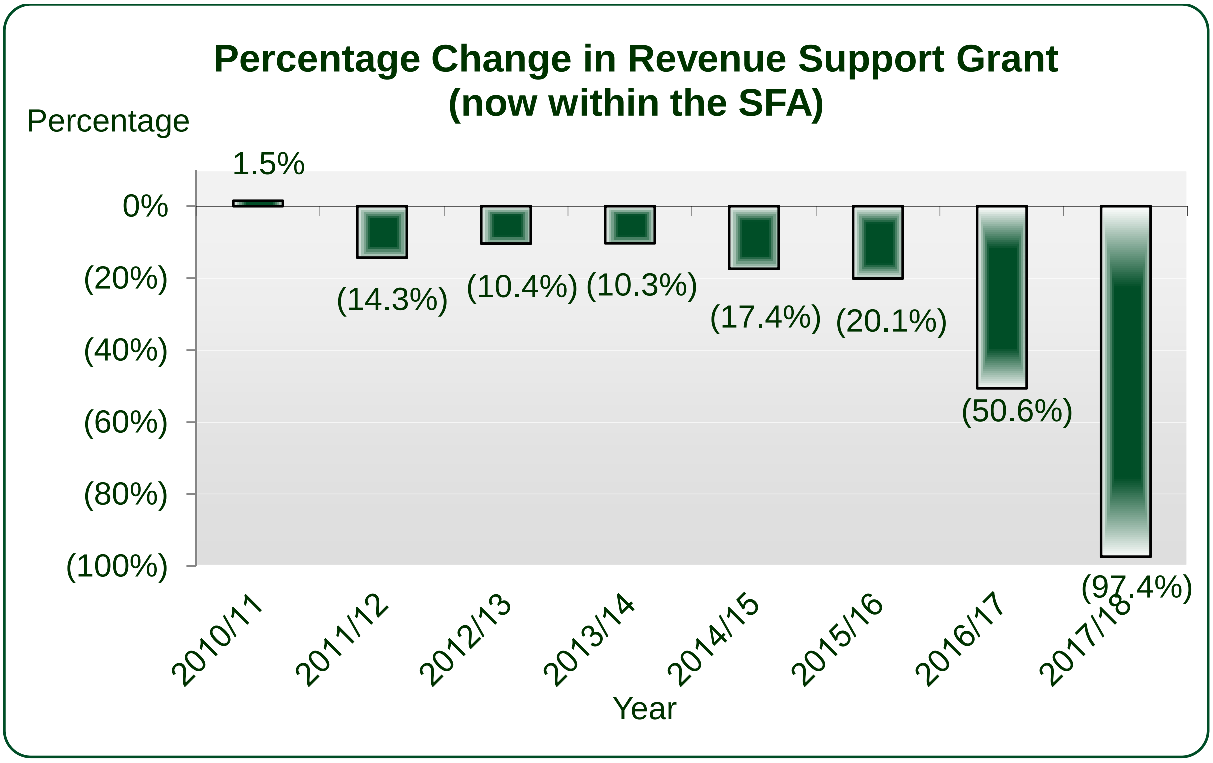
The Council is continuing the development of Wokingham town centre to ensure that it remains an attractive location for businesses, and for people to visit for shopping and recreation. In addition, the four strategic development locations (SDLs) which the Council has identified are starting the process 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

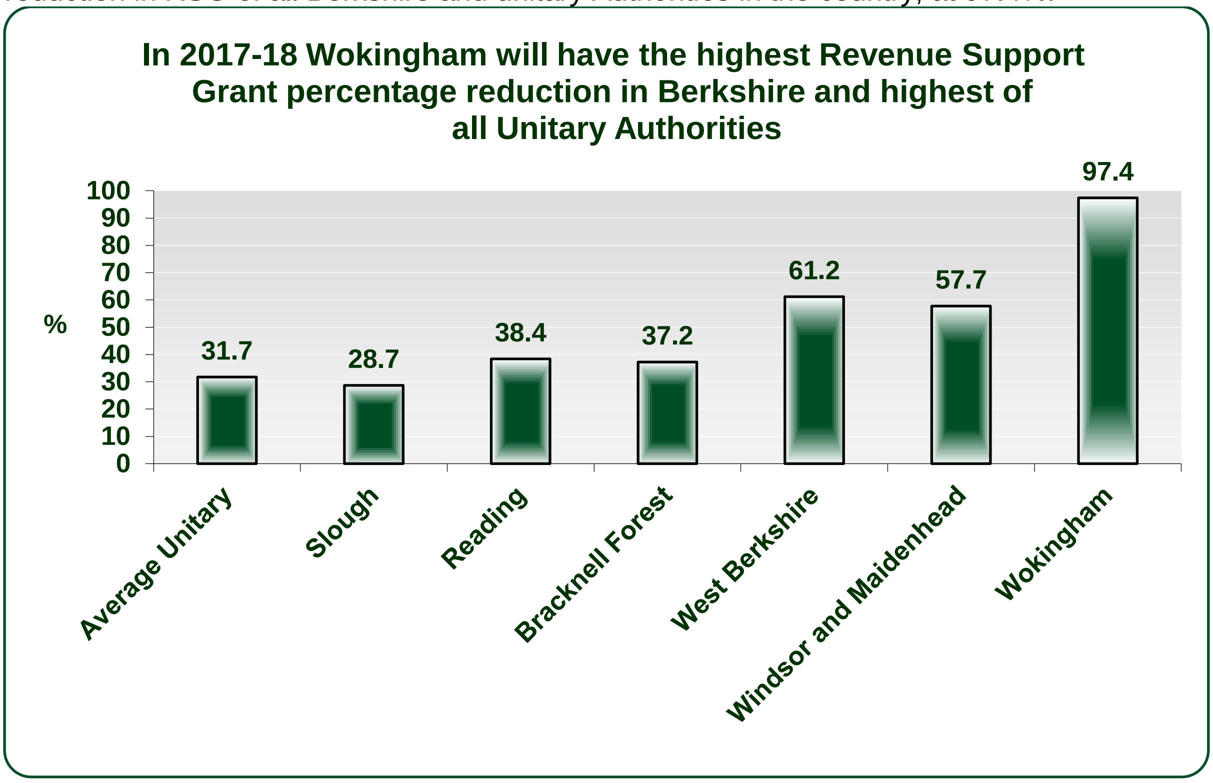
The percentage changes in Government Funding since 2010/11 are shown below. Following the December 2010 Local Government Finance Settlement, Wokingham suffered a reduction in RSG for the first time in 2011/12 of 14.3%, followed by reductions of 10.4% in 2012/13, 10.3% in 2013/14, 17.4% in 2014/15, 20.1% in 2015/16, 50.6% in 2016/17, and 97.4% in 2017/18. Wokingham will only receive £160k of RSG in 2017/18.

RSG 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 97.4% reduction for Wokingham is significantly higher than the Berkshire average reduction of 46.4%, and the average for all unitary authorities.

The graph below shows the year upon year reductions in grant for Wokingham.

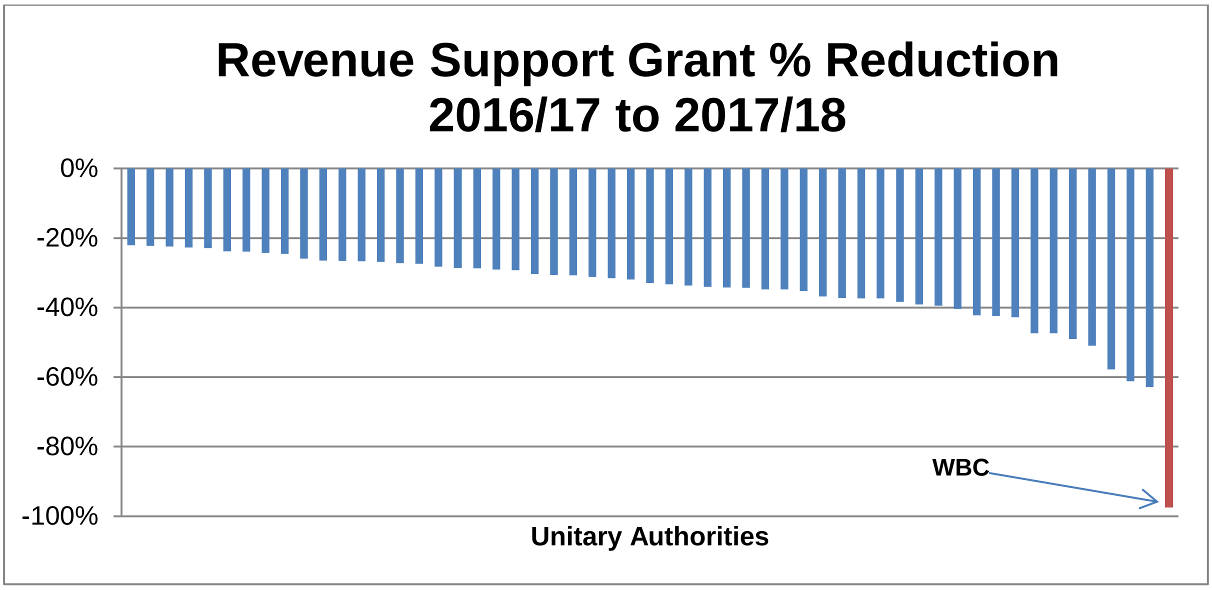


This further graph compares the 2017/18 RSG reductions across Berkshire Councils, and the average for all unitaries. Despite already being the lowest funded Unitary Authority prior to the 2017/18 settlement, incredibly Wokingham managed to suffer the highest percentage reduction in RSG of all Berkshire and unitary Authorities in the country, at 97.4%.

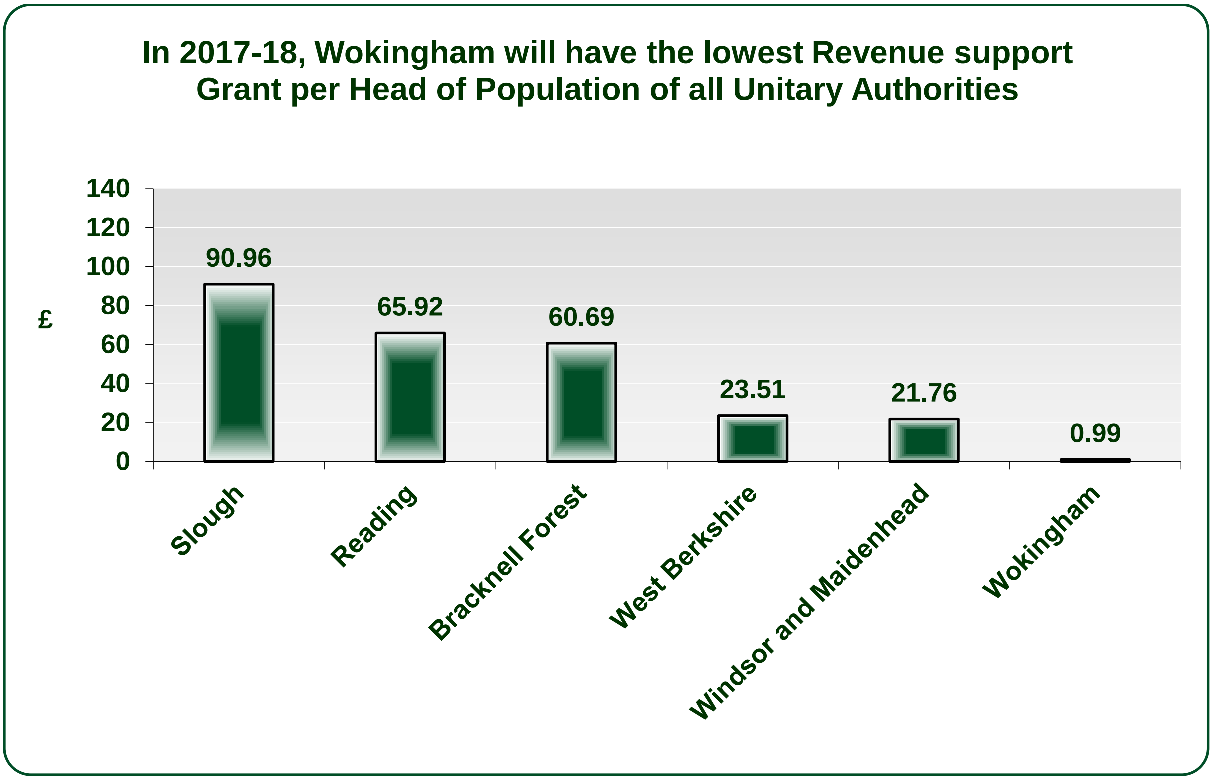


This figure shows a reduction of 97.4% of the Council's RSG. The Council now receives only £160k of RSG funding for the entire year, less than £500 per day to support local services.

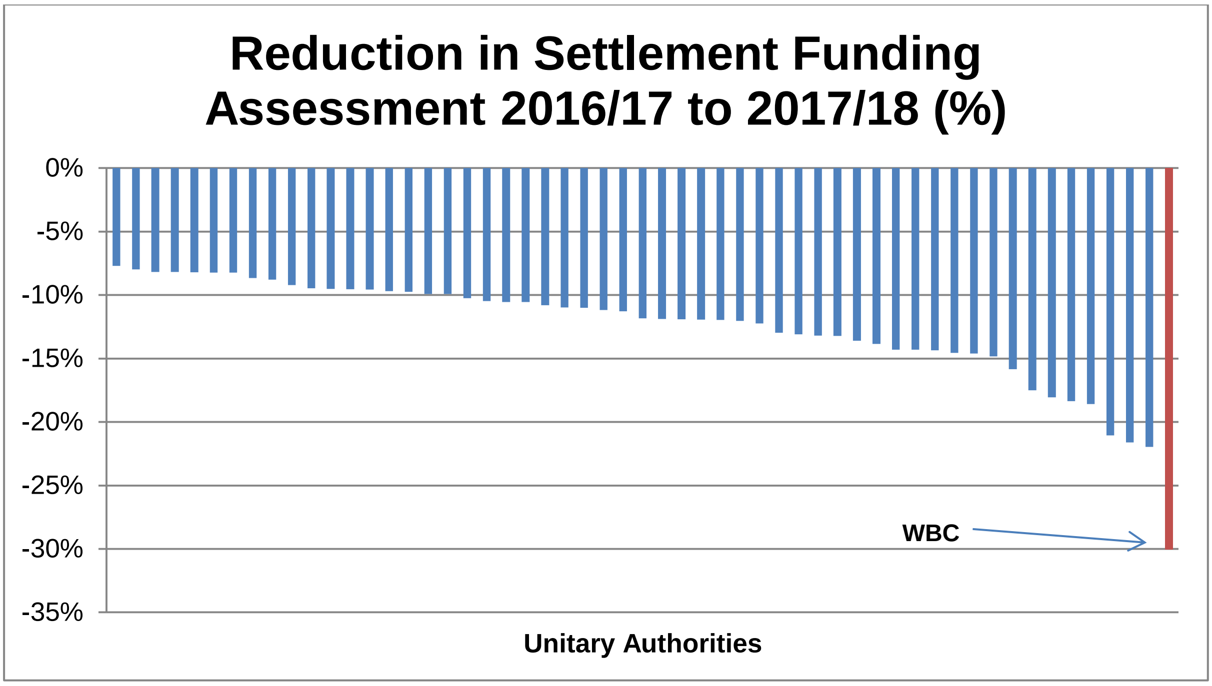
The graph below shows Wokingham's revenue support grant reduction compared to all other unitary authorities. This highlights what an outlier Wokingham is in the settlement.



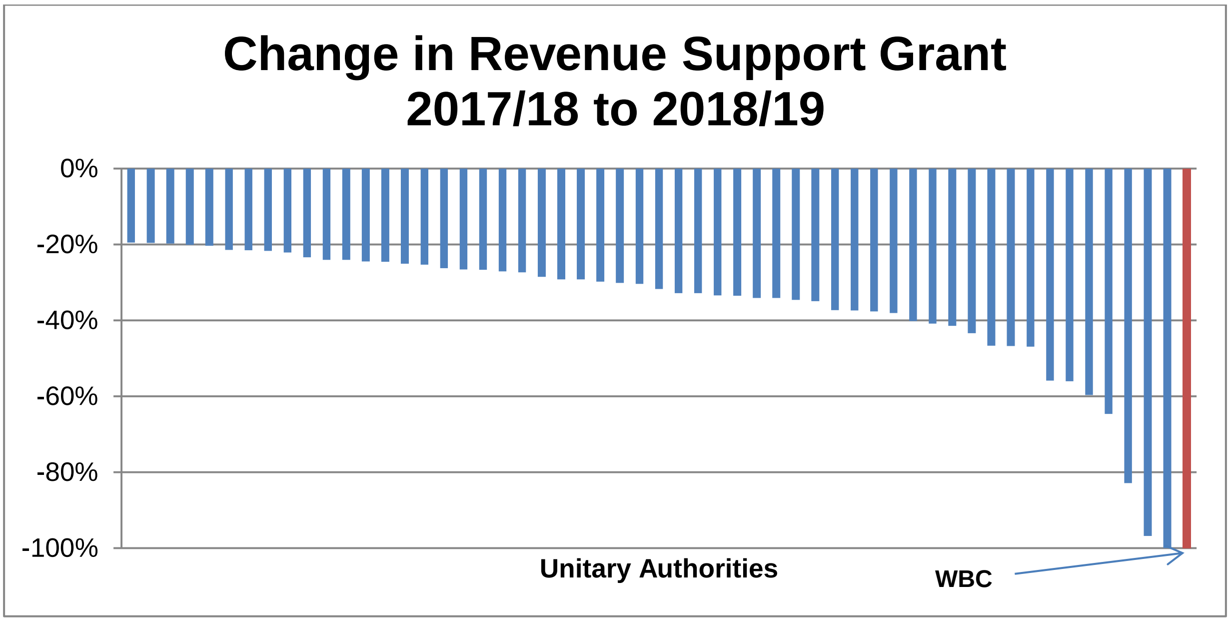
The graph below calculates the RSG for 2017/18 on a per head basis to enable a like for like comparison. The Wokingham figure of £0.99 per head is again the lowest in Berkshire as well as the lowest of any unitary authority. It shows a huge change from historic years, with Wokingham now receiving less than £1 per person per year in RSG for local services.



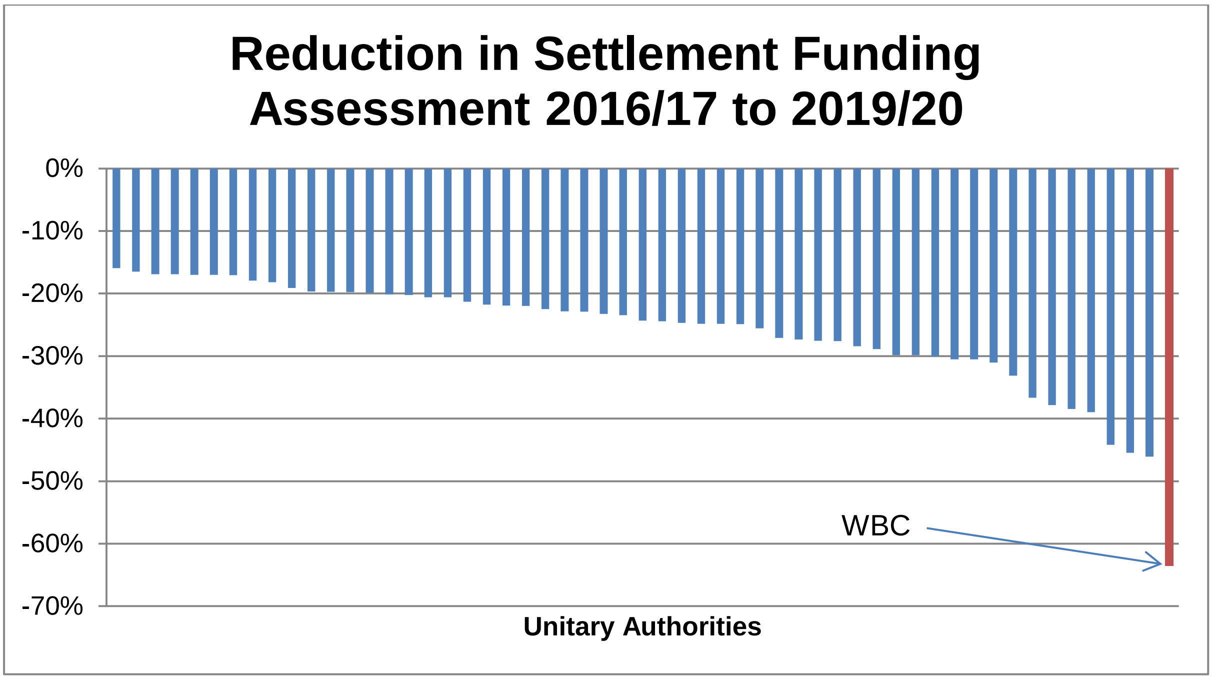
The above reductions are also reflected in respect of settlement funding assessment (SFA), which comprises retained business rates and RSG. Wokingham will also have the largest reduction, at 30%, of all unitaries from 2016/17 to 2017/18 as shown in the graph below.



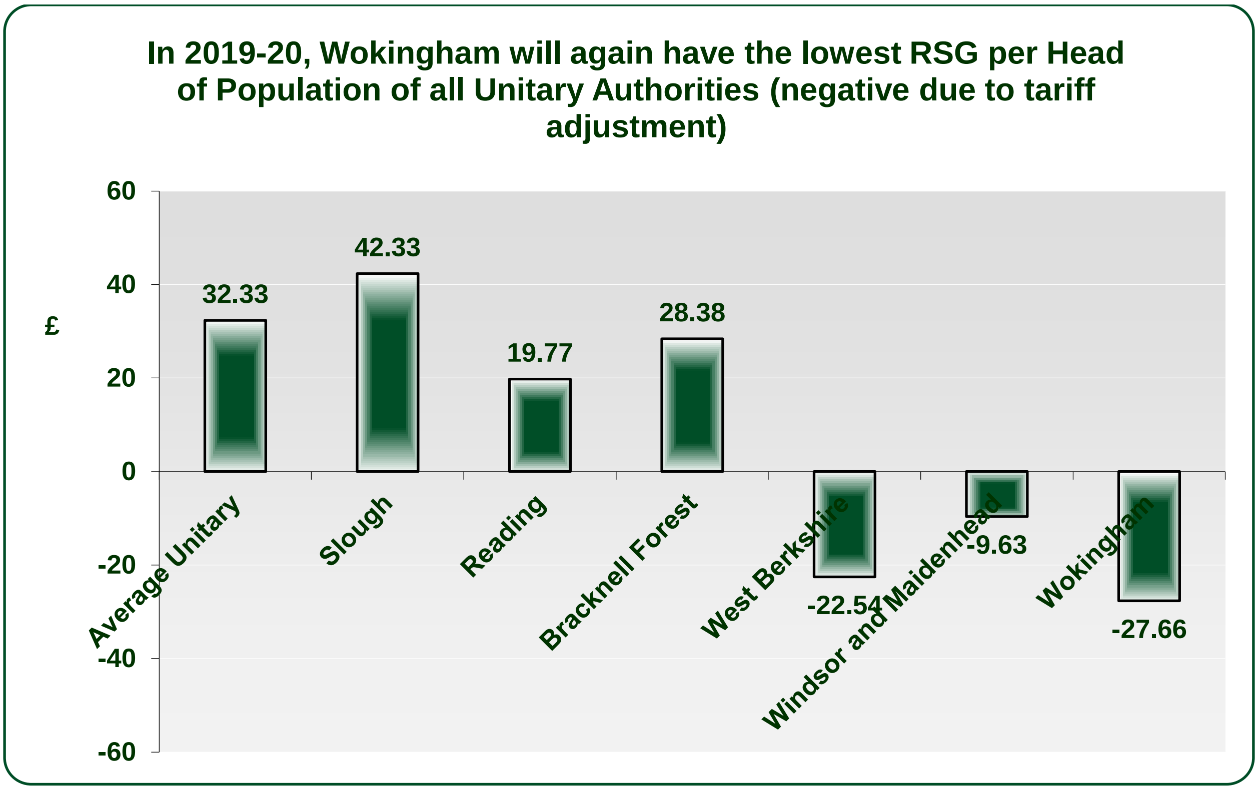
The graph below shows the change in RSG from 2017/18 to 2018/19 and again shows that Wokingham has the largest reduction of all unitaries. This confirms that for 2018/19, Wokingham sees a 100% reduction in its RSG, receiving no grant in 2018/19.



When looking at the four year horizon of the Settlement, the picture is bleak for Wokingham. Our remaining RSG is reduced by almost 100% in 17/18, down to £0.16m. A negative RSG is introduced when all of its' RSG has been removed. This negative RSG is enacted through a 'special' increase to the business rates tariff, which increases by £7.1m in 2019/20. As a result, by 2019/20 Wokingham expects to retain less than £7m of the £60m+ business rates we collect. The settlement funding assessment (made up of both RSG and retained business rates) also shows Wokingham suffers more 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 (2017/18) and the longer term (2019/20). 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:



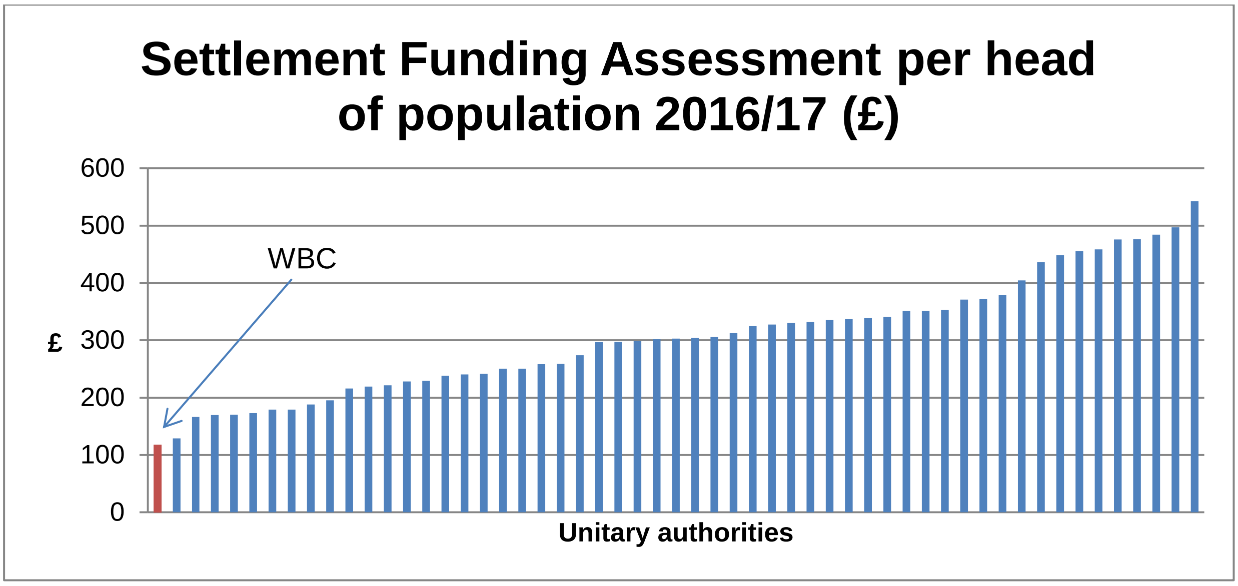
The graph below shows the specific impact by 2019/20 on a per head basis of the reductions in Formula grant.



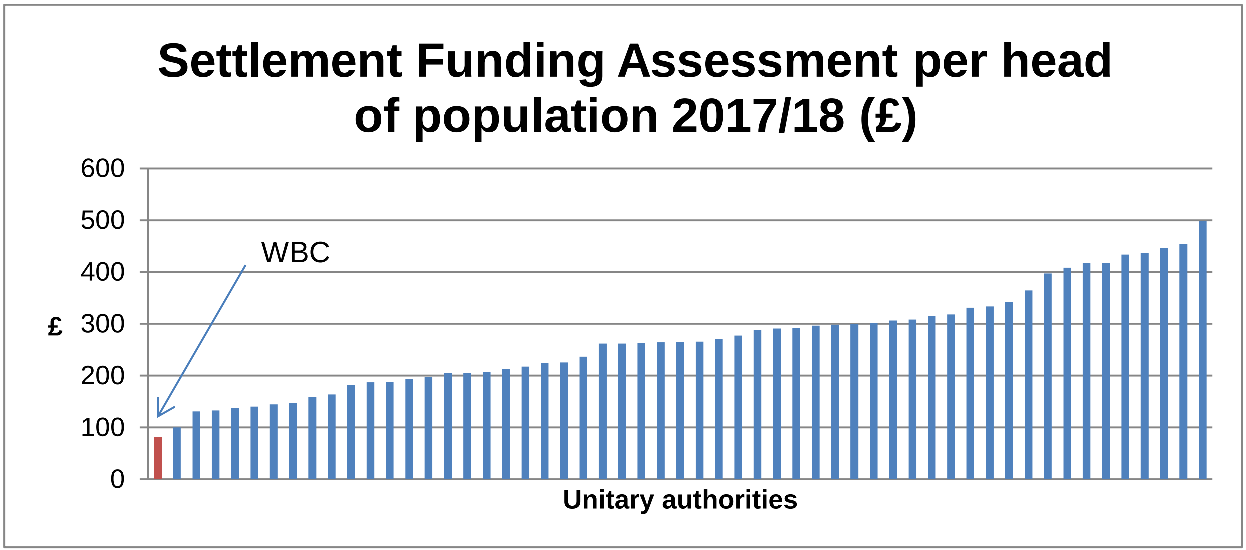
Settlement Funding Assessment (SFA)

Wokingham's total SFA will be £13.3m in 2017/18, compared to £19.1m in 2016/17, a reduction of 30.0%, or £5.8m.

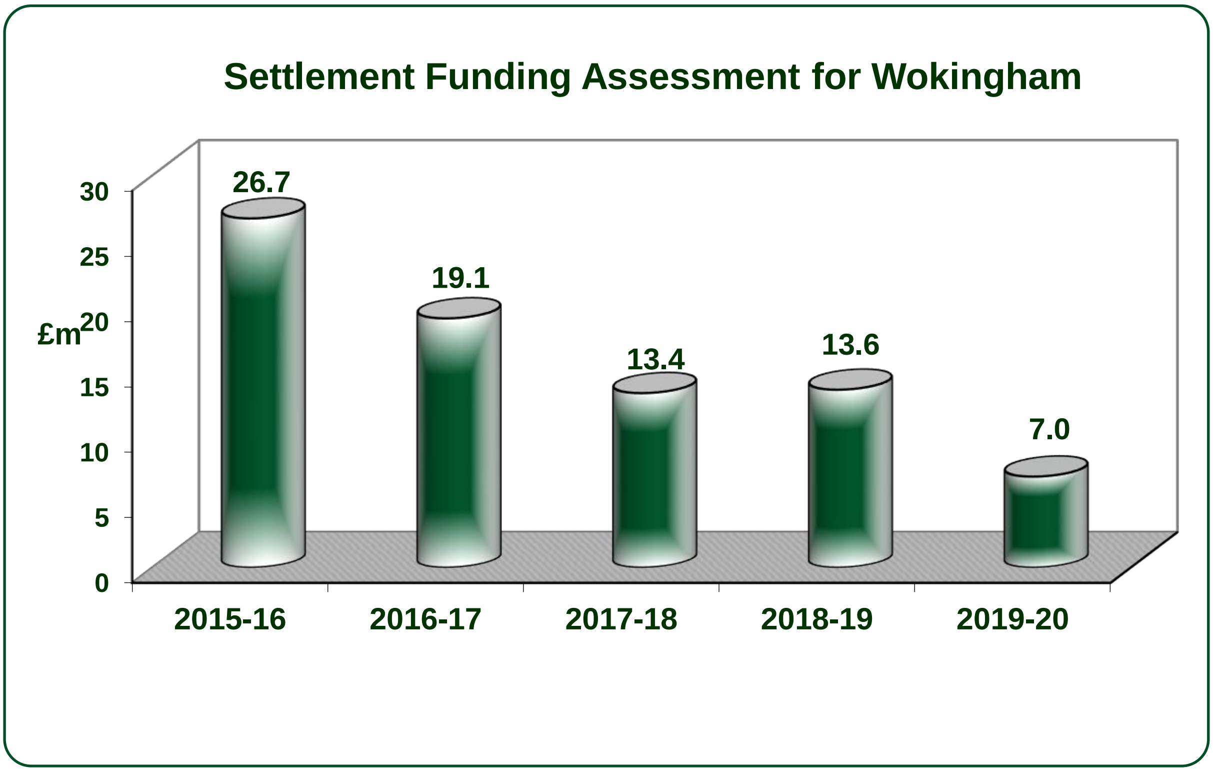
The graph below confirms that Wokingham was starting from the position of being the lowest funded unitary authority in SFA terms in 2016/17, while the other graphs confirm that this position of being lowest funded is continued into later years.



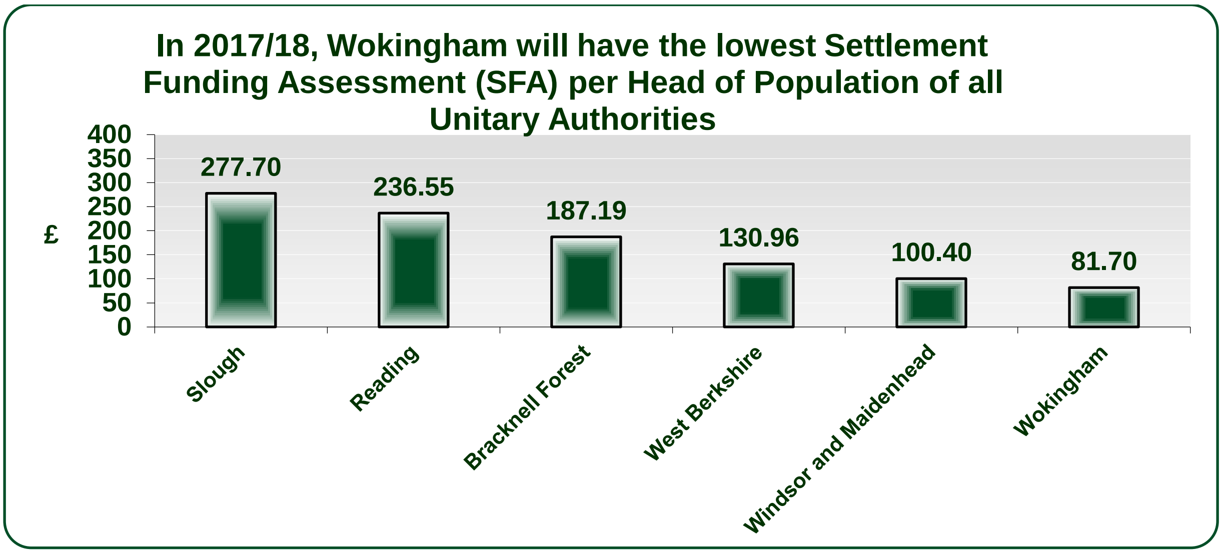
The graph below shows the position for 2017/18 and confirms that Wokingham remains the lowest funded, well below the unitaries average, and less than 16% of the highest funded authority:



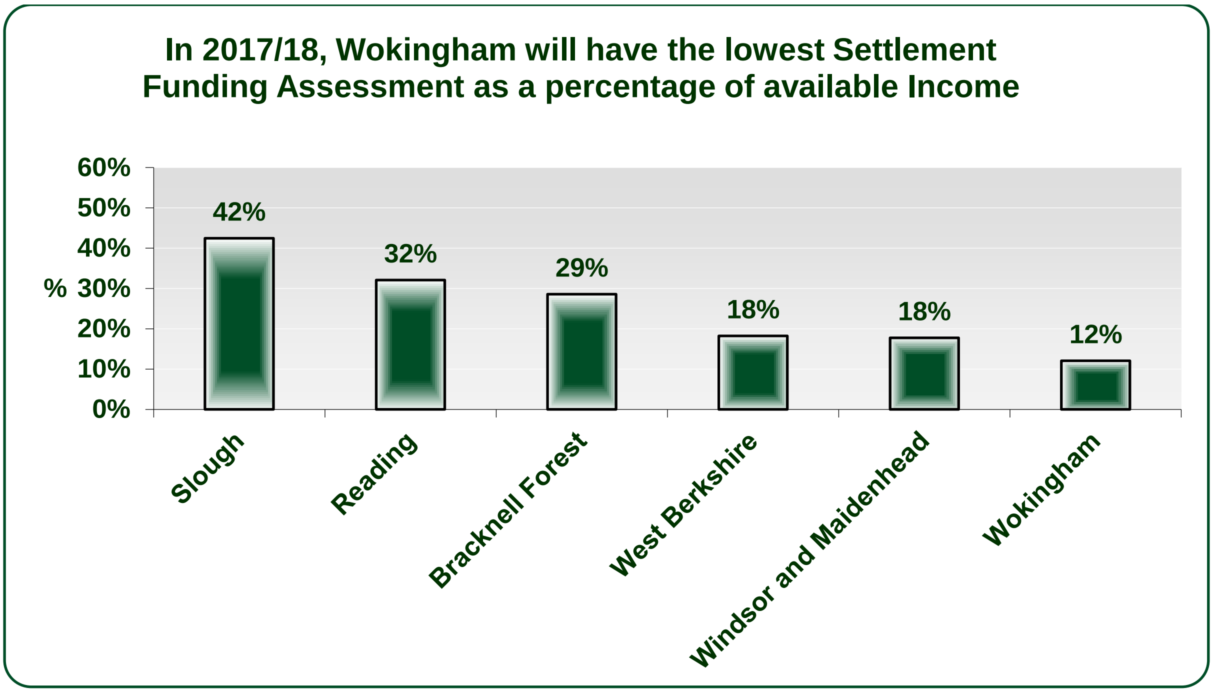
The graph below shows the settlement funding assessment for Wokingham over time, and the significant reduction in 2017/18 (30.0%) and further significant reductions planned for later years in the December 2016 settlement including a tariff adjustment in 2019/20. The cumulative changes from £19.1m in 2016/17 to £7.0m in 2019/20 represent a 64% reduction.



The graph below shows the settlement funding assessment on a per head of population basis for each Berkshire council. Wokingham will receive the SFA per head of £81.70, which is lower than the unitary authorities average. It is also less than half the three highest Berkshire authorities.



Wokingham's settlement funding assessment income is only 12% of its 2017-18 total available income (known as spending power). This is less than a third of the highest funded Berkshire council (42%), and lower than all other unitary authorities. The practical implication for Wokingham is that it must fund a higher proportion of the council's expenditure through council tax than any other unitary authority, and therefore increases/decreases in council tax have a greater proportional impact on services.



In 2017/18, Wokingham will receive the lowest percentage of SFA grant as a share of its total income, of any unitary authority. Wokingham will receive 12%, compared to some unitary councils for whom government grants will fund over 65%, and an average of 37%. 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

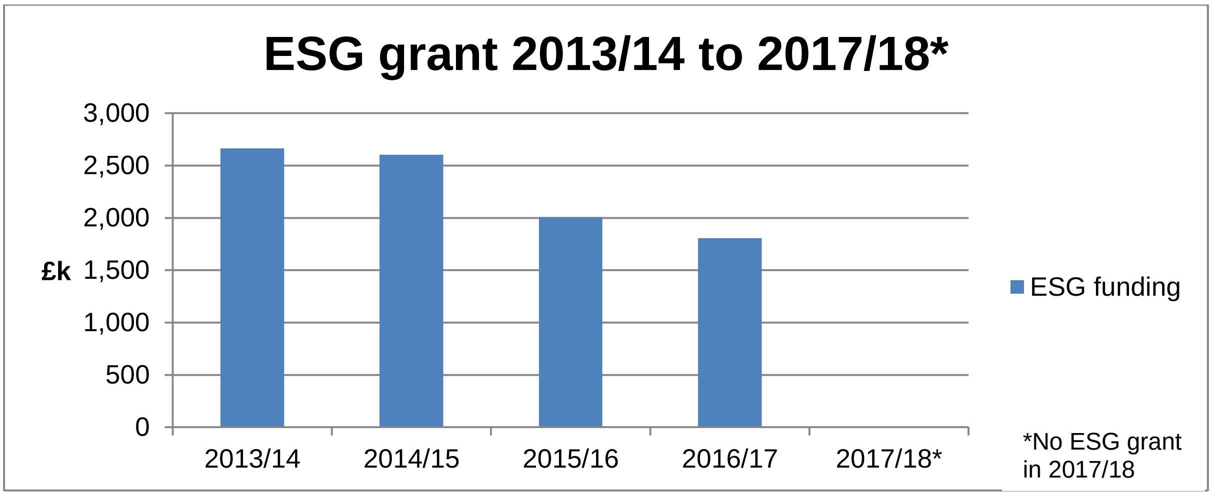
A headline that follows the local government finance settlement is the change in an authority's spending power. This can be misleading as it masks the real ongoing income position for the council that it must consider in its budget setting process. The table below shows that a £0.8m reduction in spending power is made up of a £5.8m reduction in settlement funding assessment, offset by other assumed increases. The largest contributor which offsets the large reduction in the SFA is assummed council tax base and inflationary council tax increases which are expected to bring in an additional £2.8m in 2017/18. On top of these is a further assumed 2% increase in council tax as a result of the adult social care precept. This brings the total assumed council tax increases to £4.6m. Without these assumed increases, the spending power would have fallen by £5.4m, not £0.8m. The change in spending power therefore substantially transfers the burden of funding council services to the council tax payer in 2017/18, since council tax as a percentage of spending power increases from 76.7% in 2016/17 to 81.4% in 2017/18. This is shown in the table below.

Spending Power	2016/17	2017/18	Change	Analysis
	£m	£m	£m	
Settlement Funding Assessment (SFA)	19.1	13.3	-5.8	£5.9m RSG reduction and other small changes
Assumed Council Tax	83.8	86.7	2.8	Assumed increase in council tax and base
New Adult Social Care (ASC) Precept	1.6	3.4	1.8	Assumed 2% increase
New Homes Bonus	4.8	4.8	0.0	Constant despite housing growth
Transition grant	2.1	2.1	0.0	Ends in 2018/19
Adult social care grant	0.0	0.4	0.4	New grant for 2017/18 only
Total Spending Power	**111.5**	**110.7**	**-0.8**	
% of spending power funded by assumed levels of Council tax	**76.7%**	**81.4%**	**6.1%**	

Education Services Grant (ESG, formerly LACSEG)

The education services grant provides funding for services provided by the local authority which support local education such as school improvement, education welfare services, therapies, health services, asset management and support services. The grant was provided as part of RSG prior to 2013/14. The funding is payable on a per-pupil weighted basis and as schools have become academies, the funding has reduced. 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 costs involved and the education services grant being less than the cost of services provided.

The Government confirmed in the Autumn Statement 2015 that ESG would reduce in 2016/17 and cease entirely over the spending review period. The ESG grant has been reduced drastically for 2017/18 and transferred into DSG, with a transition grant provided, although a like for like comparison for ESG is not currently available. Wokingham's allocation is £1.8m for 2016/17. This cut is in addition to those previously set out under the settlement funding assessment section of this report.



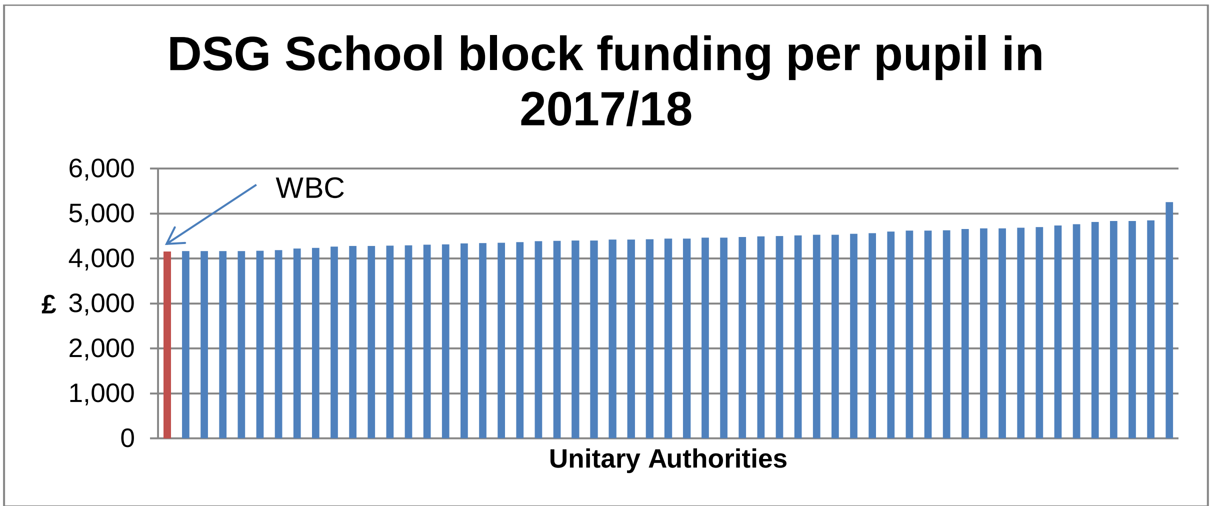
The Government advice to mitigate the shortfall of removing ESG is to allow local authorities to top slice early years funding by 7% in 2017/18 and 5% going forward. All local plans need to be agreed locally, and are subject to consideration by schools forum. This will put pressures on schools already facing reduced funding per pupil and have implications for adequate staffing due to a shortfall in pupils numbers partly as a result of academisation. The problem facing the Council is two-fold due to the Council not previously laying claim to this top slicing, and already having limited funding through on-going savings targets.

The Dedicated Schools Grant (DSG)

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. The amount for 2017/18 was notified to the authority by the DfE in December 2016, however a proportion of this amount is in respect of free schools and must be paid to them. The allocation available to the Council for 2017/18 is £115.1m, compared to £114.8m in 2016/17. The increase to 2017/18 is accounted for by changes in the numbers of pupils, a reduction in the per pupil funding rate, and a transfer relating to ESG. 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.

The per pupil figure used to calculate DSG for 2017/18 is £4,152, compared to £4,155 for 2016/17, and is lower than the indicative figure for 2017/18 of £4,166. This is the lowest funding level of all local authorities. The graph below shows the funding per pupil for Wokingham compared to all other unitary authorities.



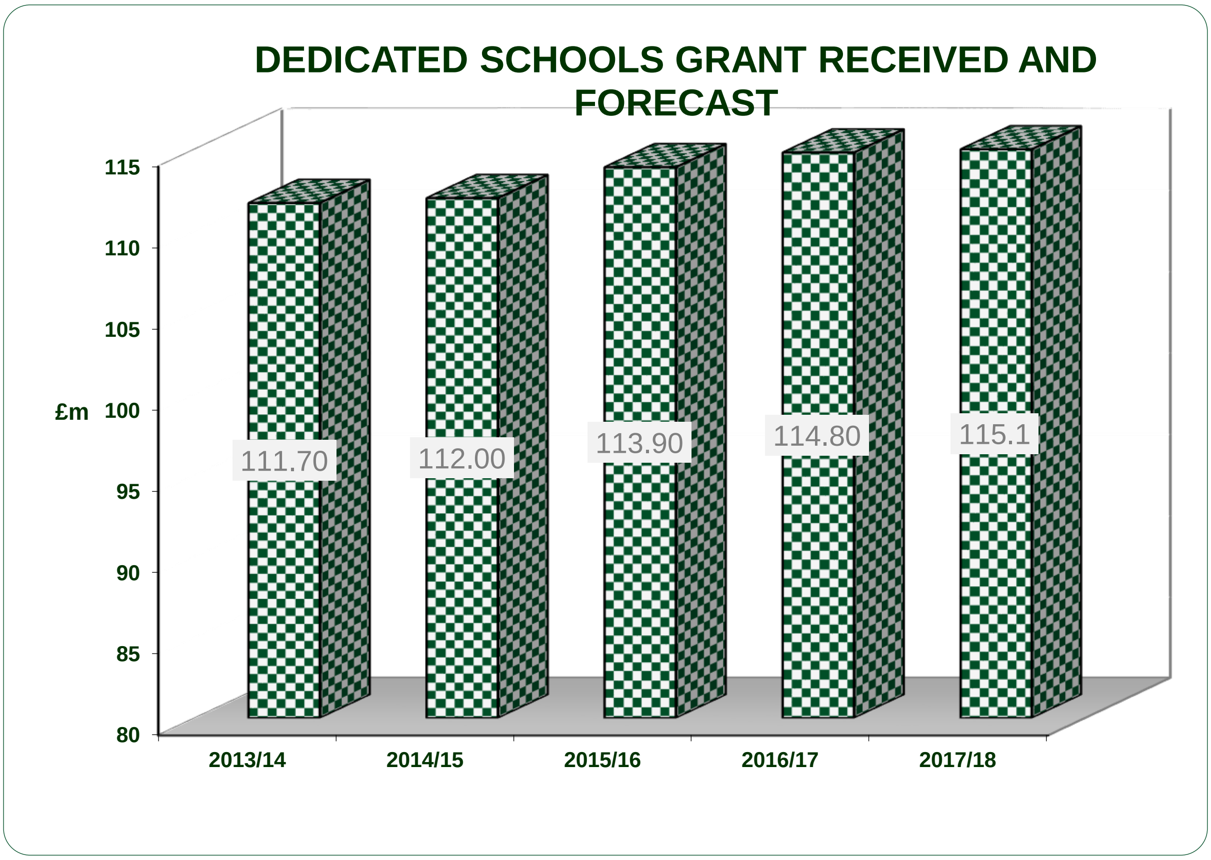
DSG and the national funding formula

The Government's long term intention has been to move school funding to a national funding formula. 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 effective school financial management in order 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.

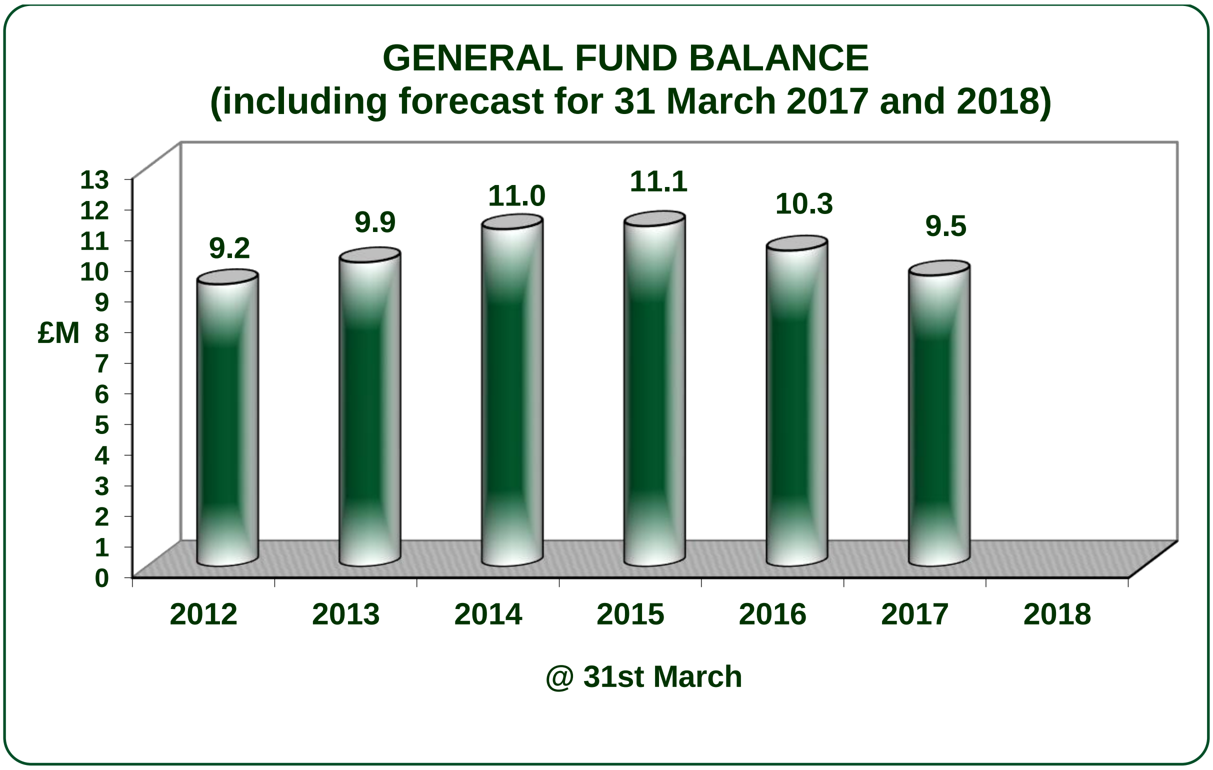
For the 2017/18 financial year schools will continue to be funded through the local authority funding formula but this will change for 2018/19 when the new national funding formula will apply.



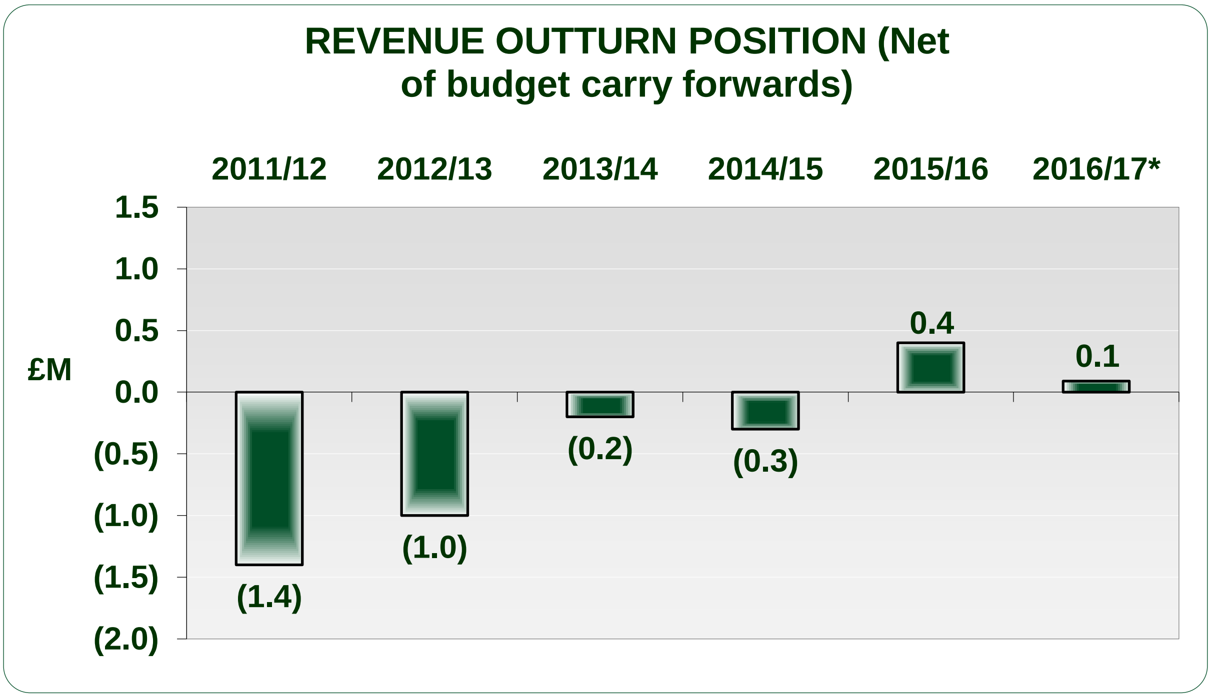
4. General fund balances (GFB)

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 GFBs. The budget risk analysis is included in the annual medium term financial plan. The graph below shows actual GFBs at 31 March 2016 and a forecast for 31 March 2017. The figures for 31 March 2017 and 31 March 2018 will be updated in the 2017/18 MTFP.

GFBs need to remain in the region of £9m 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; further grant reductions; additional service pressures; substantial regeneration programmes requiring forward funding of interest costs on SDL schemes; risks around business rate receipts, the level of retained business rates; and significant risks around the Care Act.



A further consideration in setting a prudent level of GFBs 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).



*This includes significant one off income adjustments such as supplementary estimates, which masks a substantial underlying pressure.

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 2016/17 currently shows an overspend of £0.1m compared to the budget approved in February 2016, this is based on November monitoring. It should be recognised that within the overall position there are significant underlying cost pressures within the 2016/17 budget including, for example, pressures on child placements; this will need to be considered within the 2017/18 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.

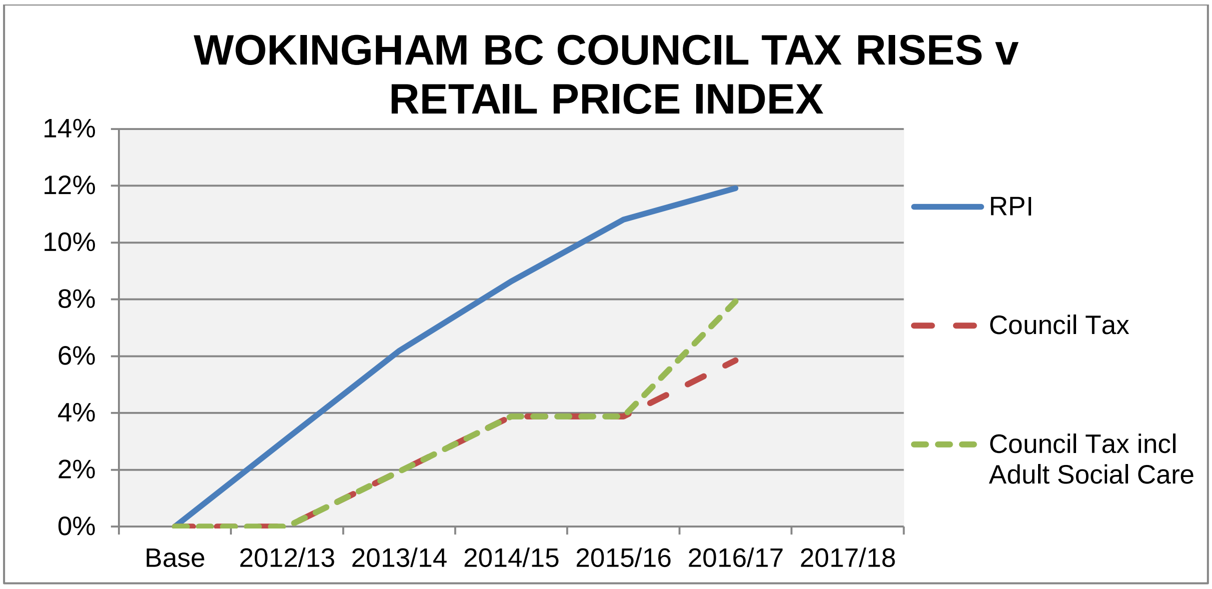
6. Council tax

Funding is fixed by the Government and therefore, increases in service funding affects 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 table below. In 2016/17 the increase exceeded the inflation level, but this is due to the government's calculations which assume a 2% adult social care increase for Council tax. Recent changes in Council tax can be seen in the table below.

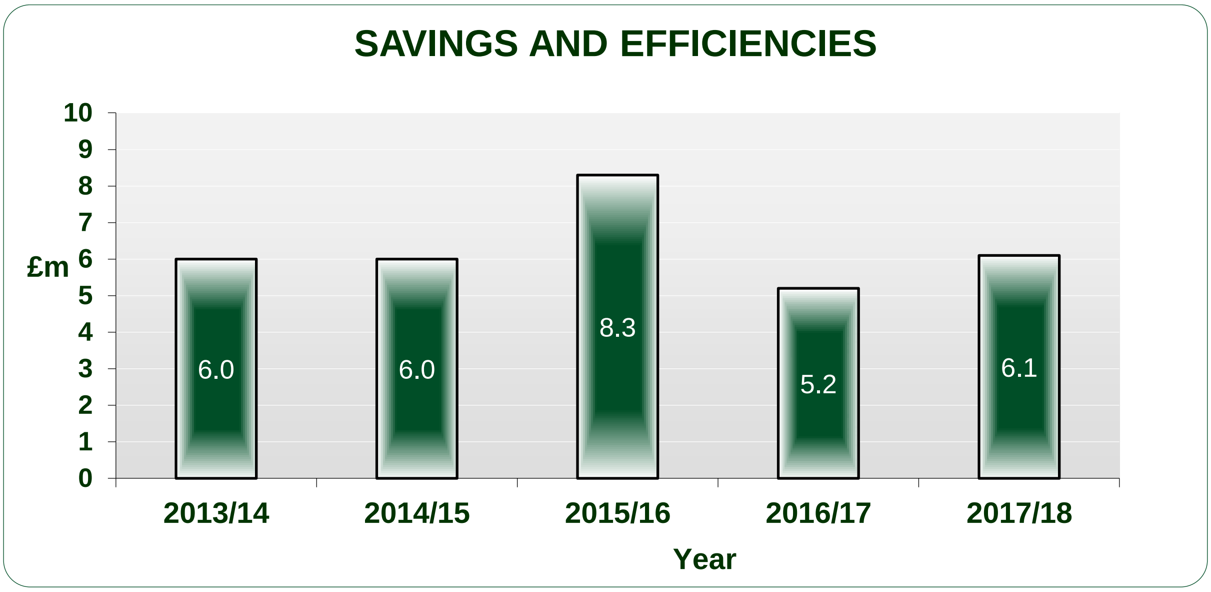
Year	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
RPI	3.1%	3.0%	2.3%	2.0%	1.0%	
Wokingham BC Council tax	0.0%	1.9%	1.9%	0.0%	3.9%	

Taken across a longer time period, as can be seen in the graph below, Council tax increases have been kept below inflation. 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 2017/18 will be updated in the 2017/18 MTFP.



Savings

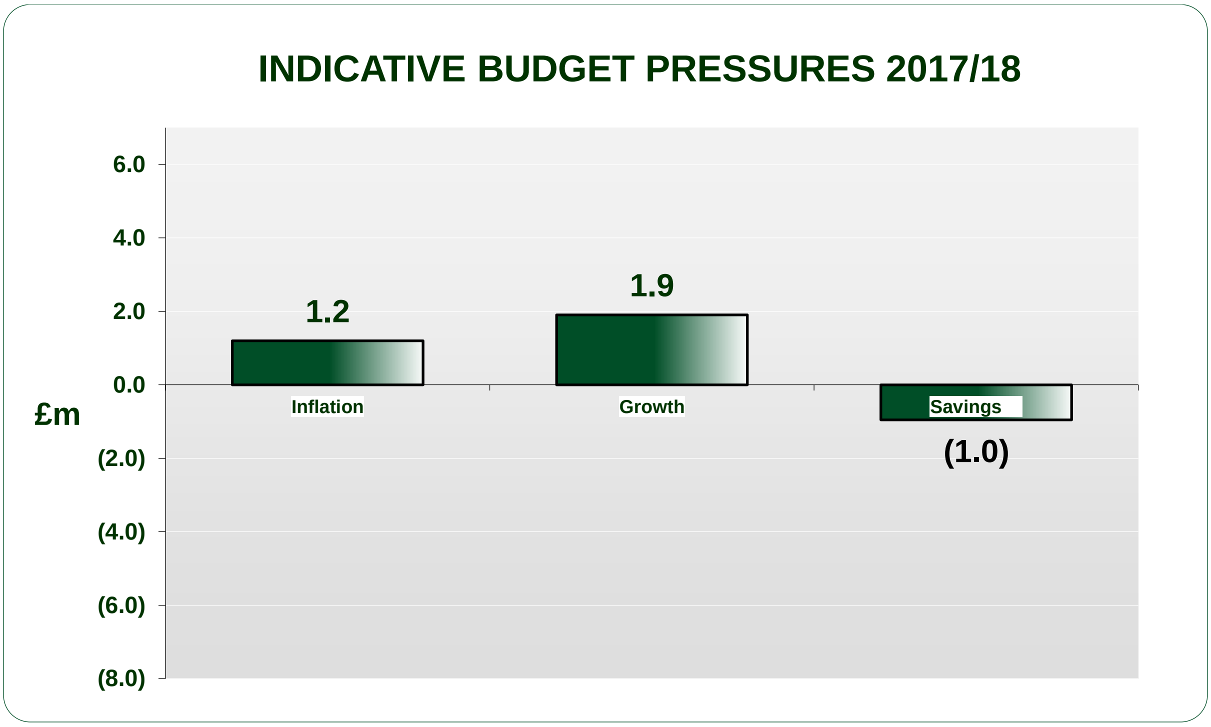
The total savings and efficiencies that have been identified in setting the council tax in previous years are shown below. It equates to over £31.6m over the five years. Savings are used to fund growth, inflation and reductions in Government grants.



The savings shown for 2016/17 and 2017/18 are those included in the 2016/17 MTFP as part of the budget setting process. Updated figures for 2017/18 will be included in the 2017/18 MTFP.

7. Budget pressures

An overview of the 2017/18 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). These figures are those included in the 2016/17 MTFP as part of the budget setting process; updated figures for 2017/18 will be included in the 2017/18 MTFP.



The growth is largely driven by adults' services including demographic pressures, government changes and increases in complex cases. The growth is also driven by highways maintenance, drainage, and traffic management.

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 GFB required. Many of the risks are largely those that featured in the budget submission February 2016, updated where appropriate, and some such as the European referendum result, 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:

21st century Council

The 21st century council programme changes the shape, structure and operating model of the organisation. It will improve availability of and access to Council services through digital channels, deliver swifter resolution of issues and queries, give a greater focus to problemsolving and customer responsiveness and produce a leaner, more efficient Council costing significantly less to run. The implementation of the programme is expecting to save £2m in 2017/18 and a further £2m in 2018/19. The detail of these plans is a significant area of work across the Council and delivery of these plans is key to achieving a balanced budget.

Statutory costs of care

The Care Act introduced a new national threshold and the demand has significantly increased as a result of extending eligibility to certain adult services from the 'critical' threshold to the 'substantial' threshold. This has resulted in the need for an in-year £722k demand led supplementary estimate, with the requirement for additional ongoing budget relating to this. In addition, Children's Services also have budget pressures in 2016/17 for additional children's residential placements. The increase in the living wage to £7.50 in 2017/18 from £7.20 in 2016/17 will put additional pressure on care providers as they seek to retain staff. These pressures will need to be considered along with other budget pressures in the 2017/18 budget and beyond.

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. In the context of reductions to public health funding and the costs of Council tax support this uncertainty is compounded in the current economic climate alongside increasing service needs, and cost increases as a result of the living wage. Care providers are likely to be operating at even tighter margins leading to the risk that they could enter financial difficulties and possibly even provider failure. These risks will need to be managed as part of the 2017/18 budget and beyond.

Schools funding

The per pupil figure used to calculate DSG for 2017/18 is £4,152, compared to £4,155 for 2016/17, and is lower than the indicative figure for 2017/18 of £4,166. This is the lowest funding level of all local authorities.

Schools are under more pressure than previously as a result of staffing cost pressures, reductions in pupil numbers and the ESG pressures previously mentioned. The increase in the number of schools forecasting in-year deficits also puts pressure on 2017/18 budget setting as schools have to address the in-year deficit relating to 2016/17 and funding reductions for the 2017/18 financial year.

Funding the Council's ambitions for regeneration

The Council is at a stage of significant investment in its strategic development locations (SDLs) 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 proposed changes to the NHB which make the scheme less attractive for Wokingham by reducing the length of payments from six years to four. The council is now set to receive £4.8m for NHB in 2016/17, and again £4.8m for 2017/18. This grant should have increased to fund the authority for the significant amount of house building which has taken place in the borough. The government have reduced the national amount of NHB grant, and therefore the amount Wokingham receives has stayed constant. 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 incentivise 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 environment

The initial negative impact of the European Union referendum result on the economic environment has somewhat lessened. Subsequent surveys have shown a sharp recovery in confidence and business surveys and it is generally expected that the economy will now avoid flat lining and there are some positive signs. The ongoing impact of the wider current economic environment means that 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 economic uncertainty will need to continue to meet the increased level of demand.

The Bank of England on August 4 addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. Capita Asset Services undertook a quarterly review of its interest rate forecasts after the MPC meeting of 4th August which cut the Bank Rate to 0.25% and gave forward guidance that it expected to cut the Bank Rate again to near zero before the year end. The Bank of England in November's statement shifted to a "neutral" policy position, stating that central bank policy can respond "to either direction" as per changes in the economic outlook, removing its previous view that a rate cut was a possibility. The governor of the Bank of England (Mark Carney) has repeatedly stated that increases in the bank rate will be slow and gradual after they do start. The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently.

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, business rates revaluation and council tax

From 2013/14 the localisation of business rates began with a 50% share for local authorities. 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 support and will bear the risk of economic conditions giving rise to an increase in claims.

2017/18 will be the first year based on updated business rate valuations. Despite increases in the value of properties in Wokingham, the Council will not be rewarded for these, as increases are distributed across the country. The new valuation list delivers more risk to the authority as all the properties can again challenge their business rates bill which may require the authority to pay large amounts of business rate income.

More recent Government announcements make clear an intention to return all business rates to local authority control in 2020. Although this sounds attractive, this is likely to mean little to Wokingham, as at this stage Wokingham will keep a mere £6m of the £60m+ business rates.

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 and 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. The financing costs of any new borrowing falls directly upon the council tax payer. The annual revenue cost of new borrowing is approximately 7.1% of the sum borrowed (4% principal and 3.1% interest).

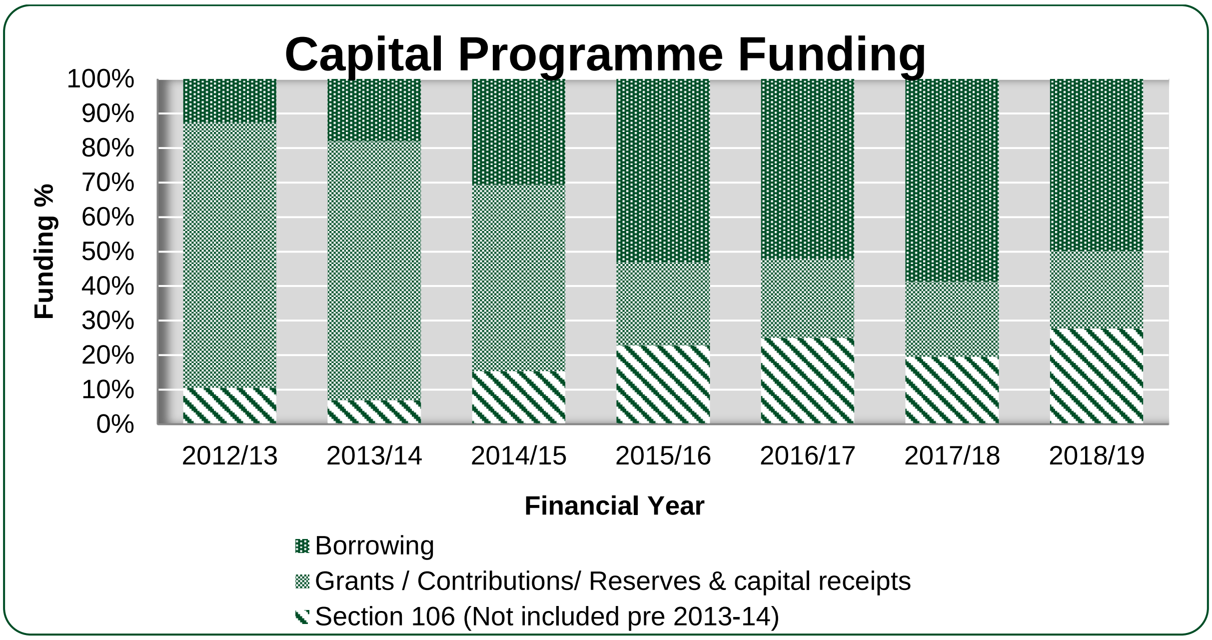
Capital programme

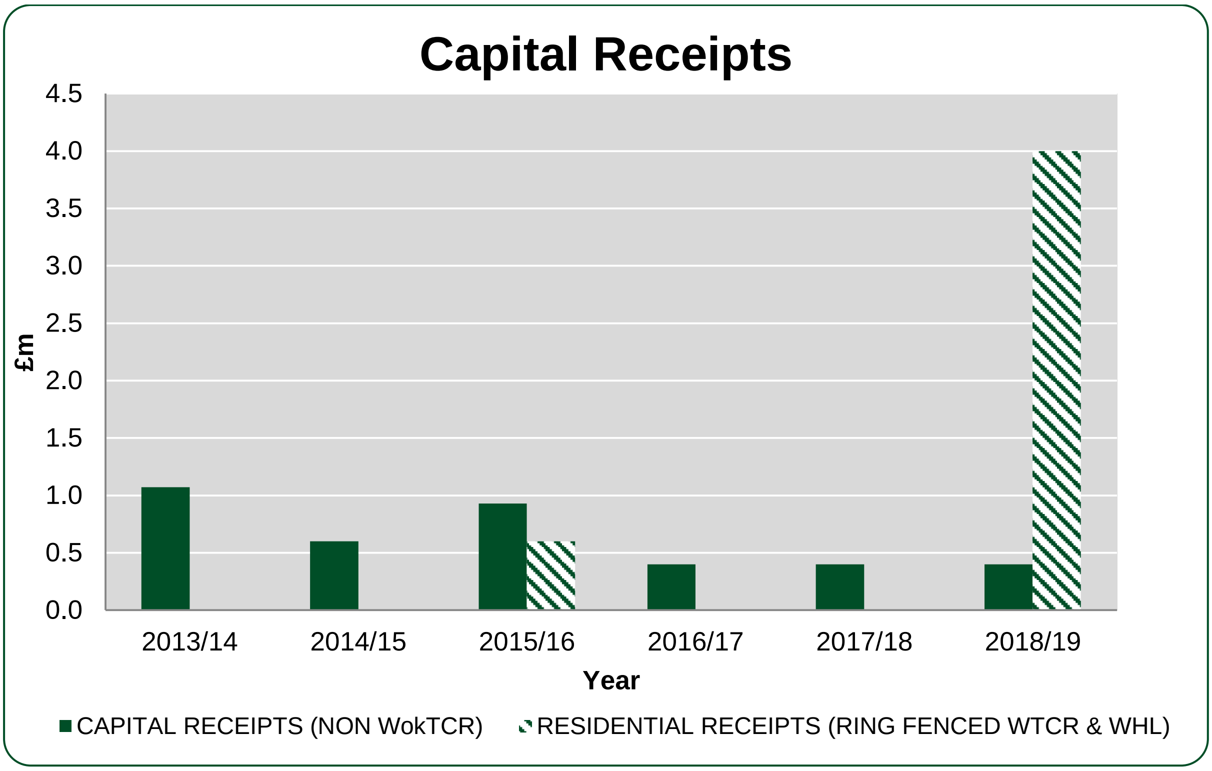
The first three years of the capital vision is effectively the capital programme. This has been developed following an assessment against key Council priorities, including a value for money and risk analysis.

The capital programme over the next three 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 (SDLs) and Wokingham Housing Ltd investments. They are from the MTFP approved in February 2016 and will be updated in the 2017/18 MTFP. The capital programme funding is expected to increase considerably over the period of the MTFP in order to fund the Council's investment ambitions.





Note: Receipts from 2015/16 to 2018/19 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, was finished with the refurbishment of the Peach Place corner in 2014. Consent was granted for the main Peach Place scheme in March 2015 and construction will begin in January 2017 for approximately 18 months. Phase 1 of the Carnival scheme, the construction of a new multi-storey car park and new bowling alley, is currently underway and due to open in spring/summer 2017. Feasibility work on phase 2 of the Carnival scheme (including the extension of leisure facilities on the site) is currently being undertaken. Consent was granted for the Elms Field scheme in April 2016 and work is due to begin on site in early summer 2017. 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.

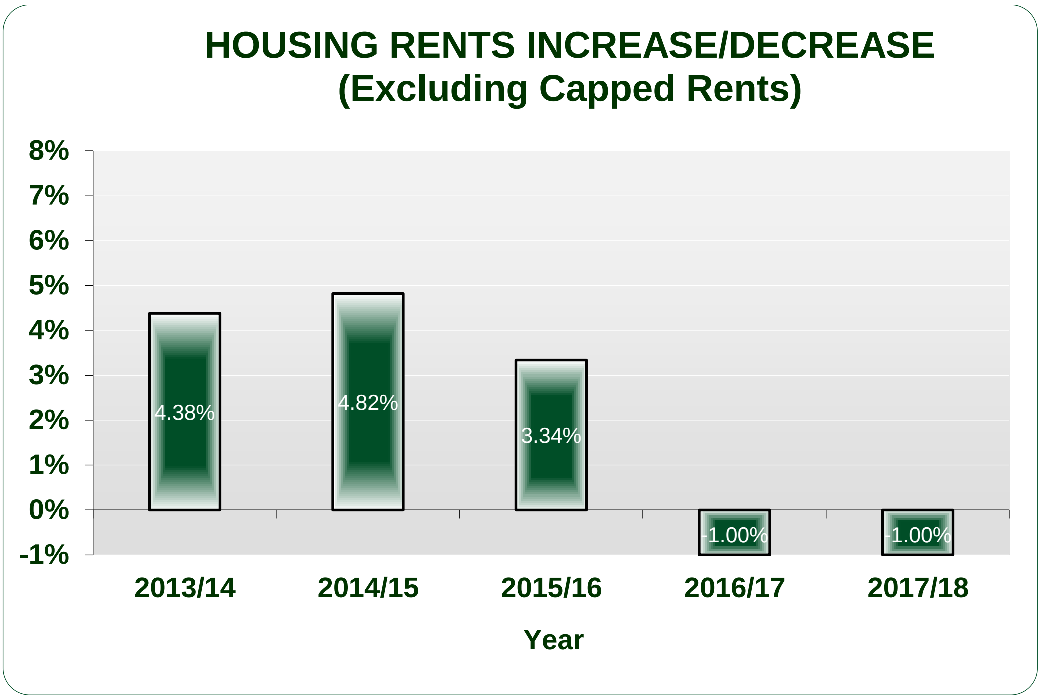
Capital receipts and contributions

Significant costs relating to the development of SDLs are in respect of building major roads and schools. Developer contributions through S106 contributions or Community Infrastructure Levy are key to funding these and minimising 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. The capital ambition of the organisation is high, and future years of the programme show a rising deficit of funding available against in investment ambition. This will be bridged through a combination of maximising resources, modifying and prioritising schemes.

10. Housing Revenue Account (HRA)

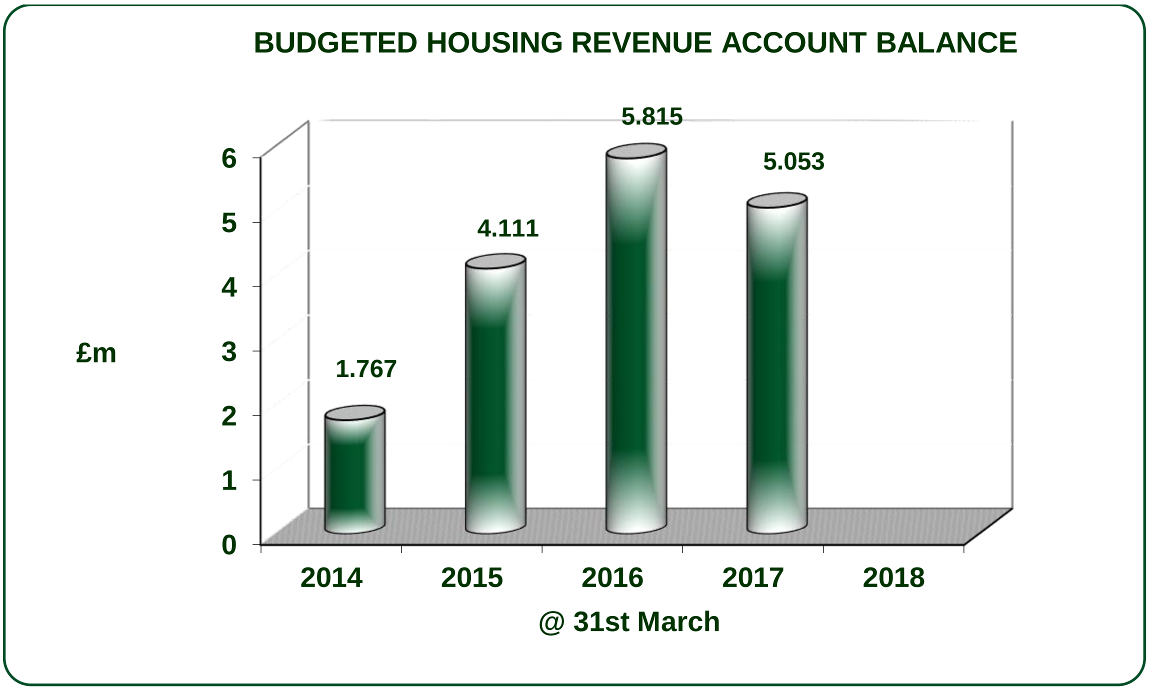
The HRA is a ring-fenced account and as such has no impact on the level of Council Tax. The money spent maintaining the Council's housing stock (valued at approximately £164m) and providing a service to council tenants is mainly funded by housing rents paid by council tenants. Gross expenditure on the HRA is in the region of £18.2m and is predominately in the areas of repairs and maintenance, capital financing, investment in capital works, and management. Housing rents are required to be adjusted 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 re-let.

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 chart above shows actual HRA balances at 31 March 2016 and a forecast for 31 March 2017. A revised forecast for 31 March 2017 and a forecast for 31 March 2018 will be provided in the 2017/18 MTFP. The estimated balance at 31 March 2017 will be used to fund capital expenditure in 2017/18 and later years, and fund the loss of rental income due to the 1% rent 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. The ongoing expansion of Optalis through a merger with the Royal Borough of Windsor and Maidenhead is delivering on plans to grow the business, with a go-live date of 1 April 2017 planned.

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)

12. Glossary

Abbreviation	Description
ASC	**Adult social care**
ESG	**Education services grant**
GFB	**General fund balances**
HRA	**Housing revenue account**
MTFP	**Medium term financial plan**
NDR	**Non-domestic (business) rates**
NHB	**New homes bonus**
RSG	**Revenue support grant**
SFA	**Settlement funding assessment**
SDL	**Strategic development locations**
SoBM	**Summary of budget movements**
TCR	**Town centre regeneration**
WHL	**Wokingham Housing Limited**