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 2019/20 budget.

2. Strategic Overview

Government's Autumn Budget November 2018

The UK economy has solid foundations and has grown every year since 2010. The Office for Budget Responsibility (OBR) expects the UK economy to continue to grow in every year of the forecast, and has revised up its forecast for cumulative growth compared to Spring Statement 2018. The OBR also expects employment to be higher in every year of the forecast than at Spring Statement. The government has made substantial progress in improving the health of the public finances since 2010, which have now reached an historic turning point. The deficit has been reduced by four-fifths and debt has begun its first sustained fall in a generation. The OBR expects annual GDP growth of 1.3% in 2018 and 1.6% in 2019. GDP growth dips slightly to 1.4% in 2020 and 2021, and then increases to 1.6% by 2023. Departmental spending plans were set out in the budget, with the MHCLG Local Government increasing from ***£4.7bn to 2018/19 to £5.9bn in 2019/20***.

The national living wage has increased to £8.21 per hour (from £7.83) from April 2018. With regards to housing investment, the Housing Revenue Account cap that controls local authority borrowing for house building has been abolished from 29 October 2018 in England, with the intention to enable councils to increase house building to around 10,000 homes per year. The Housing Infrastructure Fund, funded by the NPIF, will increase by £500 million to a total £5.5 billion, potentially unlocking up to 650,000 new homes.

The autumn budget provides the context for the local government funding settlement and illustrates that the financial climate is expected to remain extremely challenging for the foreseeable future.

Local government finance settlement December 2018

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 goes into the 2019/20 settlement as the lowest funded unitary authority (per head of population) in the country. This also means 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 around 50% of their service costs funded by Government, the corresponding figure is just 11% in the case of Wokingham, and is set out later in the report.

Wokingham has been one of the hardest hit councils in terms of government funding, and as a result Wokingham's council taxpayers pay for most of its local authority services (as previously illustrated). This is the fourth and final 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. 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 indicative grant cuts and the government's assessment of core spending power assumed the council increases council tax by inflation and also an additional adult social care (ASC) precept of 2% each year. If the council had not applied both these levies, it would have compounded what already was an unmanageable savings target created by such severe reductions on a meagre grant allocation. As a result, our residents would inevitably be charged more and more each year, whilst experiencing the service cuts needed to 'balance the books'. The council had the opportunity to increase the adult social care precept by up to 6% over the three years 2017/18, 2018/19 and 2019/20. An increase of 3% was taken in 2017/18, followed by one of 2.5% in 2018/19, leaving 0.5% available in 2019/20.

The ASC precept, although initially seen as a helpful introduction, becomes problematic for Wokingham. The precept was 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.

In recent years the government has capped council tax increases to under 2%, excluding the adult social care precept – any increase above this would require a local referendum funded by the local taxpayer. Similar to last year, for 2019/20 the referendum cap was increased to under 3%. Although this increases flexibility, this only partially goes to cover increasing inflation costs and reducing grant levels, with central government assuming in their analysis of our spending pressures a 3% council tax increase.

Wokingham, along with its Berkshire neighbours successfully bid to be part of a 100% business rates retention pilot for 2018/19. The Berkshire councils were again successful in their pilot bid

in 2019/20 however instead of 100%, the retention level is set at 75%. In 2018/19, an estimated £25m funding was allocated to the Berkshire LEP for infrastructure investment in line with the business case reported to Executive on 30/11/2017. For 2019/20, it is estimated a further £11m funding will allocated to the Berkshire LEP for more infrastructure investment. Wokingham will retain a higher proportion of its business rate growth as a result of being a member of the Berkshire-wide business rates pilot.

Negative revenue support grant

The December 2018 draft finance settlement announced no additional tariff (aka negative RSG) will be taken in 2019/20 (originally forecast at £7.14m in the four-year settlement) which is a significant one-off benefit for Wokingham. The government is producing a new methodology for the funding of local government and therefore the Council must remain extremely cautious with regard to its ongoing base-line funding; the outcome of this review will not be known until late in 2019. It is expected that business rates will be retained by local authorities within the overall funding considerations. However this is extremely unlikely to mean there is an increase in overall available resources.

Future Funding Settlements

As stated above, 2019/20 is the final year of an agreed four-year settlement. This means that there is much uncertainty around future settlements in terms of duration and the actual amount of funding Wokingham will receive. Consequently it has been difficult to make definite determinations about budgets in 2020/21 and 2021/22, but it is fairly certain that with government money being allocated to ring-fenced departments (eg: DoHSC, DfE and MoD) it is likely that local government will once again experience a reduced real-terms settlement going forward, and therefore must budget accordingly. This context means it is extremely important the Council takes a prudent approach in its budget setting proposals 2019/22.

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 adult social care precept puts the council at a perverse financial disadvantage. It is assumed by the Government to have been levied at 2% every year 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 the Council will lose its ability to levy the precept). This significantly compounds the pressure on the council's non adult social care service areas.

Regeneration and strategic developments

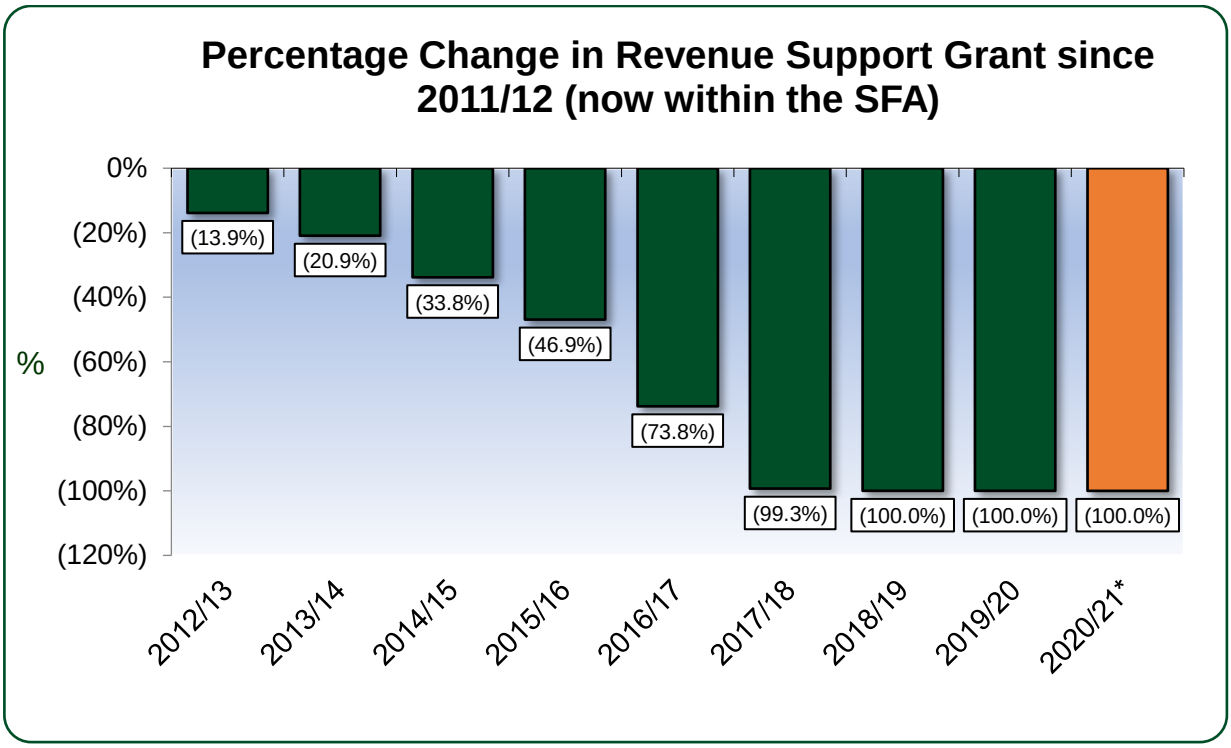
The council is continuing the development of Wokingham town centre to ensure that it remains an attractive location for businesses, and for people to visit for shopping and recreation. In addition, the four strategic development locations (SDLs) which the council has identified are driving the process 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 and guard against financial risks where possible.

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%, that is followed by reductions cumulatively as shown in the graph below. In 2018/19 RSG had reduced to zero. It was expected that by 2019/20 the grant would be cut still further with some authorities required to pay a 'negative RSG'. However, following consistent representations made by this authority, we have been informed through the draft settlement that negative RSG will not be enacted in 2019/20. The funding position is unclear from 2020/21 onwards and Wokingham will need to continue to make representations with regard to the new methodology for funding local authorities and our baseline funding assessment.

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 100% RSG reduction for Wokingham is significantly higher than the Berkshire average reduction and the average for all unitary authorities.

The graph below shows the cumulative reductions in grant for Wokingham.

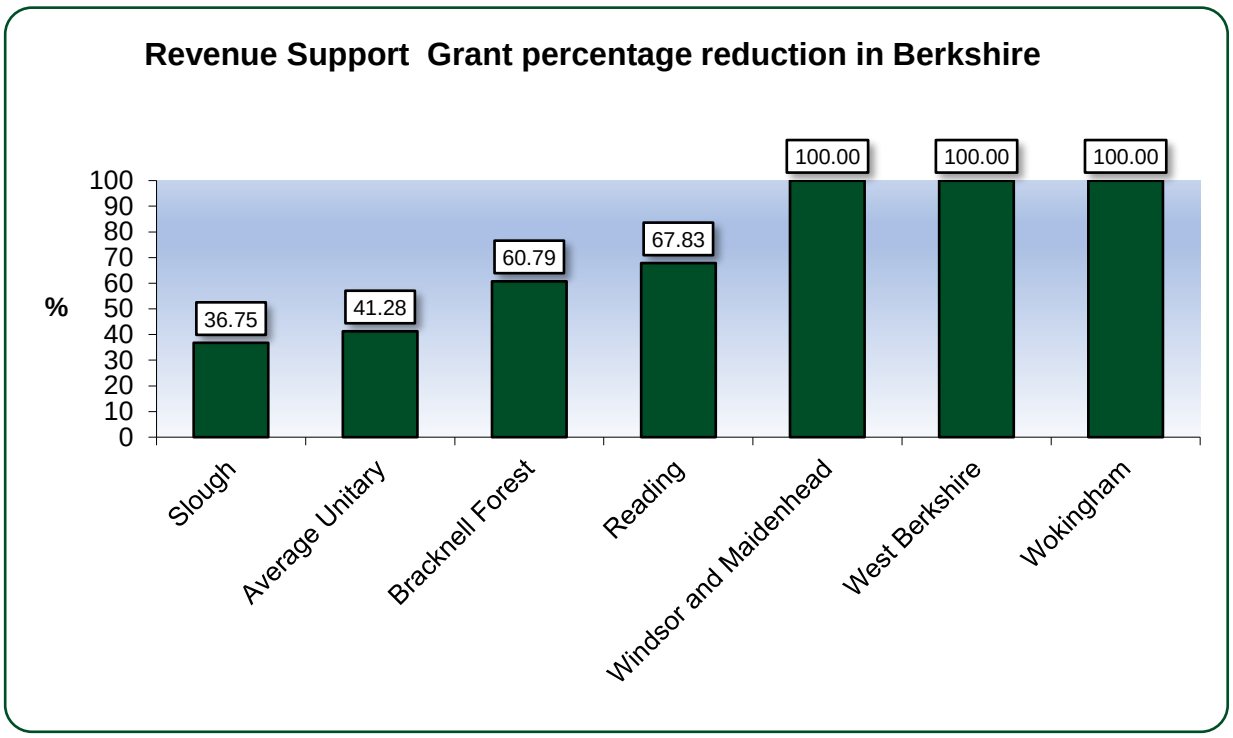


The graph above shows that in 2019/20 the Council faced no further reduction in RSG due to the removal of negative RSG announced in the draft finance settlement. This good news is short lived as the Council will face a new base-line funding assessment in 2020/21.

The reductions in Government grants highlighted above have had a major impact on the council's finances and budgets since 2010/11. The Council's net expenditure budget has been reduced each year since 2010/11 as shown in the table below, which indicates that the net expenditure budget has been reduced by £35.9m (34%) between 2010/11 and 2018/19. ***(These figures will be updated for 2019/20 once the budget has been prepared).***

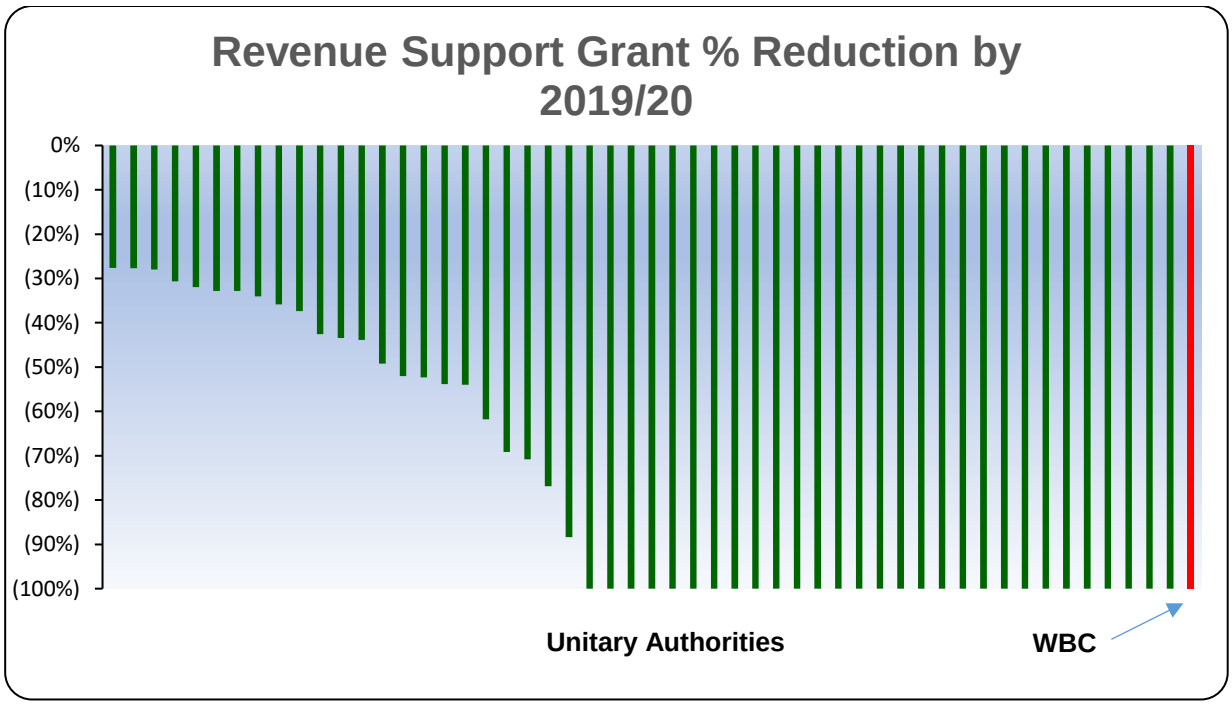
These figures will be updated for 2019/20 once the budget has been prepared	**£m**
WBC *2018/19* net expenditure Budget	***113.4***
Less Rolled in Grants from services to Formula Grant	(12.5)
Less discount re inflation since 2010/11 (based on CPI)	(21.5)
Less discount re growth in council tax base since 2010/11	(10.1)
Net expenditure budget 2017/18 discounted to 2010/11 Prices	**69.3**
2010/11 net expenditure budget	**105.2**
Reduction in expenditure since 2010/11	**£35.9m (34%)**

The graph below compares the RSG reductions by 2019/20 across Berkshire councils.



NOTE: This and following RSG graphs do not take into account the passporting of RSG through business rates for authorities in 100% retention pilots, which artificially suggests some authorities have no RSG.

A number of councils now no longer receive RSG. Wokingham was one of the first to lose all its RSG funding and were as low as £200k RSG by 2017/18. The graph below shows Wokingham's revenue support grant reduction compared to all other unitary authorities.

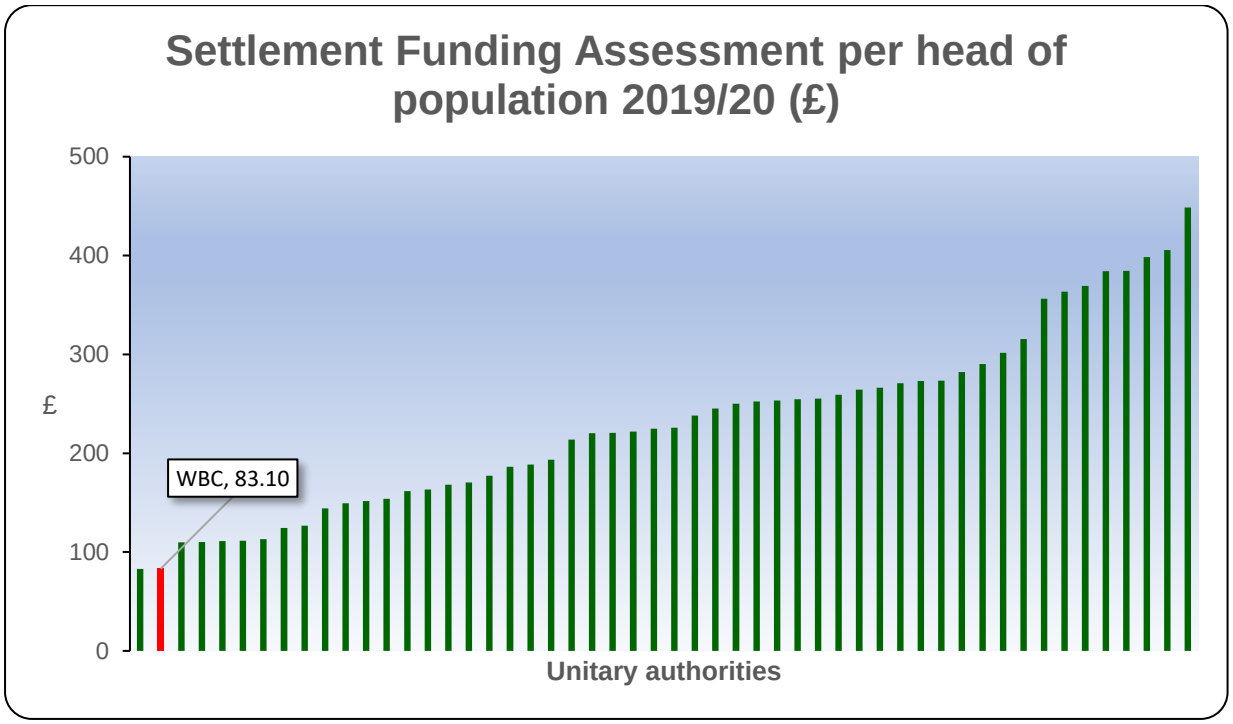


For 2019/20 Wokingham's RSG remained at zero. A negative RSG was proposed for 2019/20 however following the finance settlement, it was announced there would be no negative RSG in 19/20. This is good news for Wokingham however only for a short period of time as the funding for 20/21 is unclear and subject to the outcomes of the comprehensive spending review.

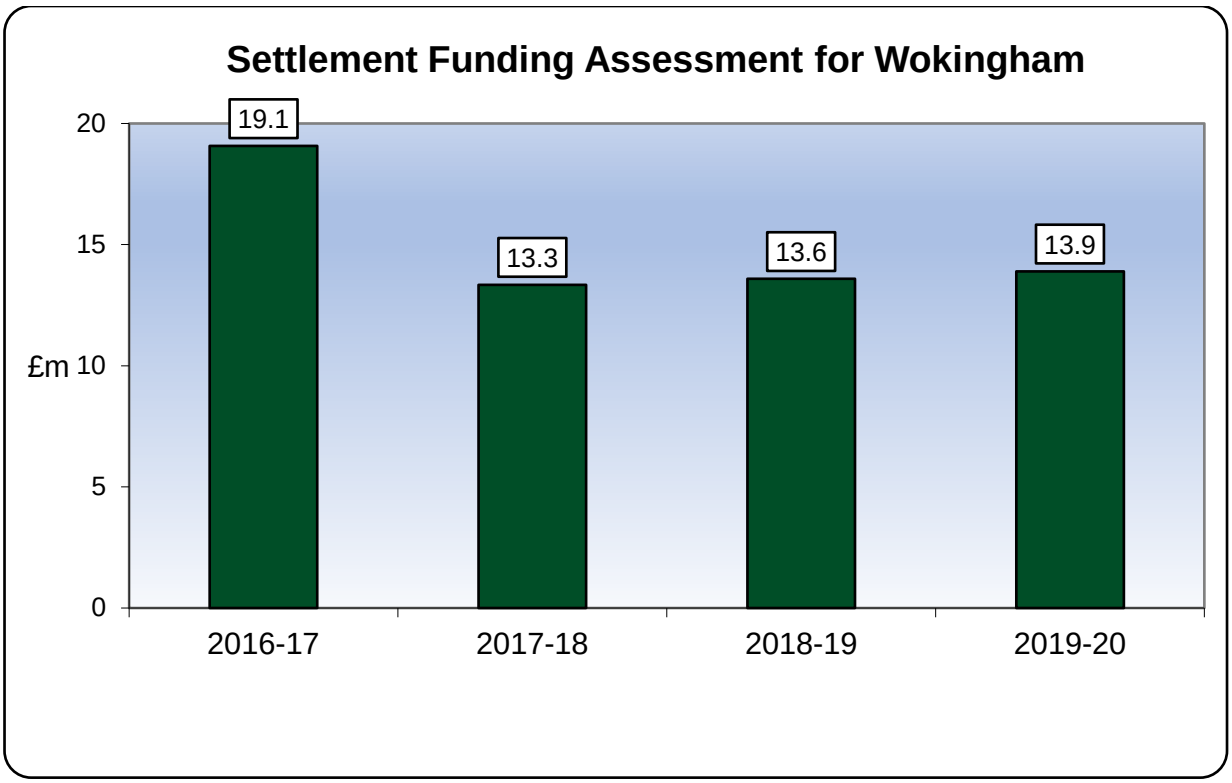
Settlement Funding Assessment (SFA)

Wokingham's total SFA will be £13.9m in 2019/20, compared to £19.1m in 2016/17, a reduction of 27.2%, or £5.2m.

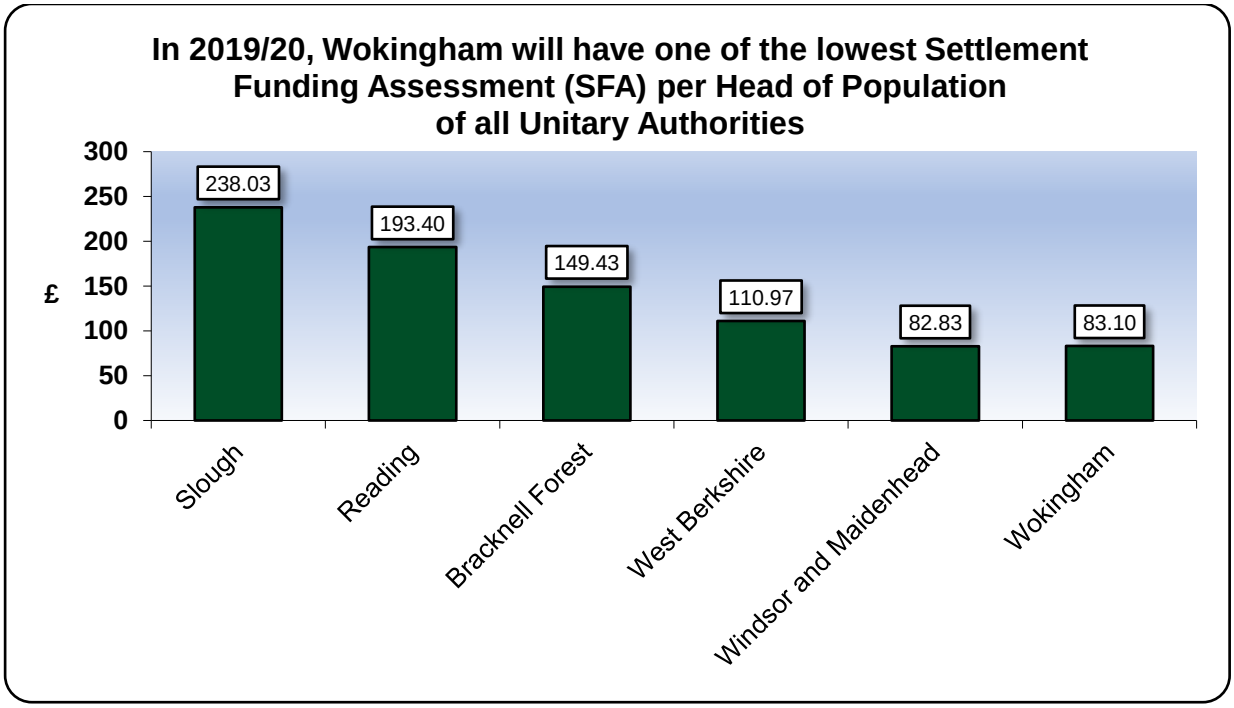
The graph below shows the position for 2019/20 and confirms that Wokingham remains one of the lowest funded unitary authorities, well below the unitary average, and less than 19% of the highest funded unitary authority:



The graph below shows the settlement funding assessment for Wokingham over time. The slight increase in 2019/20 is a result of inflationary increases in business rates, and our relatively low cash level reduction in revenue support grant, as negative RSG was not implemented for 2019/20. As we are in the final year of a four-year settlement, Wokingham has no certainty over the funding levels for 2020/21 onwards making financial planning very challenging and risky.

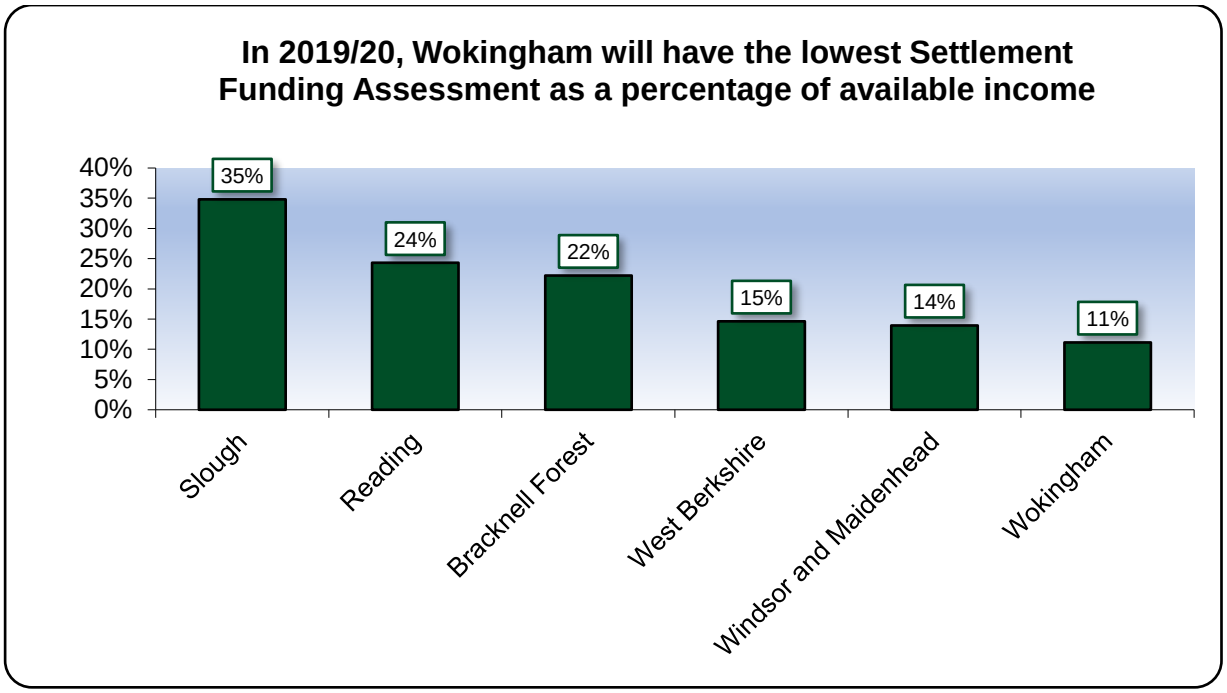


The graph below shows the settlement funding assessment on a per-head of population basis for each Berkshire council. Wokingham will receive the SFA per head of £83.10, which is significantly lower than the unitary authorities' average. It is also less than half the funding of two of the Berkshire authorities.



Wokingham's settlement funding assessment income is only 11% of its 2019/20 total available income (known as spending power). This is less than a third of one Berkshire council (35%), and lower than nearly 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.

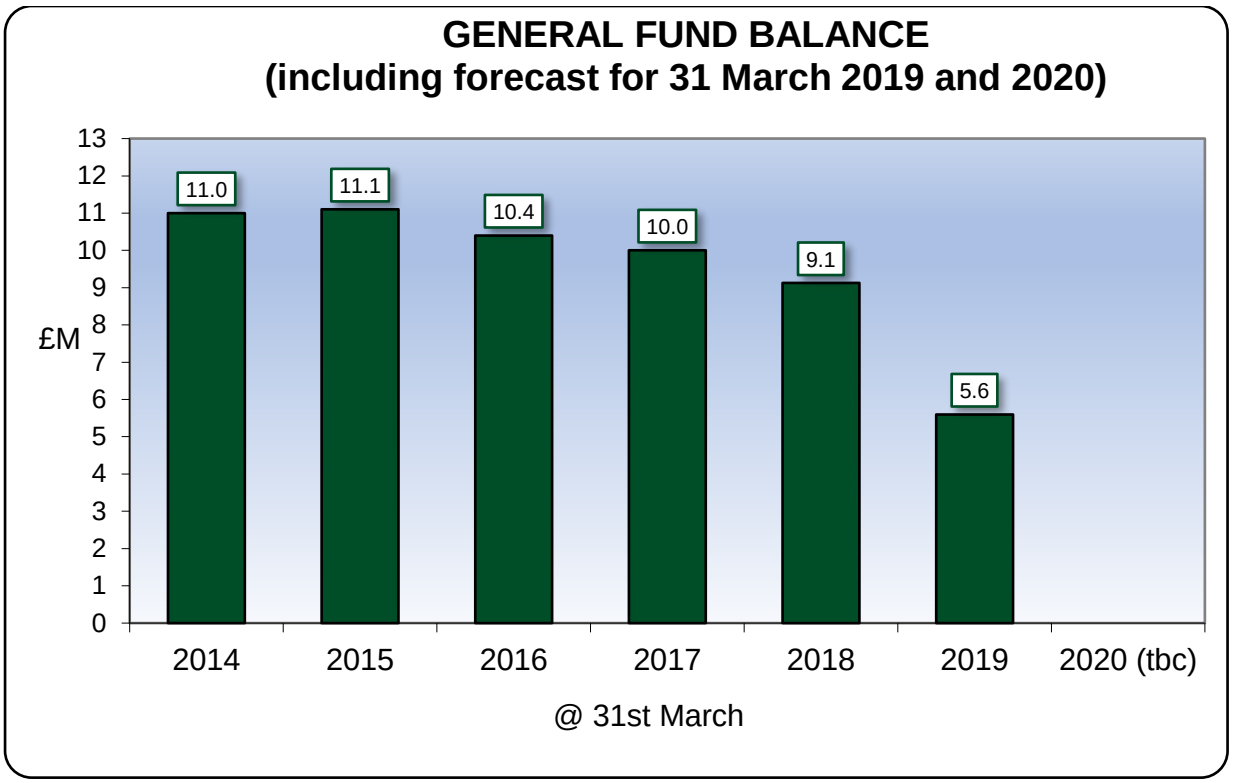


In 2019/20, Wokingham will receive the lowest percentage of SFA grant as a share of its total income, of any unitary authority. Wokingham will receive 11%, compared to some unitary councils for which government grants will fund over 40%, and an average of 34%. As a result, the percentage of expenditure met by Wokingham council tax payers is the highest of any unitary authority.

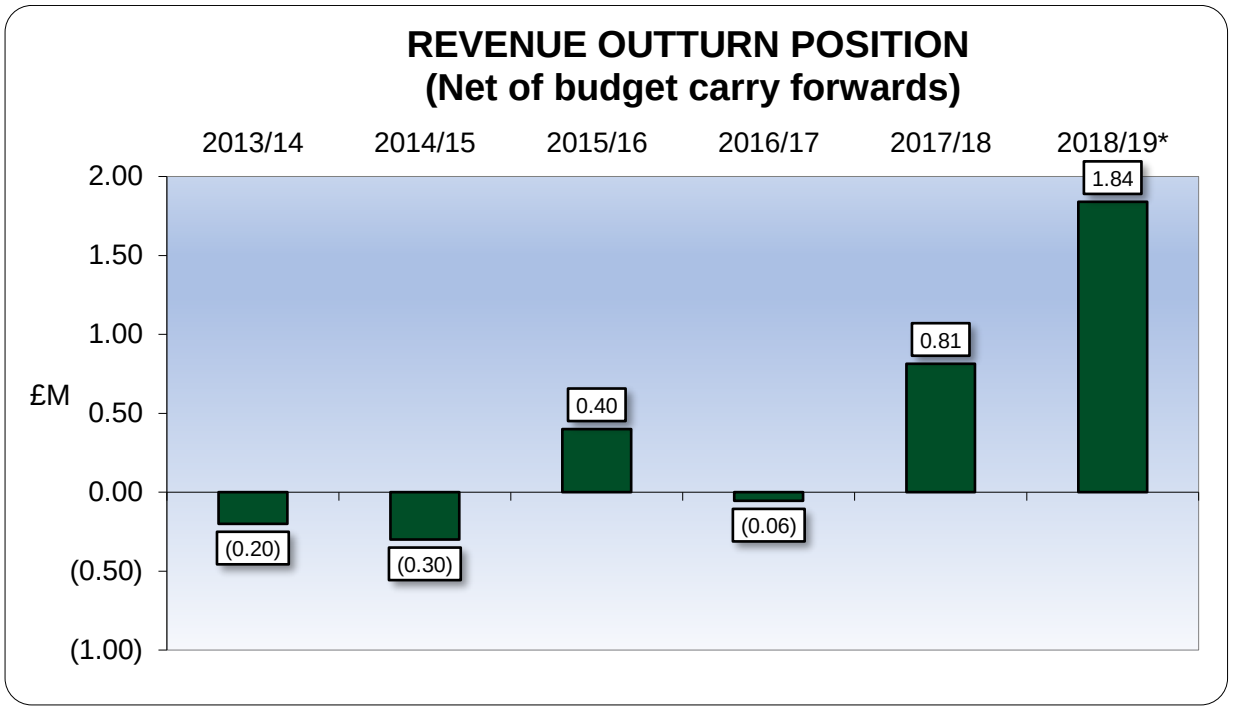
4. General fund balances (GFB)

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 2018 and a forecast for 31 March 2019 (Based on Q3 monitoring) and 31 March 2020. (Forecast for 31 March 2020 to be included once the budget is agreed.) The expected reduction for 31 March 2019 is as a result of in year supplementary estimates, carry forwards and projected overspends across directorates.

The 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, and the level of retained business rates.



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).



*18/19 also includes supplementary estimates, which masks an 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 2018/19 currently shows an overspend of £1.839m compared to the budget approved in February 2018, based on Draft December monitoring, as well as the inclusion of supplementary estimates and carry forward requests. It should be recognised that within the overall position there are significant underlying cost pressures within the 2018/19 budget including, for example, pressures on adult care placements and increasing demand on children services; this will need to be considered within the 2019/20 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.

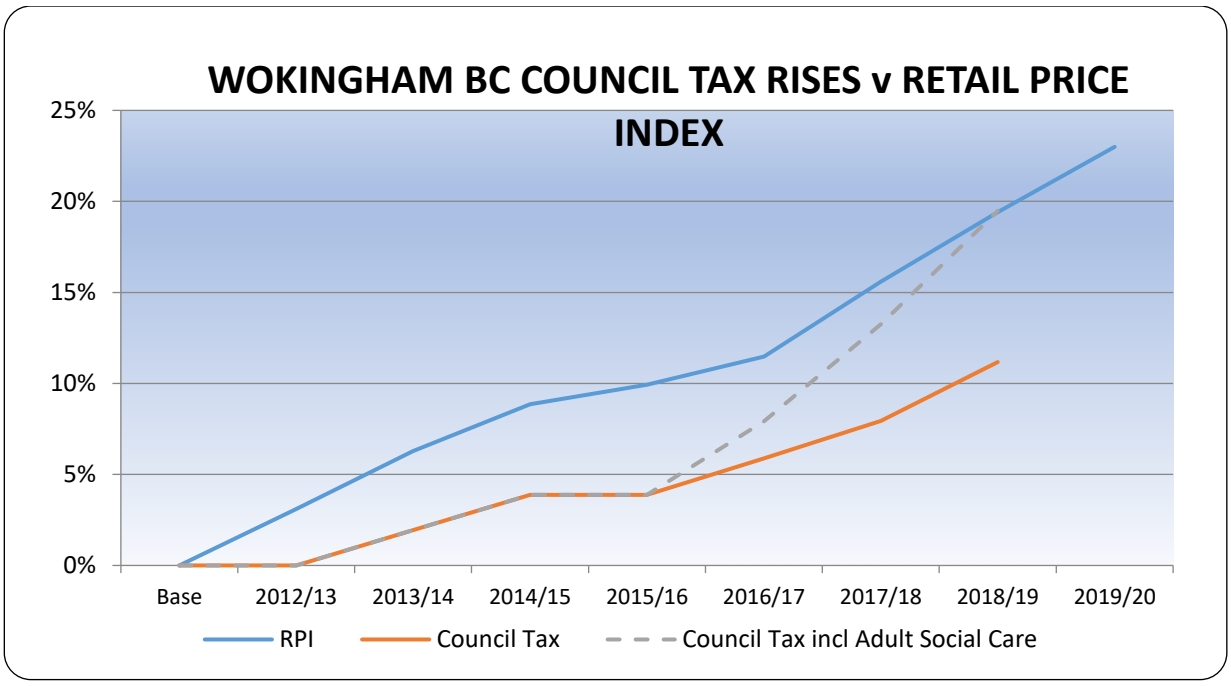
The expenditure pressures for council tax increases above inflation are similar each year: client increases (particularly in social care); increase in statutory requirements (e.g. recycling, standards of care); unavoidable expenditure increases above inflation (e.g. maintenance contracts, social care contracts and land fill tax) and pressures to improve services from both the public and the Government. Across recent years Wokingham has succeeded in keeping council tax increases in line with or below inflation (achieving a freeze in 2012/13 and 2015/16) as shown in the table below. From 2016/17 to 2017/18 the increases exceeded the inflation level, but this is due to the government's calculations which assume both inflationary increases and an additional adult social care increase to council tax. Recent changes in council tax can be seen in the table below.

2019/20 will be updated following the 2019/20 budget submission.

Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
RPI (May figures)	3.1%	2.4%	1.0%	1.4%	3.7%	3.3%	3.0%*
Wokingham BC Council tax (core element)	1.9%	1.9%	0.0%	1.9%	1.9%	2.99%	
Wokingham BC Council tax (Adult social care)	n/a	n/a	n/a	2.0%	3.0%	2.5%	

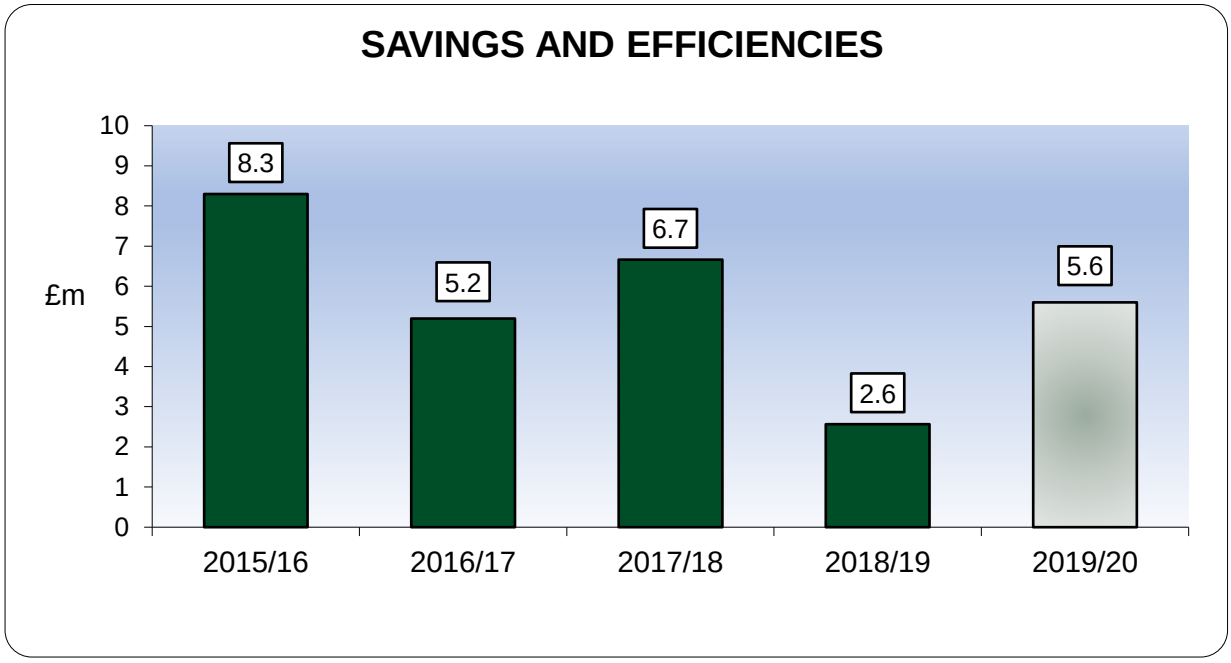
* OBR November 2018 forecast of 2019 RPI

Taken across a longer time period, as can be seen in the graph below, council tax increases have been kept inline with 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, and the adult social care precept.



Savings

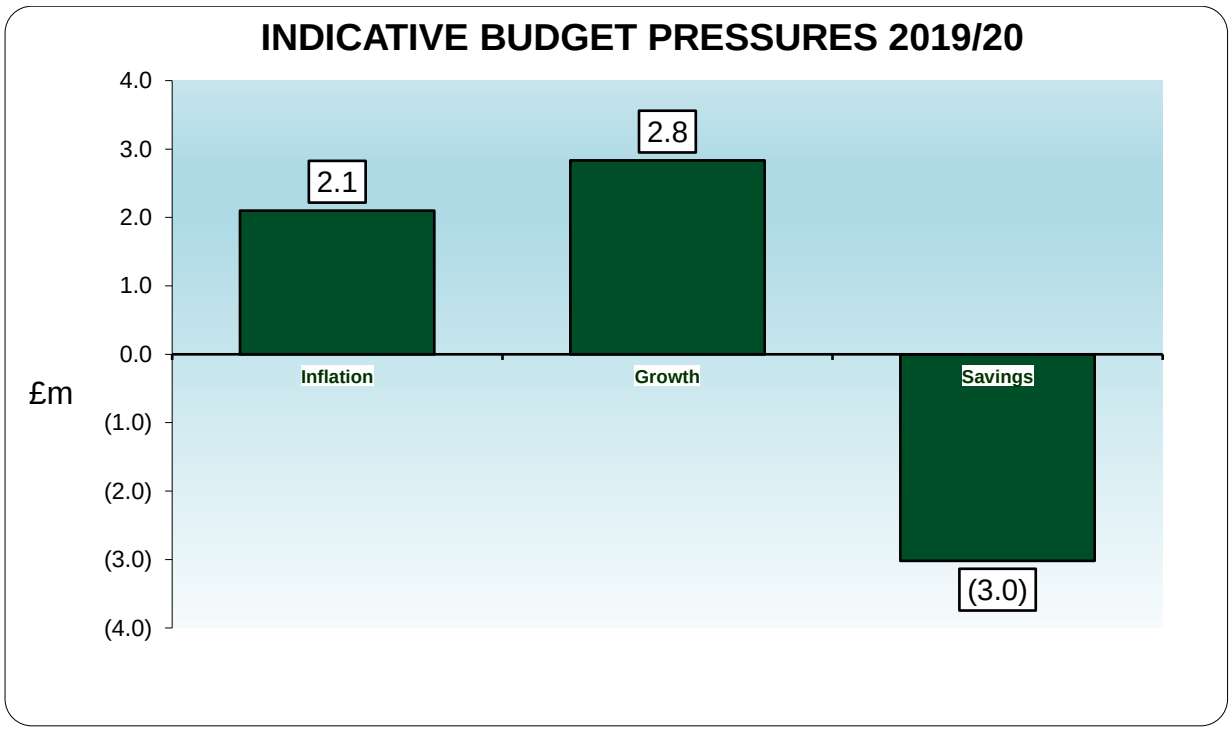
The total savings and efficiencies that have been identified in setting the council tax in previous years are shown below. It equates to over ***£28.4m*** over the five years. Savings are used to fund growth, inflation and reductions in Government grants.



The savings shown above reflect the savings made for each financial year (or planned savings based on the previous medium term financial plan in the case of 2019/20). ***2019/20 will be updated following the 2019/20 budget submission.***

7. Budget pressures

An overview of the 2019/20 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 based on the 2018/19 MTFP and will be updated alongside the final MTFP for 2019/20.)***



This growth is largely driven by adults' services and children services including demographic pressures, government changes and increases in complex cases and the current outturn is showing further pressures in these areas and others such as home-to-school transport. The growth is also driven by highways maintenance, drainage, and traffic management.

8. Revenue resources outlook and risks 2019/20 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 2019/20 and 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 is used as a guide to determine the level of GFB required.

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 below. The major issues that may impact on future revenue resources are:

21st Century Council

The 21st century council programme continues to change the shape, structure and operating model of the organisation. It has already improved availability of and access to council services through digital channels, delivers swifter resolution of issues and queries, whilst giving a greater focus to problem solving and customer responsiveness and produce a leaner, more efficient council costing significantly less to run. The implementation of the programme is continuing with both phases one and two completed. The programme is expected to save £4m every financial year once fully implemented. So far, the completed phases have delivered the expected saving targets. 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

Care needs are based on a national threshold, with demand strong across adult services. In addition, Children's Services also have budget pressures in 2018/19 for agency care staffing, and increased home to school transport demand. The increase in the living wage to £8.21 in 2019/20 from £7.83 in 2018/19 will put additional pressure on care providers as they seek to retain staff. The impact of the ruling that employees should be paid at least the minimum wage for "sleep-ins" has also impacted providers. These pressures will need to be considered along with other budget pressures in the 2019/20 budget and beyond.

Demand-led budgets

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. These, together with "sleep-ins" pressures mean 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 2019/20 budget and beyond.

Special Educational Needs and Disability (SEND)

The Council is facing extreme cost pressures around its SEND provision, due to increased demand and a requirement for out-of-borough placements which are traditionally more expensive than provision within the Wokingham area. These also attract higher home-to-school transportation expenses as well giving a double charge to the already stretched budgets. The Council is focusing much of its effort in preventing the requirement to place young people outside the borough wherever possible, and in ensuring the resources available are aligned with strategic priorities.

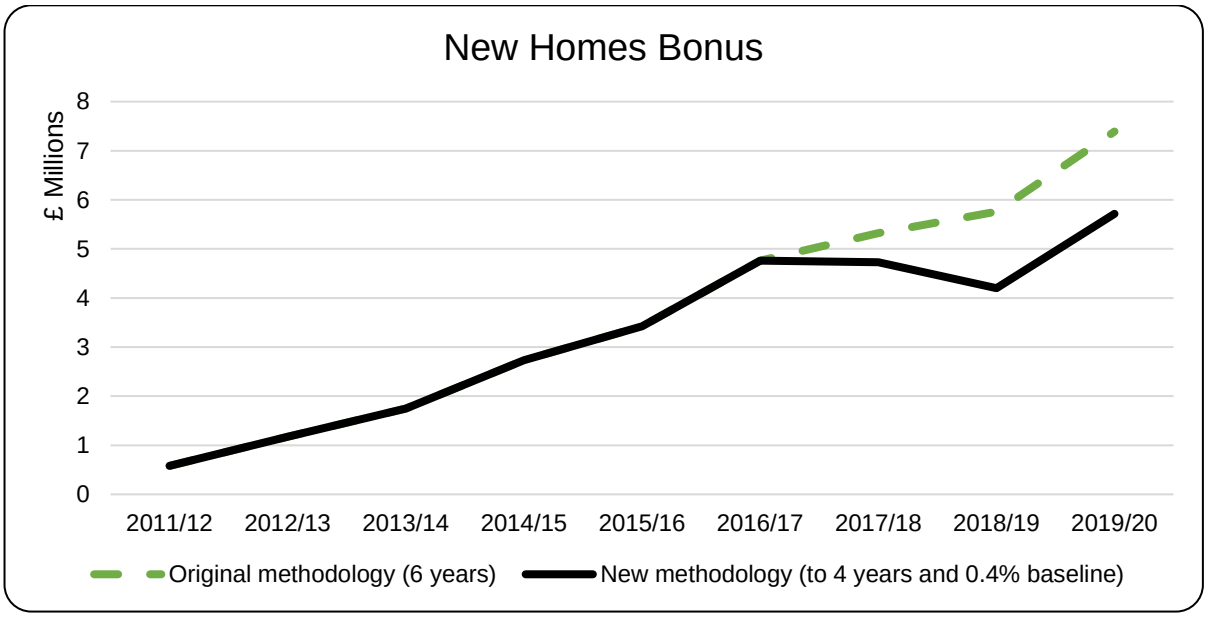
This also impacts on Adult Social Care budgets as these young people transition into adulthood.

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 and 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 £5.7m in NHB in 2019/20, up from £4.2m NHB in 2018/19. This grant should have increased more 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 reduced. It is now based on four years of new house builds, compared to six years in 2016/17, as well as not rewarding authorities for the first portion of growth they enable. 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. The graph below shows the new homes bonus grant over the years including the impact of the changes to the methodology.



Impact of the economic environment

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.

Following weak UK economic growth in 2017 compared to 2016, growth in 2018 has also remained weak with quarterly growth similar to 2017 levels at 0.4%. High levels of inflation seen during 2017 have reduced slightly during 2018, however remain above the Government's inflation target of 2% for CPI, caused by the devaluation of sterling after the referendum, increasing the cost of imports. In addition, recent rises in global energy prices contributing to above target inflation. As a result, in August 2018, the official bank rate was lifted from 0.50% to 0.75%, the highest level since March 2009. The monetary policy committee also expects the bank rate to increase over the next year to reach 1% by 2020.

Economic forecasting remains difficult with so many external influences weighing on the UK. The overall longer run trend is for PWLB rates to rise, albeit gently. The November inflation report commented that CPI inflation is projected to remain above the target in the near future and reaching the target over the next 3 years.

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.

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, as well as the impact of the new 2017 valuations, 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 was 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.

Previous Government announcements make clear an intention to return all business rates to local authority control in 2020, but the aim now is for authorities to retain 75% of business rates from 2020/21. The government invited local authorities to pilot 100% business rates retention from 2018/19, and WBC were successful in its application, resulting in an estimated £500k funding to the authority in 2018/19. The draft finance settlement also announced that WBC would continue to be in the pilot however at a reduced rate of 75% rather than 100%. The

2019/20 pilot scheme has also removed the Government's "no detriment" guarantee, but this is not expected to impact on the Berkshire pilot scheme.

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 (CIL); 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% of the sum borrowed (4% principal repayment and 3% interest).

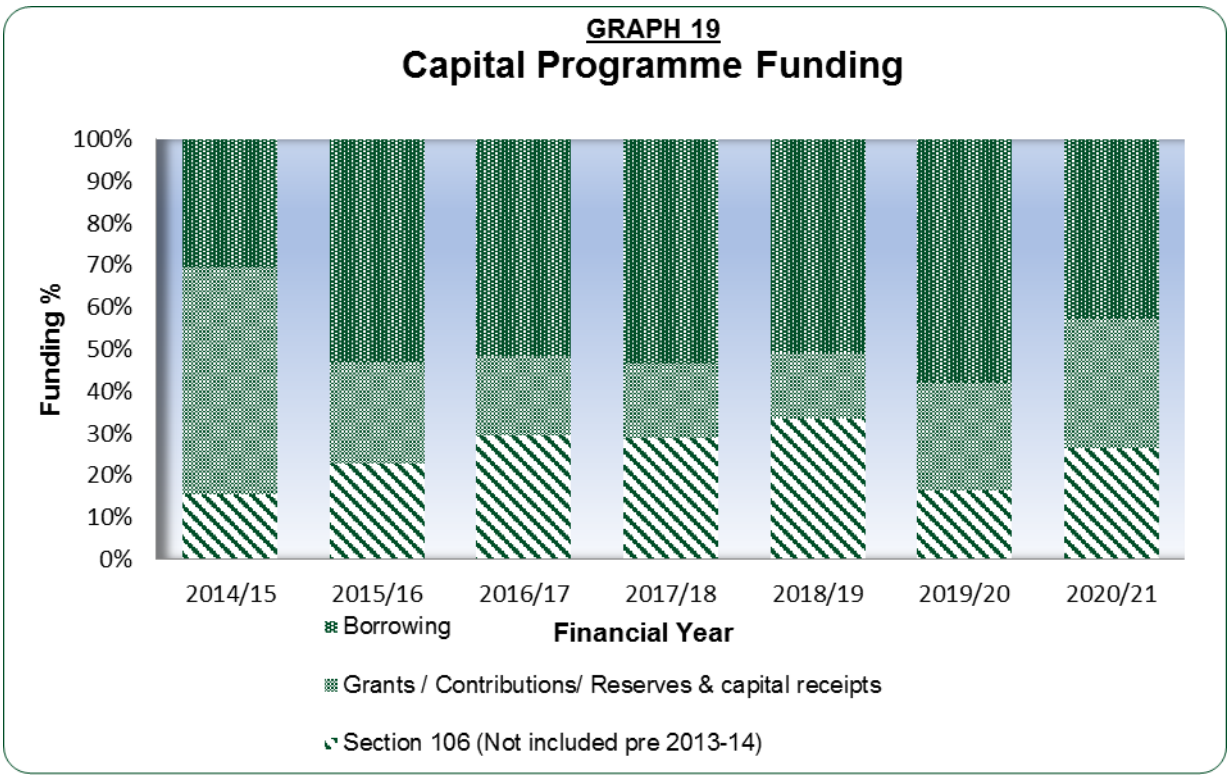
Capital programme

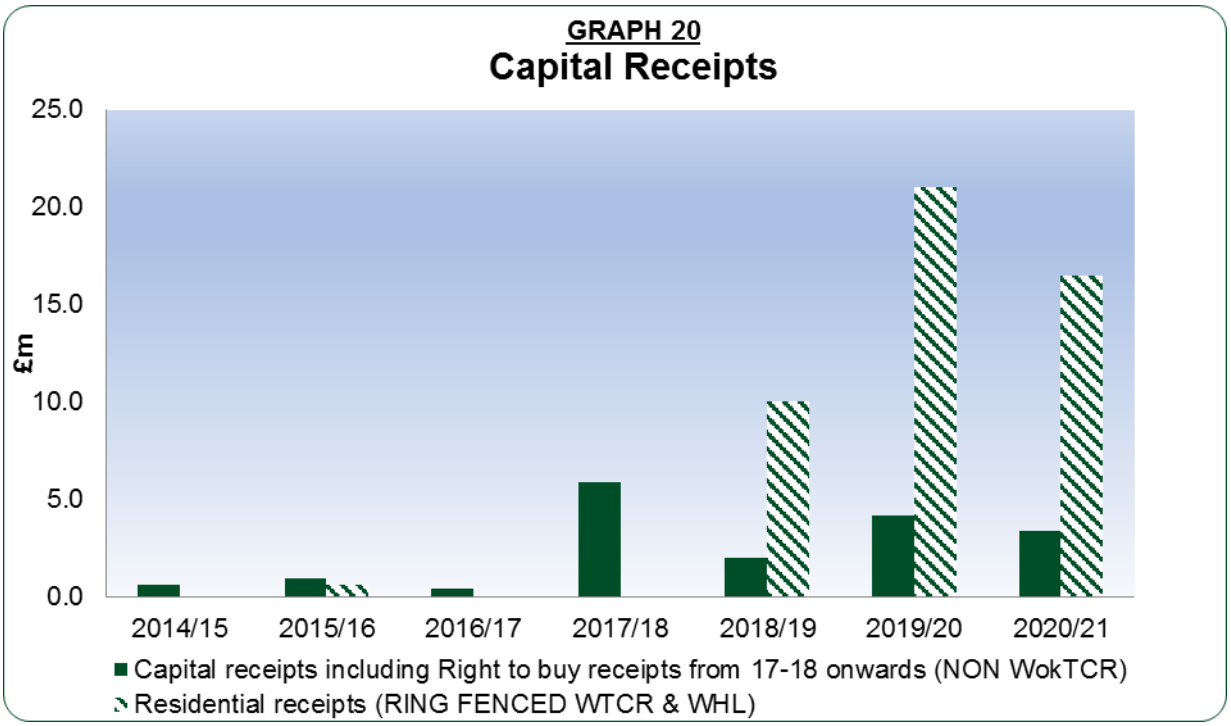
The first three years of the capital vision is effectively the capital programme. This has been developed following an assessment against key council priorities, including a value for money and risk analysis.

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 graphs below show the funding for the standard capital programme and include the resourcing for the Wokingham town centre regeneration (WTCR), strategic development locations (SDLs) and Wokingham Housing Ltd (WHL) investments. The capital programme funding is expected to increase considerably over the period of the MTFP in order to fund the council's investment ambitions. ***(These graphs are based on the 2018/19 MTFP and will be updated for the 2019/20 MTFP).***





Note: Receipts for the current and future years are estimates

The significant amount of capital receipts forecast from 2017/18 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 Wokingham Town Centre Regeneration programme remains one of the council's key investment priorities and is progressing well. Work continued on the Peach Place Redevelopment phase of the programme with the Peach Street elevations revealed, footpath opened and two traders operating – Gails and Waterstones. The remaining units around the Square will be available for fit out at beginning of February with trading from March.

Elms Field contract commenced on site in March 2018 with good progress being made. The car park to Shute End office together with access road opened in December. The Foodstore, Park and Hotel are all planned to open through the year with the northern retail block to complete early 2020.

Detail design works to Carnival phase 2 has commenced with a view to commencing the build contractor tender process at the end of 2019.

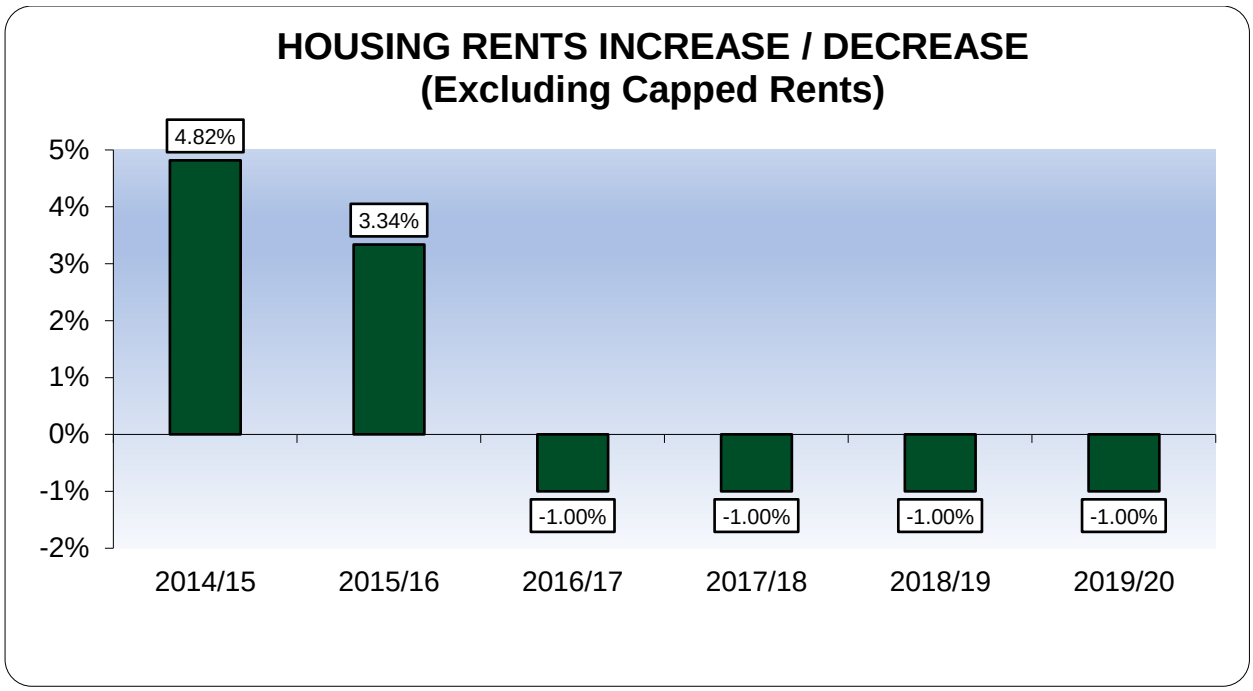
Capital receipts and contributions

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)

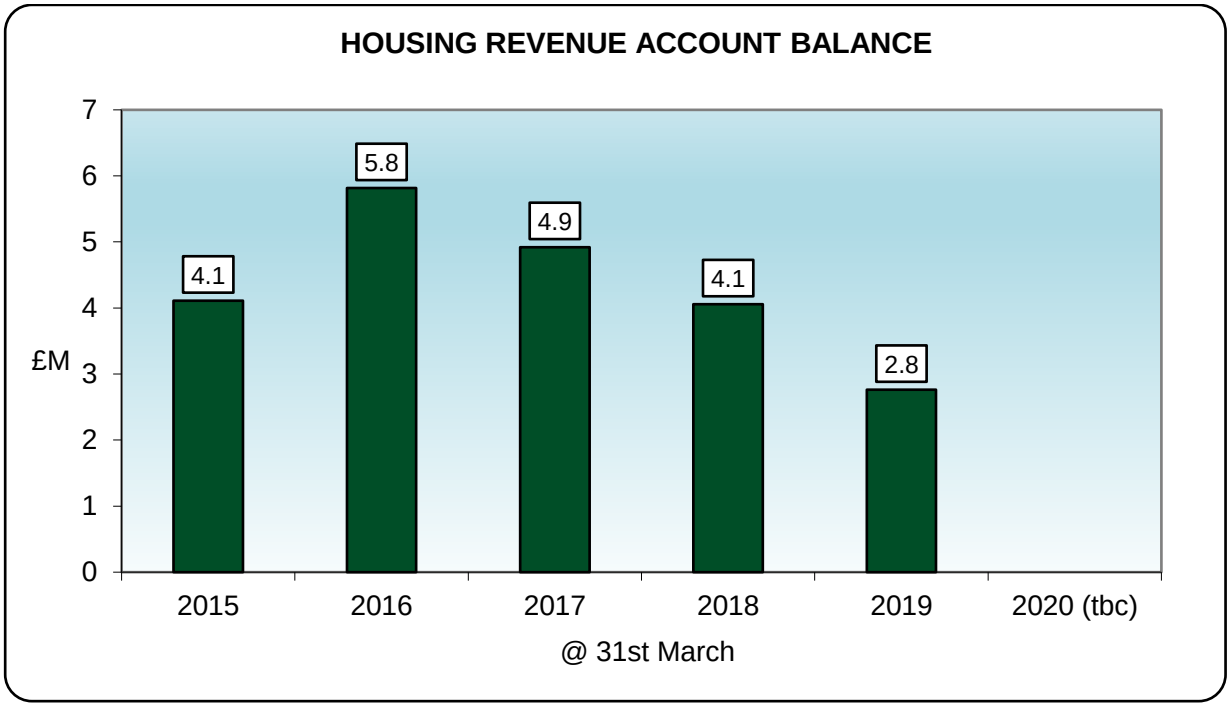
The HRA is a ring-fenced account and as such has no impact on the level of council tax. The money spent maintaining the council's housing stock (valued at approximately £199m) and providing a service to council tenants is mainly funded by housing rents paid by council tenants. Gross expenditure on the HRA is in the region of £15m per year 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 from previous years and a forecast for 31 March 2019 and 2020 (31 March 2020 balance to be added once the HRA budget has been prepared). The estimated balance at 31 March 2019 will be used to fund capital expenditure in 2019/20 and later years, and fund the loss of rental income due to the 1% rent reduction.

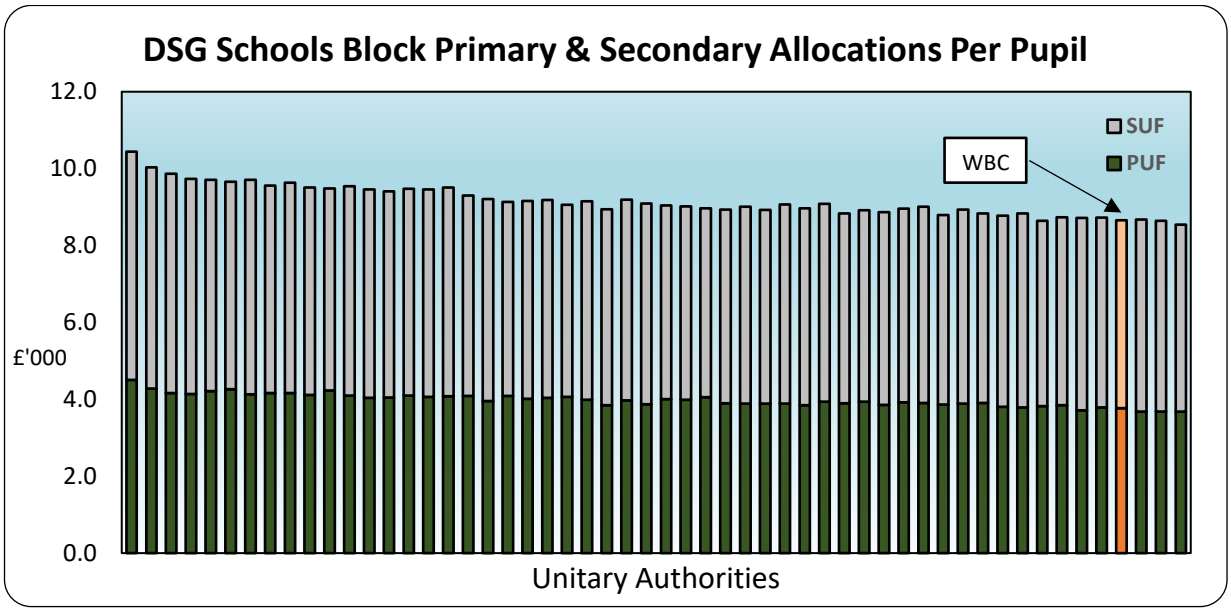
11. Schools

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 2018. 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 2019/20 was notified to the authority by the Department for Education (DfE) in December 2018, however, a proportion of this amount is in respect of free schools and must be paid to them. The actual DSG allocation available to the council for 2019/20 is £134.26m, compared to £129.67m in 2018/19. The increase to 2019/20 is accounted for by increased funding on both two unit costs, one for primary (PUF) and one for secondary (SUF). The DfE has now created a centrally retained schools block for the council to carry out its statutory duties which includes an element of the old education support grant.

The actual 2019/20 PUF is £3,770 and SUF is £4,887 estimated per pupil. For 2018/19 the figure were £3,724 for the Primary unit cost (PUF) and £4,743 for the Secondary unit cost (SUF) compared to £4,152 for both units in 2017/18. Wokingham no longer has the lowest funding of all unitary authorities.

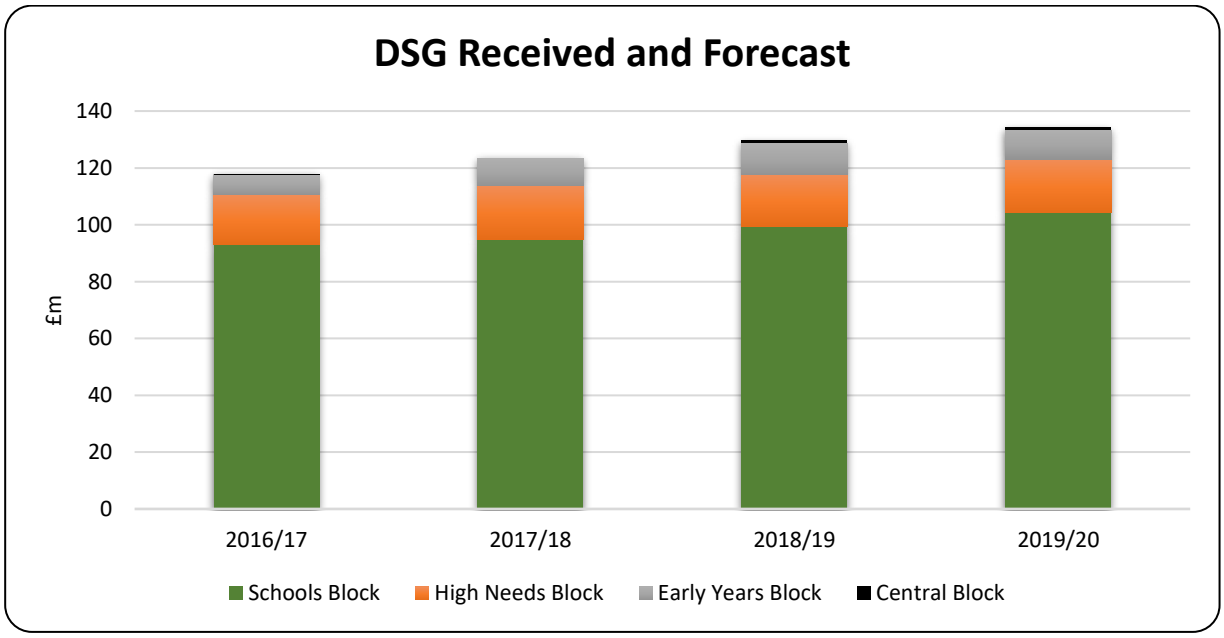


DSG and the national funding formula

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 by 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 2019/20 and 2020/21 financial years', schools will continue to be funded through the local authority funding formula. From 2021/22, the Government proposes to introduce the National Fair Funding formula.



High Needs Block

The High Needs Block is separate block of funding to support those young people with SEND requirements. This has been underfunded by central government for the past few years and, when combined with the increased demand and out-of-borough placements (see above) this has meant that the account has operated in a deficit positon since 2017/18. Whilst this is permitted under regulation in the short term, it is not an ideal scenario nor sustainable in the medium to long term; the Council is now taking significant steps to reduce this deficit going forward, although this will take some capital investment to reduce the future revenue pressures.

12. 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. Optalis expanded significantly during 2017/18 through a merger with the Royal Borough of Windsor and Maidenhead.

Wokingham Housing Companies

The housing companies are now delivering a range of high quality affordable and market housing schemes for the residents of Wokingham Borough. Work is well underway, with some developments having gone live, others being completed, and others in the development pipeline for future years. The financial implications of the housing companies' business plans will be included in the MTFP. Significant investment has been included in the Capital Programme with two major developments, at Phoenix and Fosters now complete. 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
Deputy Chief Executive &
Director of Corporate Services
(and Chief Financial Officer)

13. Glossary

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