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 is a precursor to this and provides a strategic overview of the council's financial position as a context before making specific considerations on the 2020/21 budget.

The budget setting process starts early in the previous financial year with a focus on areas which require budget growth to meet growing demands and areas which can deliver savings through efficiencies and additional income generation. A budget submission process is undertaken to ensure budget bids can be challenged in the context of the Councils aims and objectives. To enhance transparency and budget setting engagement this year's process has included consultation with the Community & Corporate Overview & Scrutiny Committee (CCOSC). Information provided at CCOSC is also available to the Public.

In December 2019, CIPFA published their financial resilience tool which highlighted key financial indicators such as reserves sustainability, external debt and social care ratios based on the 2018 / 2019 financial year. The index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement. Wokingham have been rated in the top 20 of upper tier Councils for financial sustainability (source: 9th Jan – The Management Journal). Although Wokingham have been rated highly for financial sustainability, the Council still face significant challenges and risks in the future which are outlined in this report and throughout the Medium Term Financial Plan (MTFP).

2. Strategic Overview

Government's Spending Round September 2019

The Spending Round sets out the government's spending plans for 2020/21. From 2019/20 to 2020/21, day-to-day departmental spending will now grow at 4.1% in real terms. Since 2010 the amount the government borrows each year has reduced and is now just 1.1% of gross domestic product (GDP), enabling the government to spend more on the UK's public services in a sustainable way.

The Spending Round targets additional money on the priorities of healthcare, education and tackling crime and for the first time since Spending Review 2002, no department faces a cut to its day-to-day budget. The Spending Round marks a new focus on the outcomes the government will deliver. This approach will be further developed at the Spending Review in 2020.

Local Government Finance Settlement December 2019

Local authorities up and down the country have continued to push for a fairer funding review and long-term finance settlements to provide sustainable long term funding. This funding review has been delayed to 2021/22, meaning the local government finance settlement 2020/21 is for one year only.

As a result of numerous years of local government funding driven by a formula that is skewed toward deprivation factors (as opposed to recognising the basic cost of providing services) and reductions in centrally funded grants based on percentage reductions to previous years, Wokingham Borough Council has been for many years the lowest funded unitary authority (per head of population) in the country. A consequence of this is that Wokingham Borough Council's local services are almost entirely funded by its council taxpayers. Whilst the average unitary authorities receive revenue support grant and retained business rates to fund around 28% of their service costs, Wokingham receive only 10%.

The Local Government funding methodology that has been in place for the past 5 years is particularly challenging for Wokingham. Firstly Wokingham's council taxpayers are required to pay the largest contribution to local services; then this income from council taxpayers is used as a basis on which to calculate an annual Government grant reduction and lastly, the highest 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 grant reduction. Wokingham's situation is further compounded by the way the new homes bonus (NHB) has been included within the grant cut calculation and assumed to income that is generally available as opposed recognising its requirement for Housing Development and Regeneration Activity. Furthermore, now that our housing supply projects are underway and delivering on their intention, our NHB should be increasing. Under the current one year settlement, NHB funding has been cut and restricted to a single in-year payment, despite the significant number of new homes being built in the borough.

In recent years the government has capped council tax increases to under 2% (excluding the adult social care precept) and any increase above this would require a local referendum funded by the local taxpayer. The previous 2 years have seen an exception where the referendum cap was increased to under 3%. For 2020/21, this additional flexibility has been removed with increases reducing back to the 2% cap before a local referendum is required.

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% to better reflect the proposed new scheme. For 2020/21, it has been announced that the 75% Berkshire business rates pilot will stop with Wokingham reverting to the pre-pilot funding arrangements for business rates.

Negative Revenue Support Grant

In line with last year, the December 2019 draft finance settlement proposed that the government would forgo the additional tariff (colloquially known as negative RSG) in 2020/21 (originally forecast at £7.14m in the four-year settlement and assumed to increase in 20/21 in line with pervious settlements) which is a significant one-off benefit for Wokingham. The government is producing a new methodology for the 'fairer-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 2020. It is expected that business rates will be retained by local authorities within the overall funding considerations. However this is likely to mean there is will be no overall real-term increase in total resources available to the local government community.

Future Funding Settlements

With 2019/20 being the final year of an agreed four-year settlement, the Council were expecting the announcement of a new four-year settlement however with continued uncertainties surrounding the UK economy, the finance settlement for 2020/21 has been restricted to one year only. This means that there is still 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 2021/22 and 2022/23, but 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 for the 2020-2023 medium term financial plan.

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 long-promised Green Paper on Social Care has once again been delayed.

In recognition of the continual increasing statutory care costs faced by Local Authorities an ASC precept of up 2% has been re-introduced for 2020/21, replacing the previous scheme that permitted a 6% increase over a 3 year period. It is unknown what will be in place beyond 20/21 but this will no doubt be a key consideration in any future sustainable Local Government funding system.

Commercialisation, Regeneration and Housing Development

The Council continues its ambition to deliver on major capital investment for housing and regeneration with the infrastructure needed to create sustainable developments. The rewards are not just about creating better places to live but are also about creating new income streams to the Council, where possible and appropriate, to fund the continually increasing costs of vital services. The regeneration of Wokingham Town centre is a good example of this. With an ambitious Capital Programme there is an inevitable increase in risk and increase in borrowing (pending future capital receipts and associated income streams). This risk has not been helped by recent increases in Public Works Loan Board Borrowing rates.

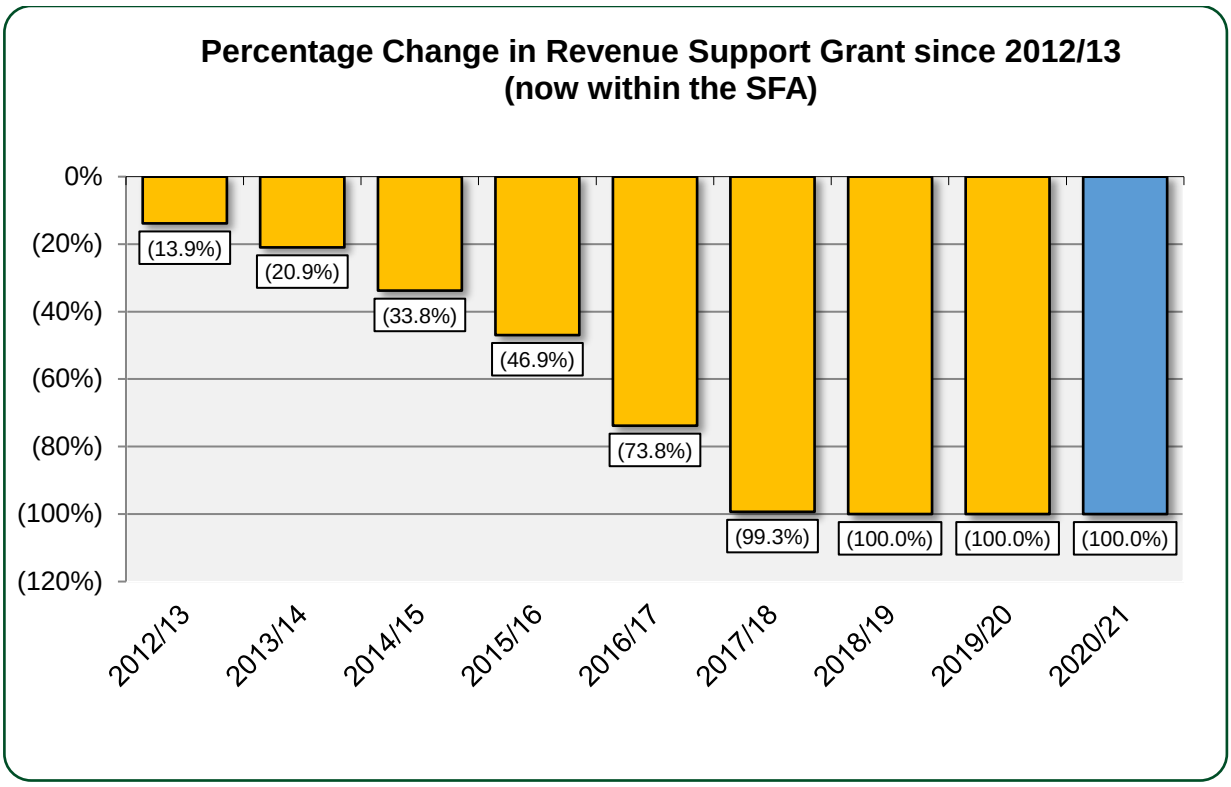
The MTFP will seek to ensure a prudent approach to Capital investment requirements, assumed Revenue Income streams and balances to mitigate risks, in the context of the Council's considerable investment ambition.

3. Analysis of Reductions in Government Funding

The percentage changes in Government Funding since 2012/13 are shown below. Following the December 2010 Local Government Finance Settlement, Wokingham suffered a reduction in RSG for the first time in 2011/12, that is followed by reductions cumulatively as shown in the graph below. In 2018/19 and 2019/20 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 again through the finance settlement that negative RSG will not be enacted in 2020/21 (similar to 2019/20). The funding position is unclear from 2021/22 onwards and Wokingham will need to continue to make representations with regard to the new methodology for financing local authorities to ensure we secure a fair and viable ongoing funding settlement from the Government.

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 higher than the Berkshire average reduction and the average for all unitary authorities.

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

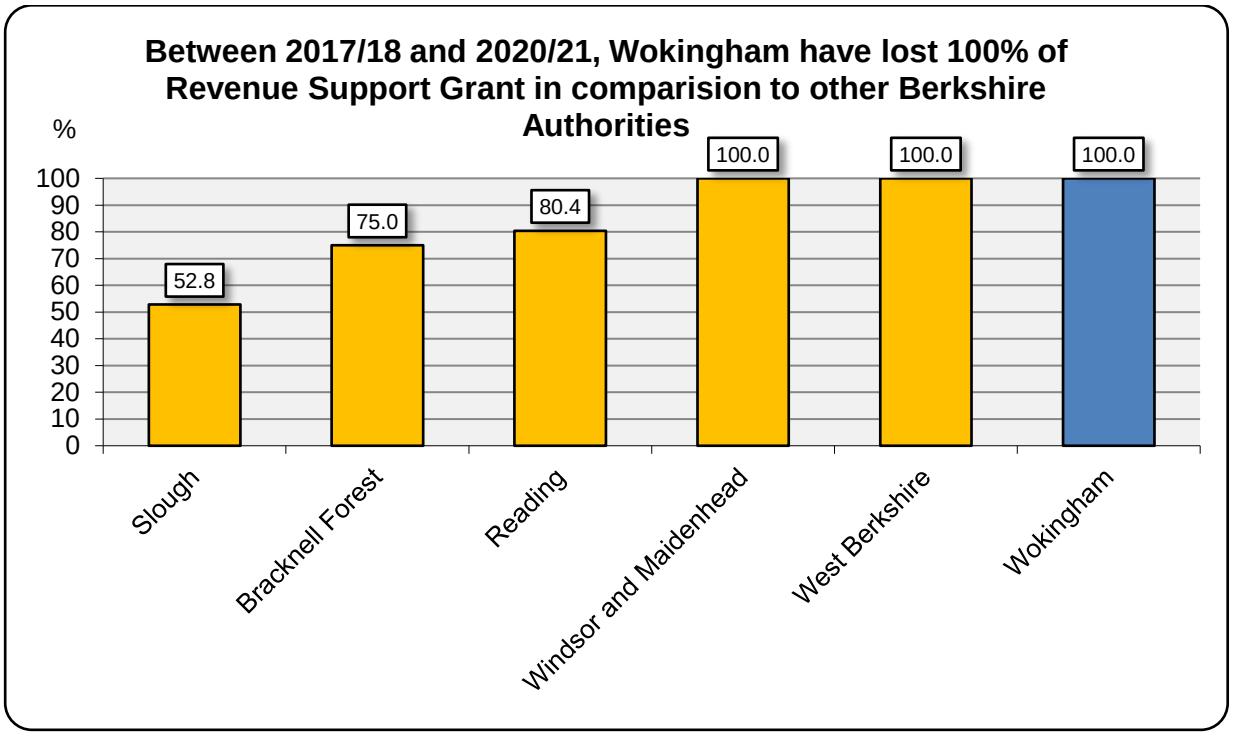


The graph above shows that in 2020/21 the Council faced no further reduction in RSG due to the removal of negative RSG announced in the draft finance settlement. This good news is short lived as the Council will face a new base-line funding assessment in 2021/22.

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 £32.9m (31%) between 2010/11 and 2020/21.

	£m
WBC 2020/21 net expenditure budget	**129.7**
Less reduction in grants for services now part of formula grant	(12.5)
Less discount re inflation since 2010/11 (based on CPI)	(29.8)
Less discount re growth in council tax base since 2010/11	(15.1)
Net expenditure budget 2020/21 discounted to 2010/11 Prices	**72.3**
WBC 2010/11 net expenditure budget	**105.2**
Reduction in expenditure since 2010/11	**£32.9m (31%)**

The graph below compares the RSG reductions by 2020/21 across Berkshire councils.



A growing number of councils now no longer receive RSG. Wokingham was one of the first to lose all its RSG funding.

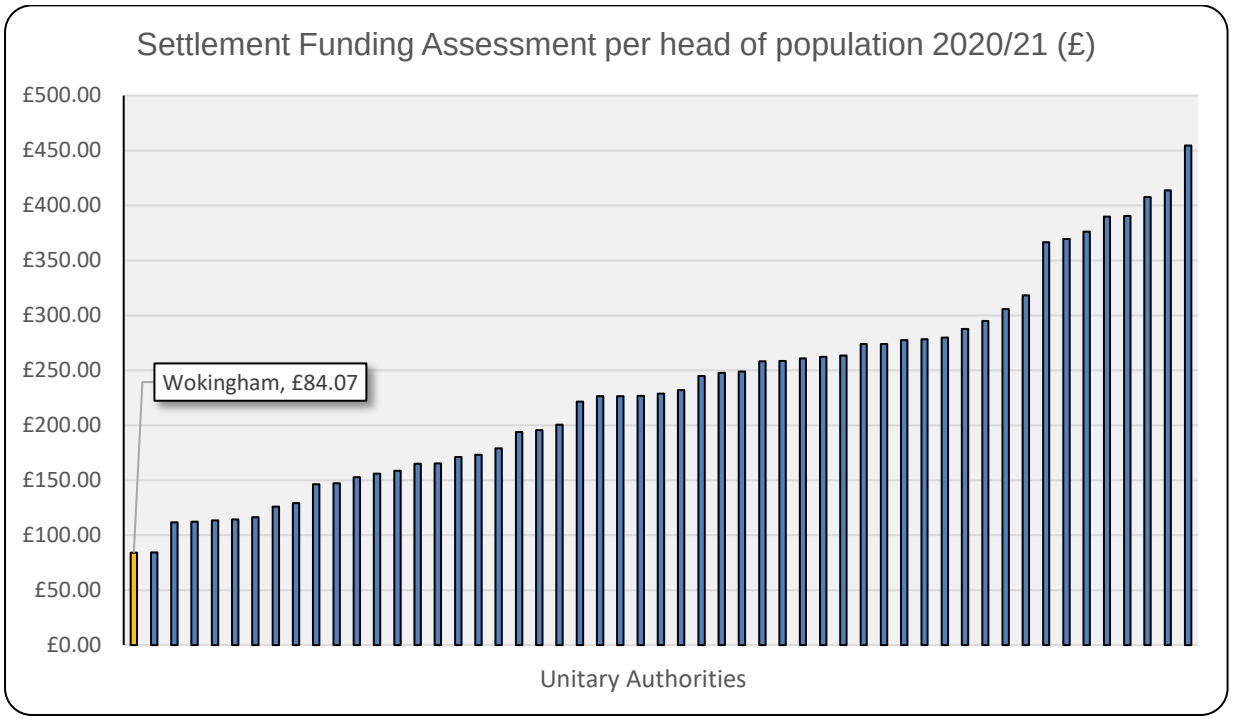
Similar to 2019/20, for 2020/21 Wokingham's RSG remained at zero. A negative RSG was proposed for 2020/21 however following the finance settlement, it was announced there would be no negative RSG in 2020/21. This is good news for Wokingham. However only for a short period of time as the funding for 2021/22 is unclear and subject to the outcomes of the comprehensive spending review.

Settlement Funding Assessment (SFA)

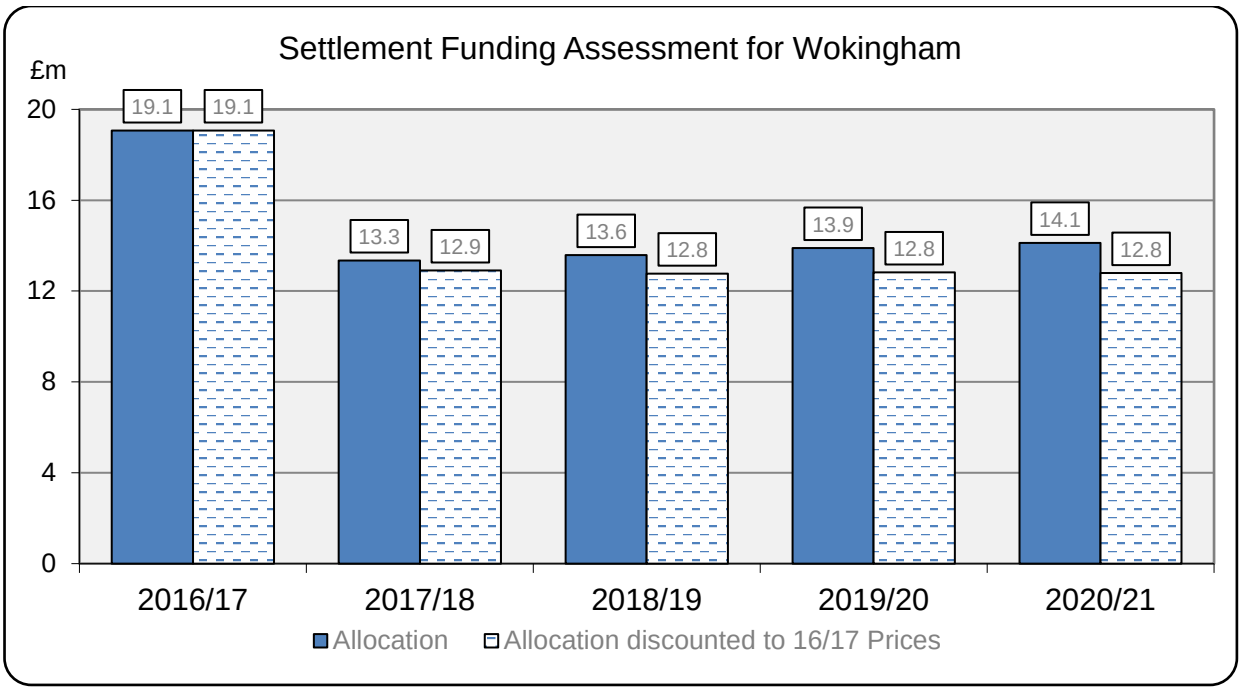
The SFA is a calculation consisting of the sum of baseline funding level (BFL) and the revenue support grant (RSG). The BFL represents Wokingham's share of business rates retained income (£14.1m) and the RSG represents a grant from government to help fund services within Wokingham (£Nil).

Wokingham's total SFA will be £14.1m in 2020/21, compared to £19.1m in 2016/17, a reduction of 26.2%, or £5.0m.

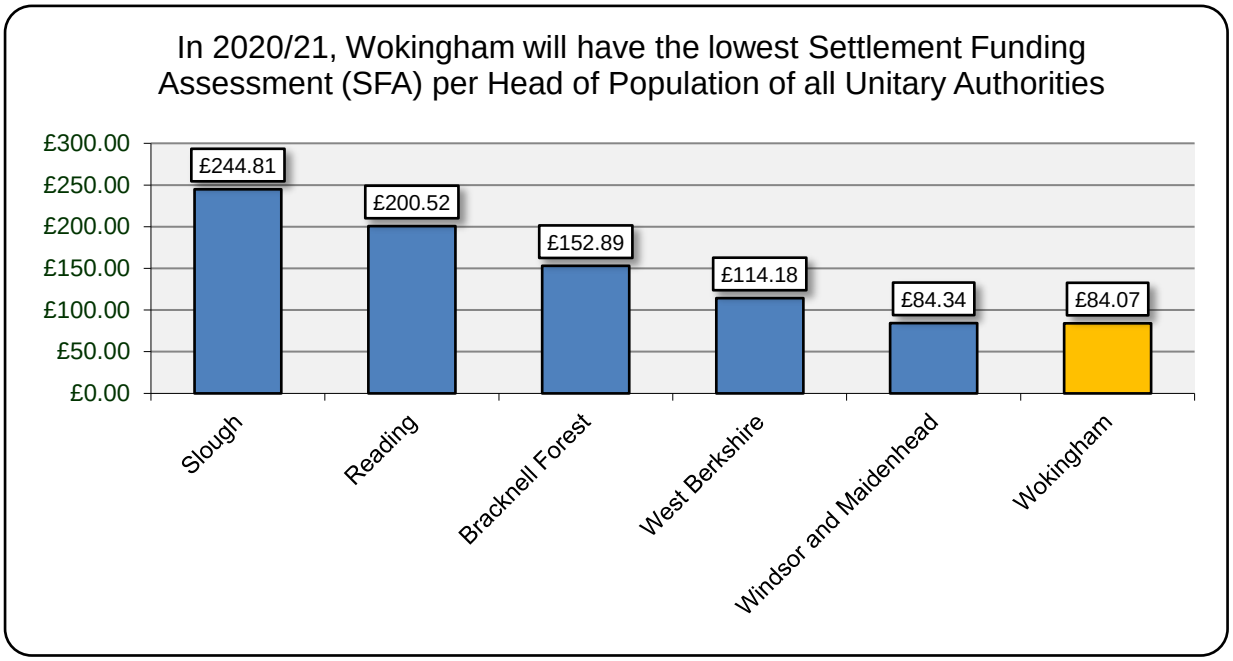
The graph below shows the position for 2020/21 and confirms that Wokingham is the lowest funded unitary authorities, well below the unitary average, and less than 19% of the highest funded unitary authority:



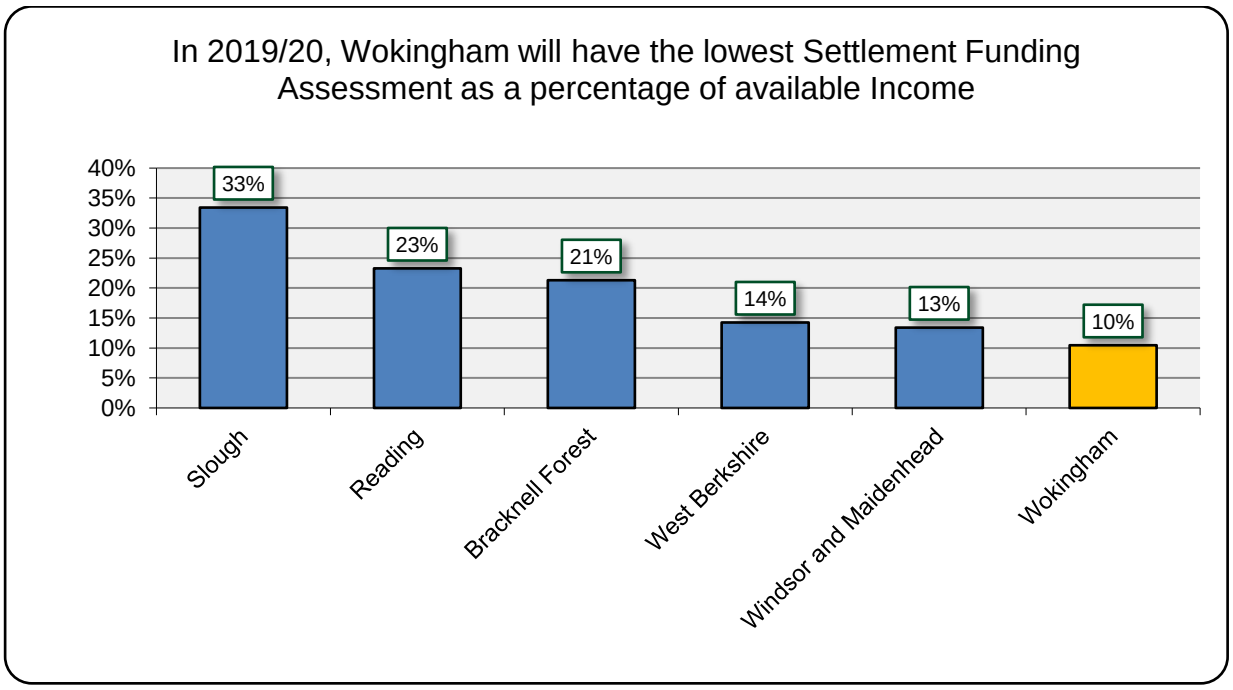
The graph below shows the settlement funding assessment for Wokingham over a five year period covering the last four year finance settlement. The reduction since 2016/17 is mainly due to the Councils revenue support grant reducing to £Nil. The allocations have increased since 2017/18 in line with inflation however when discounted back to 2016/17 prices (i.e. pre reductions), the graph shows the allocations have been static at the same time when demand pressures and cost of services have increased.



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 £84.07, 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 10% of its 2020/21 total available income (known as core spending power). This is less than a third of one Berkshire council (33%), 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.

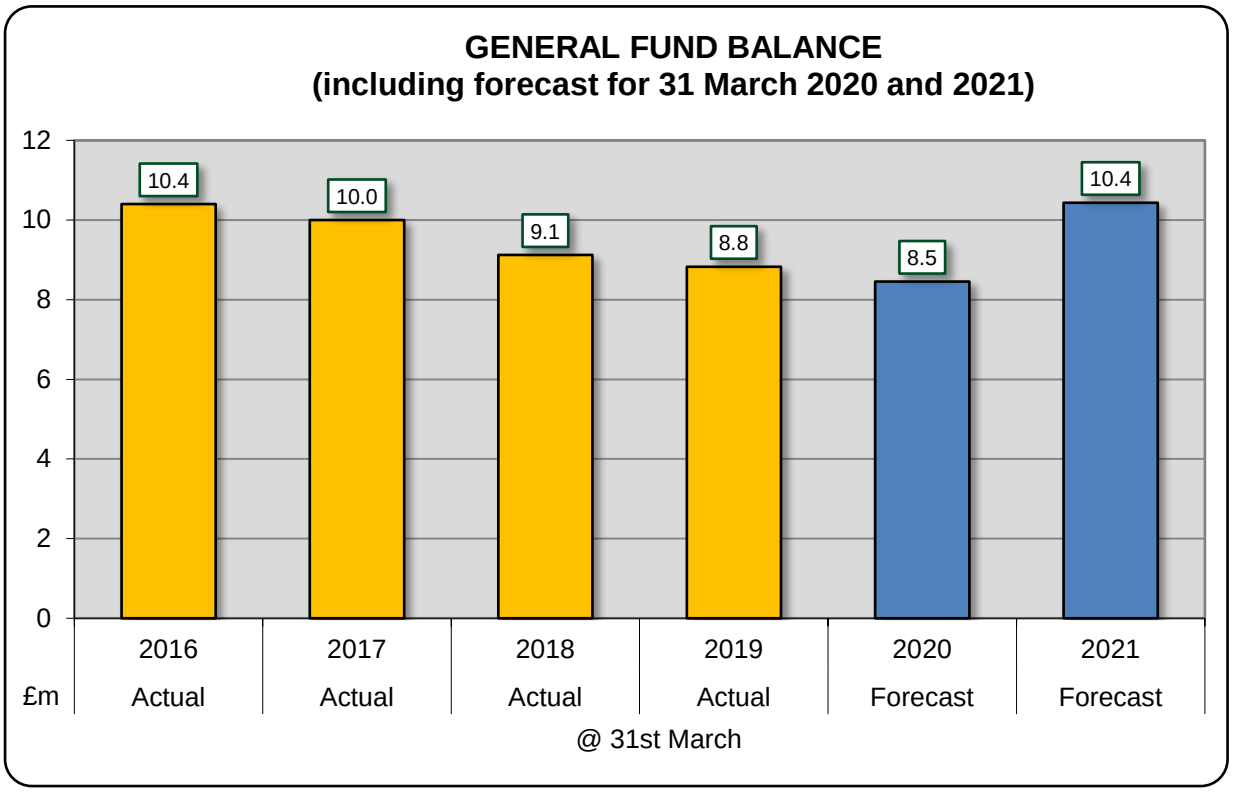


In 2020/21, Wokingham will receive the lowest percentage of SFA grant as a share of its total income, of any unitary authority. Wokingham will receive 10%, compared to some unitary councils for which government grants will fund over 40%, and an average of 28%. As a result, the percentage of expenditure met by Wokingham council tax payers is the highest of any unitary authority.

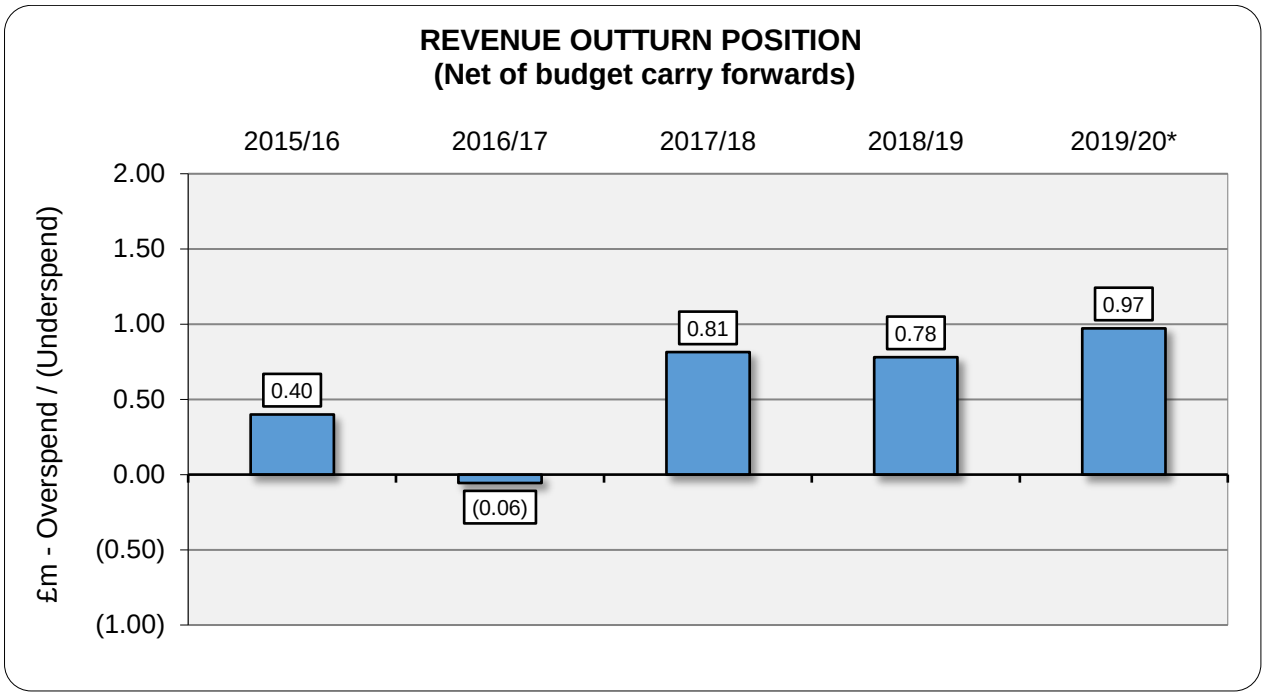
4. General Fund Balances (GFB)

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 reserves and balances. The budget risk analysis is included annually in the medium term financial plan. The graph below shows actual GFBs at 31 March 2019 and a forecast for 31 March 2020 and 31 March 2021. The expected reduction for 31 March 2020 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; dependency on future commercial income and capital contributions; 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).



*19/20 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 2019/20 currently shows an overspend of £0.973m compared to the budget approved in February 2019, based on 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 2019/20 budget including, for example, pressures on social care placements and increasing demand on children services; this will need to be considered within the 2020/21 budget submission**.**

5. Other Balances

The council holds other earmarked 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.

Many of the earmarked reserves are held for specific purposes such as developer funding for future maintenance of assets, grants received in advance and equalisation funds to smooth annual changes on demand led areas such as waste and recycling. Other reserves include interest equalisation and forward funding which are linked to the capital programme where infrastructure is delivered ahead of receipt of developer funding.

6. Council Tax

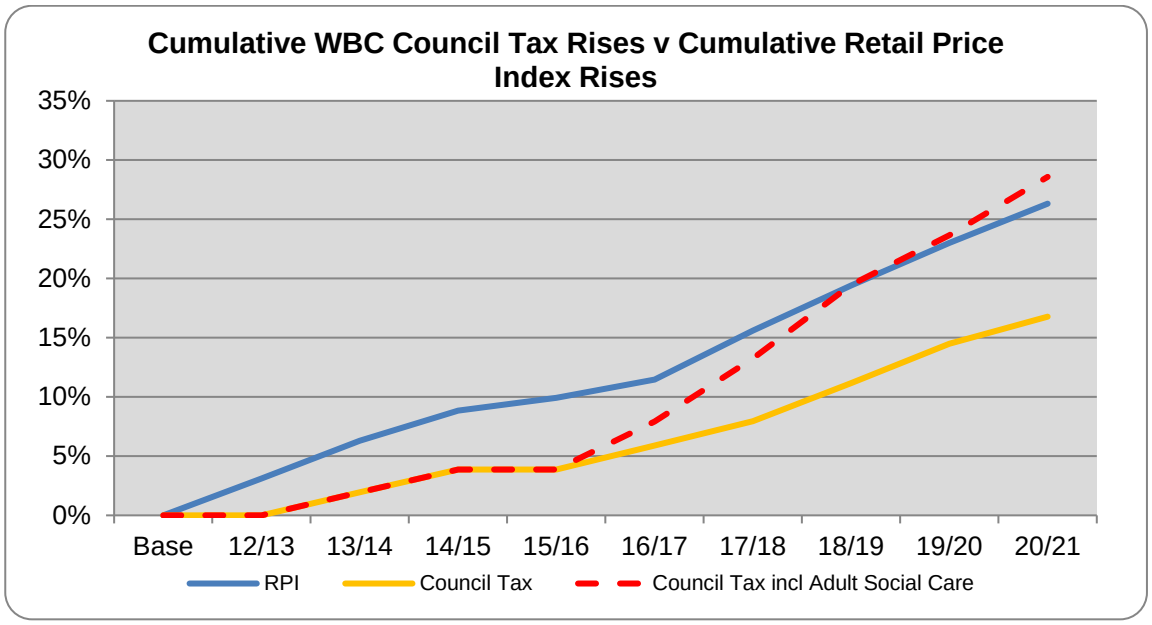
Funding is fixed by the Government and therefore increases in service funding affects the level of council tax that must be levied. This is a major area of tension in every budget setting year; the increase in council tax versus the quality and level of service delivery. This is a particularly difficult 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, etc.) 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. Since 2016/17 the increases have 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.

Year	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21*
RPI (May figures)	2.4%	1.0%	1.4%	3.7%	3.3%	3.0%	2.7%
Wokingham BC Council tax (core element)	1.9%	0.0%	1.9%	1.9%	2.99%	2.99%	1.99%
Wokingham BC Council tax (Adult social care)	n/a	n/a	2.0%	3.0%	2.5%	0.5%	2.00%

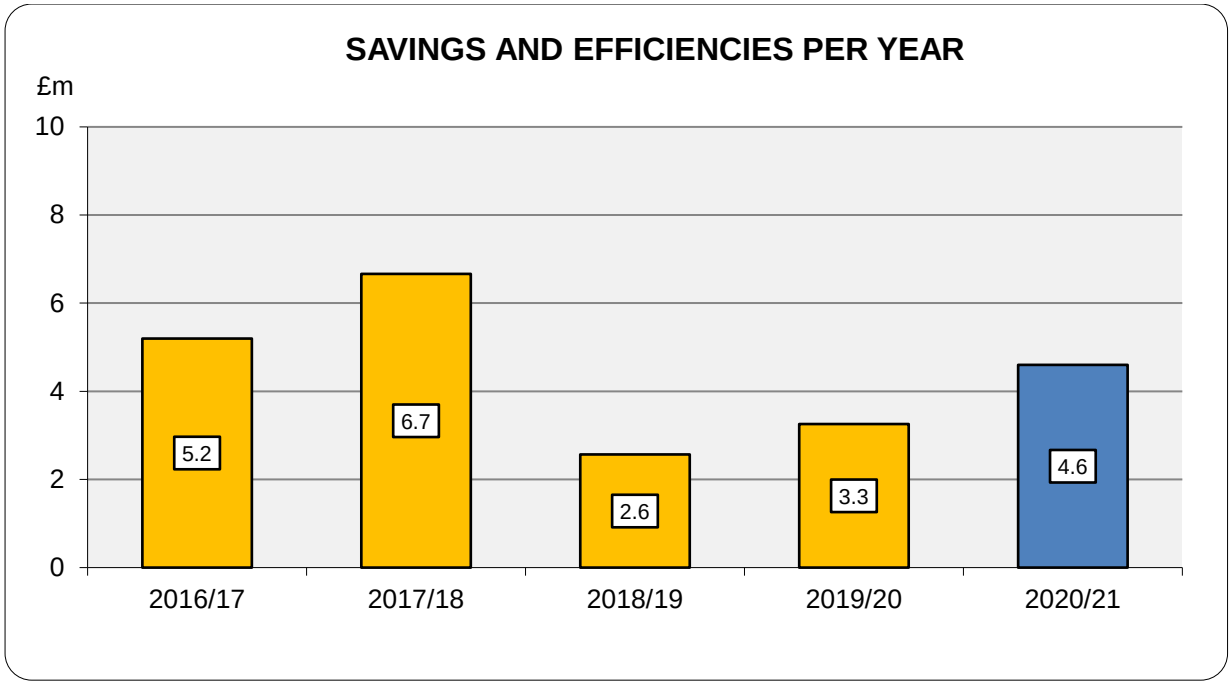
* OBR November 2019 forecast of 2020 Q1 RPI

Taken across a longer time period, as can be seen in the graph below, council tax increases (excluding Adult Social Care precept) have always 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.



Savings

The total savings, efficiencies and income generation that have been identified in setting the council tax in previous years are shown below. It equates to over £22.3m over the five years. Savings are used to fund growth, inflation and reductions in Government grants.



The savings shown above reflect the budgeted savings made for each financial year (or planned savings in the case of 2020/21).

7. Budget Pressures

An overview of the 2020/21 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).

	Inflation	Growth	Savings
Budget Pressures 2020/21 (£m)	£3.6m	£6.5m	(£4.6m)

This growth is largely driven by demographic pressures in adults' and children's services. The current outturn is showing further pressures in these areas including home-to-school transport.

8. Revenue Resources Outlook and Risks 2020/21 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 has been undertaken for 2020/21 and is detailed in the MTFP. This identifies budgets where there remains a risk of overspending. The budget risk analysis is used as a guide to determine the level of general fund balance 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 major issues that may impact on future revenue resources are:

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 2019/20 for agency care staffing, and increased home to school transport demand. The increase in the living wage to £8.72 per hour for those over 25 years old in 2020/21 from £8.21 in 2019/20 will continue to put additional pressure on care providers as they seek to retain staff and recover costs. The impact of the ruling that employees should be paid at least the minimum wage for "sleep-ins" (support during the night) has also impacted providers. Further increases in the living wage have been promised by Government which will continue to put pressure in this area. These pressures will need to be considered along with other budget pressures in the 2020/21 budget and beyond.

Spend Driven by Demand

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 pressures on 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 overnight support 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 2020/21 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.

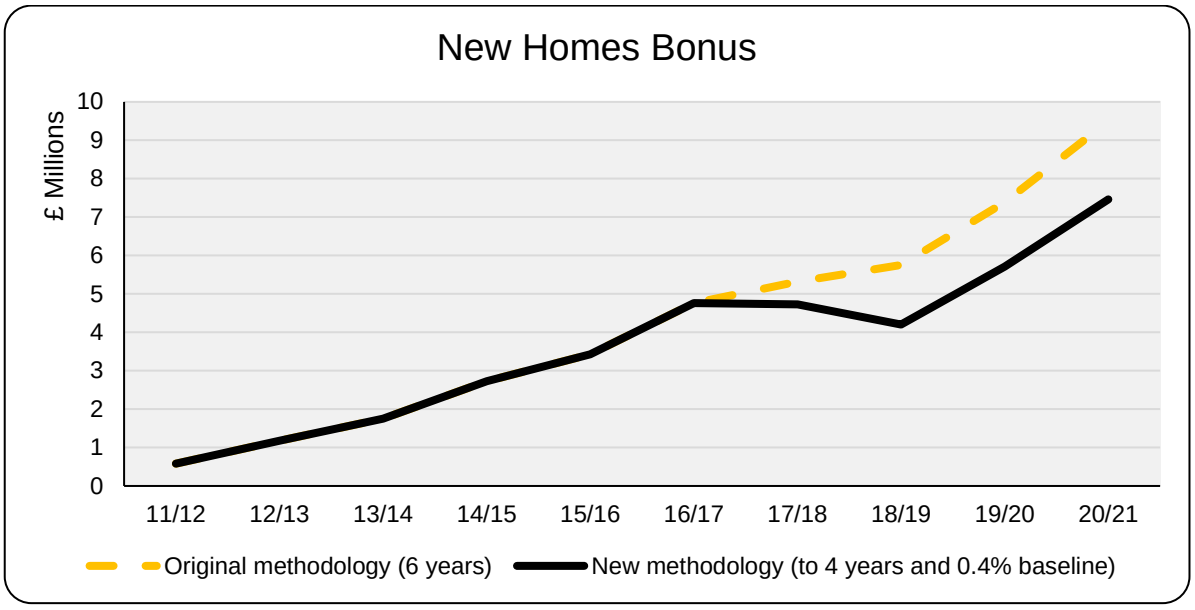
This also impacts on Adult Social Care budgets as these young people transition into adulthood.

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 substantial up front funding pending the receipt of developer contributions, house sales and income from commercial assets. As such the Council will meet the initial capital costs of investment which generates a sizeable funding pressure on the council's revenue account. Reserves have been established with the aim of mitigating this risk.

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 £7.5m in NHB in 2020/21, up from £5.7m NHB in 2019/20. 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. From 2020/21, Wokingham will be rewarded for 1 year only with legacy payments also being honoured, 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 previous years, independent forecasters are predicting growth of 1% for GDP. With average CPI inflation of 2.2% predicted in 2020, this remains above the Government's inflation target of 2% for CPI, caused by the devaluation of sterling, increasing the cost of imports. In addition, recent rises in global energy prices contributing to above target inflation. To help contain inflation and stimulate growth, the official bank rate has remained at 0.75% throughout 2019 with little movement expected during 2020.

Economic forecasting remains difficult with so many external influences weighing on the UK.

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. This is an area that will need to be kept under review, particularly in the context of the Brexit implications.

The Council has three designated Air Quality Management Areas (AQMAs) and are focused on improving air quality through the Council's 'My Journey Programme' which aims to promote active and alternative sustainable transport to reduce vehicle emissions which are the biggest causes of air quality problems in Wokingham Borough.

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, with the aim now is for authorities to retain 75% of business rates from 2021/22 (previously 20/21). The government invited local authorities to pilot 100% business rates retention from 2018/19 and pilot 75% from 2019/20, and WBC were successful in its application, resulting in additional one off funding to the authority over two years. The finance settlement announced that WBC would no longer continue to be in the pilot for 20/21 and would revert back to the current arrangements where central government receive 50% off additional growth. Due to the continued delays from Central Government, the future arrangements of business rates funding beyond 20/21 create a degree of uncertainty and risk, making longer term financial planning more difficult.

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).

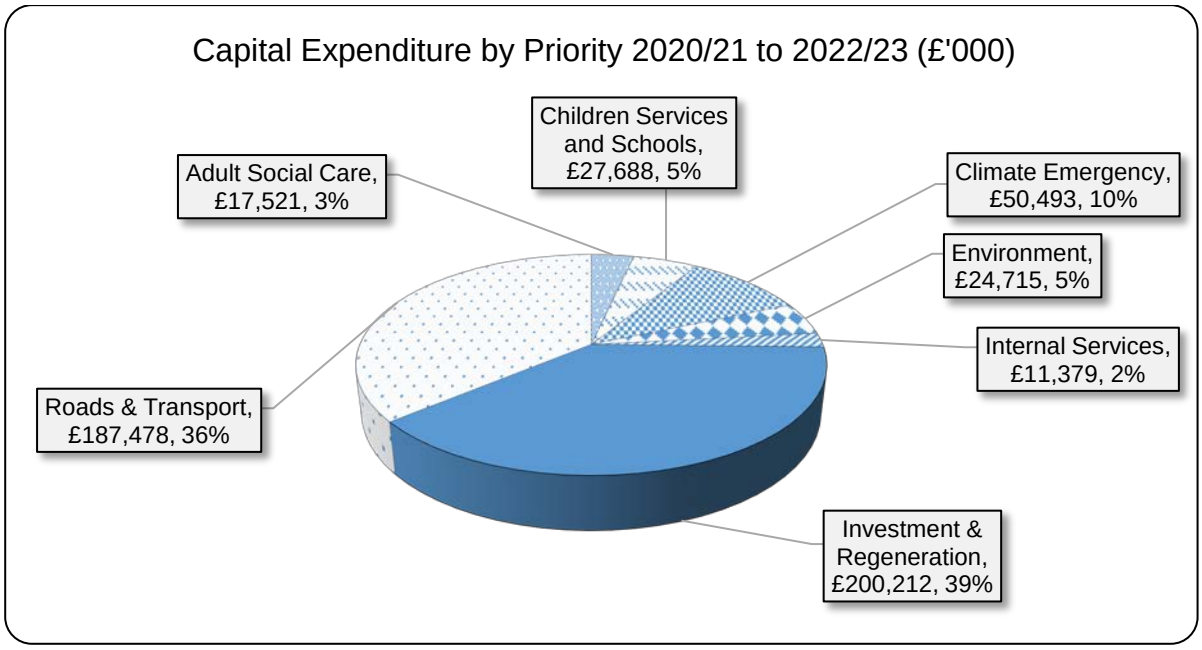
Under the prudential code, all authorities are able to borrow as much as they require to fund their capital programme provided it is affordable, prudent and sustainable. The financing costs of any new borrowing falls directly upon the council tax payer unless funded by income generation or developer contributions. 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.

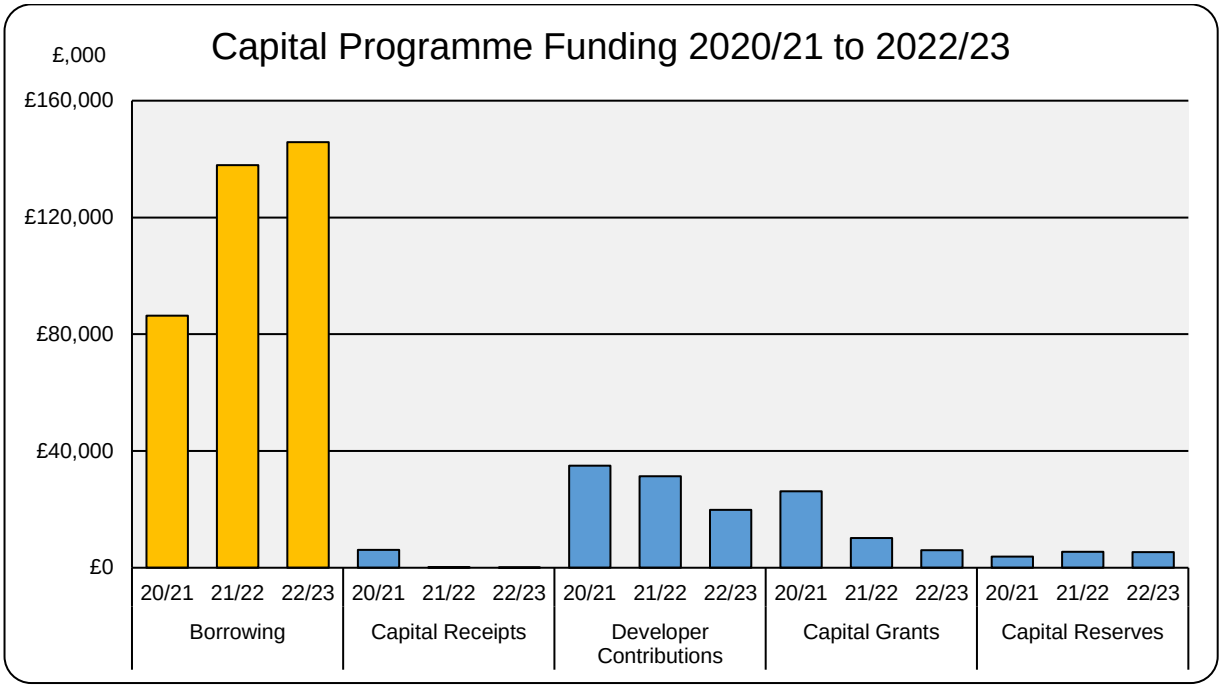
The capital programme over the next three years will include existing asset investment (predominantly school buildings and infrastructure assets) and schemes that seek to deliver the council's vision.

The graph below shows the capital expenditure planned for the next 3 years by Council priority.

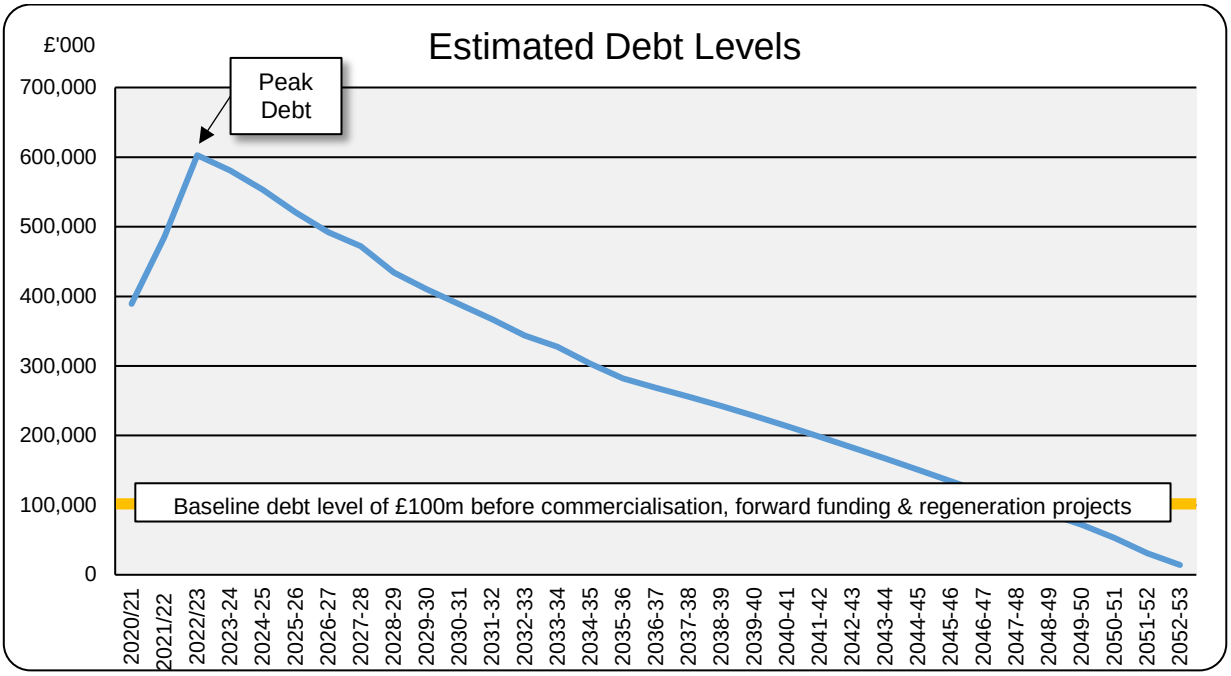


The capital programme is funded from a variety of sources: capital receipts, borrowing, grants and other contributions. The relative reliance on each funding source is set out below and shows a greater dependency on borrowing and developer contributions as the council embarks on its ambition to develop its four strategic development locations, regenerate the borough and reducing our impact on the climate.

The graph below shows how the capital programme will be funded over the next 3 years.



The following graph shows the estimated debt levels for the Council over the next 33 years. The initial increase in debt is driven by the Councils capital programme. Debt is then repaid over the next 30 years to bring debt levels back to a funded baseline level of approx. £100m (pre 2011/12 debt levels).



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 towards completion.

The new Peach Place square opened in spring 2019 with a great range of excellent national and independent businesses. Summer 2019 saw the opening of the new Aldi Foodstore at Elms Field, along with the new landscaped park and destination play area which have proved incredibly popular with the local community.

Winter 2019 saw the opening of the Premier Inn hotel along with the new Everyman Boutique Cinema at Elms Field and the completion of the wider works at Peach Place. New tenants have started moving into the Key Worker housing at Peach Place which aims to attract essential workers to the local area such as nurses, police officers and social workers.

Preparations to start work on building a new Leisure Centre and Library at Carnival progress well with a main contractor due to be appointed in spring 2020. Construction work is expected to start on site in summer 2020, following the opening of the new Bulmershe Leisure Centre in Woodley, with the new Carnival facility completed and opening in 2022.

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)

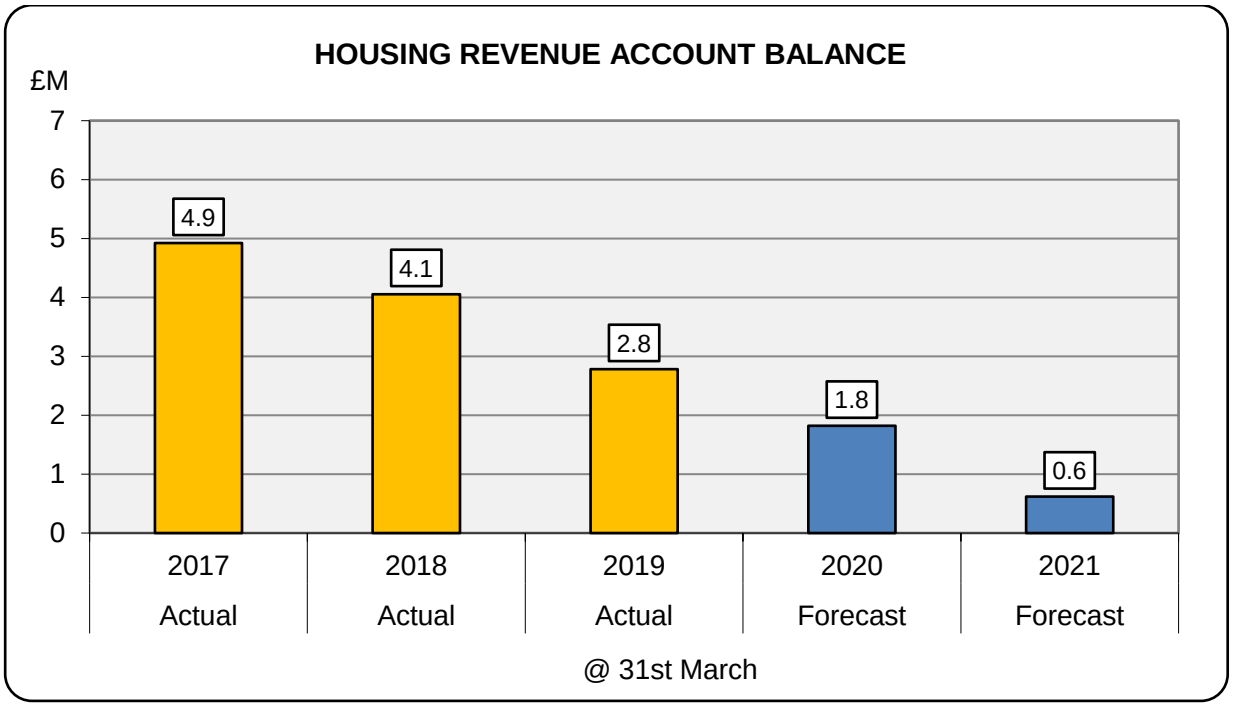
The HRA is a ring-fenced account and as such has no impact on the level of council tax. The money spent maintaining the council's housing stock (valued at approximately £202m) and providing a service to council tenants is mainly funded by housing rents paid by council tenants. Gross expenditure on the HRA is in the region of £17m 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. From 2020/21, rent increases will be in line with CPI + 1%. The real terms reduction in the HRA forecast rental income over the past 4 years 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.

	2016/17	2017/18	2018/19	2019/20	2020/21
Annual rent change (%)	-1%	-1%	-1%	-1%	2.7%

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 2020 and 2021.The estimated balance at 31 March 2020 will be used to part fund capital expenditure in 2020/21 and later years, and to maintain a prudent level of reserves.

The reduction in reserves is caused as a result of the rent reductions over the 4 years between 2016 and 2019. This has reduced the income available to the HRA whilst expenditure and debt repayments have maintained at pre rent reduction levels. This has led to the need to use HRA reserves to fund expenditure. HRA rent income is expected to increase under current Government policy meaning future HRA reserves are expected to increase to approximately £1m.

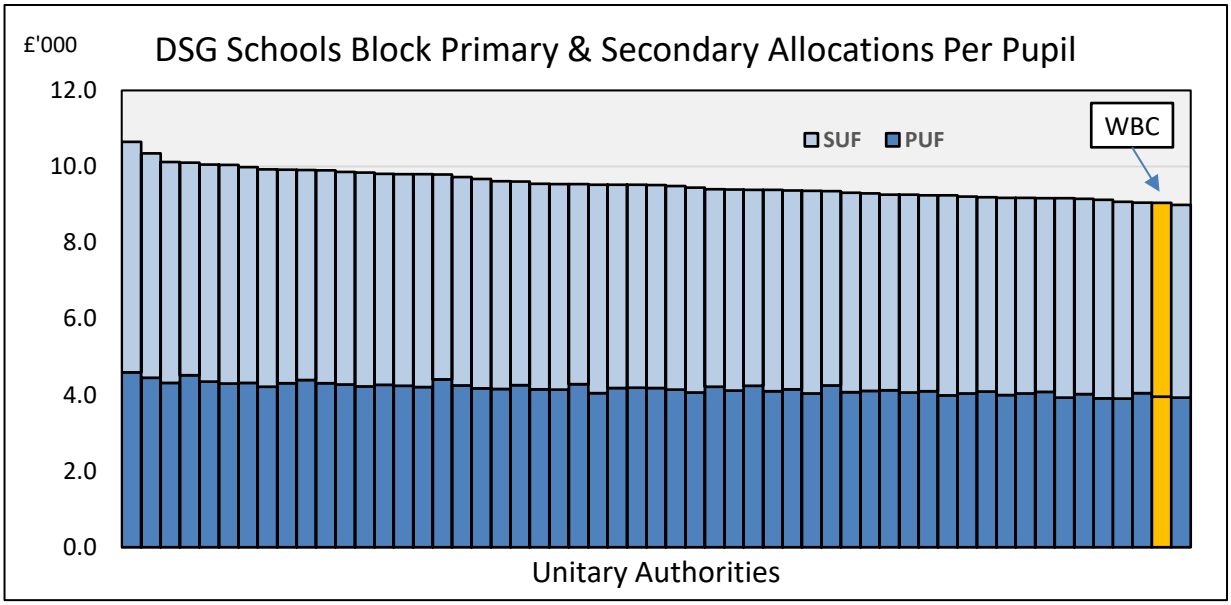
Schools

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 2020/21 was notified to the authority by the Department for Education (DfE) in December 2019, 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 2020/21 is £142.74m, compared to £134.68m in 2019/20. The increase to 2020/21 is accounted for by increased funding on both two unit costs, one for primary unit cost (PUF) and one for secondary unit cost (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 2020/21 PUF is £3,954 and SUF is £5,093 estimated per pupil compared to £3,770 (PUF) and £4,887 (SUF) in 2019/20. Wokingham remains to receive one of the lowest funding amounts of all unitary authorities.



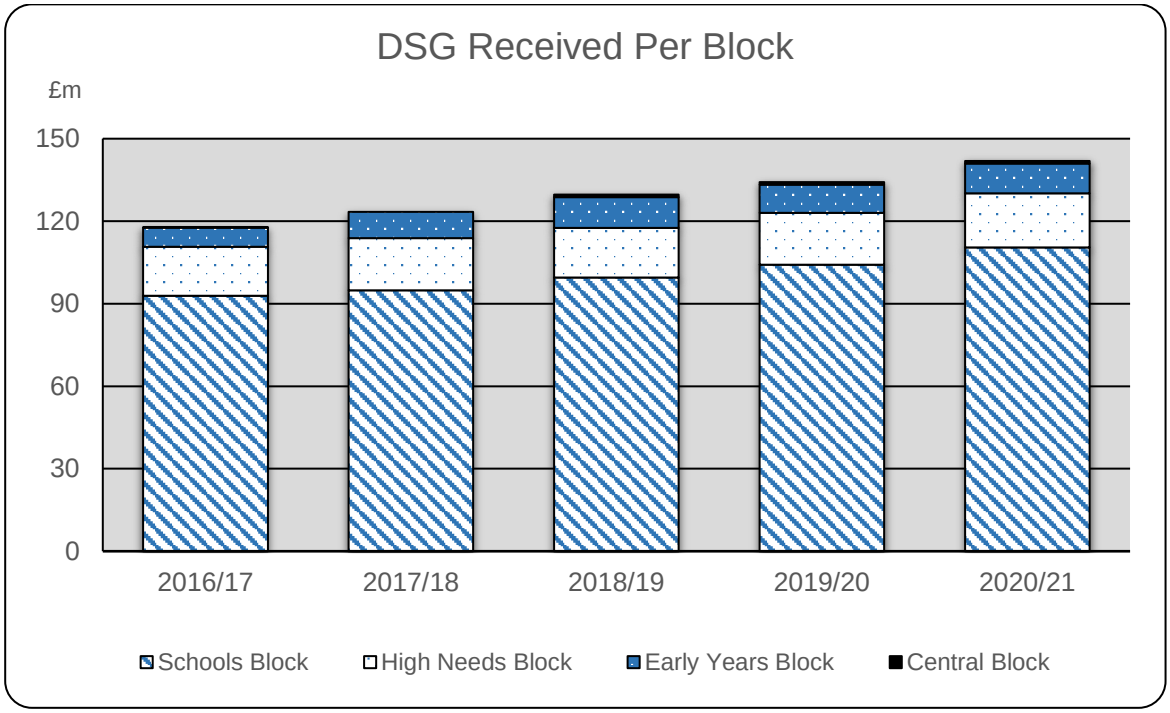
DSG and the national funding formula

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 any school. 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 SEND 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.

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. 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
(and Chief Financial Officer)

12. 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**

This page is intentionally left blank