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 is intended to discharge this responsibility and provides a strategic overview of the Council’s financial position as a context before making specific considerations on the 2021/22 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 Council’s aims and objectives. To enhance transparency and budget setting engagement, this year’s process has again included consultation with the Community & Corporate Overview & Scrutiny Committee (CCOSC). Information provided at CCOSC is also available to the Public.

A robust budget must be a balanced budget whereby total expenditure and total income match. Any change in the annual budget in relation to spend pressures must be balanced by service efficiencies and where appropriate council tax increases.

2. The financial standing of the Council

Heading into the 2021/22 financial year, the financial standing of the Council remains robust. Achieved through good financial management, the Council has built up financial resilience and sustainability, despite years of austerity from Central Government funding.

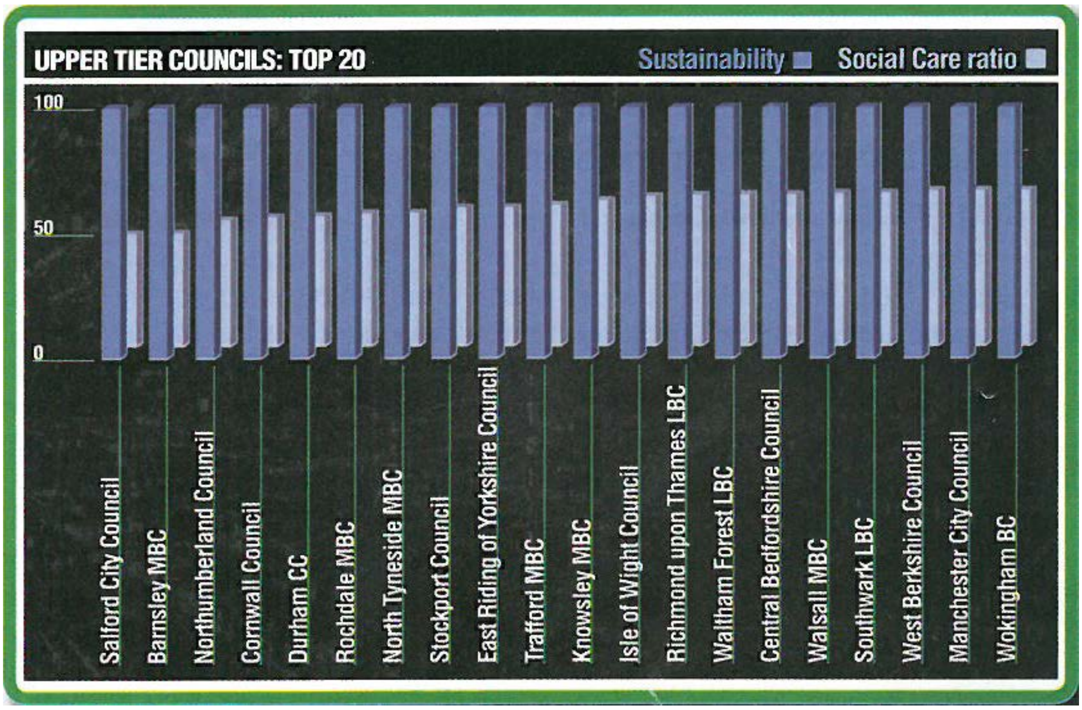
Following the start of the Covid-19 pandemic, the Council have reacted quickly to enhance financial management during the crisis. The Council’s finance staff are working closely with Directors to challenge and update forecasts based on a continually changing rationale.

This includes;

- Ensure there is clarity with regards to genuine expenditure decisions with regard to Covid 19 related spend (as opposed to the necessity to discharge our statutory responsibilities).
- Seek to maximise opportunities to deliver on MTFP savings plans, recognising that staff remain significantly diverted to the Response phase.
- Explore reduced expenditure opportunities arising as a result of Covid-19 or otherwise, including a review of Special Items.
- Maintain a weekly financial review of the Covid-19 impact including collection rates and Direct Debit failure rates on major income streams.
- Initiate an early MTFP review process tailored to identify areas of relative financial certainty and high-risk areas of greater ambiguity.
- Review non-General Fund balances to assess risks and potential options to transfer balances to the General Fund reserve (if the General Fund position becomes perilously low).
- Continue to make representations for additional funding through Government Returns, Regional Conference calls and MPs.

CIPFA Resilience Index

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 (measured by ability to maintain reserve balances), 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). Also included in the graph is the social care ratio which shows how much of the annual spend is linked to social care which is seen by CIPFA as an area of financial risk for all local authorities.



Source – The MJ – 9th January 2020

3. How Council services are funded?

Council services can be broken down across 4 key financial areas known as;

- Revenue (also known as General Fund) – expenditure in providing day to day services.
- Capital – expenditure in assets that generate economic benefits greater than one year.
- Housing Revenue Account (HRA) – ringfenced expenditure across the local authority housing stock.
- Dedicated Schools Grant (DSG) – ringfenced expenditure across maintained schools, early years and high needs services.

Revenue (General Fund)

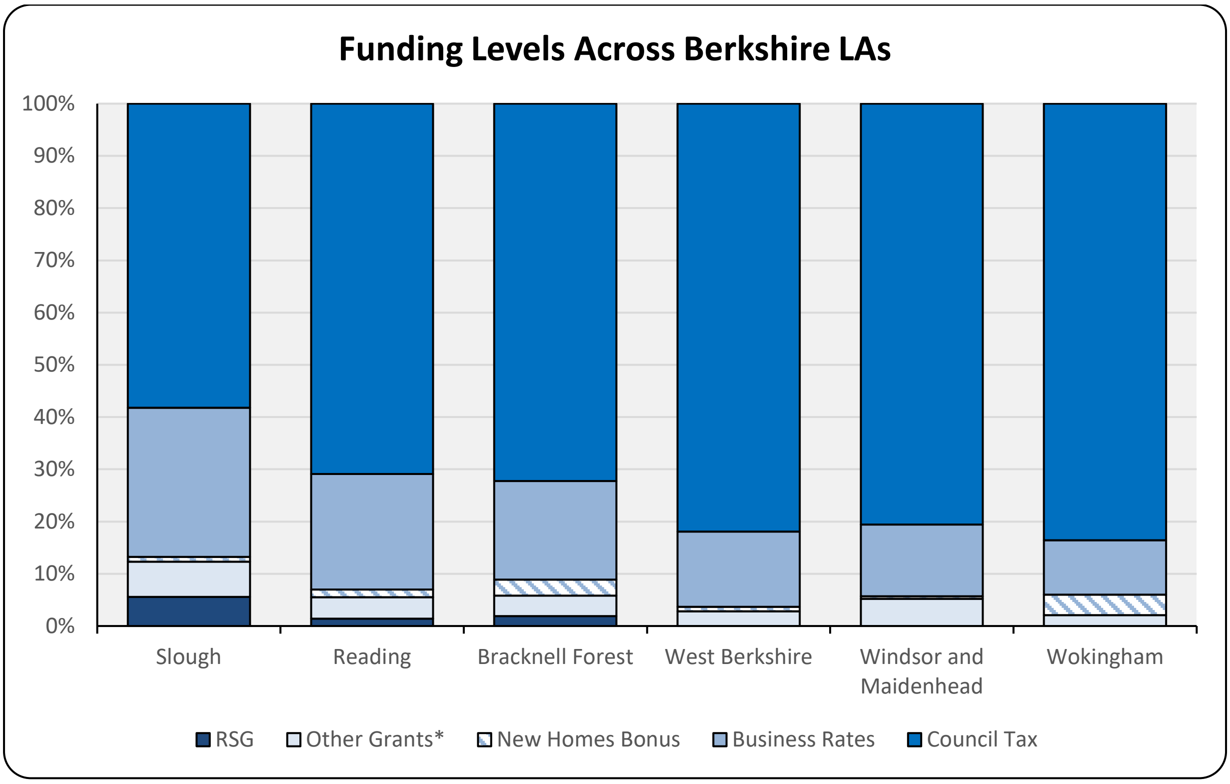
Expenditure in relation to providing the day to day services of the Council is referred to as revenue spend. Further information on where this money is spent is highlighted throughout the Medium Term Financial Plan. Funding of this revenue expenditure is determined through the local government finance settlement and consists of;

- Settlement Funding Assessment (SFA);
    - Revenue Support Grant (RSG)
    - Retained Business Rates
- Council Tax
- New Homes Bonus

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. Due to Covid -19, this funding review has been delayed by a further year to 2022/23, meaning the local government finance settlement 2021/22 is for one year only as opposed to a four-year funding settlement. 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 2022/23 and 2023/24, but with government money being allocated to ring-fenced departments (e.g. 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 2021-2024 medium term financial plan.

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 deemed in the finance settlement to have the majority funded by its council taxpayers. Whilst the average unitary authorities receive revenue support grant and retained business rates to fund around 32% of their service costs, Wokingham receive only 10%.

The graph below highlights the imbalance of funding requirements across the 6 Berkshire authorities. Based on the core spending assumptions from central government in the finance settlement, Wokingham has the majority of funding expected to come from council tax as opposed to Slough for example, who receive more revenue support grant and can retain more business rates funding.

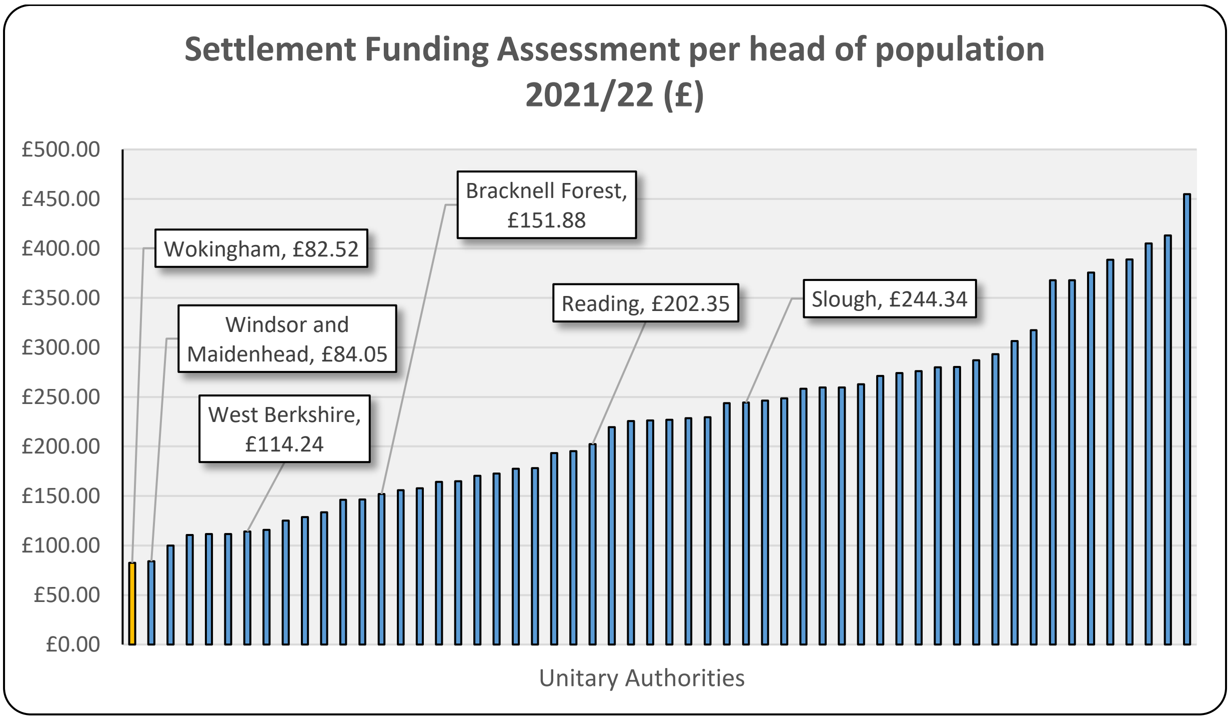


Settlement Funding Assessment (SFA)

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 remain at £14.1m in 2021/22, compared to £19.1m in 2016/17, a reduction of 26.2%, or £5.0m. Wokingham's SFA has remained close to £14.1m since 2017/18 after the reduction in 2016/17. This means our baseline funding level and therefore retained business rates have not seen any inflationary increases.

The graph below shows the position for 2021/22 in terms of SFA funding per head of population 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:



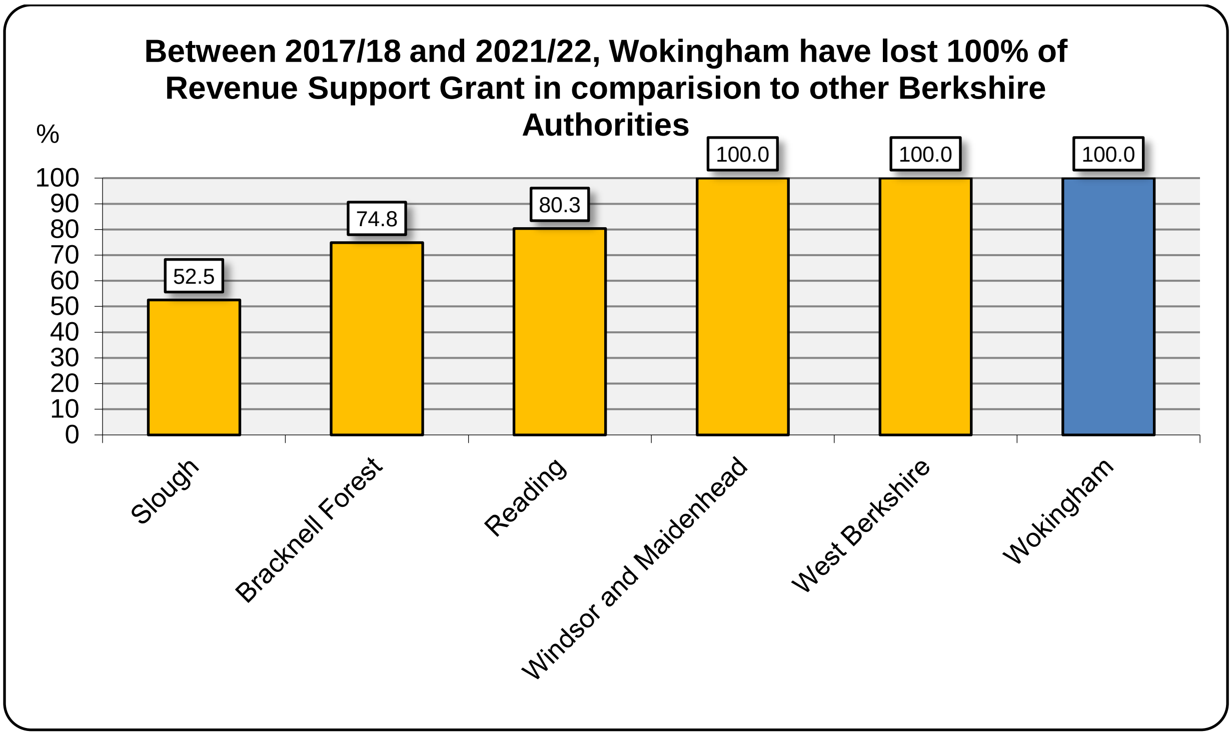
Wokingham will receive the SFA per head of £82.52, which is significantly lower than the unitary authorities' average. It is also less than half the funding of two of the Berkshire authorities.

Revenue Support Grant (RSG)

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) with Wokingham faces reductions in grant yearly and the complete removal of this grant since 2018/19.

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 2021/22 (similar to 2020/21). The funding position is unclear from 2022/23 onwards and Wokingham will need to continue to make representations regarding the new methodology for financing local authorities to ensure we secure a fair and viable ongoing funding settlement from the Government.

The graph below compares the RSG reductions by 2021/22 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.

Retained Business Rates

As mentioned above, the other element of the SFA is business rates. The SFA sets a baseline funding level for retained business rates (£14.1m for 2021/22). For 2021/22, similar to 2020/21, Wokingham will be able to retain 74% of business rates with the Government receiving 25% and Berkshire Fire Authority 1%. Due the governments assessment of what funding the Council needs to deliver services, a tariff payment is then applied against the 74% business rate income we receive thus bringing retained business rates to approx. 20% of what we collect. Due to the continued delays from Central Government, the future arrangements of business rates funding beyond 21/22 create a degree of uncertainty and risk, making longer term financial planning more difficult.

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 because a high proportion of the Council’s services are statutory with escalating costs driven by increasing client needs and numbers.

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. For 2018/19 and 2019/20 an exception was given where the referendum cap was increased to under 3%. Since 2020/21, this additional flexibility has been removed with increases reducing back to the 2% cap before a local referendum is required.

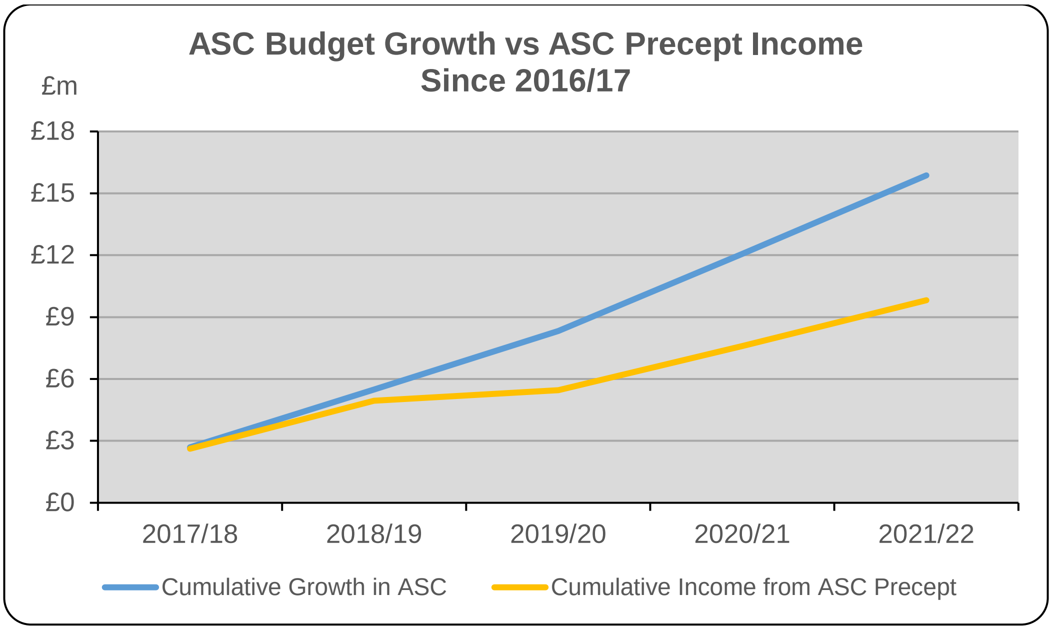
The expenditure pressures for council tax increases above inflation are similar each year: client increases (particularly in social care); increase in statutory requirements (e.g. recycling, standards of care); unavoidable expenditure increases above inflation (e.g. maintenance contracts, social care contracts, etc.) and pressures to improve services from both the public and the Government. Since 2016/17 the increases have exceeded the inflation level, but this is due to the government's calculations which assume both inflationary increases to council tax and an additional adult social care increase to council tax.

Adult Social Care (ASC) Council Tax Precept

The Government's continued aim is 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 continues to be delayed.

In recognition of the continually increasing statutory care costs faced by local authorities an ASC council tax precept of up to 3% has been introduced to cover a two-year period for 2021/22 and 2022/23 replacing the previous scheme that permitted a 2% increase in 20/21 and prior to this a 6% increase over a 3-year period. It is unknown what will be in place beyond 21/22 but this will no doubt be a key consideration in any future sustainable Local Government funding system.

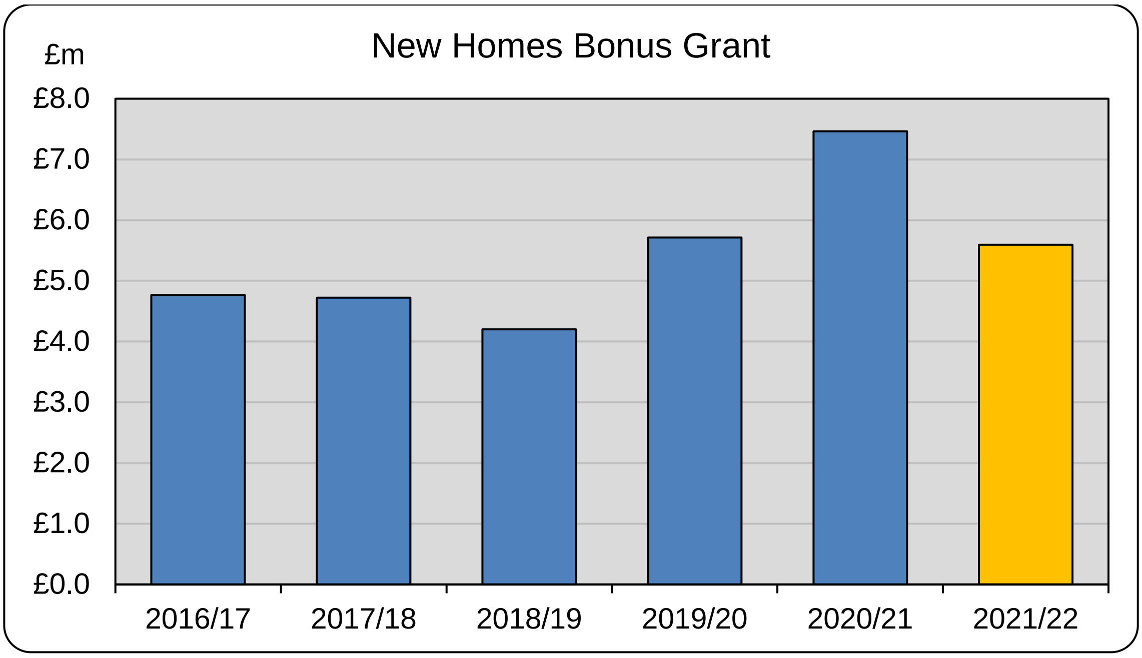
The graph below compares the annual budget growth and inflation demands in adult social care services and the additional funding that is raised through the adult social care council tax precept. Adult social care growth continues to increase above inflation due to an increasing ageing population, more complex care requirements and unit cost increases driven by national living wage increases for example. The difference is funded through service efficiencies and general council tax increases.



New Homes Bonus (NHB)

New homes bonus (NHB) is a unringfenced grant awarded to local authorities based on how many new homes have been delivered. The intention of the grant was to encourage housing growth across the country. The calculation mechanism has changed over the years since it was introduced with much less reward for additional house building now. The Autumn Statement 2015 proposed changes to the NHB which made the scheme less attractive for Wokingham by reducing the length of payments from six years to four. From 2021/22, 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.

The Council is now set to receive £5.6m in NHB in 2021/22, down from £7.5m NHB in 2020/21. The graph below shows the amount of new homes bonus received.

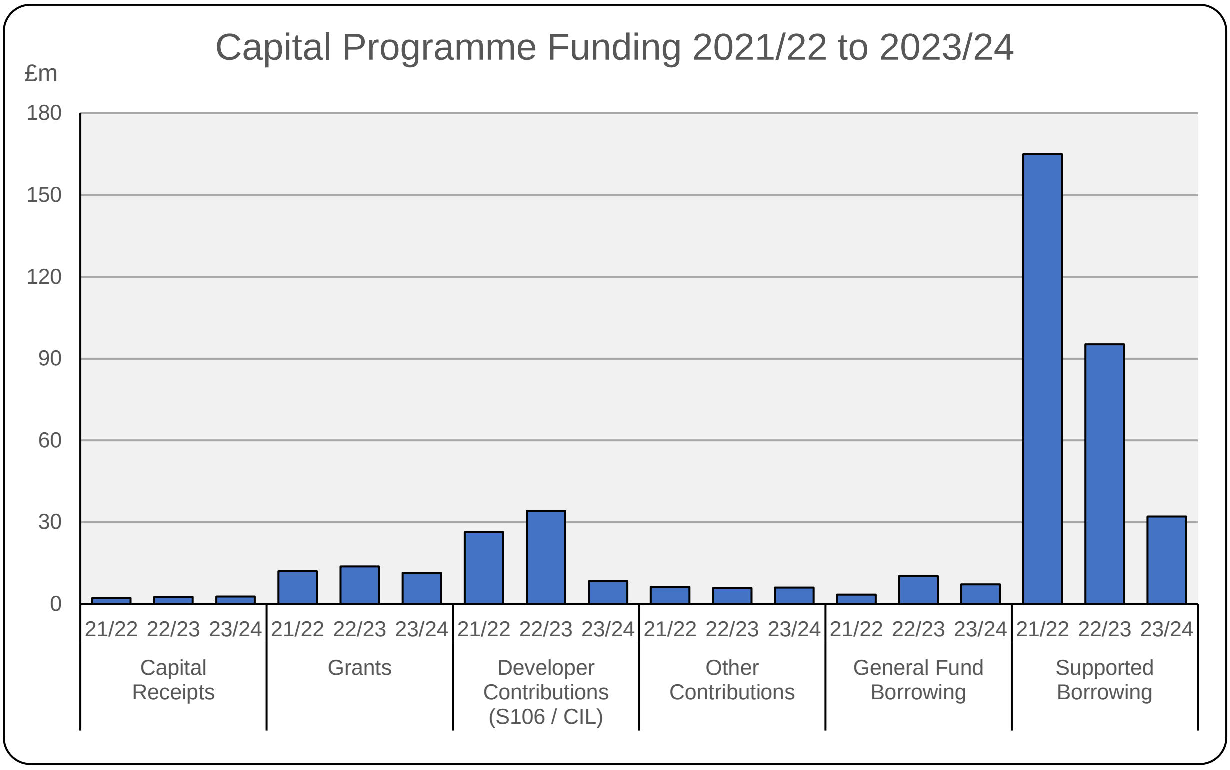


Capital

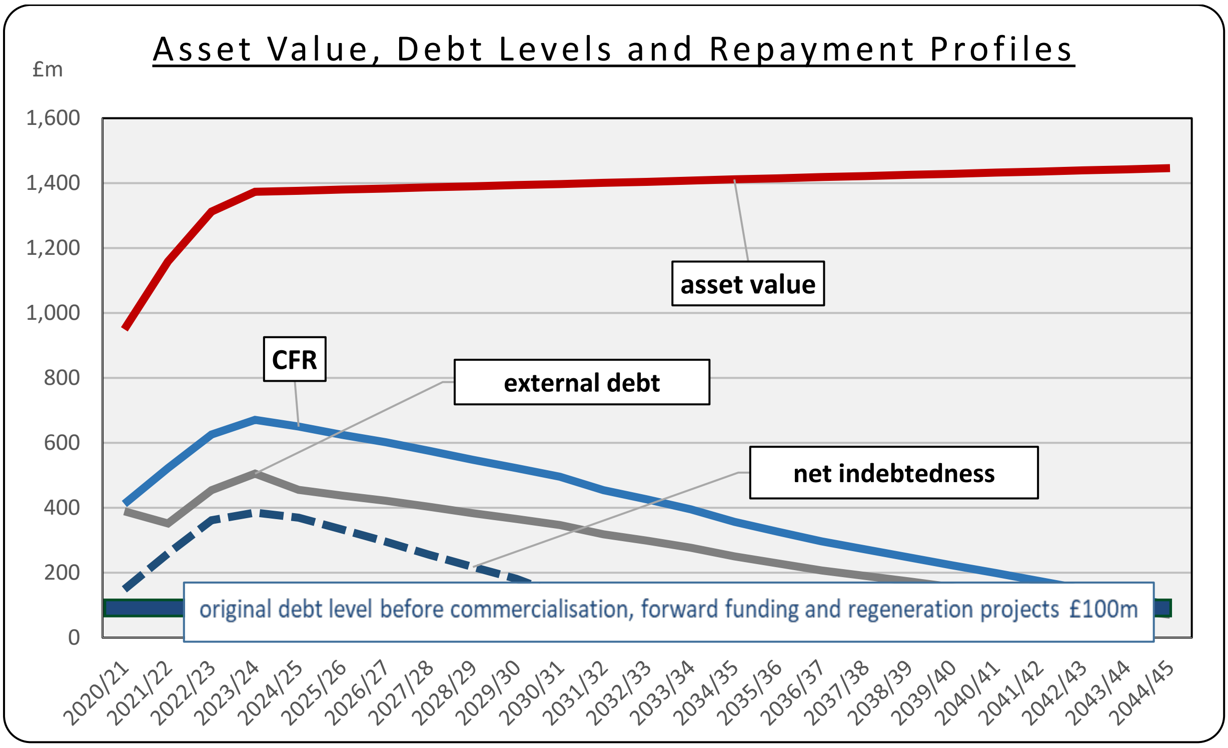
To finance the capital strategy, an approach to funding has been taken that: optimises assets; seeks flexible use of future section 106 contributions and Community Infrastructure Levy (CIL); and attracts new funding sources where available (particularly through the bidding for Government grants).

Under the prudential code, all authorities can borrow as much as they require to fund their capital programme provided it is affordable, prudent, and sustainable. A large proportion of Council borrowing is deemed as "supported" borrowing which means there is a direct repayment method identified meaning the cost of borrowing does not impact on the council taxpayer. These include investment to generate future cost reductions / income generation and forward funded investment to be recovered from developer contributions.

The graph below shows how the capital programme will be funded over the next 3 years. The major funding source will be supported borrowing which relates to borrowing upfront where a direct repayment source has been identified whereas general fund borrowing is funded through existing revenue base budget.



As the Council continue to borrow, over the short to medium term period debt levels will increase. The level of debt is considered affordable and sustainable as required by the CIPFA prudential code. All capital projects are supported by detailed business cases which include where appropriate how supported borrowing will be repaid. The following graph shows the estimated general fund debt levels (excludes Housing Revenue Account due to ringfenced nature) for the Council over the medium to long period. The initial increase in debt is driven by the Council's capital programme but then debt is repaid over the next 20 to 25 years to bring debt levels back to a funded baseline level of approx. £100m (pre 2011/12 debt levels).



It is important to note that the CFR balance does not reflect the level of debt the Council holds. Where the Council hold surplus balances such as reserves, unspent grants and working capital, this avoids the need to borrow externally saving on interest costs. This is known as internal borrowing. Furthermore, it is important to take into account any treasury investment balances when looking at external debt to understand a more accurate debt figure.

The table below sets out the annual cost of serving this borrowing and the income generated through the assets which have been borrowed for. Over the next three years, the income generated from these assets will give an increasing net benefit to the taxpayer.

	2021/22	2022/23	2023/24
Net Annual Benefit £m	£1.0m	£3.9m	£4.7m
Divide by Council Tax Base (no. of band D equivalent properties)	73,297.1	74,030.1	74,770.4
Benefit per band D property - £	**£13.64**	**£52.68**	**£62.86**

Further information on the funding of the capital programme is set out in the Capital Strategy and the Treasury Management Strategy.

Housing Revenue Account (HRA)

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 regarding 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	2021/22
Annual rent change (%)	-1%	-1%	-1%	-1%	2.7%	1.5%

The main funding sources for the HRA revenue is rental income and is expected to be in the region of £15m is for 2021/22.

For capital spend, this is funded from the major repairs reserve, right to buy receipts and borrowing. Under accounting rules, an amount equal to the depreciation charge is transferred from the HRA revenue reserve into the major repairs reserve to contribute towards capital expenditure.

Dedicated Schools Grant (DSG)

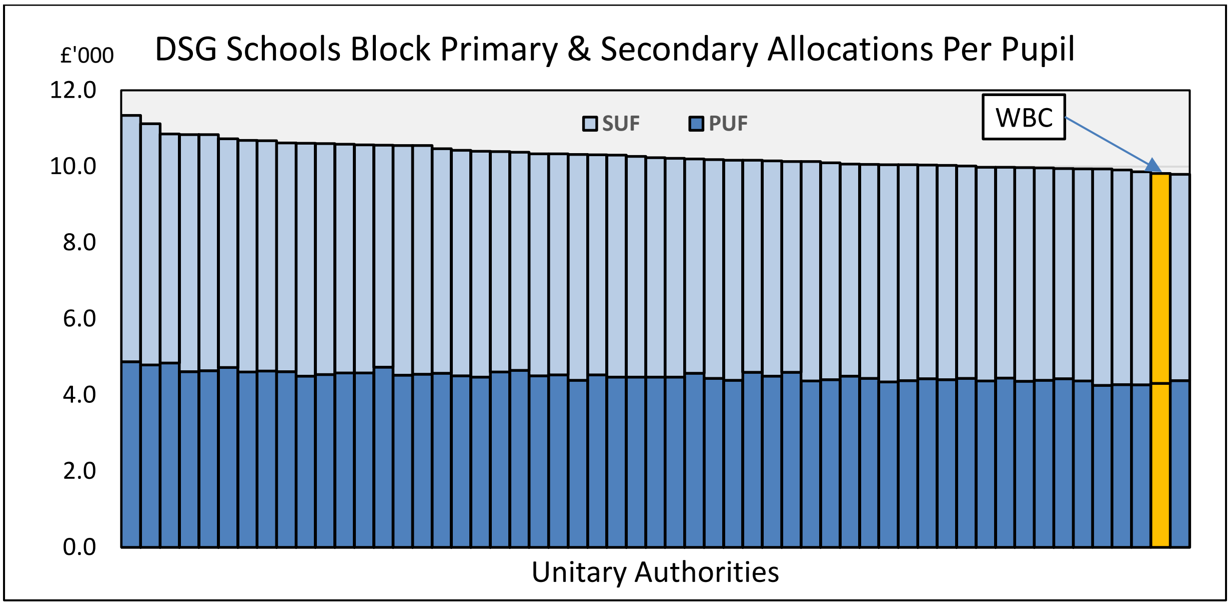
The Council receives DSG annually from the DfE and it must be used in support of the schools' budget as defined in the Early Years and Schools Finance (England) Regulations 2018. The purpose of the schools' budget is defined in legislation as the provision of primary and secondary education.

The amount for 2021/22 was notified to the authority by the Department for Education (DfE) in December 2020. 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 2021/22 is £158.13m, compared to £143.12m in 2020/21. The increase to 2021/22 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.

Across the four blocks in the DSG, funding has increased for 2021/22. This much need funding increase is welcomed by the Council and all of our schools and will help contribute to the day-to-day funding of services.

Block	2020/21 £,000	2021/22 £,000	Change £,000	Change %
Schools Block	110,496	123,079	12,583	+11.4%
High Needs Block	20,522	22,802	2,280	+11.1%
Early Years Block	11,169	11,302	133	+1.2%
Central School Services Block	937	945	8	+0.9%

The actual 2021/22 PUF is £4,306 and SUF is £5,512 estimated per pupil compared to £3,954 (PUF) and £5,093 (SUF) in 2020/21. Wokingham continues 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 are 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 2020/21 and 2021/22 financial years, schools will continue to be funded through the local authority funding formula. From 2022/23, the Government proposes to introduce the National Fair Funding formula and the DfE have confirmed they will consult on national funding formula during 2021.

4. Council Expenditure

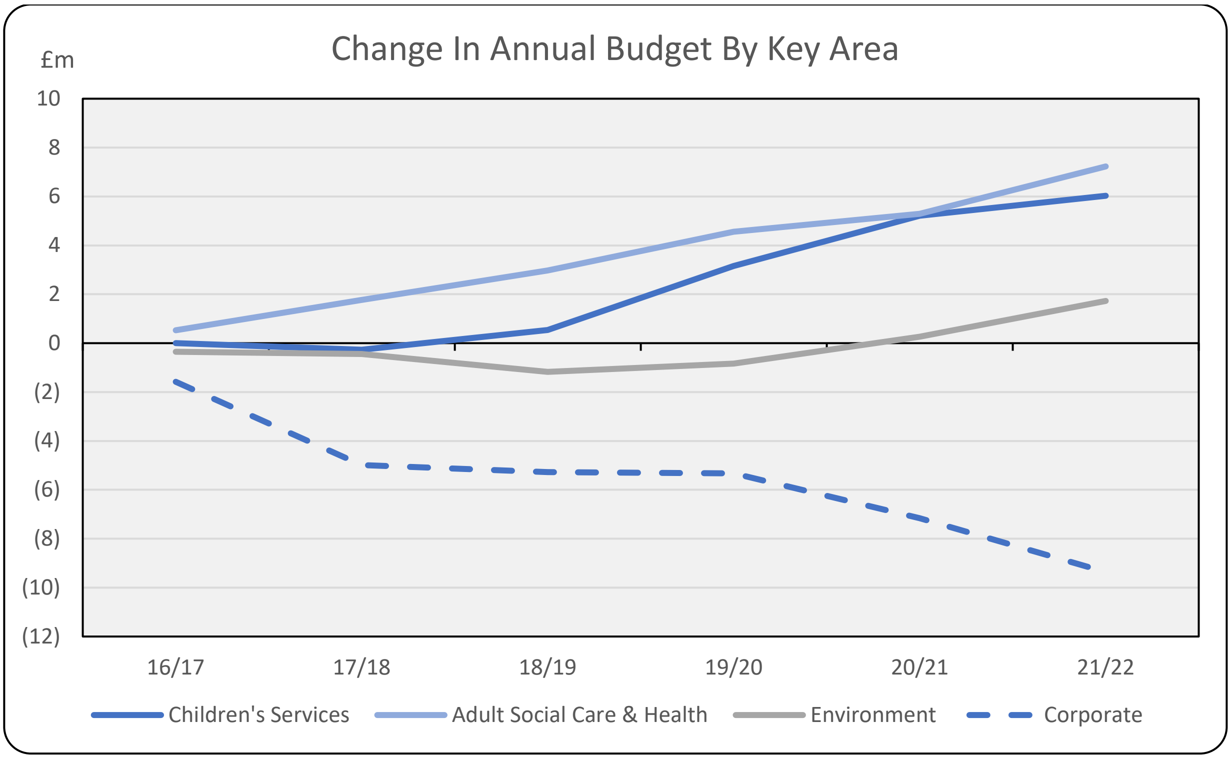
For 21/22, the Council are planning to spend in the region of £600 million across revenue, capital, housing revenue account and dedicated school grants services.

Revenue

Revenue expenditure covers the day to day running of services across the Council. For 21/22, the Council will spend approximately £200m across these services. This is known as gross expenditure. Service specific grants and income will reduce this spend to a net expenditure in the region of £132m.

Across the many varied and complex services, the Council provide, there will be pressures and risks aswell as efficiencies and opportunities. The budget process aims to capture these to ensure the budget set is prudent and robust.

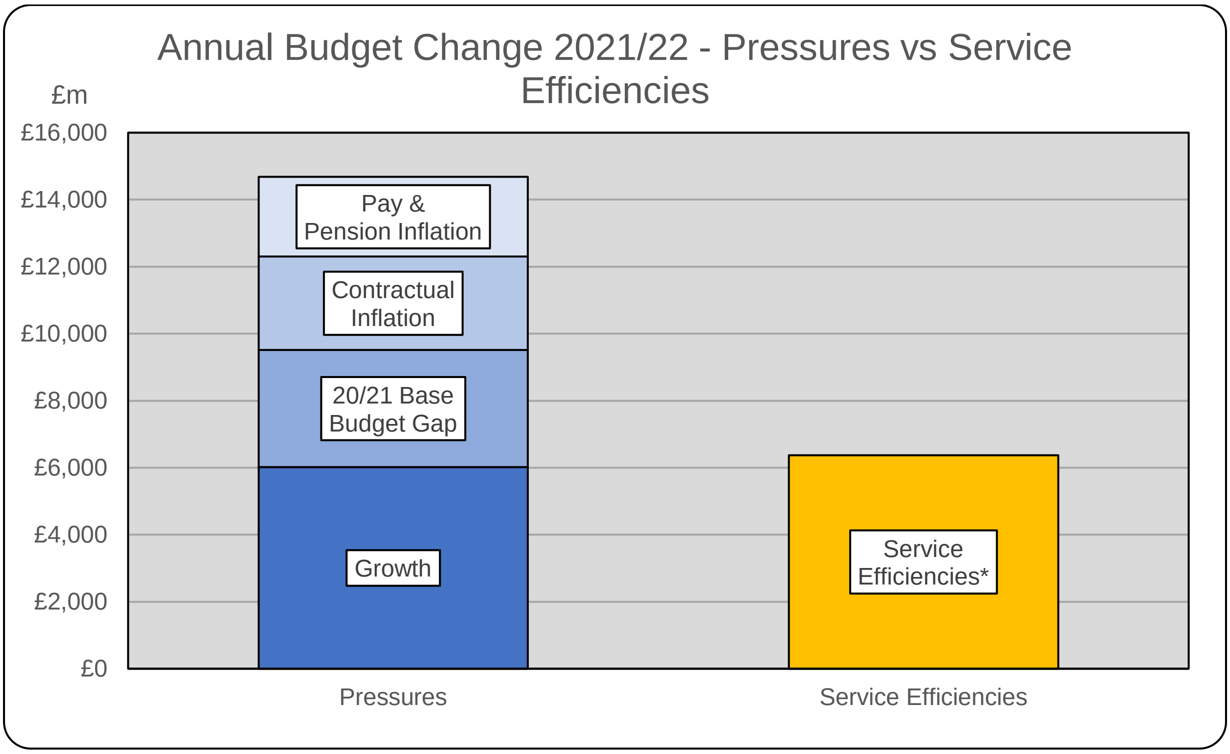
The graph below shows the cumulative change in annual budget across four key areas of Children's Services, Adult Social Care & Health, Environment (known as place & growth directorate) and Corporate services (known as resources & assets directorate). Whilst the graph shows cost pressures across the social care areas, the Council have managed to offset many of these through efficiencies and income generation within Corporate services.



Note – graph excludes Communities, insight and change (CIC) directorate as newly formed in 20/21.

A robust budget must be a balanced budget whereby total expenditure and total income match. Any change in the annual budget in relation to spend pressures must be balanced by service efficiencies and where appropriate council tax increases.

The annual change in budget is shown below. For 2021/22, the total pressures outweigh the service efficiencies. The difference will be required to be funded via council tax rises. The detail budget changes have formed part of the information provided to CCOSC throughout the budget process.

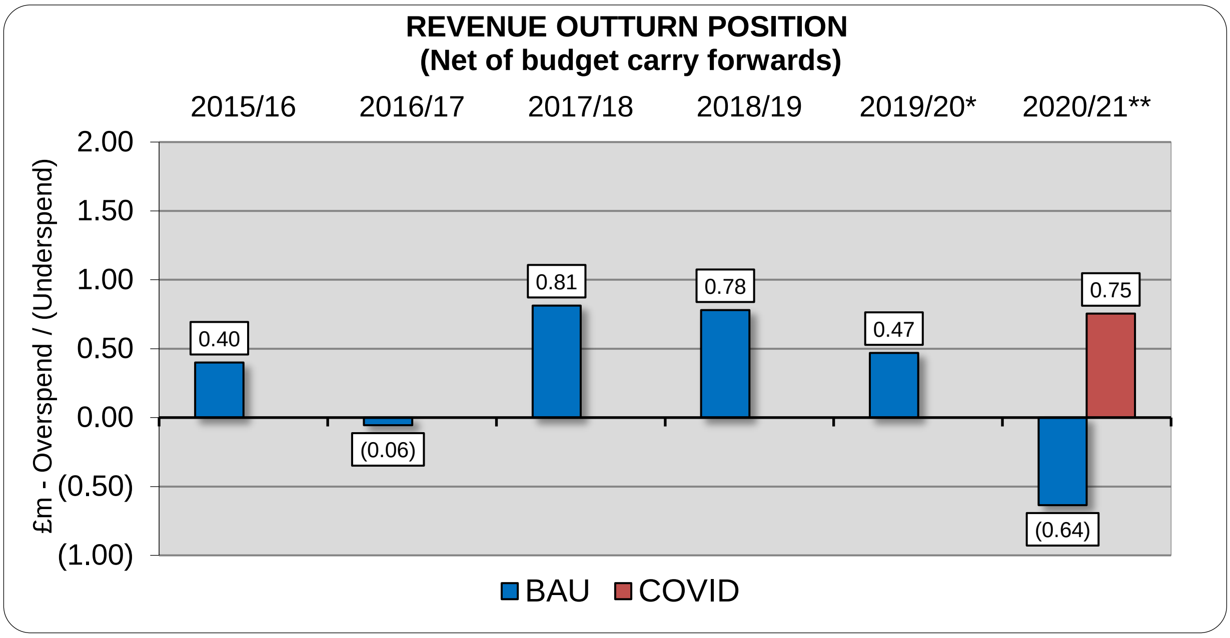


* Service Efficiencies are designed to reduce costs whilst maintaining services to the public.

Revenue monitoring position

Over the past number of financial years, the Council have faced a number of demand led pressures in year. These underlying pressures are considered as part of the budget process. The forecast budget variance in 2021/22 currently shows a combined overspend of £0.12m from business as usual (BAU) budgets (£0.64m savings) and impact of Covid-19 (£0.75m pressure) compared to the budget approved in February 2020, based on December 2020 monitoring.

The graph below shows an improving trend in reducing the demand led pressures through in year management action plans aswell as addressing pressures when setting the following year budget. This strong financial management has allowed the Council to meet demands whilst maintain prudent reserve balances. 2020/21 has been a unique year in which Covid-19 has brought upon extra pressure not expected. The Council continue to lobby for additional funding to cover the financial impact from Covid-19.

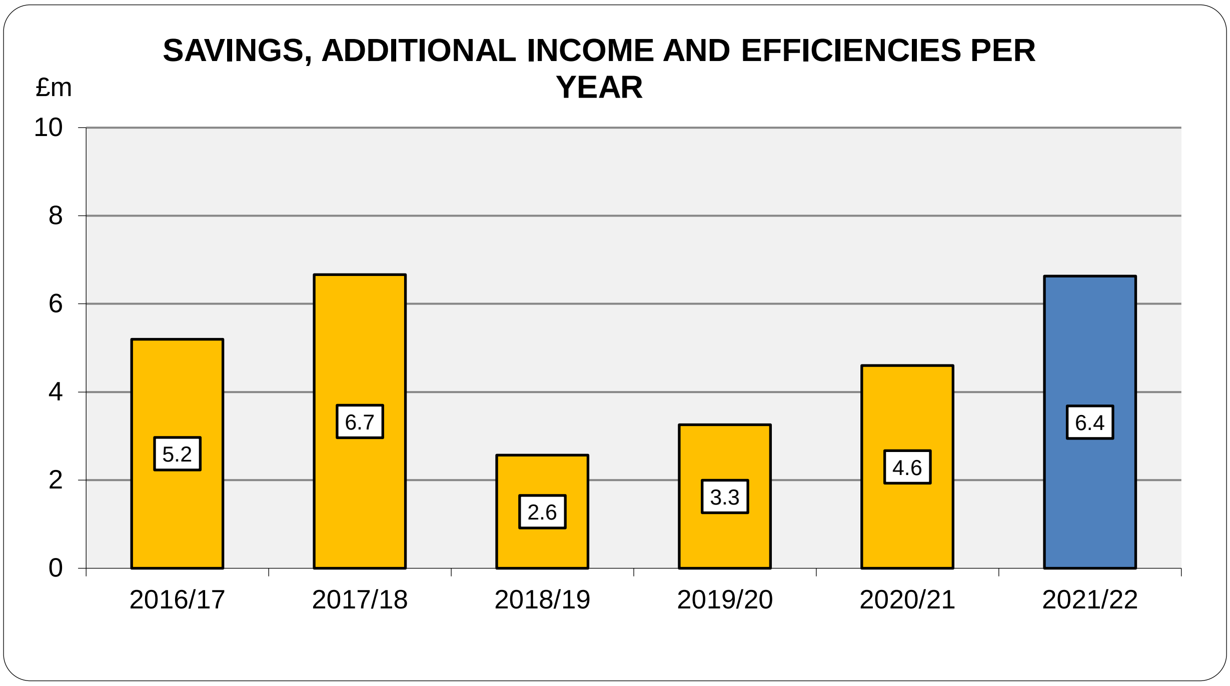


Further information is available in the quarterly revenue monitoring reports reported to Executive and available on the Councils website.

Service Efficiencies

As highlighted in the graph in the introduction of this report, efficiencies and income generation are required to meet the changing pressures in growth, inflation, and demand for services.

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 £28.8m over the six years. Efficiencies are used to fund growth, inflation and reductions in Government grants whilst allowing the Council to maintain frontline services.



The savings shown above reflect the budgeted savings made for each financial year (or planned savings in the case of 2021/22).

Net Expenditure over time

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 £34.9m (33%) between 2010/11 and 2021/22 meaning the Council are delivering services more cost effectively.

	£m
WBC 2021/22 net expenditure budget	131.5
Less reduction in grants for services now part of formula grant	(12.5)
Less discount re inflation since 2010/11 (based on CPI)	(31.6)
Less discount re growth in council tax base since 2010/11	(17.0)
Net expenditure budget 2021/22 discounted to 2010/11 Prices (a)	**70.3**
WBC 2010/11 net expenditure budget (b)	**105.2**
Reduction in expenditure since 2010/11 (b – a)	**£34.9m (33%)**

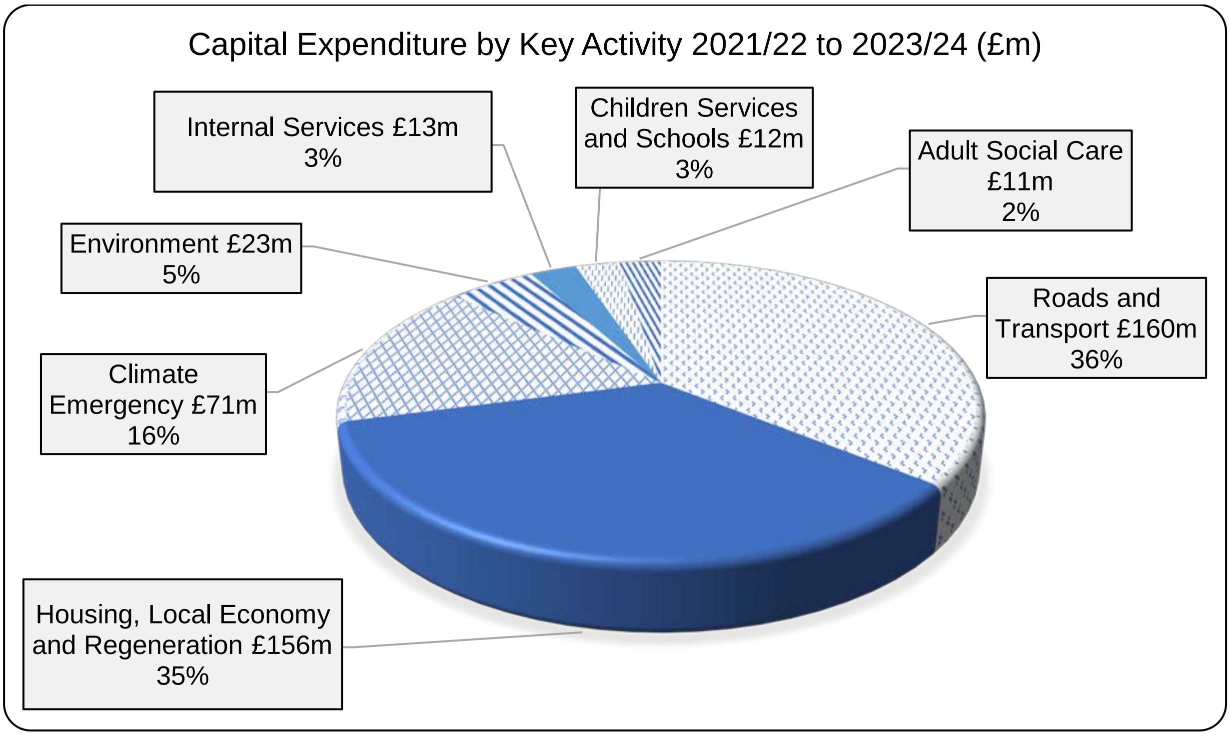
Capital

A five-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.

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 key activity area. In total the Council plan to invest £446m over the next 3 years.



As highlighted above, significant investment is planned across roads and transport, housing, local economy, and regeneration.

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 reduce our impact on the climate.

Housing Revenue Account

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 £223m) and providing a service to Council tenants is mainly funded by housing rents paid by Council tenants. Gross revenue expenditure on the HRA is in the region of £16m per year and is predominately in the areas of;

- capital financing - £5.2m
- investment in capital works - £3.8m
- housing and general management - £3.4m
- repairs and maintenance - £3.3m

Capital expenditure for 2021/22 on the HRA is focused on the following areas;

- housing purchases & new builds - £2.1m
- planned & cyclical works - £2.0m
- improvements & projects include decent homes - £1.1m
- managing void properties - £0.8m
- adaptations for the disabled - £0.5m

Dedicated Schools Grant (DSG)

As outlined in the previous section, the DSG funding is based on 4 blocks and therefore expenditure mirrors these 4 blocks and includes;

- Schools Block – expenditure on day to day running of schools.
- High Needs Block – expenditure on high needs including independent special schools. This area has seen significant financial pressures due to growing demand and complexity in cases.
- Early Years Block – expenditure in relation to providing to early year settings including funding for free entitlement for 2, 3 and 4 years old.
- Central Schools Services Block – expenditure in relation to statutory services such as school admissions and education support services.

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 this has meant that the account has operated in a deficit position 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.

5. Reserves

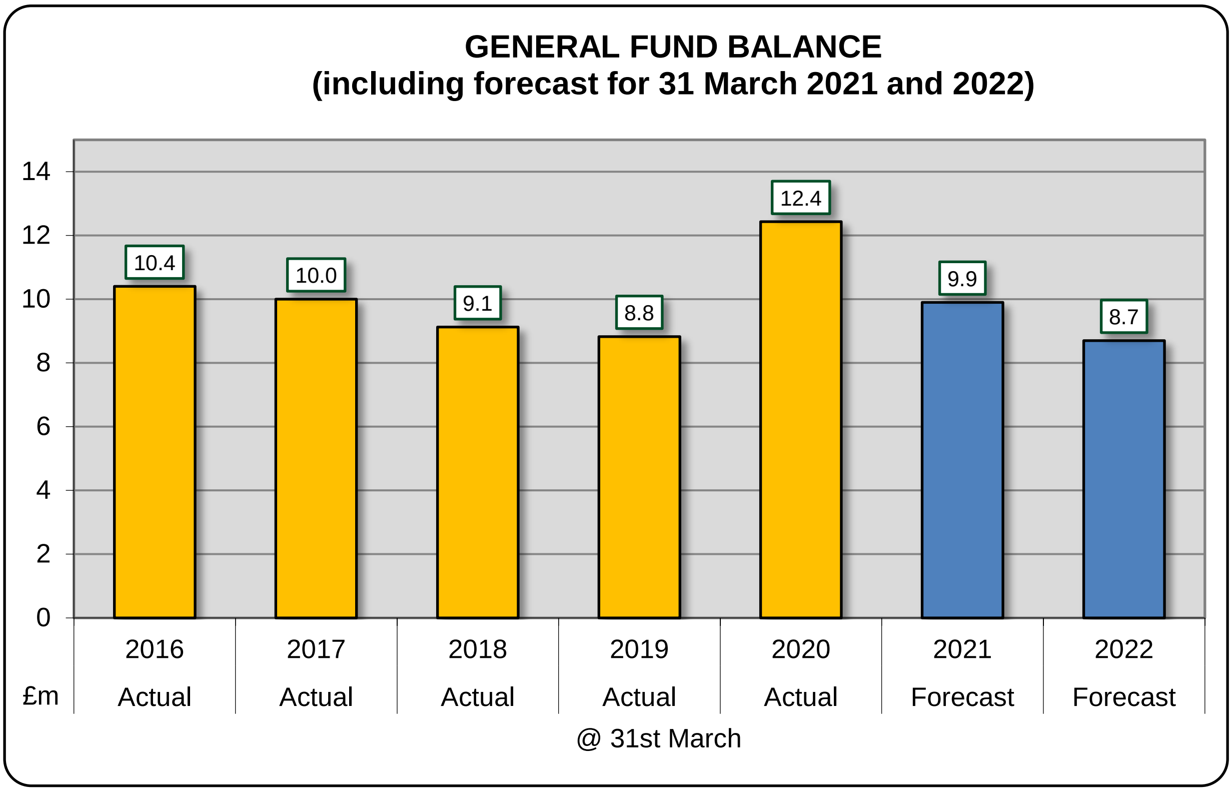
Reserves are required as a contingency to meet unforeseen spending requirements and to provide stability in medium term financial planning (e.g. by using balances to contain growth in future years).

- General Fund Balance (Revenue)
- Capital
- HRA
- DSG

General Fund Balance

The level of general fund 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 2020 and a forecast for 31 March 2021 and 31 March 2022. The expected reduction for 31 March 2021 is as a result of in year supplementary estimates, and carry forwards 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.



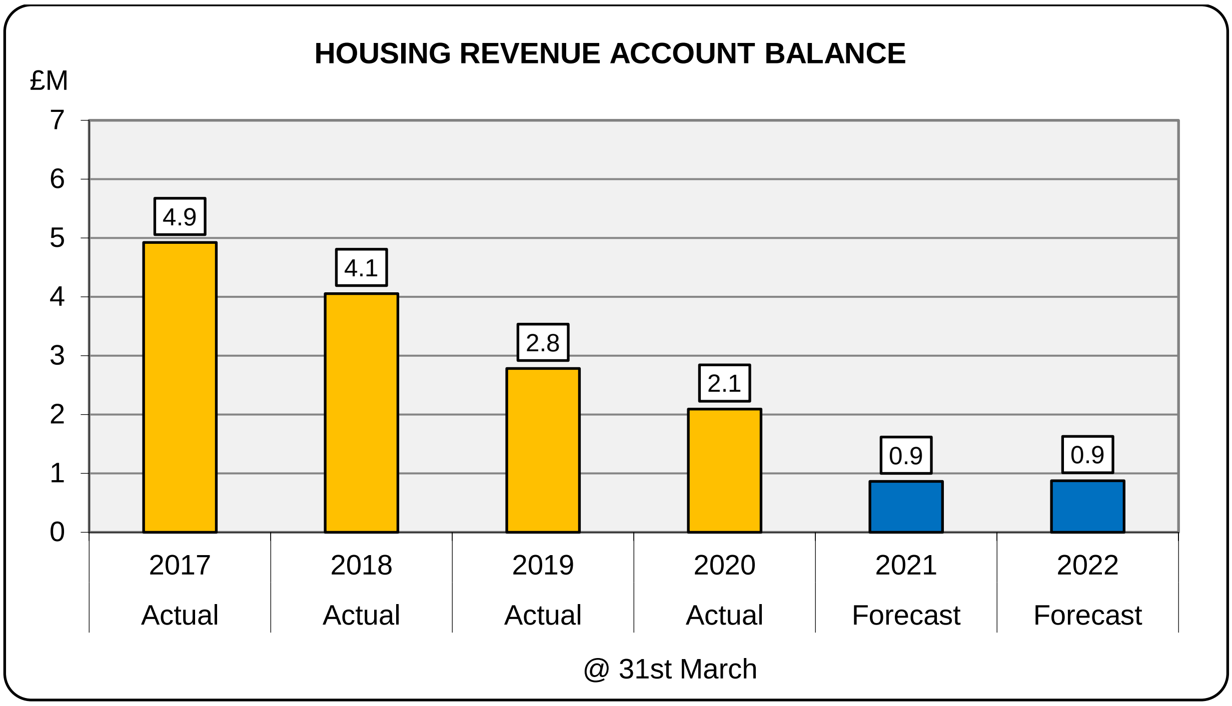
Capital

The Council hold various reserves for capital spend in the form of capital grants and contributions. Due to the nature of capital spend and multi-year projects, some reserves will be held but will be allocated to funding future year capital projects. The Council continuously review all capital funding each financial year to ensure grants are used where possible ahead of borrowing to reduce the capital financing costs (e.g. principle repayment + interest).

Housing Revenue Account (HRA)

Similar to the general fund balance, the level of HRA balance is informed by a budget risk analysis. Due to nature of the HRA being a ringfenced account where the main source of income is tenant's rental income, holding prudent reserves remain important to act as a contingency to meet unforeseen spending requirements or income reductions and to provide stability in medium term financial planning.

HRA balances are forecast to remain at prudent levels. The reducing balances seen below since 2017 have been driven by the impact of reducing rent levels and additional investment in the capital programme. Reserves are expected to increase to £1.1m in 2023/24.



Dedicated Schools Grant (DSG)

As highlighted earlier, the Council have faced significant pressures over the past 4 years in relation to the High Needs Block, combined with under funding from the government the Council are now holding a deficit reserve of £6.12m in this area. We are currently working with the DfE to form a recovery plan for this. Recent guidance from CIPFA confirmed that this deficit reserve should be held as an unusable reserve and therefore not the responsibility of the council taxpayer to fund.

The Council also hold approximately £3m in school reserves which are held to act as a contingency to offset future pressures and or put towards capital investment within schools.

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.

Further information is available in section 2 of the medium-term financial plan under reserves and balances.

6. Major financial considerations (risks and opportunities)

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 2021/22 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 areas that may impact on future revenue resources are:

Covid-19 Pandemic

The financial impact of Covid-19 has been felt significantly in 2020/21 but its effects will undoubtedly flow into future years. All areas of the Council's finances (Revenue, Capital, DSG, HRA) are impacted by the pandemic, some to a greater extent than others. The Council's Revenue Account has been most significantly impacted but, with careful budget management and Government support the Revenue Monitoring indicates that the Council will close down with only a small net expenditure variance to budget. Although there is provision for the financial effects of Covid-19 in 2021/22, a close monitoring of the position will continue in the same way as 2020/21.

Future local government finance settlement

With the announcement of a one-year finance settlement rather than a four year settlement for 2021/22, the future funding levels remains unclear. This context means it is extremely important the Council takes a prudent approach in its budget setting proposals for the 2021-2024 medium term financial plan.

Key risks of future funding settlement;

- Revenue support grant becomes negative (already proposed but not enacted in previous 2 years)
- New homes bonus funding is removed
- Allocation formula based on resources / needs rather than cost of providing services (e.g. higher cost of living in South East)

In line with last year, the December 2020 finance settlement proposed that the government would forgo the additional tariff (colloquially known as negative RSG) in 2021/22 (originally forecast at £7.14m in the four-year settlement and with inflation would equal £7.8m). This is a considerable risk for the Council as the government produces its new methodology for the ‘fairer-funding’ of local government. Furthermore, the two key considerations within the proposed new methodology are “needs” and “resources” and Wokingham are likely to rank lowest on both in terms of government support.

As previously mentioned, the new homes bonus is also likely to be removed and this would cost the Council up to approximately £6m per annum.

It is clear from this substantial risk that 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 2021.

Town centre regeneration

The Council has invested significantly in the regeneration of Wokingham Town Centre. The objective of this scheme is to regenerate the town, with the socioeconomic benefits this, and generate a source of income to fund Council services across the borough. There is of course risk associated with the scale of this investment and risks have been mitigated through a process of pre-lets and establishing a risk reserve over numerous years. The scheme has now moved to a positive financial position, in that committed income from rents now exceeds the cost of borrowing. This reduces its financial risk profile and may enable funds to be released back from the risk reserve but such a transfer will be kept under review for now whilst the impact of Covid-19 is fully understood.

Commercialisation

The Council's budgets have shown an increasingly commercialised approach over the years. This in effect means that innovative, 'business like' Value for Money initiatives are encouraged across all Council services. This is as much about generating new income streams through the establishment of Companies or through asset acquisitions, as it is about early intervention, prevention, and demand management. It is essential that the Council is able to continue such financial endeavours, particularly in the context of its position as the lowest funded Unitary Authority per head in the country. Commercial activities will of course recognise and adhere to new laws and regulations, including those recently introduced in accessing PWLB loans.

Companies

The Council have a joint ownership of Optalis (55% Holding), which is a company that provides Adult Social Care. Financial benefits arise predominantly through a reduced commissioning cost arising from efficiencies in the company. The company runs at more or less a 'break even' position each year and sets its charging to its 2 owners accordingly.

In addition to Optalis, the Council own a group of Housing Companies (100% Holding). Unlike Optalis there was considerably more financial risk in establishing these, as considerable initial investment was required before returns could be realised. The risk profile regarding the Council's finances have reduced considerably over recent years through the successful delivery of a sizeable affordable housing stock and through the streamlining of the companies and associated costs. The combined group now trades at a healthy surplus.

Statutory Costs of Care

The Council continue to face increasing care costs with regards to both Adults and Children, which is common across the country. Some care costs are likely to be compounded by the impact of Covid-19, such as Mental Health and Domestic Abuse. Although the 3-year budget submission includes considerable investment in the Council's care services, it also contains notable cost reductions arising through demand management interventions. Both the level of escalating demand and the ability to contain it are not always in the Council's control and therefore difficult to predict, furthermore the costs associated with individual cases can be significant (up to £400k p.a.). Although this will be an area where expenditure continues to be closely monitored, it will also be important to assess and replicate where possible effective demand management activities.

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.

The Council has submitted a plan to the DfE in response to the current overspend on the High Needs Block within the Dedicated Schools Grant. Considerable challenges still exist in this area and the Council will be working with the DfE to find ways to improve financial stability. At the same time the Council have joined forces with other Local Authorities to make the case for a more appropriate way of financing this area of escalating need.

Strategic Development Locations (SDLs)

The Council embarked on a Core Strategy a number of years ago which necessitated the delivery of 4 SDLs. The success of these developments is dependent on the Council funding infrastructure 'up front' to 'unlock' house building. The overall approach enables the Council to; deliver against its statutory housing targets (thereby minimising uncontrolled development approvals), provide much needed affordable housing, and ensures the Council receives a meaningful financial contribution from developers. The financial risk associated with the delay between Council 'up front' funding and the receipt of developer contributions has been mitigated to some extent through the close management of scheme delivery and the establishment of a risk reserve over numerous years. The impact of Covid-19 on this programme could be sizable and will be kept under close review.

A significant funding stream assumed for the Council from the SDLs is developer funding known as Community Infrastructure Levy (CIL). The impact of the current national and local economy on housing is difficult to predict and the timing of this income may be affected. This therefore remains a considerable risk.

Graham Ebers
Deputy Chief Executive
(and Chief Financial Officer)

7. Glossary

Abbreviation	Description
ASC	**Adult social care**
CCOSC	**Community & Corporate Overview & Scrutiny**
CIPFA	**Chartered Institute of Public Finance & Accountancy**
CFO	**Chief Finance Officer**
CPI	**Consumer Price Index**
DSG	**Dedicated Schools Grant**
DFE	**Department for Education**
DoHSC	**Department of Health and Social Care**
ESG	**Education services grant**
GFB	**General fund balances**
HND	**High Needs Block**
HRA	**Housing revenue account**
MOD	**Ministry of Defence**
MTFP	**Medium term financial plan**
NDR	**Non-domestic (business) rates**
NHB	**New homes bonus**
PUF	**Primary unit cost**
RPI	**Retail Price Index**
RSG	**Revenue support grant**
SDL	**Strategic development locations**
SEND	**Special Educational Needs and Disability**
SFA	**Settlement funding assessment**
SoBM	**Summary of budget movements**
SUF	**Secondary unit cost**
TCR	**Town centre regeneration**
WHL	**Wokingham Housing Limited**

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