APPENDIX M

Statement by the Chief Finance Officer

1. The purpose of this statement is to comply with the requirements of the Local Government Act 2003 whereby the Chief Finance Officer, in the Council's case, the Corporate Director (Finance & Operations), must report on:

   (a) the robustness of the estimates made for the purposes of the budget calculations and;
   (b) the adequacy of the proposed financial reserves.

2. In recommending the budget to the Council, the Cabinet must take account of the advice of the Corporate Director (Finance & Operations) in respect of the above.

3. For 2015/16 I can advise that the budget presented to Cabinet for referral to Council is robust in its formulation and that the level of reserves and balances are adequate for the organisation.

Risks to the budget

4. In formulating my opinion the following key risks have been taken into account.

Salaries

5. The budget proposals for 2015/16 have incorporated staffing costs budgeted on a post by post basis. A reduction of 5%, known as a 'vacancy factor' has been applied to all posts with the exception of front-line staff within Waste Services. This reduction has been applied because actual salary costs in previous years have demonstrated that the time taken to recruit to vacant posts leads to underspends of around 5% by the end of the year.

6. Service efficiency improvements over the last two years has meant that managers have filled vacant posts more quickly than in the past, because the Service is less able to continue providing its Service when carrying a vacant post. However, the forecast outturn position in 2014/15, as at Quarter 3 indicates that 5% remains an appropriate vacancy factor for the Council. If staff turnover reduces in 2015/16, then there will be increased pressure on the vacancy factor. This will be kept under review throughout the year.

Key income streams

7. **Car Parking Income** The impact of a nil increase in car parking tariffs and has been taken into account in preparing the budget together with a revision to the base budget to reflect income levels achieved during 2014/15. Therefore the budget should be robust. However, any impact from change in usage should be kept under review, particularly arising from the current economic situation; fuel costs and any future severe weather conditions.

8. **Investment Income** The budgeted level of investment income for 2015/16 has been calculated using a detailed cashflow model in conjunction with interest rates forecast from a combination of advice from Capita (the Council's treasury management advisers), and rates available from counterparties permitted within the Council's current Treasury Management Strategy. However, whilst the economy remains uncertain, there

is a risk that interest rates may fall, negatively impacting the amount of investment income the Council receives.

9. **Recycling income** The Council currently receives around £350k from Hertfordshire County Council (HCC) related to recycling performance, known as the Alternative Financial Model (AFM). The budgeted level of income has been based on a number of assumptions around recycling tonnage that will be achieved by Dacorum over the course of the year, and any deviation from this could result in reductions in the amount of income from HCC. Monthly monitoring of recycling levels will enable any risks to be identified and addressed early in the financial year. Furthermore, HCC have announced that AFM funding will continue in 2015/16, but have not confirmed that it will continue further into the future.

10. **New Homes Bonus** There is a risk that a change of government following the General Election could result in significant changes to, or removal of New Homes Bonus grant, including those funds already ‘guaranteed’ through increases in the amount of housing delivered by the Council in previous years. Based on currently approved strategy, the implications of these potential changes would affect the financing of the Council’s Capital Programme, and are detailed in paragraph 13, below.

Business Rates Retention

11. The financial risks associated with the Business Rates Retention Scheme have been covered in the body of the Budget report. Unless the Scheme is fundamentally changed, e.g. by a new party in government, then the Council has already mitigated the risk arising from a reducing tax base by budgeting at Safety Net for Business Rates Retention grant income.

Capital Programme

12. Based on the profile of projects in the proposed Capital Programme, the Council has a borrowing requirement in 2015/16 of around £15m. The Budget proposals assume an average borrowing cost of 6.6% based on a combination of 4.1% borrowing and 2.5% Minimum Revenue Provision. This is a prudent assumption based on Capita’s forecast of the borrowing rates available to the Council from the Public Works Loan Board. There is a risk that changes in the economy could result in these borrowing costs increasing. A further report will be bought to Members early in the new financial year following more detailed work on devising an optimal debt portfolio.

13. A Revenue Contribution to Capital of around £10m is forecast over the life of the Capital programme to be funded through New Homes Bonus receipts. This assumes that the New Homes Bonus grant will continue in its current form. Developments around the future of New Homes Bonus will need to be monitored closely in the run up to the General Election and beyond, and in the event of a significant change to the funding stream a re-prioritising of both revenue and capital estimates may be required.

Reserves

14. The reserves statement (Appendix H) shows a projected net use of General Fund Earmarked Revenue reserves and General Fund balance in 2015/16 of £1.050m. The use of Earmarked Reserves has been applied for non-recurring and planned expenditure, therefore, usage is considered robust.

15. It is essential that the use of reserves continues to be kept under review to ensure they can continue to be applied in a sustainable manner. Particular caution should be

exercised where any potential use of the reserve is to grow the base service budgets year on year. Although, I can confirm this has not been the case in preparing the current proposals for the General Fund, as presented to Cabinet.

16. It is recommended that the Council's current guidelines on the maintenance of Working Balances are retained, i.e. between 5% and 15% of Net Cost of Services on the General Fund, and at not less than 5% of turnover on the HRA.

HRA

17. 2015/16 is scheduled to see an end to the transitional accounting arrangements, regarding stock valuation, that were put in place following the transition to Self-Financing in 2012. As regulations currently stand, the removal of the transitional arrangement will require all local authorities to absorb the cost of revaluations as a revenue cost within the HRA. The cost of revaluations could amount to millions of pounds each year, and, unless revised accounting arrangements are introduced, it is likely that a number of HRAs across the country would become unviable. The potential implications of this issue are widely acknowledged, and work is currently underway between CIPFA and Government to develop a solution that aligns accounting standards with the practicality of managing housing stock.

Future Years' Budgets

18. The indicative General Fund budget forecast for future years has been based on assumptions applied in the MTFS and updated to reflect the proposed Local Government Finance Settlement and Chancellor's Autumn Statement. The budget forecasts and the MTFS will need to be kept under review to take account of the economic situation, changes in legislation and any further announcements following the General Election in May 2015.

19. Since the 2014/15 budget was set, the Council has let a contract, with an annual value of around £25m per year, to Osborne for the Total Asset Management of the Council's housing stock. The contract includes the management of responsive repairs, planned repairs and void management. Supplier performance under this contract will need to be monitored closely to mitigate the financial and operational risks of failure.

Emerging Issues

20. Following the outcome of the General Election in May, a Governmental Spending Review is expected in late 2015. This Review is likely to contain announcements which will affect the Council's MTFS, and will need to be incorporated into next year's budget-setting exercise.