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 2020/21 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 2020/21 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 in recent years have 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 for 2019/20, as at January 2020, indicates that 5% remains an appropriate vacancy factor for the Council. If staff turnover reduces significantly in 2020/21, then there will be increased pressure on the vacancy factor. This will be kept under review throughout the year.

7. There is a number of efficiency initiatives planned for delivery in 2020/21, the success of which will affect budgetary performance over the course of the year. Those relating to salaries are listed on the first page of Appendix B1, and primarily include service reviews of Strategic Planning, Revenues & Benefits, Financial Services and Customer Services. In the majority of these reviews the implementations are already underway but these projects will be closely monitored throughout the year to mitigate the risk of delays and a resultant budgetary impact.

Key income streams

8. **Car Parking Income** The budgeted level of income has been increased by £250k over 2019/20 levels to reflect the forecast income from the Berkhamsted multi-storey car park. The construction project will be closely monitored to reduce the risk of further slippage having a negative effect on the Council's future income streams.

10. **Temporary Accommodation Income** is budgeted to increase by £300k in 20/21 based on the council's increased capacity to accommodate homeless persons through two new homeless hostels and increased use of the Council's own properties. This budget will be closely monitored to ensure that the capital projects are on track and that the risk to income is minimised as far as possible.

11. **Investment Income** The budgeted level of investment income for 2020/21 has been calculated using a detailed cash flow model in conjunction with interest rates forecast from a combination of advice from Link (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.

12. **Alternative Financial Model income** The Council currently receives around £450k 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.

13. **Commercial Waste income**, despite being a profitable service, has in recent years come in below budget. To prevent over-reliance on an unachievable budget the overall income budget for commercial waste in 2020/21 has been reduced by £180k to bring it in line with the current year's forecast outturn. In order to protect the future of this income stream a review is currently underway to determine future options for the service. This review should be complete in time to inform 2021/22 budget-setting, and reduce the risk of under achievement.

14. **Investment property income** currently generates around £5m per year for the Council. Current indicators show that income remains strong, with arrears below target and occupancy rates above expectation. However, the retail climate is increasingly challenging, and as the highest source of commercial income for the Council, performance will be closely monitored throughout the 2020/21.

15. **Garage income** provides the second highest source of income for the Council, budgeted at around c£3.8m in 2019/20. However, performance in 2019/20 fell below budget due to occupancy rates being lower than anticipated. As a result, rent levels for 2020/21 have been frozen and the overall garage income budget reduced by £200k to bring it in line with actual performance. This approach aims to stabilise the garage income budget whilst the current review of the garage service is completed. The objectives of the review, are to determine a charging and investment mechanism that will both protect and optimise future years' income.

Capital Programme

16. Based on the profile of projects in the proposed Capital Programme, the Council has no further need to externally borrow before 2022/23. Any future borrowing will have revenue implications for the Council, which, in the context of continued reductions in government grants, will put further pressure on the Council's ability to protect its front-line services. It is increasingly important therefore that slippage and overspends in the Council's Capital Programme are minimised to enable borrowing decisions to be taken on the basis of accurate information. The Capital Programme will be kept under review throughout the year, and risks highlighted to Members as they occur.

17. The financing of the General Fund Capital Programme assumes application of capital receipts of around £52m over the period 2020/21 – 2024/25. The inherent complexity of the property deals that will deliver these receipts means that they are vulnerable to delays and/or collapse. Regular meetings of the Property Management Board should ensure a concerted approach across Council services that will mitigate this risk.

Reserves

18. The reserves statement (Appendix J) shows a projected net contribution to reserves of £139k. The use of Earmarked Reserves is applied for non-recurring and planned expenditure, therefore, usage is considered robust.

19. 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. The General Fund Working Balance is forecast to be at the upper end of this parameter in 2020/21, at 15%, to reflect the risks associated with balancing a budget on the basis of new savings initiatives being delivered in-year.

HRA

20. The Council's highest value contract, valued at around £25m per year, is with Osborne Property Services 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 continue to be monitored closely to mitigate the financial and operational risks of failure.

Brexit

21. The ongoing uncertainty around the final structure of a UK withdrawal from the EU poses a range of potential risks for local authorities which could have financial implications. These could include a scarcity of staff in certain fields of employment for both the council and its contractors, or an increased cost of borrowing depending on the response of the UK economy to any final position. In response, the Council has created a risk on the Strategic Risk Register which ensures continued monitoring of the position.