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 2021/22 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 to mitigate the foreseeable risks to the organisation.

Risks to the budget

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

Covid response

5. Within the MTFS approved in November, Council approved the creation of an Economic Recovery Reserve to mitigate the forecast financial impact of a Covid-related recession, and enable the continued provision of services throughout 2021/22. More detail relating to this strategy is included within the MTFS report to Cabinet in October 2020.

6. The forecast draw down from this reserve in 2021/22 is £1.5m and is primarily driven by loss of income resulting from falling demand for Council services in the event of the anticipated recession. This draw down provides cover for the following key income streams up to the amount shown.

   Investment Property - £1m (c20% of total budget)
   Garage rentals - £500k (c15% of total budget)
   Commercial Waste - £100k (c10% of total budget)

7. Whilst prudent loss assumptions have been made based on the information currently available, each of these income streams is still budgeted to make a significant income contribution to the Council's budget next year. As such they should still be considered at risk in case the severity and/or duration of the recession pushes the losses over the amounts shown above.

8. The Economic Recovery Reserve contains a further £2.5m to mitigate future years' risks that could be drawn down in 2021/22 if required. The capacity of the MTFS and the Economic Recovery Reserve to deal with Covid will be kept under constant review over the coming months, and in the event that an increased draw down is required next year, the S151 Officer will reassess the adequacy of future years' provision and report back to Members.

Salaries

9. The budget proposals for 2021/22 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 salary underspends of around 5% by the end of the year.

10. 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 2020/21, as at January 2021, indicates that 5% remains an appropriate vacancy factor for the Council. If staff turnover reduces significantly in 2021/22, then there will be increased pressure on the vacancy factor. This will be kept under review throughout the year.

11. There is a number of efficiency initiatives planned for delivery in 2021/22, 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 Revenues & Benefits, Legal and Corporate Services, and Corporate Support. These projects will be closely monitored throughout the year to mitigate the risk of delays and a resultant budgetary impact.

Key income streams

12. In addition to the income streams referred to in paragraphs 5-8, risks to the following income streams have the potential to put additional pressure on the deliverability of next year's budget.

13. **Car Parking Income** is hit severely and immediately by Covid-related lockdowns. While these budget proposals assume demand over the course of 21/22 will remain at the level seen in previous years, extended periods of lock down would put pressure on this income stream. This risk is partially mitigated by Government's Sales Fees and Charges Scheme, which under current policy would underwrite c71% of parking losses until the end of June. This support, combined with the rollout of the vaccine and information currently available, means that there is a robust rationale for the current budgeting assumption, but it will need to be kept under close review throughout the year.

14. **Temporary Accommodation Income** is budgeted to increase by £200k in 21/22 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.

15. **Investment Income** The budgeted level of investment income for 2021/22 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.

16. **Alternative Financial Model income** The Council has budgeted around £250k 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 and waste 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.

The protracted periods of lockdown over the last year and the extreme levels of home working has resulted in significant increases in landfill tonnages collected by the Council which has all but eliminated the amount of AFM payable in 20/21. Although lockdowns are anticipated to be less frequent in 21/22, any increased working from home is likely to increase tonnages and reduce AFM payments next year. The budgeted amount has been reduced from £450k to £250k which will mitigate the budgetary risk, but this will need to be kept under close review.

Capital Programme

17. 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.

18. The financing of the General Fund Capital Programme assumes application of capital receipts of around £45m over the period 2021/22 – 2025/26. 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

19. The reserves statement (Appendix J) shows a projected net contribution to reserves of £1.8m. The use of Earmarked Reserves is applied for non-recurring and planned expenditure, therefore, usage is considered robust.

20. 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 2021/22, to reflect the risks associated with balancing a budget on the basis of new savings initiatives being delivered in-year.

HRA

21. 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

22. The ongoing uncertainty around the implications resulting from the UK withdrawal from the EU poses a range of potential risks for local authorities which could have financial

implications. These could include: additional regulatory burdens for the Council (particularly within Environmental Health); 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.