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 Chief Finance Officer, 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 Chief Finance Officer in respect of the above.

3. For 2022/23 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 set out in November 2020 and revised in September 2021, Council approved the creation of an Economic Recovery Reserve to mitigate the forecast financial impact on the local economy and finances of Covid, and enable the continued provision of services throughout 2021 - 2024. More detail relating to this strategy is included within the MTFS report to Cabinet in September 2021.

6. The forecast draw down from this reserve in 2022/23 is £1.7m and is primarily driven by loss of income resulting from falling demand for Council services. This draw down provides cover for the following key income streams up to the amount shown.

   Investment Property - £700k (c15% of total budget)
   Garage rentals - £400k (c8% of total budget)
   Commercial Waste - £100k (c10% of total budget)
   Leisure Income - £500k

7. Whilst prudent loss assumptions have been made based on the information currently available, each of these income streams is still budgeted to make an 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 impacts of the pandemic pushes the losses over the amounts shown above. At present the ongoing impact of Covid on resident behaviours is uncertain and hence the impact on these services and income streams is at risk.

8. The Economic Recovery Reserve contains a further £0.9m to mitigate future years' risks that could be drawn down in 2022/23 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 in 21/22 or 22/23, the S151 Officer will reassess the adequacy of future years' provision and report back to Members.

Cost of Living Crisis

9. At present the country is experiencing the highest inflation levels for over 30 years, driven by the significant increase in the cost of energy. As of January 2022 inflation is at 5.4% and the latest Bank of England projections show projected increases up to a peak of 7.1% in April 2022. The impact of this on household spending and behaviours is uncertain but there is a risk that this could impact several council services and income streams such as;
   - Council Tax collection rates
   - Housing Rent Collection
   - Commercial Rent collection, if household spending reduces
   - Demand for services such as parking, and leisure if household budgets are stretched.

10. The 22/23 budget has projected for the impact of direct inflation on service delivery such as salaries and utilities, if inflation continues to rise above expected levels and has a detrimental impact on income collection it would affect the budget in 22/23. There are KPI's in place to monitor and report on the performance of these risk areas on a monthly period and if financial performance slips it will be reported as part of the Corporate Revenue and Performance monitoring processes.

Key Expenditure Pressures

Salaries

11. The budget proposals for 2022/23 have incorporated staffing costs budgeted on a post by post basis and inflated by 2.5% for 2022/23. Dacorum pay scales are set by the National Joint Council (NJC) terms and conditions, the estimated level of annual inflation applied to salaries is subjective, the 2.5% applied is above historic levels of salary inflation awarded by NJC and is above the sector and regional partner expectations. At present UK Inflation levels are at the highest in 30 years at 5.4% in December, and projected to rise as high as 7.1% in April 2022, driven by the rising global price of energy, this could put pressure on salary inflation awarded and the situation will be monitored closely.

12. The forecasting of pressures linked to salary inflation in 2022/23 is made more difficult as the pay award for 2021/22 is still yet to be agreed. Although the current full and final pay award offer of 1.75% is within budgeted expectations this does add an element of additional uncertainty.

Waste Service

13. The largest single service and operational GF budget is the waste service and the impact of Covid on service delivery and waste disposal has fluctuated throughout 20/21 and 21/22. The ongoing impact of changing behaviours, increases in disposal costs, brought about by Covid combined with the shortage of HGV drivers provides uncertainty on both the expenditure and income achieved by this service. The 2022/23 proposed budget has applied significant growth to the budgets with additional investment funds to deliver a waste transformation project, to maximise efficiencies in the service.

Key income streams

14. 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.

15. **Car Parking Income** has been hit severely and immediately by Covid-related lockdowns. While the 22/23 budget proposals assume demand over the course of 22/23 will remain at the level seen in years prior to Covid, extended periods of lock down would put pressure on this income stream. The changing parking behaviours of residents is uncertain and this income stream will need to be kept under close review throughout the year.

16. **Temporary Accommodation budgeted Income** has been under pressure in 21/22 with demand for this accommodation fluctuating alongside the economy throughout the year. The service are in the middle of reshaping this property portfolio so that supply of accommodation matches the expected demand profile. 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.

17. **Investment Income** The budgeted level of investment income for 2022/23 has been reduced significantly. The impact of historically low interest rates have impacted investment income in 21/22. Whilst the economy remains uncertain, with low interest rates set for the foreseeable the returns on investment is unlikely to return in the short term.

Capital Programme

18. Based on the profile of projects in the proposed GF Capital Programme, the Council has no further need to externally borrow before 2023/24. 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.

19. The outcome of the governments consultation on Prudential borrowing rules, could impact the costs incurred by the council of borrowing to deliver future commercial activity and the consultation response and future government policy will be monitored closely.

20. The financing of the General Fund Capital Programme assumes application of capital receipts of around £38m 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 Growth and Infrastructure Board and the commercial Board should ensure a concerted approach across Council services that will mitigate this risk.

Reserves

21. The reserves statement (Appendix J) shows a projected net contribution from reserves of £1.39m. The use of Earmarked Reserves is applied for non-recurring and planned expenditure or income shortfalls, therefore, usage is considered robust.

22. 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 2022/23, to reflect the risks associated with balancing a budget in an uncertain economic climate.

HRA

23. 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.

24. The ongoing delivery of the Osborne contract during Covid times has been very challenging. The pressures in the construction sector of rising prices, limited skilled resources and high pent up demand are impacting on the performance of contract delivery and this will require close working between the council and Osbornes to improve this performance.

25. As a result of construction delays in 21/22 the HRA capital programme has been delayed with slippage of circa 50% of the capital programme transferred into 22/23. This will require a huge amount of planning and preparation to ensure these budget targets can be achieved.

Brexit

26. 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. In response, the Council has created a risk on the Strategic Risk Register which ensures continued monitoring of the position.