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 2017/18 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 2016/17 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 tended to fill 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 2016/17, as at February 2017, indicates that 5% remains an appropriate vacancy factor for the Council. If staff turnover reduces significantly in 2017/18, 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 minimal increases in car parking tariffs has been taken into account in preparing the budget for 2017/18. The budgeted level of income has been marginally increased on 2016/17 levels, which is on target to be achieved by year-end having broadly performed as forecast. On this basis the budget-setting process is 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 2016/17 has been calculated using a detailed cash flow 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 £500k 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. Whilst HCC have confirmed that AFM funding will continue onto 2018/19, it has been indicated that there is likely to be a reduction in the amount of funding available in future years. This constitutes a risk to future years' budgets and as such will be kept under review, with the Medium Term Financial Strategy to be updated accordingly.

Settlement Funding Assessment (SFA)

11. The December 2016 Finance Settlement announced a reduction of c£800k in the Council's SFA for 2017/18, in line with the 4-year settlement approved by Government in late 2016. Savings have been identified to meet this reduction for 2017/18, and have been incorporated within the balanced budget proposed within this report.

12. The remaining two years of the 4-year settlement will, if no further Government announcements are made, see the Council's SFA continue to reduce further, from £2.72m in 2017/18 to £2m in 2019/20.

13. In response to this challenge, the Council has adopted a rolling 3-year savings programme in order to plan savings initiatives several years in advance, thereby enabling longer lead-in times to be incorporated within a more robust programme. In addition, the Medium Term Financial Strategy meetings of the Council's Budget Review Group now run throughout the full year rather than following previous years' model of convening from August onwards. The increased frequency of these meetings will assist senior Officers with work already started to identify scope for savings over the next three years.

14. The financial risks associated with the **Baseline Funding** element of the SFA have been covered in the body of the Budget report. Unless the Scheme is fundamentally changed, and this was not indicated in the Settlement Announcement of December 2016, the Council has already mitigated the risk arising from a reducing tax base by budgeting at Safety Net level for Baseline Funding. Government is currently working on the Fair Funding review which will determine the structure of the Business Rates Scheme post 2019/20, and the implementation of full retention. The uncertainty around funding levels after this date, and the additional responsibilities that may arise for the Council, are clear risks to the Council. There are currently prudent assumptions within the MTFS, but these will need to be closely monitored as more information becomes available.

Capital Programme

15. Based on the profile of projects in the proposed Capital Programme, the Council has no further need to borrow until 2020/21, when a further requirement of £3.3m is identified. 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 current financing of the Capital Programme assumes General Fund capital receipts of around £11m over the next two years. The inherent complexity of the property deals that will deliver these receipts means that they are vulnerable to delays and/or collapse. The Asset Management Strategy together with continued regular meetings of the Property Management Board should ensure a concerted approach across Council services that will mitigate this risk.

19. A Revenue Contribution to Capital funded directly from New Homes Bonus, of around £7m, is forecast between 2017/18 and 2020/21. This level of financing is based on the changes to the New Homes Bonus announced in the December 2016 Settlement, and assumes that there will be no further changes to the administration of the scheme over this period. It is possible that Government will increase the baseline growth level, above which NHB is paid, to a higher level than the 0.4% applied to 2017/18. If this were to happen the funding level for all councils would be reduced. This risk will be monitored and the MTFS updated if required when more information becomes available.

Reserves

20. The reserves statement (Appendix J) shows a projected net use of General Fund Earmarked Revenue reserves and General Fund balance in 2017/18 of £625k. The use of Earmarked Reserves has been applied for non-recurring and planned expenditure, therefore, usage is considered robust.

21. 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 2017/18, at 14.1%, to reflect the risks associated with balancing a budget on the basis of new savings initiatives being delivered in-year.

HRA

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

Future Years' Budgets

23. 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. The MTFS will be kept under review to take account of the risks highlighted in paragraphs 11-14 of this appendix.