

Report on	Adequacy of Reserves
Reporting Officer	Chief Financial Officer (Chief Executive)
Contact Officer	JJ Tohill

Is this report restricted for confidential business? If 'Yes', confirm below the exempt information category relied upon	Yes	
	No	X

1.0	Purpose of Report
1.1	To provide Members with an update in relation to the adequacy of Council's projected reserves for 2018/19.
2.0	Background
2.1	<p>This report is prepared to facilitate Council's duty under Section 6 of the Local Government Finance Act (Northern Ireland) 2011 which states:</p> <p>"6—(1) Regulations may make provision requiring a council to maintain financial reserves in accordance with the regulations.</p> <p>(2) The chief financial officer of a council shall submit to the council a report on the adequacy of any proposed financial reserves for a financial year.</p> <p>(3) A council shall have regard to that report when considering the estimates for that year under section 3(2)(a)."</p>
3.0	Main Report
3.1	Although previous Department of Environment (now superseded by Department for Communities) guidance issued in December 2009 specified that district councils should hold a District Fund balance which equates to a minimum of 5% of the council's net operating expenditure, this guidance has now been superseded by guidance which no longer specifies a minimum level of reserves.
3.2	Although the 2017/18 financial outturn is not yet known, the officers estimate that when the financial commitments that the 2017/18 Rate income was intended to fund are accounted for, Council's usable reserves will be uplifted by approximately £1.3 million. The anticipated increase in usable reserves is explained by the £1.3 million that Council included within its 2017/18 Rate estimates with the intention of being applied to increase cash balances (£500k), provide a capital fund (£500k) and create a fund to be used to take advantage of opportunities or address threats as and when identified (£300k). These amounts in part reflect amounts previously included within Rate estimates to fund structural reform, potential future expenditure incurred under Council's general power of competency, and absorption of functions transferred from central government.
3.3	

3.4	<p>If the original departmental guidance (see above) continued to be extant, i.e. Council's reserves should equate to a minimum of 5% of its 2017/18 net operating expenditure, it would appear that Council is on track to deliver the formerly recommended 'best practice' minimum reserves.</p>						
3.5	<p>Unfortunately, however, as the officers have previously explained the requirement to hold usable reserves which equates to any percentage of net operating expenditure is fundamentally flawed. This is because usable reserves are not necessarily cash reserves.</p>						
3.6	<p>The officers note that traditional financial district council funding models suggested that a council should aim to hold a cash reserve which equates to 1/12 of its net operating expenditure. This was to ensure that a council could fund a month's expenditure in the event that it did not receive its Rate income for some reason.</p>						
3.7	<p>In the case of this Council, 1/12 of net operating expenditure is approximately £3.5 million (being approximately £42 million divided by 12).</p>						
3.8	<p>At the end of December 2017, Council had a reconciled cash balance of £9,603,427. As such, Council is currently satisfying the above 'criterion'. Council also benefits from the 'safety net' of an overdraft facility which it has not needed to avail of to date.</p>						
3.9	<p>Going forward, Council will have to fund landfill closure costs from cash reserves (i.e. the Department will not permit the Council to draw down a loan to fund such projects). The current estimate (on a discounted cash flow basis) of this specific cash requirement is £4,410,162 (at 31 March 2017).</p>						
3.10	<p>Consequently, Council should hold a minimum uncommitted cash balance of:</p> <table border="0" data-bbox="231 1153 1149 1265"> <tr> <td>Working capital (1/12 net operating expenditure)</td> <td style="text-align: right;">3,500,000</td> </tr> <tr> <td>Cash reserve to fund landfill site closures</td> <td style="text-align: right;"><u>4,410,162</u></td> </tr> <tr> <td>Total</td> <td style="text-align: right;">7,910,162</td> </tr> </table>	Working capital (1/12 net operating expenditure)	3,500,000	Cash reserve to fund landfill site closures	<u>4,410,162</u>	Total	7,910,162
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Total	7,910,162						
3.11	<p>As Council's monthly expenditure is typically in the region of £3.5 million (see above) and it will be required to finance other reserves (including a capital fund) in the amount of approximately £5 million, this means that Council should be currently holding approximately £13.4 million. Consequently, Council's cash reserves would appear to be approximately £3.8 million less than the amount that it would aspire to hold.</p>						
3.12	<p>As previously explained to Members, the current cash 'deficit' can only be reduced by either:</p> <ol style="list-style-type: none"> 1. Holding in year revenue surpluses for this purpose; 2. Increasing the Rate for this purpose; or 3. Disposing of surplus Council assets. 						
3.13	<p>Although Council is currently in a technical cash deficit, and notwithstanding that it is considering surrendering its recurrent (since 2017/18) £300k allocation towards a fund to be used to take advantage of opportunities or address threats as and when identified (see above) to mitigate recurrent financial pressures in the preparation of the 2018/19 rate estimates, subject to a positive resolution of the current uncertainty surrounding the quantum of Rate Support Grant that Council will receive in 2018/19, the officers believe that the 2018/19 Rate estimates are such that the Council will over time rectify its cash deficit.</p>						

	Consequently, the officers are, subject to a positive resolution of the current uncertainty surrounding the quantum of Rate Support Grant that Council will receive in 2018/19, of the opinion that Council's reserves are adequate.
4.0	Other Considerations
4.1	<u>Financial & Human Resources Implications</u> Financial: See above Human: N/A
4.2	<u>Equality and Good Relations Implications</u> N/A
4.3	<u>Risk Management Implications</u> N/A
5.0	Recommendation(s)
5.1	That Council notes the above.
6.0	Documents Attached & References
6.1	N/A