

Report on	Adequacy of Reserves
Date of Meeting	12 February 2024
Reporting Officer	Chief Financial Officer (Chief Executive)
Contact Officer	Strategic Director of Corporate Services and Finance

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 a report in relation to the adequacy of Council's projected reserves for 2024/25.
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3.1	Previous Department of Environment (now superseded by Department for Communities (DfC)) guidance issued in December 2009 specified that district councils should hold a District Fund balance which equates to a minimum of 5% of the council's net operating expenditure, but this guidance was superseded by guidance which no longer specifies a minimum level of reserves.
3.2	Although the 2023/24 financial outturn is not yet known, and despite the recently communicated reduction in 2023/24 RSG (to £4.9m from the previously anticipated £15.865m), which will result in a loss in income to the Council in 2023/24 of approximately £1.754m, the officers estimate that that the Council's reserves at 31 March 2024 will not be materially reduced from the opening balance at 1 April 2023.
3.3	The officers' view that the Council's reserves will not be materially reduced is informed by the fact that the Council has yet to apply the amounts included within its Rate income that are intended to fund future capital expenditure (£1.1m (reduced from £1.5m when striking the 2023/24 district Rate) is included within the Council's annual Rate income) and the Council's commitments in relation to the Mid-South West Growth Deal (£0.7m (reduced from £1m when striking the 2023/24 district Rate) is similarly included). The reserves at 31 March 2024 will also be bolstered by investment income from temporary cash surpluses. The level of investment income depends on both the cash balance throughout

	<p>the year and the interest rate(s) available to the Council from sources that have previously been agreed as appropriate to the Council's risk appetite.</p>
3.4	<p>If the original departmental guidance (see above) continued to be extant, the Council's reserves at 1 April 2024 should equate to a minimum of 5% of its 2023/24 net operating expenditure; having regard to information currently in the possession of the officers, the officers are of the opinion that the Council will deliver and exceed (for the reasons detailed above) 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 if it did not receive its Rate income in any month for any reason. In the case of this Council, 1/12 of net operating expenditure is approximately £5 million (being approximately £60 million divided by 12). With a cash balance currently in excess of £35m, the Council is currently satisfying the traditional rule of thumb.</p>
3.7	<p>Members will be aware that the Council has a range of commitments against its current cash balance. These include supporting its General Fund balance (currently approximately £6.9m – this effectively equates to the £5m referred to above), Mid-South West Growth Deal and General Power of Competence aspirations/commitments (£3.7m and £700k respectively), maintenance of closed landfill sites (approximately £2m), etc.</p>
3.8	<p>These commitments are further increased by the reduced RSG income (approximately £1.754m) in 2023/24 (which was intended to fund revenue expenditure in 2023/24), and the proposed application of £1.8m reserves in the 2023/24 Rate estimates (£2.4m was applied in the 2023/24 Rate estimates) – the application of the £2.4m in 2023/24 committed the Council to a £6m cash reduction over the four years that it is planned to include the original £2.4m recurrent revenue expenditure within the Council's Rate estimates.</p>
3.9	<p>Although the Council has to date used its cash reserves to fund capital expenditure and will continue to do so in the future (albeit to a lesser extent as its cash balances reduce), it is now foreseeable that the Council will commence funding capital expenditure by borrowing within the next term of the Council (and potentially in the latter year(s) of the current term).</p>
3.10	<p>When the Council will commence borrowing will depend, inter alia, on future RSG allocations, the potential for in-year surpluses arising from whatever cause, and the Council's ability to adopt actions to either reduce recurrent revenue expenditure or increase income in 2024/25 and future years.</p>
3.11	<p>Having regard to information available, including the uncertainties detailed in the Robustness of Rates Estimates report (item 7 on the Agenda for this meeting), the officers are satisfied that the Council's reserves are adequate.</p>
4.0	Other Considerations
4.1	Financial, Human Resources & Risk Implications

	<p>Financial:</p> <p>The reduced level of RSG income (approximately £1.754m) in 2023/23 arising from the reduced level of RSG (£4.9m) allocated by the DfC will impact on the Council's cash and reserves in 2023/24. The reduction may signal that the Council's current funding assumptions (i.e., that the RSG will not fall below £15.865m) could be inappropriate going forward.</p> <p>Implementation of <u>any</u> proposal to spread already identified unavoidable recurrent cost pressures over future years will:</p> <ul style="list-style-type: none"> • Deplete cash and reserves thereby diverting funds from other commitments and ambitions. The application of £2.4m of reserves as detailed in section 3 (above) committed the Council to an aggregate £6m reduction in reserves – a balance of £1.8m is applied in the 2024/25 Rate estimates, making a total of reserves used to support the Rate £4.2m to date with a further £1.8m in total to be applied when striking the 2025/26 and 2026/27 district Rate; and • Result in rate payers bearing higher district Rate increases in future years – however, this will not result in them paying more Rates in total if the entire period (the year in which the Rate is reduced and all the years in which the Rate is increased to fund the previously unfunded revenue expenditure) is considered
	<p>Human: N/A</p>
	<p>Risk Management:</p> <p>The level of future RSG funding remains uncertain. As the Council requires RSG funding to deliver its services without levying an unaffordable Rate on rate payers, future reductions in RSG will directly impact on the services delivered and/or the affordability of the Council's district Rate in the future.</p> <p>Implementation of <u>any</u> proposal to spread the district Rate impact of already identified unavoidable annual cost pressures over future years will:</p> <ul style="list-style-type: none"> • Result in a significant reduction in cash reserves (in excess of the balance originally applied due to the need to continue to apply reducing amounts of reserve until such time as the initially unfunded recurrent revenue expenditure is fully funded by the district Rate) • Result in rate payers bearing higher district Rate increases in future years – however, this will not result in them paying more Rates in total if the entire period (the year in which the Rate is reduced and all the years in which the Rate is increased to fund the previously unfunded revenue expenditure) is considered
<p>4.2</p>	<p>Screening & Impact Assessments</p> <p>Equality & Good Relations Implications: Screening of the proposed Rate estimates and associated district Rate has not identified and significant negative impacts</p> <p>Rural Needs Implications:</p>

	Screening of the proposed Rate estimates and associated district Rate has not identified and significant negative impacts
5.0	Recommendation(s)
5.1	That Members have regard to the Chief Financial Officer's comments in relation to the adequacy of the reserves when considering the Rate estimates
6.0	Documents Attached & References
6.1	N/A