



06 February 2023

Dear Councillor

You are invited to attend a meeting of the Special Council to be held in The Chamber, Dungannon and by virtual means Council Offices, Circular Road, Dungannon, BT71 6DT on Monday, 06 February 2023 at 19:00 to transact the business noted below.

A link to join the meeting through the Council's remote meeting platform will follow.

Yours faithfully

Adrian McCreesh
Chief Executive

AGENDA

OPEN BUSINESS

- 1 Notice of Recording
This meeting will be webcast for live and subsequent broadcast on the Council's You Tube site [Live Broadcast Link](#)
- 2 Apologies
- 3 Declarations of Interest
Members should declare any financial and non-financial interests they have in the items of business for consideration, identifying the relevant agenda item and the nature of their interest.
- 4 Chair's Business

Matters for Decision

5. Minimum Revenue Provision Policy (MRP) 3 - 4
6. Rates Estimates 2023/24 5 - 20
7. Approval of Rates Estimates 2023/24
(i) Authorisation of the expenditure included in the rates estimates;
(ii) Fixing for the financial year beginning 1 April 2023 the amount to be raised by means of rates and striking the domestic and non-domestic rate for 2023/24.

Matters for Information

- 8 Robustness of Rates Estimates 2023/24 21 - 26

Items restricted in accordance with Section 42, Part 1 of Schedule 6 of the Local Government Act (NI) 2014. The public will be asked to withdraw from the meeting at this point.

Matters for Decision

Matters for Information

Report on	Minimum Revenue Provision Policy
Date of Meeting	Monday 6 February 2023
Reporting Officer	Strategic Director of Corporate Services and Finance
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 an update in relation to Council's 2023/24 Minimum Revenue Provision Policy.
2.0	Background
2.1	Members will recall that Council considered and adopted a Minimum Revenue Provision (MRP) Policy as part of the process of striking its Rate for the financial year 2021/22.
2.2	<p>This report is prepared to facilitate Council's duty under Regulation 6 of the Local Government (Capital Accounting and Finance) Regulations (Northern Ireland) 2011 which states:</p> <p>"During the financial year beginning on 1st April 2012 and every subsequent financial year, a council shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent and—</p> <p>(a) shall charge to the general fund that minimum revenue provision for that financial year; and</p> <p>(b) may charge to the general fund any amount in addition to that minimum revenue provision,</p> <p>in respect of the financing of capital expenditure incurred by the council in that year or in any financial year prior to that year."</p>
3.0	Main Report
3.1	Council previously adopted a MRP policy in 2021/22 which confirmed the basis of calculating MRP for inclusion in the Rate estimates.
3.2	Prior to striking the 2016/17 Rate, the officers, having reflected on the adequacy and appropriateness of its original (2015/16) policy which specifically calculated the estimated useful lives of relevant asset categories, e.g.

	<ul style="list-style-type: none"> • Land and buildings – 25 years • Vehicles – 8 years • ICT – 5 years • Assets under construction – not applicable, <p>considered that the policy should also allow Council to match its MRP with associated loan principal repayment schedules where it is deemed appropriate.</p>
3.3	Council accepted the officers' recommendation to amend the 2015/16 MRP Policy prior to striking the 2016/17 Rate. This amended MRP Policy was reconfirmed by Council prior to striking the Rate in subsequent years.
3.4	The officers would remind Members that, due to the forthcoming introduction of IFRS 16 – Leases (which will now be effective for the 2023/24 accounting period), it amended its MRP policy in 2021/22 to include provision that MRP charges for leases will be calculated as being equal to the relevant lease payment in that year.
3.5	As the officers continue to be satisfied that the amendment to the 2020/21 MRP policy is sufficient to enable Council to fund its capital programme on a consistent and prudent basis, they therefore recommend that the 2023/24 MRP Policy replicate the Council's current (2021/22) MRP Policy.
3.6	The draft proposed Rate estimates have been prepared on the basis of this recommendation.
4.0	Other Considerations
4.1	Financial, Human Resources & Risk Implications
	Financial: See above
	Human: N/A
	Risk Management: N/A
4.2	Screening & Impact Assessments
	Equality & Good Relations Implications: N/A
	Rural Needs Implications: N/A
5.0	Recommendation(s)
5.1	That Council confirms its existing MRP policy as being appropriate for the financial year 2023/24.
6.0	Documents Attached & References
	N/A

Report on	2023/24 Rate Estimates
Date of Meeting	6 February 2023
Reporting Officer	Strategic Director of Corporate Services and Finance
Contact Officer	Strategic Director of Corporate Services and Finance

Is this report restricted for confidential business?	Yes	<input type="checkbox"/>
If 'Yes', confirm below the exempt information category relied upon	No	<input checked="" type="checkbox"/>

1.0	Purpose of Report
1.1	To provide Members with sufficient information in relation to the Council's 2023/24 Rate Estimates process to enable the Council to strike its 2023/24 district Rate and agree a budget for that financial year.
2.0	Background
2.1	The Council is scheduled to strike its 2023/24 district Rate at a Special Council meeting on Monday, 6 th February 2023 to strike the 2023/24 Rate.
2.2	Members will be aware from previous discussions with officers that the SMT understand that all eleven district councils are experiencing an extremely challenging Rate estimates process.
2.3	The cost of living crisis, global energy crisis, and continuing high levels of inflation are some of the factors contributing to the financial challenges presenting at this time.
3.0	Main Report
3.1	The Department for Communities has confirmed the statutorily prescribed date for district councils to strike their 2023/24 district Rate to be 15 th February 2023.
3.2	Financial pressures relevant to the 2023/24 Rate estimates include very significant increases in payroll, energy costs, waste management, fuel, insurance costs, and continuing reduced income levels following the Covid 19 pandemic.
3.3	Although the former Minister for Communities confirmed, prior to vacating office, that councils may use any amounts (allocated in 2020/21 and 2021/22) not yet utilised for Covid 19 purposes (Mid Ulster District Council's unapplied balance is approximately £2.5m) to continue to support recovery in the context of increased operating costs as a result of the cost of living crisis, councils have received no further support from the Department for Communities (DfC).

3.4	In the absence of an Executive, DfC officials were unable to commit resources in the current (2022/23) financial year until the Secretary of State set the NI budget for 2022/23. Subsequent to the Secretary of State's Written Statement on 24 th November 2022 which confirmed the NI budget, DfC notified eligible councils of the 2022/23 Rate Support Grant (RSG) allocation on 22 nd December 2022.
3.5	The 2022/23 RSG allocation, at £8.924m, is significantly reduced from previous years. The reduction (from the anticipated £15.865m) will cause the Council to receive approximately £1.388m (the Council currently receives 20% of the aggregate allocation) less income in 2022/23 than it budgeted to receive when it struck its 2022/23 district Rate. This is obviously extremely disappointing.
3.6	In addition, the recent non-domestic Revaluation undertaken by Land and Property Services (LPS) to update the valuations of non-domestic rateable hereditaments has also impacted on the council's share of the 2023/24 RSG (the level of RSG in 2023/24 is currently unknown). The Revaluation (effective from 1 April 2023) will cause the council's share of RSG to reduce from 20% to 16%.
3.7	Notwithstanding the uncertainty surrounding the level of the 2023/24 RSG allocation – will it be £15.865m, £8.924m, or some other amount – it exceeded £20m in both 2020/21 and 2021/22, the reduction from 20% to 16% is a major unavoidable problem that has a significant impact on the Council's 2023/24 district Rate.
3.8	RSG is fundamental to the delivery of Council services. In the absence of compensatory cost reductions (or new income streams), reductions in RSG received will have to be passed on the rate payers via an increased district Rate.
3.9	Prior to the DfC's notification of the 2022/23 RSG allocation, the Council expected to receive 20% of £15.865m in 2022/23. The officers were also proposing that the Council continue to assume that the 2023/24 RSG allocation would be no lower than £15.865m, which was the grant allocation in 2019/20, i.e., prior to the Covid 19 pandemic. The RSG allocation in both 2020/21 and 2021/22 exceeded £20m (2020/21: £22.3m, and 2021/22: £21.924m).
3.10	The 2022/23 allocation suggests that there may be a significant risk of the 2023/24 RSG allocation being less than £15.865m. In striking the 2023/24 Rate, the Council should therefore reflect upon the potential for this risk to materialise and whether any such reduction will be reversed in future years.
3.11	The attached paper outlines the officers' deliberations and efforts to date to produce and recommend an affordable 2023/24 Rate to the Council.
3.12	The paper includes a proposal that the Council apply £2.4m of its reserves balances towards minimising the 2023/24 district Rate. This proposal is contingent upon the Members understanding that the application of reserves is a temporary measure that only "kicks the can down the road".
3.13	If the Council applies £2.4m (or any other amount) of reserves to reduce the 2023/24 district Rate, the district Rate will have to be increased in subsequent years to generate sufficient recurrent Rate income to fund £2.4m of annual

	<p>expenditure (that is not being funded in the year that the reserves are applied). The attached paper proposes that the £2.4m be funded over a 4 year period (2024/25 to 2027/28) by way of an additional (estimated) 1.4% increase in the district Rate in <u>each</u> of those years.</p> <p>3.14 Members should also note that, if the Council decides to fund the £2.4m over 4 years, reducing amounts of reserves will also have to be applied in these years (over and above the original £2.4m). The paper illustrates that a decision to apply £2.4m of reserves (funded equally over the subsequent 4 years) will result in an aggregate £6m reduction in reserves (cash).</p> <p>3.15 The officers therefore recommend that the Council carefully reflects upon any decision to apply reserves to fund recurrent annual expenditure that would otherwise be funded by the district Rate. Any such decision will impact directly upon the report that the Chief Executive (as Chief Financial Officer) is required to make to the Council under Section 6 of the Local Government Finance Act (Northern Ireland) 2011 (adequacy of reserves).</p> <p>3.16 The Chief Executive’s report in relation to the adequacy of reserves (as at the date of issue) is included at item 8 on the Agenda for this meeting (to strike the Rate).</p> <p>3.17 The Council must consider the reports included for information under Agenda items 7 (robustness of the estimates) and 8 (adequacy of reserves) as part of their deliberations in relation to the striking of the 2023/24 district Rate and the agreeing of the 2023/24 budget.</p>
4.0	Other Considerations
4.1	<p>Financial, Human Resources & Risk Implications</p> <p>Financial:</p> <p>The reduced level of RSG income (approximately £1,388m) in 2022/23 arising from the reduced level of RSG (£8.924m) allocated by the DfC will impact on the Council’s cash and reserves in 2022/23. 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 (application of reserves in the amount of £2.4m as proposed in the attached report is estimated to reduce reserves in the amount of £6m) thereby diverting funds from other commitments and ambitions; 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

	<p>which the Rate is increased to fund the previously unfunded revenue expenditure) is considered</p>
	<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
4.2	Screening & Impact Assessments
	<p>Equality & Good Relations Implications: N/A</p>
	<p>Rural Needs Implications: N/A</p>
5.0	Recommendation(s)
5.1	<p>That the Council notes the contents of the report and attachment and resolves to:</p> <ul style="list-style-type: none"> • Confirm the Council's adoption of each recommendation (in relation to expenditure and income) proposed by the officers in the attached report as the means of delivering the Council's services in 2023/24 within the expenditure within the estimates. <p>In particular, the Council confirms:</p> <ul style="list-style-type: none"> • Implementation of measures agreed with the 2022/23 Rate estimates, i.e., closure of all public conveniences within the district (expenditure

	<p>budget reduction of -£220,000) and introduction of car parking charges in Cookstown (income budget increase of £100,000);</p> <ul style="list-style-type: none"> • 39.2% (-£220,000) reduction across 5 community grant programmes - Festive Lights, Strategic Festive, Capital Sports, Strategic Sports & Strategic and Small arts grants); • 41.0% (-£202,242) reduction across the Communities & Place programming budgets - Arts, OM, SHHP, Minority Languages, Sports, Leisure and Environmental Health; • 10.8% (-£27,000) reduction from the corporate events budget - resulting in the removal of Tefelta and Coalisland Summer programme from the annual programme; • 31.5% (-£75,369) reduction across the Communities & Place marketing, mileage and stock replenishment budgets; • 28.5% (£224,750) increase in the earned and grant income targets across the Health and Development functions; • Rationalisation of Waste recycling centres following significant investment in Magherafelt, Dungannon and Cookstown – programme of planned closures at Draperstown, Castledawson, Fivemiletown, Moneymore, Coalisland; • Increased income targets across Building Control and sale of recyclables; • Reduced revenue expenditure through savings in event management, use of red Derv, contractor costs regarding paint recycling and hire costs; and • Reduced contractor costs by cessation of grass verge cutting <ul style="list-style-type: none"> • Approve the estimates as presented; • Authorise the (net) expenditure (£54,005,870) (2022/23: £49,529,866) within the estimates; and • Strike non-domestic and domestic Rates which will reflect a 5.86% and 8.90% increase from the equivalent 2022/23 district non-domestic and domestic Rates respectively, i.e., non-domestic district Rate 25.8214 (2022/23: 24.3910) and domestic district Rate 0.3817 (2022/23: 0.3505); • Authorise the Chief Executive to vire such amounts between budget headings as he deems necessary to secure Council's objectives in 2023/24
6.0	Documents Attached & References
6.1	Supplementary paper regarding 2023/24 Rate estimates

Supplementary paper regarding 2023/24 Rate estimates

This paper supports the 2023/24 Rate estimates update report scheduled to be considered by the Council at its meeting on Monday, 6th February 2023.

Queries in relation to this paper should be directed to the Strategic Director of Corporate Services and Finance in the first instance.

Statutory background

Section 3 of the Local Government Finance Act (Northern Ireland) 2011 states:

“Annual budget

3 (1) In each financial year a council shall cause to be submitted to it estimates of the income and expenditure of the council during the next financial year.

(2) A council, before the prescribed date in each year—

(a) shall consider the estimates for the next financial year;

(b) may revise the estimates in such manner as the council thinks fit;

(c) shall approve the estimates, subject to any revision under paragraph (b);

(d) shall authorise the expenditure included in the estimates; and

(e) shall fix for the next financial year the amount estimated to be required to be raised by means of rates made by the council.

(3) No expenditure shall be incurred by or on behalf of a council unless—

(a) previously authorised in accordance with the estimates approved by the council; or

(b) otherwise previously authorised by the council; or

(c) if not so authorised, necessarily incurred in circumstances of emergency;

but any expenditure under paragraph (c) shall, as soon as reasonably practicable, be reported to the council with a view to being approved by the council.”

The Department for Communities has confirmed that the statutorily prescribed date of 15th February 2023 cannot be deferred (as it was in February 2021 to allow councils extra time to consider the implication of Covid 19 on their 2021/22 Rate estimates) as the absence of an Assembly means that amending legislation cannot be made prior to the currently established date.

Section 4 of the Local Government Finance Act (Northern Ireland) 2011 states:

“**4**—(1) The chief financial officer of a council shall submit to the council a report on the robustness of the estimates.

(2) A council shall have regard to that report when considering the estimates under section 3(2)(a).

(3) In this section “the estimates” means the estimates submitted to the council under section 3(1).

Section 6 of the Local Government Finance Act (Northern Ireland) 2011 states:

“6—(1) Regulations may make provision requiring a council to maintain financial reserves in accordance with the regulations.

(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.

(3) A council shall have regard to that report when considering the estimates for that year under section 3(2)(a).”

Context

The Council (and society in general) continues to experience significant unprecedented financial pressures.

These pressures have been accumulating over a considerable period, and the Council formally recognised the impact they were having on staff in September 2022 when it agreed a local element to supplement the 2022/23 National Pay Agreement, which was itself much larger than the Council had budgeted for in its 2022/23 Rate estimates.

Several of the Council’s “unavoidable” cost drivers continue to show dramatic increases from the amounts included within the Council’s 2022/23 budgets. These are anticipated to increase further within the remainder of 2022/23 and 2023/24. More significant examples include:

- Salaries and wages – see above;
- Energy costs – notably electricity, which is currently costing more than double the amount budgeted;
- Waste management costs – contracts with third party providers include a Consumer Prices Index (CPI) inflation uplift. These contracts are scheduled for renewal and CPI rose by 10.7% in the 12 months to November 2022 (down from 11.1% in October)¹;
- Increasing fuel costs – already high costs will be further increased by the reintroduction of fuel duty in April 2023;
- IT and telecommunications support and threat prevention/mitigation costs; and
- Insurance costs – will be further increased by “hardening” insurance market and impact of increased pay rises and rebuilding costs (on employer liability and property insurance premiums respectively – liability and property covers account for a significant proportion of the Council’s insurance costs).

The Council, in common with the six other district councils eligible for Rate Support Grant (RSG), is challenged by a very uncertain RSG environment.

RSG, although referenced in statute, is not statutorily protected. In the years prior to local government reform, the Department for Communities (DfC) (formerly the Department for the Environment) had reduced the aggregate amount available for distribution between eligible district councils from a steady level in excess of £20m per annum to just under £16m.

As an unprotected grant, RSG is vulnerable when DfC is presented with budget pressures. Consequently, although the DfC note that it is expressly intended “to provide financial support to less wealthier councils as defined in Section 27 of the Local Government Finance Act

¹ <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/november2022>

(Northern Ireland) 2011 and Local Government 2 (Rates Support Grant) Regulations 2011”², in the same paragraph within its publication of its considerations when screening (out) its RSG policy for potential negative equality impacts as required by Section 75 of the Northern Ireland Act 1998, the DfC also state “However the total budget allocated to eligible councils by statutory formula by the Department is discretionary”³.

The DfC’s analysis of the relative wealth of district councils has (and continues to (to 2022/23 at least)) consistently demonstrate that the following seven councils are less wealthy than the remaining four:

- Armagh Banbridge and Craigavon Borough Council;
- Causeway Coast and Glens Borough Council;
- Derry City and Strabane District Council;
- Fermanagh and Omagh District Council;
- Mid and East Antrim Borough Council;
- Mid Ulster District Council; and
- Newry Mourne and Down District Council.

Mid Ulster District Council has consistently been the least wealthy council since local government reform in April 2015.

The aggregate RSG distributed between eligible district councils since 2019/20 is detailed in Figure 1 below:

Figure 1

	2019/20	2020/21	2021/22	2022/23
	£million	£million	£million	£million
Initial DfC allocation	15.865	15.865	11.224	8.924 ⁴
Final DfC allocation	15.865	22.300	21.924	TBA

In setting its 2022/23 budgets and striking its 2022/23 Rate, the Council anticipated that the DfC would provide RSG funding in 2022/23 of at least £15.865m. The announcement of an aggregate allocation of £8.924m approximately three months before the end of 2022/23 with little prospect of an Assembly being in situ to make a further allocation prior to 31st March 2023 therefore means that the Council will receive approximately £1.388m (£6.941m (£15.865m - £8.924m) x 20% = £1.388m) less RSG in 2022/23 than it expected. This is a massive shortfall.

If the 2022/23 RSG allocation is replicated for 2023/24, the Council will see its 2023/24 income fall (from 2021/22 levels) in the amount of £1.388m. To compensate for such a reduction in RSG, the Council would have to increase its district Rate by approximately 3.1%.

The analysis within this paper reflects the Council anticipating that the aggregate 2023/24 allocation will be £15.865m.

² <https://www.communities-ni.gov.uk/sites/default/files/publications/communities/budget-21-22-rsg.pdf>

³ <https://www.communities-ni.gov.uk/sites/default/files/publications/communities/budget-21-22-rsg.pdf>

⁴ Notified by email on 22 December 2022 – 10 months after councils struck their 2021/22 Rate in February 2022

Mid Ulster District Council cost structure

Figure 2.

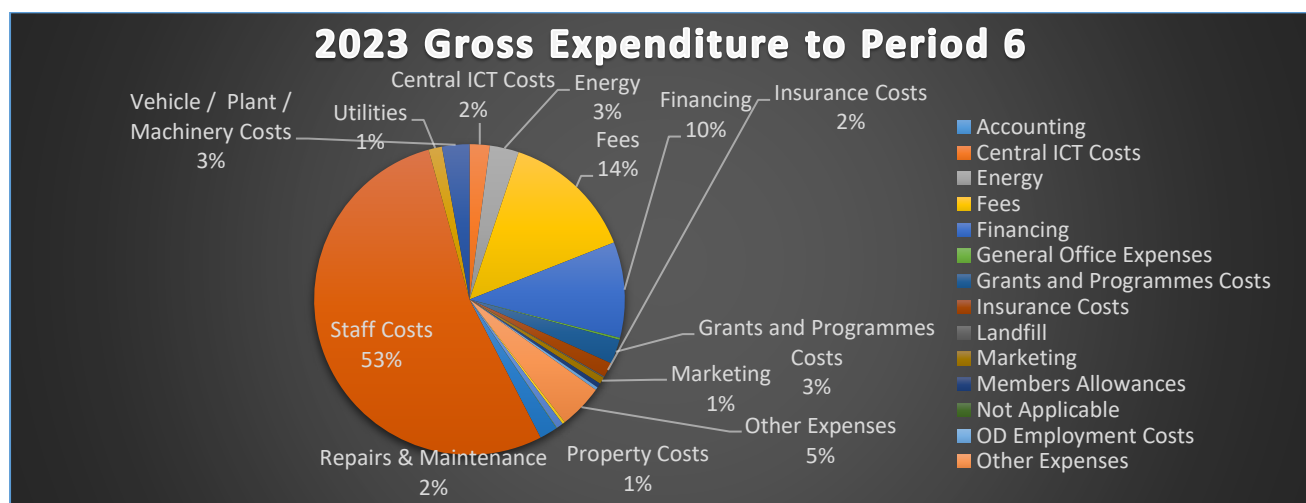


Figure 2 shows the Council’s gross expenditure for periods 1 to 6 inclusive (April to September) for the current financial year (2022/23). Only expenditure categories of 1% of the Council’s gross expenditure or more has been detailed in order to make the chart legible.

Members should note that, although “Members Allowances” (shown in dark blue) is not detailed, this category of expenditure excludes Members Allowances, which are included within staff costs.

The presentation above highlights the following expenditure profile:

Staff costs		53%
Fees:		
• Waste recycling	12%	
• Other	2%	14%
Financing		10%
Energy		3%
Insurance		2%
		82%

Even if the “other” fees are discounted, the above expenditure categories accounts for 80% of the Council’s gross expenditure. None of these categories are readily reduced, especially in the short term.

This analysis underpins the narrative in previous years when it was explained that the Council's typical approach to working towards the striking of an affordable Rate was to seek to offset in year pressures arising on 100% of the cost base by savings within 20% of the cost base.

In previous years, although it was never easy to offset the cost pressures in this fashion, the aggregate cost pressures to be offset were of a scale that it was possible to find sufficient savings to enable the Council to strike a Rate that was considered affordable.

However, unavoidable cost pressures identified to date in the 2023/24 Rate Estimates process total in excess of £10m. As the Council's anticipated gross expenditure in 2023/24 will be in the region of £60m, the 20% of the gross expenditure to which the Council usually looks for savings can be estimated to be in the region of £12m. Therefore, if the Council is seeking to offset cost pressures in excess of £10m from expenditure totaling £12m, it is clear that the task will be difficult, especially since the £12m includes energy, insurance, and grants/programme costs which are each for their own reasons very important areas of expenditure.

2023/24 challenges

The 2023/24 Rate Estimates have thus far been characterized by several significant issues, the most notable of which are:

1. 2022/23 pay settlement, which was significantly in excess of the 2% budgeted
2. 2023/24 pay settlement likely to higher than pay settlements prior to 2022/23 due to the ongoing cost of living crisis
3. Contractual inflationary adjustments to waste recycling contracts reflecting CPI increases in the order of 10 plus percent
4. Anticipated energy cost increases due to global economic crisis
5. Continuing high fuel costs, which will be exacerbated by an increase in fuel duty in 2023/24
6. Increased costs of ICT deriving from contractual inflationary adjustments and the ever increasing need to invest in systems and processes to reduce the risk of cyber attack and other ICT treats
7. Increasing costs of frontline service delivery (and support thereof) in areas such as vehicle maintenance, grounds maintenance, insurance, etc.
8. Reducing income, e.g., at leisure centres, due to ongoing cost of living crisis.

In addition, there is great uncertainty surrounding the Council's Rate Support Grant (RSG) income in 2023/24. Although RSG is referenced in statute, it is not statutorily protected and the total amount distributed between the seven eligible district councils has fluctuated in recent years from in excess of £20m to £16m.

RSG funds approximately 7% of the Council's net expenditure, and as the Council currently receives 20% of the aggregate amount distributed between eligible district councils, any reduction in the amount distributed will impact disproportionately on the Council.

The Council currently budgets to receive approximately 20% of an aggregate budget of £15.865m. However, the officers are concerned that the aggregate budget could reduce in the future as DfC correspondence issued on 22nd December 2022 confirmed the 2022/23 allocation in the amount of £8.924m.

In addition, the DfC also notified the Council in December 2022 that the Council's share of RSG in 2023/24 will be 16% of whatever amount is allocated. The reduction to 16% (from 20%) is a consequence of the recent LPS revaluation of non-domestic hereditaments (effective 1 April 2023).

Members should note that the potential Rate outturn presented in this paper assumes that the aggregate RSG budget will be £15.865m and that the Council's share will be 16%.

Officer approach to mitigating the currently identified 2023/24 financial pressures

As explained above, the majority of the Council's cost base is incapable of significant reduction in the short term. This effectively reduces the options available to the officers.

The officers' approach has been to seek to find efficiencies and savings that will have the least impact on the Council's frontline services. In doing so, they have focused their efforts on finding efficiencies and savings within the Council's discretionary services, i.e., services that the Council is obligated to deliver, such as refuse collection and disposal.

Current estimated projected increase in district domestic Rate

SMT analysis has currently identified total estimated cost pressures in excess of approximately £10m.

The estimated value of efficiencies and savings proposed by the officers equates to approximately £2.4m.

This leaves an estimate net⁵ cost pressure of approximately £7.8m, which if unrelieved, would result in an estimated⁶ 16% increase in the Council's district domestic Rate.

The officers therefore further propose that the Council considers:

1. Reducing the recurrent funding allocated to fund loans which will be drawn down to fund the Council's capital programme – initial proposal is a reduction in the amount of £400,000
2. Reduce the recurrent funding allocated to significant Council initiatives (presently applied to funding the Council's estimated contribution to the Mid South West Growth Deal – initial proposal is a reduction in the amount of £300,000
3. Application of Council reserves in the amount of £2.4m – this is a short term measure, which will have to be funded in future years. Initial estimates suggest that funding the expenditure that will be facilitated by this action will result in an additional 1.4% increase in the district domestic Rate in each of four financial years 2024/25 to 2027/28 inclusive. In other words, the district Rate increase in each of these years will be a minimum of 1.4% before any in year financial pressures, such as pay awards are contemplated. However, Members should note that increasing the Rate over a four year period will result in the total cash reserves being depleted by £6m (as opposed to £2.4m which is the reduction in 2023/24).

⁵ The calculations assume that the aggregated RSG to be distributed between eligible district councils will not fall below £15.865m

⁶ Actual increase will depend on the Estimated Penny Product (EPP) which will be finalised by Land and Property Services (LPS) in January 2023

If the Council adopts all of the officers' cost saving proposals and the above three additional recommendations, the estimated net cost pressure to be funded by rate payers will be £4.7m.

Funding an estimated net cost pressure in the amount of £4.7m is anticipated to result in the Council's domestic district Rate increasing by 8.90%.

Summary of officers' main cost saving proposals

The main cost saving proposals are:

- Implementation of **measures agreed with the 2022/23 Rate estimates**, i.e., closure of **all public conveniences** within the district (expenditure budget reduction of **-£220,000**) and introduction of **car parking charges in Cookstown** (income budget increase of **£100,000**);
- **39.2% (-£220,000)** reduction across **5 community grant programmes** - *Festive Lights, Strategic Festive, Capital Sports, Strategic Sports & Strategic and Small arts grants*);
- **41.0% (-£202,242)** reduction across the Communities & Place **programming budgets** - *Arts, OM, SHHP, Minority Languages, Sports, Leisure and Environmental Health*;
- **10.8% (-£27,000)** reduction from the **corporate events budget** - *resulting in the removal of Tefelta and Coalisland Summer programme from the annual programme*;
- **31.5% (-£75,369)** reduction across the Communities & Place **marketing, mileage and stock replenishment budgets**;
- **28.5% (£224,750)** increase in the **earned and grant income** targets across the Health and Development functions;
- **Rationalisation of Waste recycling centres** following significant investment in Magherafelt, Dungannon and Cookstown – programme of planned closures at Draperstown, Castledawson, Fivemiletown, Moneymore, Coalisland;
- **Increased income targets** across **Building Control** and **sale of recyclables**;
- Reduced revenue expenditure through **savings in event management**, use of red Derv, **contractor costs regarding paint recycling** and **hire costs**; and
- Reduced contractor costs by **cessation of grass verge cutting**

Appendix 1 (attached)

Financial Analysis of Financial Pressures impacting 2023/24 Rate estimates

Appendix 1

Financial Analysis of Financial Pressures impacting 2023/24 Rate estimates

	Annual Budget Impact 2023/24 £	Annual Budget Impact 2023/24 £
Pressures (Estimated)		
Payroll	4,904,697	
Waste contracts	874,235	
Funding of revenue tail of capital programme	450,000	
Energy costs	1,412,495	
Fuel costs (Incl fuel duty est of £85,000)	200,000	
Vehicle Maintenance	50,000	
Additional running costs Magherafelt Recycling Centre	10,000	
Additional flower beds and hanging baskets costs	12,000	
Additional grass cutting costs	50,000	
Reduction in Trade Waste income	10,000	
Insurance	120,000	
IT maintenance & support inflation	110,000	
IT Office 365 licensing	50,000	
Vulnerability testing plus tools	10,000	
Security incident & event management	50,000	
Telecoms inflation	38,590	
Essential remedial and maintenance works	350,000	
Reduction in leisure centre income	200,000	
Reduced RSG	1,446,841	
	<hr/>	
	10,348,858	
	<hr/>	
Total pressures		10,348,858
Funding of pressures		
Environment savings	(837,011)	
Community & Places savings	(749,361)	
Finance savings	(595,000)	
Economic Development savings	(95,382)	
Chief Executive department savings	(124,000)	
Org. Development, Strategy & Performance savings	(22,600)	
Planning additional income target	(100,000)	
	<hr/>	
	(2,523,354)	
Application of Reserves (this will be a Rates burden in future years - additional 1.4% each year for 4 consecutive years)	(2,400,000)	
	<hr/>	
	(4,923,354)	
Reduction in funding in Rate to pay loans	(400,000)	
Reduction in funding in Rate to fund MSW Growth Deal (current use)	(300,000)	
Application of RSG Reserves of £1m (this is £250k no. 2) to fund transformation over 4 year period	(250,000)	
	<hr/>	
	(5,873,354)	
	<hr/>	
Total funding		(5,873,354)
		<hr/>
Net pressures		4,475,504
		<hr/>
	% increase	2023/24
		2022/23
Estimated non-domestic Rate	5.86%	25.8214
Estimated domestic Rate	8.90%	0.3817
		0.3505
Average house value (estimated)		£125,000
Domestic district Rate	8.90%	£477.13
		£438.13
Average domestic district Rate per week		£9.18
Increase per week		£0.75
Increase per annum		£39.00

Report on	Robustness of 2023/24 Rate Estimates
Date of Meeting	6 February 2023
Reporting Officer	Chief Financial Officer (Chief Executive)
Contact Officer	Strategic Director of Corporate Services and Finance

Is this report restricted for confidential business?	Yes	<input type="checkbox"/>
If 'Yes', confirm below the exempt information category relied upon	No	X

1.0	Purpose of Report
1.1	To provide Members with a report in relation to the robustness of the 2023/24 Rate estimates.
2.0	Background
2.1	This report is prepared to facilitate Council's duty under Section 4 of the Local Government Finance Act (Northern Ireland) 2011 which states:
2.2	<p>"4—(1) The chief financial officer of a council shall submit to the council a report on the robustness of the estimates.</p> <p>(2) A council shall have regard to that report when considering the estimates under section 3(2)(a).</p> <p>(3) In this section "the estimates" means the estimates submitted to the council under section 3(1).</p>
3.0	Main Report
3.1	The 2022/23 Rate estimates have been prepared, in so far as practicable and having regard to the officers' expectations in relation to the general economic climate and financial pressures relevant to the 2023/24 financial year, using the 2022/23 budgets as a baseline. This means that every proposed budget movement from the 2022/23 budget has been fully discussed with the relevant director and, where appropriate, individual budget holder.
3.2	In preparing the Rate estimates the officers have noted that, notwithstanding the recent Land and Property Services (LPS) revaluation of non-domestic hereditaments (effective 1 April 2023), the post Covid 19 pandemic financial impacts on businesses deriving from changing consumer and producer attitudes and behaviours, particularly in relation to Rate base impacts, may yet impact on future Rate income streams. The potential impacts are currently unquantifiable.

3.3	The amounts included within the Rate estimates have regard to the officers' best estimates of known and foreseeable financial pressures and the resource requirements of continuing to deliver Council services in 2023/24.
3.4	The officers also note the recently communicated reduction in Rate Support Grant (RSG) for 2022/23. The reduction to £8.924m from the previously anticipated £15.865m, together with the reduction in the Council's share of RSG (from 20% to 16%) for 2023/24 et seq., introduces significant uncertainty into the 2023/24 Rate estimates process.
3.5	The officers have also considered the ongoing cost of living crisis and its potential implications for the 2023/24 National Pay Negotiations (NPN); the NPN are outside the Council's control but have the potential to materially impact on the robustness of the estimates.
3.6	Inflation generally continues to present at a high level. This is impacting directly upon contract terms, many of which are expressly linked to CPI or CPI + formulae. The officers, in so far as practicable, have sought to ensure that the Rate estimates make appropriate provision for unavoidable inflationary increases, such as those which are relevant to waste management (recycling), and IT/telecommunications contracts.
3.7	As in previous years, the Rate estimates make little provision for capital contracts beyond those which the Council is already committed.
3.8	Typically, capital projects are funded via the Council making a Minimum Revenue Provision (MRP) which seeks to fund the cost of borrowing (or replenishing cash reserves used in lieu of borrowing) over a period equivalent to the estimated life of the capital asset being funded. The MRP is calculated in accordance with the MRP policy adopted by Council (see separate report considered at item 4 of the Agenda for this meeting).
3.9	The Rate estimates recommended to Council would result in Council striking district non-domestic and domestic Rates for 2023/24 which will be 5.86% and 8.90% higher than the 2022/23 district non-domestic and domestic Rates respectively.
3.10	The recommended Rate(s) reflects a reduction in recurrent funding of capital projects (£400,000) and the Mid-South West Growth Deal (£300,000). The officers would prefer not to have reduced these funding streams, but consider it necessary in order to enable the Council to strike an affordable Rate. However, notwithstanding the officers' reticence to reduce the funding streams, they are satisfied that the Council is adequately funded at this time; this assessment could change in future years.
3.11	Council's cash position continues to be excellent. This has resulted from a combination of sound revenue and capital budgetary management and the fact that Council has benefited from positive Rate finalisations in recent years and the very significant RSG windfall, which arose as a consequence of the Court of Appeal decision in September 2018.

<p>3.12</p> <p>3.13</p> <p>3.14</p> <p>3.15</p> <p>3.16</p> <p>3.17</p>	<p>The Rate estimates proposed recommend that the Council apply £2.4m of its cash reserves to towards minimising the 2023/24 district Rate. This proposal is contingent upon the Members understanding that the application of reserves is a temporary measure that only “kicks the can down the road”.</p> <p>If the Council applies £2.4m (or any other amount) of reserves to reduce the 2023/24 district Rate, the district Rate will have to be increased in subsequent years to generate sufficient recurrent Rate income to fund £2.4m of annual expenditure (that is not being funded in the year that the reserves are applied). The report listed at item 5 of the Agenda for this meeting proposes that the £2.4m be funded over a 4 year period (2024/25 to 2027/28) by way of an additional (estimated) 1.4% increase in the district Rate in <u>each</u> of those years.</p> <p>Members should also note that, if the Council decides to fund the £2.4m over 4 years, reducing amounts of reserves will also have to be applied in these years (over and above the original £2.4m). The paper illustrates that a decision to apply £2.4m of reserves (funded equally over the subsequent 4 years) will result in an aggregate £6m reduction in reserves (cash).</p> <p>The officers are of the opinion that the application of cash balances in excess of £2.4m could significantly increase the risk of the Council’s reserves becoming inadequate.</p> <p>Members should also note that the proposed Rate estimates have been prepared on the basis of assumptions and information provided to Council by third parties such as the Department for Communities (DfC) and LPS (for example the Estimated Penny Product (EPP)) which has previously been discussed at length with the Policy and Resources Committee</p> <p>In conclusion, subject to the aforementioned:</p> <ul style="list-style-type: none"> • Uncertainties surrounding the Council’s future Rate base; • Future RSG allocation; • The outworking of national negotiations in relation to pay award; • Inflation generally; and <p>the Council’s willingness to adopt the officers’ recommendations in relation to actions necessary to deliver savings and minimise financial pressures, the officers are satisfied that the proposed Rate estimates are sufficiently robust to enable Council to deliver its services in 2023/24.</p>
<p>4.0</p>	<p>Other Considerations</p>
<p>4.1</p>	<p>Financial, Human Resources & Risk Implications</p> <p>Financial:</p> <p>The reduced level of RSG income (approximately £1,388m) in 2022/23 arising from the reduced level of RSG (£8.924m) allocated by the DfC will impact on the</p>

	<p>Council's cash and reserves in 2022/23. 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 (application of reserves in the amount of £2.4m as proposed in the attached report is estimated to reduce reserves in the amount of £6m) thereby diverting funds from other commitments and ambitions; 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: N/A</p> <p>Rural Needs Implications: N/A</p>

5.0	Recommendation(s)
5.1	That Members have regard to the Chief Financial Officer's comments in relation to the robustness of the estimates when considering the Rate estimates
6.0	Documents Attached & References
6.1	N/A

Report on	Adequacy of Reserves
Date of Meeting	6 February 2023
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 2023/24.
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 has now been superseded by guidance which no longer specifies a minimum level of reserves.
3.2	Although the 2022/23 financial outturn is not yet known, and despite the recently communicated reduction in 2022/23 RSG (to £8.924m from the previously anticipated £15.865m), which will result in a loss in income to the Council in 2022/23 of approximately £1.388m, the officers estimate that that the Council's reserves at 31 March 2023 will not be materially reduced from the opening balance at 1 April 2022.
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 (£1.5m) and the Council's commitments in relation to the Mid-South West Growth Deal (£1m).
3.4	If the original departmental guidance (see above) continued to be extant, the Council's reserves at 1 April 2023 should equate to a minimum of 5% of its 2022/23 net operating expenditure; having regard to information currently in the possession of the officers, the

	<p>officers are of the opinion that the Council will deliver and exceed (for the reason 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 (£3m and £600k respectively), maintenance of closed landfill sites (approximately £2m), etc.</p>
3.8	<p>These amounts are further increased by the reduced RSG income (approximately £1,388m) in 2022/23 (which was intended to fund revenue expenditure in 2022/23), and the proposed application of £2.4m reserves in the 2023/24 Rate estimates – this will commit the Council to a £6m cash reduction.</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), it is now foreseeable that the Council will commence funding capital expenditure by borrowing within the next term of the Council.</p>
3.10	<p>When the Council will commence borrowing will depend, inter alia, on future RSG allocations and the Council's willingness to adopt the actions recommended by the officers to enable the Council to deliver its services in 2023/24 within the proposed Rate estimates.</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 £1,388m) in 2022/23 arising from the reduced level of RSG (£8.924m) allocated by the DfC will impact on the Council's cash and reserves in 2022/23. 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 (application of reserves in the amount of £2.4m as proposed in the attached report is estimated to reduce reserves in the amount of £6m) thereby diverting funds from other commitments and ambitions; 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: N/A</p> <p>Rural Needs Implications: N/A</p>
<p>5.0</p>	<p>Recommendation(s)</p>
<p>5.1</p>	<p>That Members have regard to the Chief Financial Officer’s comments in relation to the adequacy of the reserves when considering the Rate estimates</p>
<p>6.0</p>	<p>Documents Attached & References</p>
<p>6.1</p>	<p>N/A</p>

