

Report on	Adequacy of Reserves
Date of Meeting	Monday 8 th February 2022
Reporting Officer	Chief Financial Officer (Chief Executive)
Contact Officer	Director of Finance

Is this report restricted for confidential business?	Yes	
If 'Yes', confirm below the exempt information category relied upon	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 2022/23.
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3.1	Previous Department of Environment (now superseded by Department for Communities) guidance issued in December 2009 specified that district councils should hold a District Fund balance which equates to a minimum of 5% of the council's net operating expenditure, but this guidance has now been superseded by guidance which no longer specifies a minimum level of reserves.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	<p>Although the 2021/22 financial outturn is not yet known, the officers estimate that, providing the previously received (in 2020/21) NI Assembly funding regarding Covid 19 is sufficient to offset financial losses associated with the pandemic (which it appears to be), when the financial commitments that the 2021/22 Rate income was intended to fund are accounted for, Council's usable reserves will, as a minimum, be uplifted by approximately £2.5 million. The minimum anticipated increase in usable reserves is explained by:</p> <ul style="list-style-type: none"> £1 million, which previously serviced the loan used to fund local government reform that Council retained within its 2020/21 Rate estimates with the intention of using to lever investment in large capital projects such as Dungannon bypass, etc

	<p>and more recently fund Council's anticipated commitment under a future Growth Deal;</p> <ul style="list-style-type: none"> • £1.5m (being 3 x £500k) to fund capital projects by way of MRP; and • £100k being to fund potential expenditure associated with the Council's General Power of Competence. <p>3.3 The above amounts, although the vast majority of which has not yet been applied, are essential elements of the Council's Rate income stream as they will effectively fund all the Council's foreseeable aspirations in relation to these issues over the medium term. Reduction in or deletion of these amounts from the Rate estimates will mean that the Council will subsequently have to increase its Rate to fund these aspirations. To that extent, it would be a false economy to seek to reduce or delete these amounts from the Rate estimates.</p> <p>3.4 The uplift in reserves is despite the fact that the Council's 2021/22 Rate failed to fund all its recurrent revenue expenditure. The apparent anomaly is simply explained; the 2021/22 Rate, although insufficient to fund budgeted recurrent expenditure, has been "buoyed" by several factors, which include:</p> <ol style="list-style-type: none"> 1. The fact that the unfunded 2021/22 pay award is still not known and therefore has not been paid yet. Although the unknown deficit has not yet presented, Members will appreciate that it will present recurrently in due course; 2. The Council benefitted from a very high Rate finalisation in relation to 2020/21; it received an additional unbudgeted amount of £1.5m, which was a consequence of significant in-year NI Executive non-domestic Rate support. <p>3.5 In addition, by 31st March 2022, the Council's reserves will also be inflated by a material additional amount of Rate Support Grant (notified but not quantified at the date of writing this report) for 2021/22 and potentially some <u>additional</u> Covid 19 pandemic funding, which may yet be received from the Department of Communities before the financial year end.</p> <p>3.6 If the original departmental guidance (see above) continued to be extant, the Council's reserves should equate to a minimum of 5% of its 2021/22 net operating expenditure; as such, the Council is on track to deliver and exceed (for the reasons detailed above) the formerly recommended 'best practice' minimum reserves.</p> <p>3.7 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> <p>3.8 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 some reason.</p> <p>3.9 In the case of this Council, 1/12 of net operating expenditure is approximately £5 million (being approximately £60 million divided by 12).</p> <p>3.10 At the end of December 2021, Council had a reconciled cash balance of £29.4 million, due in part to the significant windfall secured on foot of the RSG Judicial Review success at Court of Appeal in September 2018 and several other significant amounts of funding received in advance. As such, Council is currently satisfying the above 'criterion'.</p>
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3.11	Going forward, the 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 £1.8m (at 31 March 2021).						
3.12	Consequently, in addition to amounts funded in advance, the Council should hold a minimum uncommitted cash balance of: <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Working capital (1/12 net operating expenditure)</td> <td style="text-align: right;">5,000,000</td> </tr> <tr> <td>Cash reserve to fund landfill site closures</td> <td style="text-align: right;"><u>1,800,000</u></td> </tr> <tr> <td>Total</td> <td style="text-align: right;"><u>6,800,000</u></td> </tr> </table>	Working capital (1/12 net operating expenditure)	5,000,000	Cash reserve to fund landfill site closures	<u>1,800,000</u>	Total	<u>6,800,000</u>
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Cash reserve to fund landfill site closures	<u>1,800,000</u>						
Total	<u>6,800,000</u>						
3.13	As Council will ultimately be required to finance other reserves (including a capital fund), the above amount of £6.8m should not be interpreted as the Council's only cash requirements. However, other cash requirements, although ideally funded from cash balances, could, in theory, be funded from new borrowing.						
3.14	As the Council's General Fund balance is currently £6.4m (at 31 March 2021), it would appear that the Council's "minimum" uncommitted cash requirement is well matched by the General Fund and, in any event, is well within the Council's current cash reserves (£29.4 million).						
3.15	As previously explained to Members, Council's Treasury Management Advisers, Arlingclose made a presentation to Members in December 2021. The officers will bring a report on Treasury Management and Cash Reserves to a future meeting of the Policy and Resources Committee for consideration.						
3.16	In the meantime, the officers are, subject to the uncertainties noted in the 'Robustness of the Estimates' report to Committee, of the opinion that Council's reserves are adequate.						
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 the Council 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
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