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)."

<u>Context</u>

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 £million	2020/21 £million	2021/22 £million	2022/23 £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.

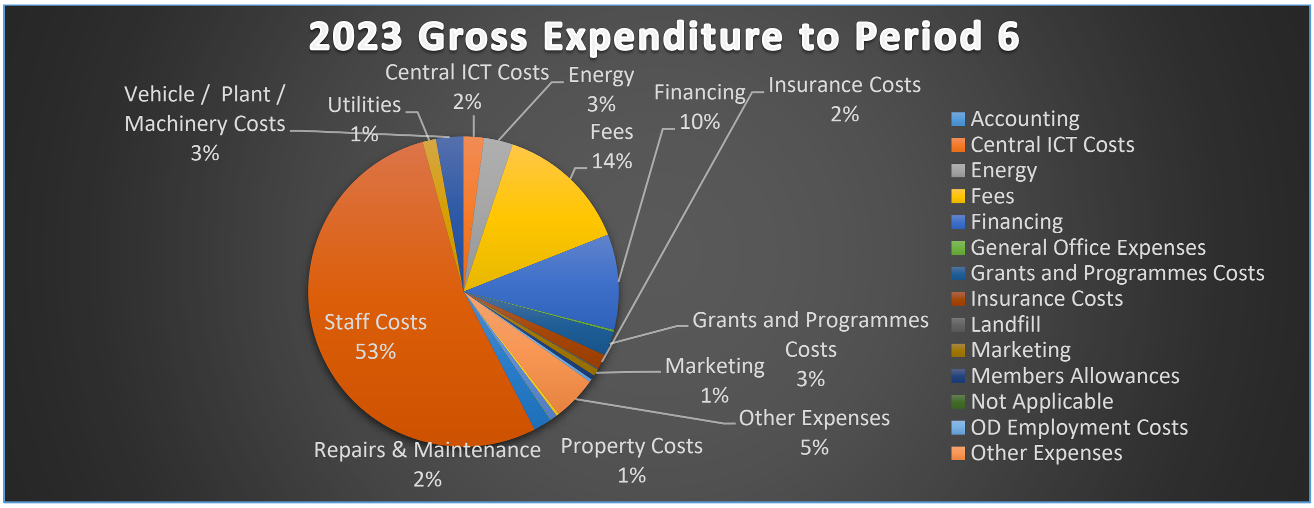

Figure 2 shows the Council's gross expenditure for periods 1 to 6 inclusive (April to September) for the current financial year (2022/23). Only expenditure categories of 1% of the Council's gross expenditure or more has been detailed in order to make the chart legible.

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 • Other	12% 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 net[5] cost pressure of approximately £7.8m, which if unrelieved, would result in an estimated[6] 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% <u>before</u> 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).

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[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