

Report on	Robustness of Rate Estimates 2020/21
Date of Meeting	10 February 2020
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 robustness of the 2020/21 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 2020/21 Rate estimates have been prepared, in so far as practicable, on a zero-base basis using the 2019/20 budgets as a baseline. This means that every proposed budget movement from the 2019/20 budget has been fully discussed with the relevant director and, where appropriate, individual budget holder.
3.2	Although this is not a complete zero-based budget build, the Senior Management Team feel that the work done in recent years has resulted in the 2019/20 budgets being a reasonable baseline from which to incrementally build the 2020/21 Rate estimates.
3.3	The amounts included within the Rate estimates have regard to the officers' best estimates of known financial pressures and the resource requirements of continuing to deliver Council services in 2020/21.
3.4	Members will be aware that several of the financial pressures facing Council in 2020/21 are outside Council's control and are, at the present time, relatively vague. Uncertain pressures at the present time include the pay award that will be notified to Council in due

	course and the financial impact of market forces on waste management contracts, notably those for paper and cardboard.
3.5	As previously discussed with Members, both in Committee and in separate meetings between Members and the Chief Executive and/or the Director of Finance, preparation of the proposed 2020/21 Rate estimates has been made difficult because of the uncertainty surrounding the aggregate amount of Rate Support Grant (RSG) that the Department for Communities (DfC) may distribute between eligible councils in 2020/21.
3.6	Although a statutorily unprotected grant, the RSG is a critical element of Council's funding. Despite its importance to recipient councils, the DfC no longer informs eligible councils of the amount of RSG that they can expect to receive before they strike their district Rate by the prescribed date of 15 February 2020. Instead, the DfC has notified Council that, if any amount is to be distributed between eligible councils, Council's share will be in the region of at least £700,000 less than it received in 2019/20. £700,000 represents a 1.47% increase in Council's district domestic Rate.
3.7	In addition, Members will be aware that Council is reflecting on a draft capital programme for the current Council term, which, if adopted, will require Council to fund in the region of £50 million of the £70 million investment under consideration. Funding this level of capital investment, together with delivering upon Council's Growth Deal commitments will require Council to ensure that its Rate estimates over the medium to long term include sufficient Minimum Revenue Provision (MRP) to enable Council to service the associated additional borrowing, which is anticipated to be required from 2021/22 onward.
	<u>Funding of capital expenditure</u>
3.8	As in previous years, the Rate estimates make very limited express provision for the funding of capital projects beyond those to which Council is already committed.
3.9	Typically, capital projects are funded via Council making a 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 attached at 6.1 of the Rates estimates report).
3.10	The Rate estimates presently recommended to Council would result in Council striking a district domestic Rate which will be 3.92% higher than the 2019/20 district domestic Rate. The recommended Rate includes £1.5 million (£500k 2017/18 plus £500k 2018/19 plus £500k 2020/21) which will be required to fund vehicle and equipment additions as well as capital projects.
3.11	On the assumption that Council can continue to access borrowing at competitive rates (currently approximately 3% fixed for 25 years) and interest rates increase to an average of (say) 4% over the life of the capital programme, Council's borrowing costs can be estimated to be approximately £60,000 per annum per million pounds borrowed. Consequently, the proposed £1,500,000 per annum capital budget would finance up to approximately £24 million of capital expenditure.
3.12	The above calculation obviously assumes that all the assets would have an estimated useful life of 25 years, which vehicles and equipment do not, of course. This draws attention to the fact that the £1.5 million will probably fund loans of less than £24 million due to the need to also repay loans associated with vehicles and equipment over 7 and 5 years respectively as opposed to 25 years.

	<p><u>Cash position</u></p> <p>3.13 Council's cash position is good. 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 RSG windfall, which arose as a consequence of the Court of Appeal decision in September 2018.</p> <p>3.14 The officers recommend that Council continue to apply its cash balance as follows:</p> <ol style="list-style-type: none"> 1. Maintain an appropriate level of cash reserves – the officers will present a further report in relation to Treasury Management and Cash Reserves to a future Policy and Resources Committee meeting; and 2. To be a source of internal borrowing for capital projects pending drawing down additional loans <p><u>Uncertainties</u></p> <p>3.15 As in previous budget estimate processes, the officers have utilised their professional judgment where appropriate and had regard to market forces in so far as it has been practicable to do so.</p> <p>3.16 The estimation of future financial requirements has also had regard to the projected financial outturn in 2019/20 and the desire to utilise reserves generated in prior financial years, where possible, to deliver outcomes in the District as agreed with Council.</p> <p>3.17 Members should note that the proposed estimates have been prepared on the basis of assumptions and information provided to Council by third parties such as the DfC and Land and Property Services (for example the Estimated Penny Product (EPP)) previously notified to the Policy and Resources Committee.</p> <p>3.18 Members will also be aware that, despite BREXIT having been agreed in principle, the future consequences of BREXIT remain a significant uncertainty.</p> <p><u>Conclusion</u></p> <p>3.19 Subject to the uncertainties surrounding what the DfC may do in relation to the total amount of RSG available for distribution between eligible councils, the impact of market forces on Council's waste management contracts, the outworking of national negotiations in relation to pay award and the future consequences of BREXIT, and on the assumption that Council does strike a Rate which will</p> <ul style="list-style-type: none"> • Retain the £1million previously used to service debt associated with the reform of local government and • Include £1.5 million to fund future capital expenditure, <p>the officers are satisfied that the proposed Rate estimates are sufficiently robust to enable Council to deliver its services in 2020/21.</p>
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 has 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