



07 February 2022

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, 07 February 2022 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. Apologies
2. Declarations of Interest
3. Chair's Business

Matters for Decision

- | | | |
|----|--|--------|
| 4. | Minimum Revenue Provision Policy (MRP) | 3 - 4 |
| 5. | Rates Estimates 2022/23 | 5 - 14 |
| 6. | Approval of Rates Estimates 2022/23 (i) Authorisation of the expenditure included in the estimates; (ii) Fixing for the financial year beginning 1 April 2022 the amount to be raised by means of rates and striking the domestic and non-domestic rate for 2022/23. | |

Matters for Information

- | | | |
|---|---------------------------------------|---------|
| 7 | Robustness of Rates Estimates 2022/23 | 15 - 20 |
| 8 | Adequacy of Reserves 2022/23 | 21 - 24 |

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

9. Appointment of Consultancy Services: Bid Writing Tender Framework

Matters for Information

Report on	Minimum Revenue Provision Policy
Date of Meeting	Monday 8 th March 2022
Reporting Officer	Director of Finance
Contact Officer	Director of 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 2022/23 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 2022/23 accounting period, it amended its MRP policy in 2020/21 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 2022/23 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 2022/23.
6.0	Documents Attached & References
	N/A

Report on	Rate estimates 2022/23
Date of Meeting	Monday 8 th February 2022
Reporting Officer	Director of Finance
Contact Officer	Director of 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 the Rates Estimates process for 2022/23 to enable them to strike its 2022/23 district Rate and agree a budget for that financial year.
2.0	Background
2.1	Members will recall previous discussions in relation to progress being made in the preparation of 2022/23 Rates Estimates.
2.2	This report has been prepared in accordance with Council's previously agreed timetable for information and discussion in relation to the 2022/23 Rates Estimates process.
2.3	The report is intended to provide Members with sufficient information to make informed judgements in relation to Council's statutory responsibilities concerning its estimates of income and expenditure for the financial year 2022/23 and to enable Council to strike its District Rate at its Special Meeting, which is scheduled to be held on Monday, 8 th February 2022.
2.4	Council's responsibilities in relation to its 2022/23 Rate Estimates are governed by Section 3 of the Local Government Finance Act (Northern Ireland) 2011 which 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

<p>2.5</p> <p>2.6</p> <p>2.7</p>	<p>(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.</p> <p>(3) No expenditure shall be incurred by or on behalf of a council unless—</p> <p>(a) previously authorised in accordance with the estimates approved by the council; or</p> <p>(b) otherwise previously authorised by the council; or</p> <p>(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.” (emphasis added)</p> <p>The “prescribed date” referred to in Section 3(2) (above) is 15th February 2022.</p> <p>Council is also required to approve its Minimum Revenue Provision (MRP) policy for 2022/23. It is proposed that Council will continue to apply its existing policy.</p> <p>Members may be interested to learn that the implementation of IFRS 16, the MRP consequences of which had been anticipated when the Council approved its MRP policy for 2020/21, will be implemented on 1 April 2022.</p>
<p>3.0</p>	<p>Main Report</p>
<p>3.1</p> <p>3.2</p> <p>3.3</p> <p>3.4</p>	<p>Prior to considering the estimates for 2022/23 and striking the Rate, Council is required to have regard to the report submitted by the Chief Executive under section 4 (1) of the Local Government Finance Act (Northern Ireland) 2011 (the 2011 Act) on the robustness of the estimates when considering the estimates under section 3(2)(a) of the 2011 Act.</p> <p>Similarly, section 6(3) of the 2011 Act requires Council to have regard to the report submitted by the Chief Executive under section 6(2) of the 2011 Act on the adequacy of any proposed financial reserves for a financial year.</p> <p>The reports to be submitted by the Chief Executive under sections 4(1) and 6(2) of the 2011 Act (above) are included as part of the agenda for this meeting.</p> <p>Council has also a 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>

	in respect of the financing of capital expenditure incurred by the council in that year or in any financial year prior to that year.”
3.5	Consequently, Council shall, prior to considering the estimates for 2022/23, reflect on its minimum revenue provision (MRP) policy and consider its appropriateness.
3.6	A report seeking approval of the officer recommended MRP policy, which is to be considered prior to the Council’s consideration of the 2022/23 Rate estimates, is also included as part of the agenda for this meeting.
3.7	In order to expedite Members’ assimilation of information relevant to the 2022/23 Rate estimates, the officers have attached (at 6.1 below) a copy of an extract of the paper submitted to the Policy and Resources Committee for consideration at its meeting on Thursday, 3 rd February 2002, which addresses the key issues pertaining to the proposed 2022/23 Rate.
3.8	Members are also reminded that, in accordance with previous discussions in relation to the potential to decouple the Council’s domestic Rate from its non-domestic Rate, the officers continue to recommend that the Council does not do this at the current time. The domestic Rate proposed therefore remains linked to the proposed non-domestic Rate by the conversion factor that has been reinstated to legislation with effect from Tuesday, 1 st February 2022 (following the Council’s representations in this regard).
3.9	If the Council accepts the officers’ recommendations (see attachment at 6.1 below), it will strike a district Rate that reflects a 4.94% increase from its 2021/22 district Rate.
3.10	As explained in the attached extract from the report to the Policy and Resources Committee, if the NI Executive do not increase the regional Rate (as it indicates in its 2022/23 to 2024/25 budget consultation document) from its 2021/22 level, a Council rate payer will not experience a 4.94% increase in the rates that they pay in 2022/23. They will instead experience a <u>2.09% increase</u>.
3.11	In practical terms, as explained above, a domestic ratepayer in a property with an average capital value of £125,000, would therefore see their annual rates bill increase by £20.75 (£2.08 per month, if paid by direct debit over 10 months).
3.12	As detailed in paragraph 2.4 above, in order to strike a district Rate, the Council must first: <ul style="list-style-type: none"> • Approve the estimates; • Authorise the expenditure included in the estimates; and • Fix for the next financial year (2022/23) the amount estimated to be required to be raised by means of rates made by the Council.
3.13	Accordingly, notwithstanding the uncertainties previously referred to, the officers recommend that the Council: <ul style="list-style-type: none"> • Approve the estimates as presented to the Members, a summary of which is included within the attachment at 6.1 below; • Authorise the expenditure within the estimates (gross expenditure £59,237,409, net expenditure £49,737,866); • Fix for 2022/23 the amount of £46,336,823 as the amount estimated to be required to be raised by means of rates made by the Council; and

	<ul style="list-style-type: none"> Strike non-domestic and domestic Rates of 24.6355 and 0.3539 respectively, reflecting a 4.94% increase on the Rates struck in 2021/22.
4.0	Other Considerations
4.1	Financial, Human Resources & Risk Implications
	Financial: See above
	Human: N/A
	Risk Management: See above re continuance of ongoing NI Assembly financial support for losses due to the Covid 19 pandemic and RSG
4.2	Screening & Impact Assessments
	Equality & Good Relations Implications: N/A
	Rural Needs Implications: N/A
5.0	Recommendation(s)
5.1	<p>That Members consider the above and that the Council, noting the figures included within the report:</p> <ol style="list-style-type: none"> Approve the estimates as presented; Authorise the expenditure within the estimates; Strike non-domestic and domestic Rates which will reflect a 4.94% increase respectively from the equivalent 2021/22 district Rates; Authorise the Chief Executive to vire such amounts between budget headings as he deems necessary to secure Council's objectives in 2022/23.
6.0	Documents Attached & References
6.1	Extract of the report to presented to the Policy and Resources Committee (plus attachments) in relation to the 2022/23 Rate estimates for consideration at its meeting scheduled to be held on Thursday, 3 rd February 2022.
6.2	Analysis of Council's cash balances.

Extract of Rates Estimates Report presented to Policy & Resources Committee on 3 February

Members will be aware that the officers continue to work towards the presentation of proposals to enable the Council to strike an affordable Rate for 2022/23 that will enable the Council to deliver upon its statutory obligations and achieve its corporate and other objectives.

At the time of writing, since the last Committee meeting, which was held on 12 January 2022, some Members have met with the Strategic Director of Corporate Services and Finance with other meetings being scheduled to take place in advance of this meeting.

Although detailed assessment of the Council's finances continues, the officers are currently of the opinion that the Council should reflect upon the significant economic shifts that have taken place since start of the Covid 19 pandemic in early 2020 and how, in that context, the Council can best deliver upon its statutory duties and aspirations.

Significant issues for consideration include:

1. Inflation is currently significantly above the government's target of 2%;
2. It would appear that inflation will increase further over 2022/23 and that supply chain issues will remain for the foreseeable future;
3. Notwithstanding the Council's robust cash reserves, considerable uncertainty remains over significant elements of the Council's income streams, both from the public in terms of facility usage and from central government in terms of grant support, notably Rate Support Grant (RSG);
4. Central government pandemic related support for business and society in general appears to be waning;
5. Much of the Council's cost base, e.g., staff, energy, fuel, waste management, IT licensing and support, etc. is extremely difficult to significantly reduce in the short (and indeed medium) term and is generally subject to inflation rates significantly in excess of the average rate of inflation, regardless of whether measured by RPI or CPI;
6. Although the Council is currently reasonably well funded to deliver most of its statutory obligations and aspirations, insufficient provision has currently been made for ongoing revenue commitments associated with capital works

recently completed and/or scheduled for completion in the short to medium term.

The schedule attached (below) illustrates that financial analysis to date has:

1. Identified recurrent cost pressures estimated in the amount of £4,123,500 (details as per schedule, the total of which is presented as £3,233,500 due to need to present non-payroll element of 2021/22 pressures (£890,000) as negative amounts);
2. Identified potential areas that might yield savings or income streams estimated in the amount of £950,000 (details as per schedule), which could be applied to mitigate the recurrent cost pressures;
3. Calculated a potential district Rate for 2022/23, which would reflect a 4.94% increase from the district Rate struck for 2021/22 – this has decreased from the figure of 5.4% discussed at the initial meetings with Members.

Further analysis of the figures presented in the schedule suggests the following:

1. If the Council strikes a district Rate which reflects a 4.94% increase from the 2021/22 Rate, the Council will, in all probability, continue to have the second lowest district domestic Rate in Northern Ireland (2021/22 – 2nd lowest);
2. It is not yet possible to calculate how its non-domestic Rate will compare to other councils' non-domestic Rate; however, it is likely that the Council's non-domestic Rate will be the fifth lowest in Northern Ireland (2021/22 – 3rd lowest);
3. The Council would, had the Council not struck a district Rate in 2021/22 that reflected a 0% increase from the 2020/21 district Rate, not have had to fund £1,250,000 in the 2022/23 Rate, an amount which of itself contributes 2.83% of the 4.94% increase;
4. As the NI Executive has already indicated its intention to not increase the Regional rate in 2022/23, the Council's rate payers will not actually experience a 4.94% increase in their 2022/23 Rates. The proposed district Rate increase of 4.94% will produce a 2.09% increase in Rates payable. This will result in an average rate payer (property rateable value of £125,000) living in Mid Ulster District Rate bill increasing from £993.38 pa to £1,014.13 pa – an increase of £20.75 pa or £2.08 per month (10 months direct debit), which equates to £1.73 per week.

As previously discussed, Members will appreciate that, given the Council's inability to achieve savings in relation to staff costs and third party waste management costs within a defined reasonable time period, and its desire to not jeopardise its ability to deliver its Growth Deal ambitions and capital programme commitments, all savings have effectively to be delivered on 23% of its gross budget. This would equate to a 23.3% reduction in that proportion (£13,624,601) of its estimated 2022/23 gross budget of £59,237,409; the officers do not consider that a reduction of such magnitude is either desirable or possible.

Members will again appreciate that, if the Council sought to deliver the necessary savings from that portion of its budget that is committed to funding either its Growth Deal ambitions or the capital programme, it could jeopardise the leveraging of significant investment into the district (Growth Deal and capital programme to the extent that the capital programme is part funded) and/or create a future funding deficit (capital programme) that could not be re-established via affordable Rate increases. The officers would therefore recommend that Members should reflect carefully on the consequences of such a proposal before contemplating the Council to such a strategy.

Finally, the officers would ask the Members to note that the Minister of Communities recent announcement of an additional £10m RSG allocation in 2021/22, although extremely welcome, is non-recurrent funding. As such, the Council should not seek to apply its allocation of the additional funding to “resolve” the estimated 2022/23 recurrent financial pressures.

However, Members will note that the attached schedule assumes that the Council will receive an additional unbudgeted £1m RSG and that the Council will choose to use it to fund transformation over a 4 year period to reduce recurrent revenue expenditure by the end of that period.

If delivered upon, the process of using defined amounts of cash reserves over a defined period to secure significant cash releasing efficiencies would be an excellent way for the Council to address its longer term funding issues, both because the Council has sufficient cash reserves to do so and because it is entirely consistent with the transformation agenda that the Council has adopted.

Rate Estimates Update - Policy & Resources Committee Meeting 3 February 2022

Appendix 6.1 - Draft Rate Estimates Schedule 2022/23

	Annual Budget 2022/23 £	Annual Budget 2022/23 £	Annual Budget 2022/23 £	Annual Budget 2022/23 £
2021/22 Estimated Funded Net Expenditure				46,566,366
<u>Pressures</u>				
<u>Amounts attributable to 2021/22</u>		1,250,000		
<u>Amounts attributable to 2022/23</u>				
Staff costs	1,240,000			
Waste contracts	569,000			
Funding of revenue tail of capital programme	450,000			
Energy costs	164,500			
Fuel costs	115,000			
Insurance	100,000			
IT & Telecoms inflation	100,000			
GPS tracking software	41,000			
Members Allowances	35,000			
Coalisland HWRC - discharge cert plus lease increas	20,000			
Additional Rates - Drumcoo	16,000			
HR management info system	14,000			
Shortfall in MacMillan funding	9,000			
	<hr/>	2,873,500		
Total pressures			4,123,500	
<u>Funding of pressures</u>				
Leisure & Parks savings identified - realign sevices to demand		(350,000)		
Property Services savings identified - review of public conveniences delivery mode		(200,000)		
Additional car parking income - Cookstown		(100,000)		
Increased Building Control fees		(50,000)		
Application of additional RSG received in 2021/22 to fund transformation over a 4 year period		(250,000)		
		<hr/>	(950,000)	
Net pressures			<hr/>	3,173,500
Estimated 2022/23 Net Expenditure to be funded				<hr/> 49,739,866

Appendix 6.2 **Paper - 2022/23 Rate Estimates**

Mid Ulster District Council - Special Meeting on Monday, 3 February 2022

Analysis of Council Cash Balances

	£000	£000
Balance at 31 December 2021 (per Financial Report submitted to P&R Committee)		29,420
Less:		
Amounts funded in advance (per 2020/21 accounts)		
DfC Covid	4,733	
DfC Active Travel	499	
RSG	851	
	<hr/>	(6,083)
General fund balance (per 2020/21 draft accounts)		(6,363)
(Council required to hold adequate reserves - one month's gross expenditure approximately £6m)		
Amounts to fund restructuring (per July 2021 Council meeting report)		(1,247)
Amount to fund loan repayments already committed (per 2020/21 draft accounts)	(5,460)	
Reduced to nil as included in Rate income over remaining term of loans	<hr/> 5,460	0
Amounts accumulated for specific purposes		
General Power of Competence (5 years at £100k less est. £100k expended to date)	400	
Growth Deal Projects (2 years x £1m)	2,000	
Miscellaneous	<hr/> 500	(2,900)
Amount necessary to close landfill sites (per 2020/21 draft accounts)		(1,780)
Amounts to fund 2021/22 deficit (amounts not budgeted for)		
2021/22 pay rise	360	
Remainder - compensated (in year only) for by 2020/21 finalisation	<hr/> 0	(360)
Amount suggested to be retained to fund transformation over next Council term (4 years)		(1,500)
		<hr/>
Balance available to fund capital projects or be applied as determined by the Council		9,187
		<hr/>

Report on	Robustness of Rate Estimates 2022/23
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? 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 the robustness of the 2022/23 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 continuing pandemic related pressures, using the 2021/22 budgets as a baseline. This means that every proposed budget movement from the 2021/22 budget has been fully discussed with the relevant director and, where appropriate, individual budget holder.
3.2	However, Members should note that the potential financial impacts of the continuing Covid 19 pandemic, particularly in relation to Rate base impacts, continue to present a great deal of uncertainty in relation to future Rate income streams.
3.3	Members should also note that the Rate estimates have been prepared on the assumption that the NI Assembly will continue to provide sufficient financial support in 2022/23 to adequately defray the Council's financial losses associated with the pandemic

	<p>and that, in the event that such support is not forthcoming, financial shortfalls may have to be funded from the Council's reserves and cash balances. In the short-term, i.e. in 2022/23, any such reasonably likely scenario can be accommodated without compromising the Council's financial resilience.</p>
3.4	<p>Although, the pandemic has significantly complicated matters, and this is not a zero-based budget build, the Senior Management Team feel that the work done in recent years has resulted in the 2021/22 budgets being a reasonable baseline from which to incrementally build the 2022/23 Rate estimates.</p>
3.5	<p>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 2022/23.</p>
3.6	<p>Members will be aware that several of the financial pressures facing Council in 2021/22 are outside Council's control and are, at the present time, relatively vague. In addition to the financial implications of the pandemic and the level of NI Assembly support in relation to same, uncertain pressures at the present time include the 2021/22 and 2022/23 pay awards that will be notified to Council in due course and the financial impact of market forces on waste management contracts, which are being retendered.</p>
3.7	<p>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 2022/23 Rate estimates continues to be particularly difficult because of the continuing uncertainty surrounding the aggregate amount of Rate Support Grant (RSG) that the Department for Communities (DfC) is likely to distribute between eligible councils in 2022/23.</p>
3.8	<p>Although a statutorily unprotected grant, the RSG is a critical element of the 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.</p>
3.9	<p>The "normal" uncertainty is heightened by the fact that the Department of Finance is currently consulting on a draft 3 year budget for NI; the draft budget indicates at paragraphs 5.7 and 5.12 (see below) respectively that each of the Executive's departments (excluding Health) will contribute 2% of their opening baseline to the health service. This could put significant pressure on the Department for Communities to cut its RSG budget and, if that happens in 2022/23, the officers feel that the risk of the cut continuing into the 2023/24 and 2024/25 would increase significantly.</p> <p>"5.7 With the funding provided by the Chancellor's Spending Review falling short of what was needed to fund Executive's priorities, this draft Budget proposes that other departments contribute 2% of their opening baseline towards the health service"</p> <p>"5.12 In setting departmental budgets, the underpinning assumption has been that departments will find the proposed 2% reduction required to provide additional funding to health from efficiencies in the existing budgets. The challenges of doing this cannot be under-estimated. However, it is a measure of the priority given to our health service that this approach has been agreed"</p>
3.10	<p>The fact that the Minister for Communities announced (on 20 January 2022) additional RSG in 2021/22 (effectively to reinstate the aggregate budget from the previously reduced £11.224m (from £15.865m) to the original £21m budget), while providing considerable extra funds in 2021/22, suggests to the officers that the 2022/23 RSG</p>

budget will not be reinstated to the “normal” £15.865m. If this happens, although the additional funds received in 2021 could be said to compensate the eligible councils, the additional funds in 2021/22 would, at best, only provide the equivalent of the recurrent funding withdrawn for 1 year, i.e. 2022/23. Consequently, in the context of a three year allocation, eligible councils could be faced with a significant reduction in RSG funding for 2023/24 and 2024/25.

Funding of capital expenditure

- 3.11 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.
- 3.12 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 6.2 of the Rates estimates report).
- 3.13 The Rate estimates presently recommended to Council would result in Council striking a district domestic Rate which will be 4.94% higher than the 2020/21 district domestic Rate.
- 3.14 The recommended Rate does not include any additional financial provision towards funding capital projects or the Mid-South West Growth Deal. However, the officers are satisfied that the Council is currently adequately funded in this regard.

Cash position

- 3.15 Council’s cash position is 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.
- 3.16 The officers recommend that Council apply its cash balance as follows:
1. Maintain an appropriate level of cash reserves as a “safety net” in the event of the Council’s Rate or other income being significantly delayed in any month (approximately £7m);
 2. Maintain a further cash reserve to fund the closure and maintenance costs associated with the Council’s former landfill sites as the Council will not be allowed to borrow to fund these costs (approximately £2m);
 3. Fund transformation, i.e., if it is possible to materially reduce a significant recurrent revenue expenditure budget, e.g., waste management recycling contracts, over a period of time, the Council could apply some of its cash reserves to:
 - (i) Fund, over a defined period of time, both revenue and capital expenditure necessary to create the environment to deliver the activity at a materially reduced cost going forward – this could include not adding inflationary or other service costs pressures to the Rate pressures during the “development” phase;
 - (ii) Fund, over a defined period of time, any revenue costs, e.g., supplementary procurement staff, that will contribute to reducing “bottlenecks” that are negatively impacting on service delivery, such as tendering and award of capital contracts.

	<p>The amount reserved for this purpose should be expressly quantified relative to the pre-defined recurrent revenue savings that will be delivered by investment of these funds over a pre-defined specified period;</p> <p>4. To fund a pre-defined number of capital projects and/or one-off revenue initiatives, to a pre-defined maximum financial cost, bearing in mind that any associated foreseeable recurrent revenue costs must be expressly notified to the Council prior to commissioning and factored into relevant Rate estimates discussions thereafter.</p> <p>The amount reserved for this purpose should be expressly quantified;</p> <p>5. To be a source of internal (temporary) borrowing and/or funding (if required) for capital projects pending drawing down additional loans (this may be unnecessary given the level of cash balances currently held) and;</p> <p>6. If necessary, be available to the Council to fund unforeseen opportunities and/or emergency financial deficits, including unforeseen shortfalls in assumed Departmental and/or NI Assembly funding.</p> <p>The amount reserved for this purpose should be expressly quantified.</p> <p><u>Uncertainties</u></p> <p>3.17 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>3.18 The estimation of future financial requirements has also had regard to the projected financial outturn in 2021/22 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>3.19 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>3.20 Members will also be aware that, despite BREXIT having been “delivered”, the future consequences of BREXIT remain uncertain.</p> <p><u>Conclusion</u></p> <p>3.21 Subject to the uncertainties surrounding the financial consequences of the pandemic, 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 the currently recommended Rate the officers are satisfied that the proposed Rate estimates are sufficiently robust to enable Council to deliver its services in 2022/23.</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 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	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>
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>						
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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