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| Report on | Robustness of 2024/25 Rate Estimates |
| Date of Meeting | 12 February 2024 |
| Reporting Officer | Chief Financial Officer (Chief Executive) |
| Contact Officer | Strategic Director of Corporate Services and Finance |

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

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| 1.0 | Purpose of Report |
| 1.1 | To provide Members with a report in relation to the robustness of the 2024/25 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 2024/25 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 2024/25 financial year, using the 2023/24 budgets as a baseline. This means that every proposed budget movement from the 2023/24 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 concluded that, notwithstanding the recent Land and Property Services (LPS) estimates in relation to the Council's Penny Product and the revaluation of non-domestic hereditaments (effective 1 April 2023), the Council's wealth as measured by the capacity of its Rate base to generate Rates income should not be considered 'unshakeable' given the continuing economic challenges. As more fully explained in the Rates update report which was considered by the Policy and Resources Committee at its |

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| | <p>meeting held on Thursday, 8 February, the officers have 'moderated' or adjusted the combined EPP to a figure which reflects a 2.29% increase on the 2023/24 EPP on the grounds that is much more likely to be delivered than the 5.72% increase initially suggested by LPS. This moderation is line with actions known to have been taken by at least one other district council; the other council decided to moderate its combined EPP to reflect a zero percent increase from 2023/24.</p> |
| 3.3 | <p>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 2024/25.</p> |
| 3.4 | <p>The officers also note the recently communicated reduction in Rate Support Grant (RSG) for 2023/24. The reduction to £4.9m from the previously anticipated £15.865m, together with the reduction in the Council's share of RSG (from 20% to 16% for 2023/24 and to 11.77% for 2024/25 et seq.), introduces significant uncertainty into the 2024/25 Rate estimates process.</p> |
| 3.5 | <p>The officers have also considered the ongoing cost of living crisis and its potential implications for the 2024/25 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. The Rate estimates have been prepared on the basis of a National Pay award equivalent to a 4% increase on the Council's aggregate wage roll.</p> |
| 3.6 | <p>Inflation, although reduced from the highs of recent times, generally continues to present at a relatively 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.</p> |
| 3.7 | <p>As in previous years, the Rate estimates make no provision for capital contracts beyond those to which the Council is already committed.</p> |
| 3.8 | <p>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).</p> |
| 3.9 | <p>The Rate estimates recommended to Council would result in Council striking district non-domestic and domestic Rates for 2024/25 which will be 7.40% and 7.39% higher than the 2023/24 district non-domestic and domestic Rates respectively.</p> |
| 3.10 | <p>The recommended Rate(s) maintain the current recurrent funding of capital projects (£1.1m (reduced from £1.5m in 2023/24)) and the Mid-South West Growth Deal (£700,000 (reduced from £1m in 2023/24)).</p> |

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| <p>3.11</p> <p>3.12</p> <p>3.13</p> <p>3.14</p> <p>3.15</p> | <p>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. It is further anticipated that the Council will shortly receive approximately £3m deriving from the Leisure Services VAT claim against HMRC, a sector-wide claim which has been pursued by the Council on behalf of all eleven district councils since 2009.</p> <p>The Rate estimates proposed recommend that the Council apply a further £1.8m of its cash reserves towards minimising the 2024/25 district Rate. This proposal results from the Council's decision to apply a balance of £2.4m in 2023/24 and is part of the total reserves of £6m that were committed in the original decision. Members will be aware that the application of a balance when striking the Rate in any year makes it possible for the Council to strike a lower Rate than it would if it did not apply a balance. However, it is essential that the Council continues to have regard to the fact that the application of a balance must be redressed in one or more future years in order to prevent the Council jeopardising its solvency and liquidity.</p> <p>The officers are of the opinion that further application of cash balances in excess of the £6m (which was the consequence of applying a £2.4m balance in 2023/24) 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 ability to adopt actions to either reduce recurrent revenue expenditure or increase income in 2024/25 and future years 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 2024/25.</p> |
| <p>4.0</p> | <p>Other Considerations</p> |
| <p>4.1</p> | <p>Financial, Human Resources & Risk Implications</p> <p>Financial:</p> |

The reduced level of RSG income (approximately £1.754m) in 2023/23 arising from the reduced level of RSG (£4.9m) allocated by the DfC will impact on the Council's cash and reserves in 2023/24. 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.

Implementation of any proposal to spread already identified unavoidable recurrent cost pressures over future years will:

- Deplete cash and reserves thereby diverting funds from other commitments and ambitions. The application of £2.4m of reserves as detailed in section 3 (above) committed the Council to an aggregate £6m reduction in reserves – a balance of £1.8m is applied in the 2024/25 Rate estimates, making a total of reserves used to support the Rate £4.2m to date with a further £1.8m in total to be applied when striking the 2025/26 and 2026/27 district Rate; 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

Human:
N/A

Risk Management:

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.

Implementation of any proposal to spread the district Rate impact of already identified unavoidable annual cost pressures over future years will:

- 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

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| | <p>Equality & Good Relations Implications: Screening of the proposed Rate estimates and associated district Rate has not identified and significant negative impacts</p> |
| | <p>Rural Needs Implications: Screening of the proposed Rate estimates and associated district Rate has not identified and significant negative impacts</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 |