

Report on	Adequacy of Reserves
Date of Meeting	Monday 1 st March 2021
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 adequacy of Council's projected reserves for 2021/22.
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3.1	Previous Department of Environment (now superseded by Department for Communities) guidance issued in December 2009 specified that district councils should hold a District Fund balance which equates to a minimum of 5% of the council's net operating expenditure, but this guidance has now been superseded by guidance which no longer specifies a minimum level of reserves.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	Although the 2020/21 financial outturn is not yet known, the officers estimate that, providing the Treasury (furlough) and NI Assembly funding regarding Covid 19 is sufficient to offset financial losses associated with the pandemic, when the financial commitments that the 2020/21 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:

- £1 million, which previously serviced the loan used to fund local government reform that Council retained within its 2019/20 Rate estimates with the intention of using to lever investment in large capital projects such as Dungannon bypass, etc and more recently fund Council's anticipated commitment under a future Growth Deal;
- £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.

3.3 Members will note that, as previously reported, these aggregate amounts have now superseded individual amounts previously included (in the initial years of the Council's existence) within Rate estimates to fund structural reform, potential future expenditure incurred under Council's general power of competency, and absorption of functions transferred from central government.

3.4 If the original departmental guidance (see above) continued to be extant, i.e. Council's reserves should equate to a minimum of 5% of its 2020/21 net operating expenditure, it would appear that Council is on track to deliver the formerly recommended 'best practice' minimum reserves.

3.5 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.

3.6 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.

3.7 In the case of this Council, 1/12 of net operating expenditure is approximately £4 million (being approximately £48 million divided by 12).

3.8 At the end of December 2020, Council had a reconciled cash balance of £17.6 million, due in part to the significant windfall secured on foot of the RSG Judicial Review success at Court of Appeal in September 2018. As such, Council is currently satisfying the above 'criterion'. Council also benefits from the 'safety net' of an overdraft facility which it has not needed to avail of to date.

3.9 Going forward, 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 £1,801,263 (at 31 March 2020).

3.10 Consequently, Council should hold a minimum uncommitted cash balance of:

Working capital (1/12 net operating expenditure)	4,000,000
Cash reserve to fund landfill site closures	<u>1,801,263</u>
Total	5,801,263

3.11	As Council will ultimately be required to finance other reserves (including a capital fund), the above amount of £5,801,263 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.
3.12	As the Council's General Fund balance is currently £5,838,774 (at 31 March 2020), 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 (£17.6 million).
3.13	As previously explained to Members, Council's Treasury Management Advisers, Arlingclose are presently in discussion with the officers about how Council should now utilise its cash reserves. The officers will bring a report on Treasury Management and Cash Reserves to a future meeting of the Policy and Resources Committee for consideration.
3.14	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 notes the above.
6.0	Documents Attached & References
6.1	N/A