

Report on	Robustness of 2023/24 Rate Estimates
Date of Meeting	6 February 2023
Reporting Officer	Chief Financial Officer (Chief Executive)
Contact Officer	Strategic Director of Corporate Services and 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 a report in relation to the robustness of the 2023/24 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 the general economic climate and financial pressures relevant to the 2023/24 financial year, using the 2022/23 budgets as a baseline. This means that every proposed budget movement from the 2022/23 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 noted that, notwithstanding the recent Land and Property Services (LPS) revaluation of non-domestic hereditaments (effective 1 April 2023), the post Covid 19 pandemic financial impacts on businesses deriving from changing consumer and producer attitudes and behaviours, particularly in relation to Rate base impacts, may yet impact on future Rate income streams. The potential impacts are currently unquantifiable.

3.3	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 2023/24.
3.4	The officers also note the recently communicated reduction in Rate Support Grant (RSG) for 2022/23. The reduction to £8.924m from the previously anticipated £15.865m, together with the reduction in the Council's share of RSG (from 20% to 16%) for 2023/24 et seq., introduces significant uncertainty into the 2023/24 Rate estimates process.
3.5	The officers have also considered the ongoing cost of living crisis and its potential implications for the 2023/24 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.
3.6	Inflation generally continues to present at a 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.
3.7	As in previous years, the Rate estimates make little provision for capital contracts beyond those which the Council is already committed.
3.8	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).
3.9	The Rate estimates recommended to Council would result in Council striking district non-domestic and domestic Rates for 2023/24 which will be 5.86% and 8.90% higher than the 2022/23 district non-domestic and domestic Rates respectively.
3.10	The recommended Rate(s) reflects a reduction in recurrent funding of capital projects (£400,000) and the Mid-South West Growth Deal (£300,000). The officers would prefer not to have reduced these funding streams, but consider it necessary in order to enable the Council to strike an affordable Rate. However, notwithstanding the officers' reticence to reduce the funding streams, they are satisfied that the Council is adequately funded at this time; this assessment could change in future years.
3.11	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.

<p>3.12</p> <p>3.13</p> <p>3.14</p> <p>3.15</p> <p>3.16</p> <p>3.17</p>	<p>The Rate estimates proposed recommend that the Council apply £2.4m of its cash reserves to towards minimising the 2023/24 district Rate. This proposal is contingent upon the Members understanding that the application of reserves is a temporary measure that only “kicks the can down the road”.</p> <p>If the Council applies £2.4m (or any other amount) of reserves to reduce the 2023/24 district Rate, the district Rate will have to be increased in subsequent years to generate sufficient recurrent Rate income to fund £2.4m of annual expenditure (that is not being funded in the year that the reserves are applied). The report listed at item 5 of the Agenda for this meeting proposes that the £2.4m be funded over a 4 year period (2024/25 to 2027/28) by way of an additional (estimated) 1.4% increase in the district Rate in <u>each</u> of those years.</p> <p>Members should also note that, if the Council decides to fund the £2.4m over 4 years, reducing amounts of reserves will also have to be applied in these years (over and above the original £2.4m). The paper illustrates that a decision to apply £2.4m of reserves (funded equally over the subsequent 4 years) will result in an aggregate £6m reduction in reserves (cash).</p> <p>The officers are of the opinion that the application of cash balances in excess of £2.4m 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 willingness to adopt the officers’ recommendations in relation to actions 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 2023/24.</p>
<p>4.0</p>	<p>Other Considerations</p>
<p>4.1</p>	<p>Financial, Human Resources & Risk Implications</p> <p>Financial:</p> <p>The reduced level of RSG income (approximately £1,388m) in 2022/23 arising from the reduced level of RSG (£8.924m) allocated by the DfC will impact on the</p>

	<p>Council's cash and reserves in 2022/23. 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.</p> <p>Implementation of <u>any</u> proposal to spread already identified unavoidable recurrent cost pressures over future years will:</p> <ul style="list-style-type: none"> • Deplete cash and reserves (application of reserves in the amount of £2.4m as proposed in the attached report is estimated to reduce reserves in the amount of £6m) thereby diverting funds from other commitments and ambitions; 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
	<p>Human: N/A</p>
	<p>Risk Management:</p> <p>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.</p> <p>Implementation of <u>any</u> proposal to spread the district Rate impact of already identified unavoidable annual cost pressures over future years will:</p> <ul style="list-style-type: none"> • 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
<p>4.2</p>	<p>Screening & Impact Assessments</p> <p>Equality & Good Relations Implications: N/A</p> <p>Rural Needs Implications: N/A</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