

Report on	Robustness of Rate Estimates 2018/19
Reporting Officer	Chief Financial Officer (Chief Executive)
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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 2017/18 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 2018/19 Rate estimates have been prepared, in so far as possible, on a zero base basis. This is generally accepted as a more robust method of preparing budgets than the more usual practice of incremental based budgeting.
3.2	The amounts included within the Rate estimates have been prepared on the basis of extensive discussions with the relevant Directors and associated budget holders and have regard to the officers' best estimates of known financial pressures and the resource requirements of continuing to deliver Council services in 2018/19.
3.3	<p>The proposed Rate estimates expressly provide for the:</p> <ul style="list-style-type: none"> • Continuance of the £500k contribution towards the restoration of Council's cash reserves, which was initiated in the 2017/18 Rate estimates; and • Augmentation in the amount of £500k of the £500k contribution towards the establishment of a capital fund sufficient to deliver Council's capital aspirations.

3.4 The Rate estimates have been prepared on the basis of Council surrendering its recurrent (since 2017/18) £300k allocation towards a fund to be used to take advantage of opportunities or address threats as and when identified to mitigate recurrent financial pressures in the preparation of the 2018/19 Rate estimates.

3.5 The officers are of the opinion that appropriate funding of Council's capital programme and its cash balances is necessary to both ensure the delivery of Council's capital aspirations programme and provide it with an adequate cash base from which to operate. The officers also consider that any reduction in the amounts proposed to be retained in the 2018/19 Rate estimates will seriously undermine Council's ability to deliver upon the officers' understanding of Council's capital and revenue plans.

3.6 Funding of capital expenditure

As in previous Rate estimates processes undertaken by Council since its assumed responsibility for setting a budget for the delivery of council services on 1 April 2015, Council has yet to formally approve a capital programme which will deliver capital projects beyond those already committed to at the time of the previous (2017/18) Rate estimates. In other words, the Rate estimates make very limited express provision for the funding of capital projects beyond those to which Council is already committed.

Typically capital projects are funded via Council making a minimum revenue provision (MRP) which seeks to fund the cost of borrowing over a period equivalent to the estimated life of the capital asset being funded. These MRPs are calculated in accordance with the MRP policy adopted by Council (see separate report considered earlier in this meeting).

The Rate estimates recommended to Council would result in Council striking a district domestic Rate which will be 2.98% higher than the 2017/18 district domestic Rate. The recommended Rate, however, although including only a limited express MRP, does expressly seek to secure a further £500,000 (in addition to the £500,000 provided in the 2017/18 Rate estimates) to fund capital projects.

The ring fencing of these two £500,000 allocations will enable Council to finance borrowing which will be used to fund capital projects that Council will ultimately formally include within its capital programme for 2018/19 and beyond (the plan horizon is currently 2020). Currently approximately £58,594k of capital projects are under consideration for inclusion in Council's 2017/2020 capital programme. These projects are currently estimated to require £39,416k of Council funding. Of these projects, only the vehicle replacement programme in the amount of £4,475k (over five years) has been expressly reflected in the 2017/18 and 2018/19 Rate estimates and this expenditure will also in due course be funded by borrowing. As neither the 2017/18 nor the 2018/19 Rate estimates include a specific MRP for the vehicle replacement programme, the requisite MRP will be drawn from the £1 million (2 x £500k) allocation.

On the assumption that Council can continue to access borrowing at competitive rates (currently 2.78% 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 £500,000 per annum capital fund would finance £8.333 million of capital expenditure. On this basis the cost of financing £40 million would be £2.4million per annum.

Members will also recall that Council drew down a loan from the then Department of Finance and Personnel (now Department of Finance) in the amount of £3.058 million to fund staff severance costs associated with local government reform. This loan was scheduled repaid over the first three years of Council's existence and will not exist post 31 March 2018. An amount of approximately £1,000,000 is therefore included within Council's Rate income which will no longer be required to service this loan post 2017/18. The Rate estimates have been prepared on the assumption that Council will not surrender this £1 million to mitigate financial pressures but will be retained to either fund or finance capital investment by Council or to lever significant third party investment into the Council district for major infrastructural or other investment such as roads, rail or broadband.

On this basis, if Council ultimately decides to deliver the entire £58,594k capital programme currently under consideration, it would have to include an amount of £2.4million within its Rate estimates. As the currently proposed Rate estimates only includes an amount of £1,000,000 (excluding the £1 million associated with the soon to be repaid loan associated with staff severance on local government reform (see above)), Members should reflect on the fact that delivery of any new capital programme in the 2017/2020 period is entirely contingent on an adequate provision being included within the Rate estimates.

Uncertainties

As in all budget estimate processes, senior 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.

The estimation of future financial requirements has also had regard to the projected financial outturn in 2017/18 and the desire to utilise prior period surpluses, where possible, to deliver outcomes in the District as agreed with Council.

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 Department for Communities and Land and Property Services previously notified to the Policy and Resources Committee.

In particular, Members will be aware of the present uncertainty surrounding the quantum of Rate Support Grant (RSG) which will ultimately be allocated to Council. As RSG typically funds approximately 7% of Council's net cost of services, a shortfall in RSG received (compared to budget) will have the potential to significantly impact on Council's ability to finance its services in 2018/19.

Conclusion

Subject to the uncertainty surrounding RSG, and on the assumption that Council does strike a Rate which will expressly fund the

- Continuation of the £500k contribution towards the restoration of appropriate cash reserves; and
- Augmentation in the amount of £500k of the £500k contribution towards the establishment of a capital fund sufficient to deliver Council's capital aspirations

the officers are satisfied that the proposed Rate estimates are sufficiently robust to enable Council to deliver its services in 2018/19.

4.0	Other Considerations
4.1	<p><u>Financial & Human Resources Implications</u></p> <p>Financial: See above</p> <p>Human: N/A</p>
4.2	<p><u>Equality and Good Relations Implications</u></p> <p>N/A</p>
4.3	<p><u>Risk Management Implications</u></p> <p>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 estimates.
6.0	Documents Attached & References
6.1	N/A