

Report on	Robustness of Rate Estimates 2019/20
Date of Meeting	11 February 2019
Reporting Officer	Chief Financial Officer (Chief Executive)
Contact Officer	JJ Tohill

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 2019/20 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 2019/20 Rate estimates have been prepared, in so far as practicable, on a zero-base basis using the 2018/19 budgets as a baseline. This means that every proposed budget movement from the 2018/19 budget has been fully discussed with the relevant director and, where appropriate, individual budget holder.
3.2	Although this is not a complete zero-based budget build, the Senior Management Team feel that the work done in recent years has resulted in the 2018/19 budgets being a reasonable baseline from which to incrementally build the 2019/20 Rate estimates.

3.3	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 2019/20.
3.4	As previously discussed with Members, both in Committee and in separate meetings between Members and the Chief Executive and/or the Director of Finance, the proposed Rate estimates have not yet sought to use the Council's recent Rate Support Grant (RSG) Judicial Review success at Court of Appeal to suppress the proposed Rate increase.
3.5	In addition, Members will be aware that the officers, although not including an additional contribution to Council's Minimum Revenue Provision (MRP) included within its 2018/19 baseline are recommending that the £5.8m windfall received re RSG from 2015/16 to 2018/19 will largely compensate for the absence of the additional contribution (normally £550,000) in 2019/20.
3.6	Members will also be aware that the Rate estimates continue to include, as discussed, approximately £1m, which was previously used to service the loan (now repaid) used to fund the initial costs of local government reform. The officers continue to recommend that this amount is protected as it provides Council with the ability to deliver upon its responsibilities under the anticipated Growth Deal and will assist in the meantime with funding capital projects without drawing down loans. This funding could also be applied by Council to lever significant third-party investment into the Council district for major infrastructural or other investment such as roads, rail or broadband.
	<u>Funding of capital expenditure</u>
3.7	As stated above, the Rate estimates make very limited express provision for the funding of capital projects beyond those to which Council is already committed.
3.8	Typically, capital projects are funded via 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 earlier in this meeting).
3.9	The Rate estimates presently recommended to Council would result in Council striking a district domestic Rate which will be 2.89% higher than the 2018/19 district domestic Rate. The recommended Rate continues to include £1m (£500k 2017/18 plus £500k 2018/19) which will be required to fund vehicle and equipment additions as well as capital projects.
3.10	At the time of writing this report, the Policy and Resources Committee had yet to consider the potential for Council to include in its Rate estimates an amount to be applied for the funding of the NI Air Ambulance. This matter was initially considered at the Council's meeting on 24 January 2019 and the amount under discussion at that time was £181,818. The Council deferred discussion of this

matter to allow consideration by the Policy and Resources Committee at its meeting on Thursday, 7 February 2019. If Council were to add an additional £181,818 to its Rate estimates, this would result in the proposed increase in district Rate increasing by 0.45% to 3.34% (from 2.89%).

3.11 Members will, however, recall that discussion subsequent to Council's success at Court of Appeal in respect of its RSG Judicial Review, noted that Council might be minded to apply some of the additional RSG that is likely to be received in 2019/20 as a consequence of the appeal to suppress the 2019/20 Rate increase in the knowledge that it should fund any amount suppressed in the following year's (2020/21's) Rate estimates.

3.12 On the assumption that Council can continue to access borrowing at competitive rates (currently approximately 3% 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 £1,000,000 per annum capital budget would finance approximately £16m of capital expenditure.

3.13 The above calculation obviously assumes that all the assets would have an estimated useful life of 25 years, which vehicles and equipment do not, of course. This draws attention to the fact that the £1m will fund loans of less than £16m due to the need to also repay loans associated with vehicles and equipment over 7 years as opposed to 25 years.

Cash position

3.14 Council's cash position is good. 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 recent RSG windfall. However, Members should note that the windfalls are all non-recurrent in nature.

3.15 The officers recommend that Council continue to apply its cash balance as follows:

1. Maintain an appropriate level of cash reserves – the officers will present a further report in relation to Treasury Management and Cash Reserves to a future Policy and Resources Committee meeting; and
2. To be a source of internal borrowing for capital projects

Uncertainties

3.16 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.

3.17 The estimation of future financial requirements has also had regard to the projected financial outturn in 2018/19 and the desire to utilise reserves generated in prior financial years, where possible, to deliver outcomes in the District as agreed with Council.

3.18	<p>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 (DfC) and Land and Property Services (for example Estimated Penny Product (EPP)) previously notified to the Policy and Resources Committee.</p>
3.19	<p>Members will be aware that, as an unprotected grant, the DfC could significantly reduce the total amount for distribution between eligible councils. However, the absence of an Assembly makes it unlikely that any cut in 2019/20 will be significant.</p>
3.20	<p>Members will also be aware that the consequences of BREXIT remain a significant uncertainty.</p> <p><u>Conclusion</u></p> <p>Subject to the uncertainties surrounding what the DfC may do in relation to the total amount of RSG available for distribution between eligible councils and BREXIT, and on the assumption that Council does strike a Rate which will</p> <ul style="list-style-type: none"> • Retain the £1m previously used to service debt associated with the reform of local government and • Does not seek to apply the probable benefit in 2019/20 of the Council's recent RSG Judicial Review success at Court of Appeal to subsidise Rate pressures <p>the officers are satisfied that the proposed Rate estimates are sufficiently robust to enable Council to deliver its services in 2019/20.</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 estimates.
6.0	Documents Attached & References
6.1	N/A