

Report on	Robustness of Rate Estimates 2022/23
Date of Meeting	Monday 8 th February 2022
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 robustness of the 2022/23 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 continuing pandemic related pressures, using the 2021/22 budgets as a baseline. This means that every proposed budget movement from the 2021/22 budget has been fully discussed with the relevant director and, where appropriate, individual budget holder.
3.2	However, Members should note that the potential financial impacts of the continuing Covid 19 pandemic, particularly in relation to Rate base impacts, continue to present a great deal of uncertainty in relation to future Rate income streams.
3.3	Members should also note that the Rate estimates have been prepared on the assumption that the NI Assembly will continue to provide sufficient financial support in 2022/23 to adequately defray the Council's financial losses associated with the pandemic

and that, in the event that such support is not forthcoming, financial shortfalls may have to be funded from the Council's reserves and cash balances. In the short-term, i.e. in 2022/23, any such reasonably likely scenario can be accommodated without compromising the Council's financial resilience.

- 3.4 Although, the pandemic has significantly complicated matters, and this is not a zero-based budget build, the Senior Management Team feel that the work done in recent years has resulted in the 2021/22 budgets being a reasonable baseline from which to incrementally build the 2022/23 Rate estimates.
- 3.5 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 2022/23.
- 3.6 Members will be aware that several of the financial pressures facing Council in 2021/22 are outside Council's control and are, at the present time, relatively vague. In addition to the financial implications of the pandemic and the level of NI Assembly support in relation to same, uncertain pressures at the present time include the 2021/22 and 2022/23 pay awards that will be notified to Council in due course and the financial impact of market forces on waste management contracts, which are being retendered.
- 3.7 As previously discussed with Members, both in Committee and in separate meetings between Members and the Chief Executive and/or the Director of Finance, preparation of the proposed 2022/23 Rate estimates continues to be particularly difficult because of the continuing uncertainty surrounding the aggregate amount of Rate Support Grant (RSG) that the Department for Communities (DfC) is likely to distribute between eligible councils in 2022/23.
- 3.8 Although a statutorily unprotected grant, the RSG is a critical element of the Council's funding. Despite its importance to recipient councils, the DfC no longer informs eligible councils of the amount of RSG that they can expect to receive before they strike their district Rate by the prescribed date.
- 3.9 The "normal" uncertainty is heightened by the fact that the Department of Finance is currently consulting on a draft 3 year budget for NI; the draft budget indicates at paragraphs 5.7 and 5.12 (see below) respectively that each of the Executive's departments (excluding Health) will contribute 2% of their opening baseline to the health service. This could put significant pressure on the Department for Communities to cut its RSG budget and, if that happens in 2022/23, the officers feel that the risk of the cut continuing into the 2023/24 and 2024/25 would increase significantly.
- "5.7 With the funding provided by the Chancellor's Spending Review falling short of what was needed to fund Executive's priorities, this draft Budget proposes that other departments contribute 2% of their opening baseline towards the health service"
- "5.12 In setting departmental budgets, the underpinning assumption has been that departments will find the proposed 2% reduction required to provide additional funding to health from efficiencies in the existing budgets. The challenges of doing this cannot be under-estimated. However, it is a measure of the priority given to our health service that this approach has been agreed"
- 3.10 The fact that the Minister for Communities announced (on 20 January 2022) additional RSG in 2021/22 (effectively to reinstate the aggregate budget from the previously reduced £11.224m (from £15.865m) to the original £21m budget), while providing considerable extra funds in 2021/22, suggests to the officers that the 2022/23 RSG

budget will not be reinstated to the “normal” £15.865m. If this happens, although the additional funds received in 2021 could be said to compensate the eligible councils, the additional funds in 2021/22 would, at best, only provide the equivalent of the recurrent funding withdrawn for 1 year, i.e. 2022/23. Consequently, in the context of a three year allocation, eligible councils could be faced with a significant reduction in RSG funding for 2023/24 and 2024/25.

Funding of capital expenditure

- 3.11 As in previous years, the Rate estimates make very limited express provision for the funding of capital projects beyond those to which Council is already committed.
- 3.12 Typically, capital projects are funded via Council making a 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 attached at 6.2 of the Rates estimates report).
- 3.13 The Rate estimates presently recommended to Council would result in Council striking a district domestic Rate which will be 4.94% higher than the 2020/21 district domestic Rate.
- 3.14 The recommended Rate does not include any additional financial provision towards funding capital projects or the Mid-South West Growth Deal. However, the officers are satisfied that the Council is currently adequately funded in this regard.

Cash position

- 3.15 Council’s cash position is 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.
- 3.16 The officers recommend that Council apply its cash balance as follows:
1. Maintain an appropriate level of cash reserves as a “safety net” in the event of the Council’s Rate or other income being significantly delayed in any month (approximately £7m);
 2. Maintain a further cash reserve to fund the closure and maintenance costs associated with the Council’s former landfill sites as the Council will not be allowed to borrow to fund these costs (approximately £2m);
 3. Fund transformation, i.e., if it is possible to materially reduce a significant recurrent revenue expenditure budget, e.g., waste management recycling contracts, over a period of time, the Council could apply some of its cash reserves to:
 - (i) Fund, over a defined period of time, both revenue and capital expenditure necessary to create the environment to deliver the activity at a materially reduced cost going forward – this could include not adding inflationary or other service costs pressures to the Rate pressures during the “development” phase;
 - (ii) Fund, over a defined period of time, any revenue costs, e.g., supplementary procurement staff, that will contribute to reducing “bottlenecks” that are negatively impacting on service delivery, such as tendering and award of capital contracts.

	<p>The amount reserved for this purpose should be expressly quantified relative to the pre-defined recurrent revenue savings that will be delivered by investment of these funds over a pre-defined specified period;</p> <p>4. To fund a pre-defined number of capital projects and/or one-off revenue initiatives, to a pre-defined maximum financial cost, bearing in mind that any associated foreseeable recurrent revenue costs must be expressly notified to the Council prior to commissioning and factored into relevant Rate estimates discussions thereafter.</p> <p>The amount reserved for this purpose should be expressly quantified;</p> <p>5. To be a source of internal (temporary) borrowing and/or funding (if required) for capital projects pending drawing down additional loans (this may be unnecessary given the level of cash balances currently held) and;</p> <p>6. If necessary, be available to the Council to fund unforeseen opportunities and/or emergency financial deficits, including unforeseen shortfalls in assumed Departmental and/or NI Assembly funding.</p> <p>The amount reserved for this purpose should be expressly quantified.</p> <p><u>Uncertainties</u></p> <p>3.17 As in previous budget estimate processes, the 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.</p> <p>3.18 The estimation of future financial requirements has also had regard to the projected financial outturn in 2021/22 and the desire to utilise reserves generated in prior financial years, where possible, to deliver outcomes in the District as agreed with Council.</p> <p>3.19 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 DfC and Land and Property Services (for example the Estimated Penny Product (EPP)) previously notified to the Policy and Resources Committee.</p> <p>3.20 Members will also be aware that, despite BREXIT having been “delivered”, the future consequences of BREXIT remain uncertain.</p> <p><u>Conclusion</u></p> <p>3.21 Subject to the uncertainties surrounding the financial consequences of the pandemic, what the DfC may do in relation to the total amount of RSG available for distribution between eligible councils, the impact of market forces on Council’s waste management contracts, the outworking of national negotiations in relation to pay award and the future consequences of BREXIT, and on the assumption that Council does strike the currently recommended Rate the officers are satisfied that the proposed Rate estimates are sufficiently robust to enable Council to deliver its services in 2022/23.</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 Rate estimates.
6.0	Documents Attached & References
6.1	N/A