

<b>Report on</b>	Adequacy of Reserves
<b>Date of Meeting</b>	10 February 2020
<b>Reporting Officer</b>	Chief Financial Officer (Chief Executive)
<b>Contact Officer</b>	Director of Finance

<b>Is this report restricted for confidential business?</b> If 'Yes', confirm below the exempt information category relied upon	Yes	
	No	x

<b>1.0</b>	<b>Purpose of Report</b>
1.1	To provide Members with an update in relation to the adequacy of Council's projected reserves for 2020/21.
<b>2.0</b>	<b>Background</b>
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>
<b>3.0</b>	<b>Main Report</b>
3.1	Although previous Department of Environment (now superseded by Department for Communities) guidance issued in December 2009 specified that district councils should hold a District Fund balance which equates to a minimum of 5% of the council's net operating expenditure, this guidance has now been superseded by guidance which no longer specifies a minimum level of reserves.
3.2	<p>Although the 2019/20 financial outturn is not yet known, the officers estimate that when the financial commitments that the 2019/20 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:</p> <ul style="list-style-type: none"> <li>• £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;</li> <li>• £1m (being 2 x £500k) to fund capital projects by way of MRP; and</li> </ul>

- £500k being to ensure that reserves are cash backed.

3.3 Members will note that, as previously reported, these aggregate amounts have now superseded individual amounts previously included within Rate estimates to fund structural reform, potential future expenditure incurred under Council's general power of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 £3.75 million (being approximately £45 million divided by 12).

3.8 At the end of December 2019, Council had a reconciled cash balance of £13,535,392, due in part to the £5.8m 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 £2,057,745 (at 31 March 2019).

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

Working capital (1/12 net operating expenditure)	3,750,000
Cash reserve to fund landfill site closures	<u>2,057,745</u>
Total	5,807,745

3.11 As Council will be required to finance other reserves (including a capital fund) in the amount of approximately £2.5 million, this means that Council should be currently holding approximately £8.3 million. Consequently, Council's cash reserves would appear to be now appropriate to its potential commitments.

3.12 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.

3.13 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.

<b>4.0</b>	<b>Other Considerations</b>
<b>4.1</b>	<b>Financial, Human Resources &amp; Risk Implications</b>
	Financial: See above
	Human: N/A
	Risk Management: N/A
<b>4.2</b>	<b>Screening &amp; Impact Assessments</b>
	Equality & Good Relations Implications: N/A
	Rural Needs Implications: N/A
<b>5.0</b>	<b>Recommendation(s)</b>
5.1	That Council has regard to the Chief Financial Officer's comments in relation to the adequacy of the reserves when considering the Rate estimates.
<b>6.0</b>	<b>Documents Attached &amp; References</b>
6.1	N/A