

Title of Report:	Rates Estimates
Committee Report Submitted To:	Council
Date of Meeting:	4 February 2020
For Decision or For Information	For decision – to strike the rate

Linkage to Council Strategy (2019-23)	
Strategic Theme	All themes
Outcome	The Council will continuously examine and introduce ways to provide services in more accessible and efficient ways
Lead Officer	Chief Finance Officer

Budgetary Considerations	
Cost of Proposal	Annual Estimates
Included in Current Year Estimates	YES/NO
Capital/Revenue	
Code	
Staffing Costs	

Screening Requirements	Required for new or revised Policies, Plans, Strategies or Service Delivery Proposals.		
Section 75 Screening	Screening Completed:	Yes/No	Date:
	EQIA Required and Completed:	Yes/No	Date:
Rural Needs Assessment (RNA)	Screening Completed	Yes/No	Date:
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1.0 Purpose of Report

- 1.1 The purpose of this report is to inform members of the financial pressures being faced by Council in terms of budgeting and the setting of the rate for 2020/21. The summary table details the estimated budget to be considered in the setting of the rate for 2020/21.
- 1.2 This budget round has been an extremely difficult and challenging one for a number of reasons, some of which are mention later in this report. It cannot be ignored that Council has significantly reduced its General reserve over the last two complete financial years and the position remains challenging in the current financial year. With that in mind it is vital that the budget agreed and the rate struck are balanced in financial terms thereby minimising any risk of further diminishment of the General Reserve during 2020/21 to unsustainable levels. When striking the rate Council must consider fully and agree the necessary measures that will be required to ensure that the rate being set is sufficient to meet the needs of the services in financial terms.

2.0 Background

- 2.1 In considering this draft of the rates there are a number of significant high level pressures which have been incorporated.
- 2.2 **Wages and Salaries** – by far the largest cost to the Council. In recent years pay awards have been weighted towards those at the lowest pay grades in an effort to bring these up to at least National Minimum Wage. Union demands have been extremely high from their initial position which is not sustainable from an affordability viewpoint and the negotiation process is ongoing. For the purposes of this budget wages and salary costs have been increased by 2% for a pay award but also taking into account pay increments and employers pension contribution regarding agency staff. In addition in this version of the estimates the employer's contribution rate for pensions has been reduced by 0.5%, the annual lump sum payment to NILGOSC regarding deficit recovery of £277,100 has been removed and staff who have taken voluntary severance has been removed, note the voluntary severance savings will be included within departmental savings schedules.
- 2.3 **Zero Based Budgeting** – the recent work which took a ground up approach to estimate ongoing costs for all council services has been taken into account when preparing this initial set of estimates with several major cost areas having been revised for example, waste contracts, landfill provision, fuel costs, repairs and maintenance, etc.
- 2.4 **Applied Balance** – the applied balance of £2.38m which was included in last year's estimates has been removed accounting for 5.33% of the estimated increase.

3.0 Other Factors

3.1 Land and Property Services (LPS) have recently provided us Estimated Penny Product (EPP). This figure is how much rates income is generated by adding a penny to the rate, the higher this figure the better.

3.2 The EPP, which has been included in the rates estimates tabled below at 3.7, is £1,879,280. This figure takes into account the results of the recent non-domestic revaluation therefore whilst in numerical terms it has increased the real effect after being adjusted for inflation is approximately 0.45%. The inflationary effect is removed by way of a conversion factor which means that the direct comparator for rates increase purposes is the domestic rate figure.

3.3 Minimum Revenue Provision (MRP) which, along with interest payable, makes up the Council's capital financing has been estimated for this budget taking into account;

- capitalisation of severance
- continuing capital programme

3.4 The estimated MRP and interest figure included in this draft is £9,652,908, an increase of £405,663 on the previous year.

3.5 Rates Support Grant (RSG) is a topic that has attracted a lot of attention in recent times. In 2018/19 Council benefitted from a recalculation of the allocation of the grant and this was included in the 2019/20 rates estimates. During 2019/20 whilst Council's allocation of grant was increased the total amount of grant available was reduced from £16,865,280 to £15,865,000 meaning Council's allocation was reduced to £2,571,995, a reduction of £219,898 against the estimated figure at rate strike. Department for Communities (DfC) indicate that budgetary pressures continue to threaten the amount allocated to this grant and it is likely to face a cut of approximately 5%, taking this into account the RSG figure in this budget has been reduced by £350,270 to £2,441,623. Further to previous reports Council has now received the final percentage allocation of RSG and this is yet more bad news for Council. Our allocation has dropped from 16.21% to 13.65% meaning a further reduction in our RSG budget, in total the reduction in grant assuming DfC apply a 5% cut to the total grant pot is now £734,599 and this has been reflected in the table below. This has had a significant detrimental effect on the rates being equivalent to approximately 1.63% on the rates.

3.6 Inflationary increases have been applied to the following cost areas:

Electricity	18%
Oil	5%
Gas	5%
Insurance	5%

3.7 Rates estimates summary 2020/21

Causeway Coast And Glens Borough Council - Annual Estimates					
Year ended 31st March 2021					
Committee		2020/21 Net Cost	2019/20 Net Cost	Variance	Variance %
Environmental Services		24,186,694	22,838,567	1,348,127	5.90%
Leisure & Development		11,433,789	10,567,096	866,693	8.20%
Corporate Services		4,623,713	4,324,479	299,234	6.92%
Chief Executive		3,387,766	3,556,427	(168,661)	-4.74%
Planning		900,274	743,827	156,447	21.03%
Financing & Investment Income		(621,996)	(758,064)	136,068	-17.95%
		43,910,240	41,272,332	2,637,908	6.39%
Financing Expenditure					
Loan charges (MRP/Interest)		9,652,908	9,247,245	405,663	4.39%
Taxation and Non Specific Grant Income					
Rates Support Grant		(2,057,294)	(2,791,893)	734,599	-26.31%
Application of Reserves			(2,380,000)		
Amount to be raised		51,505,854	45,347,684	6,158,170	13.58%
Estimated Product of 1p Rate		1,966,440	1,824,334	142,106	7.79%
Non-Domestic Rate of		26.1924	24.8571	1.3353	5.37%
Domestic Rate of		0.4109	0.3623	0.0486	13.42%
Central Govt Grants					
De-rating Grant		1,714,819	1,456,577		
Transferred Functions Grant		388,172	368,382		
Amount to be raised - rateable		49,402,863	43,522,725	5,880,138	13.51%

3.8 The rates table above takes into account all savings agreed by Council at the date of writing this report. The second table included at 3.9 illustrates the rates strike position assuming that all savings recommendations are agreed fully by Council.

3.9 Rates Estimate Summary 2020/21 (subject to savings being agreed by Council)

Causeway Coast And Glens Borough Council - Annual Estimates					
Year ended 31st March 2021					
Committee	2020/21 Net Cost	2019/20 Net Cost	Variance	Variance %	
Environmental Services	23,696,694	22,838,567	858,127	3.76%	
Leisure & Development	10,365,789	10,567,096	-201,307	-1.91%	
Corporate Services	4,623,713	4,324,479	299,234	6.92%	
Chief Executive	3,387,766	3,556,427	(168,661)	-4.74%	
Planning	900,274	743,827	156,447	21.03%	
Financing & Investment Income	(621,996)	(758,064)	136,068	-17.95%	
	42,352,240	41,272,332	1,079,908	2.62%	
Financing Expenditure					
Loan charges (MRP/Interest)	9,652,908	9,247,245	405,663	4.39%	
Taxation and Non Specific Grant Income					
Rates Support Grant	(2,057,294)	(2,791,893)	734,599	-26.31%	
Application of Reserves		(2,380,000)			
Amount to be raised	49,947,854	45,347,684	4,600,170	10.14%	
Estimated Product of 1p Rate	1,966,440	1,824,334	142,106	7.79%	
Non-Domestic Rate of	25.4001	24.8571	0.5430	2.18%	
Domestic Rate of	0.3985	0.3623	0.0362	9.99%	
Central Govt Grants					
De-rating Grant	1,662,947	1,456,577			
Transferred Functions Grant	376,430	368,382			
Amount to be raised - rateable	47,908,477	43,522,725	4,385,752	10.08%	

4.0 Legislation

4.1 Local Government Finance Act (Northern Ireland) 2011

4.2 Under the above legislation in section 3(2) the duty of Council in relation to budget setting is set out as follows:

A council, before the prescribed date each year,

- (a) shall consider the estimates for the next financial year;
- (b) may revise the estimates in such manner as the Council thinks fit;
- (c) shall approve the estimates, subject to any revision under paragraph (b);
- (d) shall authorise the expenditure included in the estimates; and
- (e) shall fix for the next financial year the amount estimated to be required to be raised by means of rates made by the Council.

5.0 Recommendation

5.1 **It is recommended that** Council considers the budgets presented together with savings agreed previously and strikes the rate for 2020/21. This will include approval of the Chief Executive's reports on the robustness of the estimates and reserves and the prudential indicators.

Title of Report:	Report by the Chief Financial Officer on the 2019/20 estimates
Committee Report Submitted To:	Council
Date of Meeting:	4 February 2020
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Lead Officer	Chief Financial Officer

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Report by the Chief Financial Officer on 2020/21 Estimates

Under Section 4 of the Local Government Finance Act (NI) 2011 the Chief Financial Officer of a council shall submit to the council a report on the robustness of the estimates and the Council shall have regard to that report when considering the estimates.

Councils budgets and finances have been under extreme pressures in recent times leading to reductions in the level of reserves being held by Council. The continued reduction of these reserves cannot continue otherwise the reserves will be below sustainable levels. Consequently Council officers have in this budgeting round undertaken a most extensive exercise of zero based budgeting for all areas and services of Council in order to ascertain the level of funding required to continue to provide council services at their current levels and these figures are reflected in the rates estimates presented.

The single largest proportion of the gross expenditure is salaries and wages budgets. These budgets include adequate provision for employers pension and national insurance costs, taking into account the 0.5% reduction in employer's pension costs being introduced for all employers from 1st April 2020, plus an estimated 2% pay award for all employees since there is not yet agreement with unions on this matter. No provision however has been made for replacement cover for sickness absence.

On the income side the Estimated Penny Product calculated by Land & Property Services has been used to calculate the District Rates.

The Transferred Functions Grant and De-rating Grant penny products together with the Rates Support Grant allocation (as updated has been supplied by the Department for Communities (DfC)) have been included in the estimates, this includes an estimated decrease of 26% approximately in the level of Rates Support Grant expected to be received due to the expected reduction to the funding for this grant by DfC and the reduction in Council's allocation of this grant. Assumptions have been made about the level of grants from other governments departments where final offers or indications have not yet been received.

In conclusion it is vital that the rate council sets is sufficient to meet the requirements of Council services and minimizes the risk of further reduction of reserves.

I am broadly satisfied that the estimates put before Council this evening are sufficiently robust to enable the Council to deliver its services to a satisfactory level, in normal circumstances in 2020/21.

Title of Report:	Report by the Chief Financial Officer on the reserves
Committee Report Submitted To:	Council
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Report by the Chief Financial Officer on Reserves General – 2020/21

Under Section 6 of the Local Government Finance Act (NI) 2011 the Chief Financial Officer shall submit to the Council a report on the adequacy of any proposed financial reserves for a financial year and the Council shall have regard to that report when considering the estimates.

At 31st March 2019 the General Fund balance of Causeway Coast and Glens Borough Council amounted to £3.762m equating to 6.19% of the Net Operating Expenditure.

Department for Communities (DfC) guidance indicates that the General Fund Level should be between 5% and 7.5% (£3.040m and £4.561m) of the Net Operating Expenditure.

Council budgets are under extreme pressures and as a result it is anticipated that the level of reserves will reduce further in the current financial year below the 5% threshold. Council will still have sufficient reserve in order to continue its day to day operations however the budget agreed will need to be fully financed in order to protect the reserves from further reduction.

Prudential Indicators for 2019/20 to 2022/23

1. Background

The Local Government Finance Act (Northern Ireland) 2011 requires the Council to adopt the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities. In doing so, the Council is required to set and monitor a series of Prudential Indicators, the key objective of which is to ensure that, within a clear framework, the capital investment plans of the Council are affordable, prudent and sustainable.

2. Capital Expenditure Indicators

2.1 Capital Expenditure

This indicator outlines estimated annual Capital Expenditure which will be incurred by the Council, to ensure that capital investment plans are sustainable. The Council's estimated annual gross capital expenditure is included in table 1 below.

Table 1
Estimated Annual Capital Expenditure

	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000
Gross Capital Expenditure	8,500	8,500	8,500	8,500

2.2 Capital Financing Requirement

The Capital Financing Requirement reflects the Council's underlying need to borrow for a capital purpose. It shows the estimated capital expenditure that has not been resourced from capital or revenue sources. This requirement will eventually be met by revenue resources through the Minimum Revenue Provision (MRP) mechanism. The Capital Financing Requirement for the Council is shown in table 2 below.

Table 2
Capital Financing Requirement

	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000
Capital Financing Requirement	80,247	80,472	80,627	80,353

3. Prudence Indicator

3.1 Gross Borrowing and the Capital Financing Requirement

This is a key indicator of prudence which ensures that over the medium term, gross borrowing will only be for a capital purpose. Under the Prudential Code it is permitted for gross borrowing to exceed the Capital Financing Requirement, in the short term, provided that it does not exceed the estimate for the current year plus the next two financial years. The following table

Prudential Indicators for 2019/20 to 2022/23

demonstrates that the estimated net debt position is comfortably within the estimated Capital Financing Requirement over the medium term.

Table 3
Gross Borrowing and the Capital Financing Requirement

	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000
Capital Financing Requirement	80,247	80,472	80,627	80,353
Gross Borrowing - Sinking Fund	67,342	67,821	67,210	66,984
Is Gross Borrowing within CFR?	Y	Y	Y	Y

4. Affordability Indicators

4.1 Ratio of Financing Costs to Net Revenue Stream

An important aspect of the Prudential Code is the assessment of affordability of the capital investment plans. One mechanism for doing this is by ascertaining the proportion of the revenue budget which is spent on capital financing, net of receipts from investment income. This does not include direct revenue financing amounts for capital schemes. Table 4 below summarises the ratio of financing costs to the estimated net revenue stream for the Council.

Table 4
Financing Costs to Net Revenue Stream

	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000
Financing Costs	7,980	9,058	9,062	9,446
Net Revenue Stream	49,672	50,665	51,679	52,712
Percentage	16.1	17.9	17.5	17.9

The net revenue stream is calculated as the income from the Rates plus support grants.

4.2 Incremental Impact of Capital Investment Programme on the Rates

A key measure of the affordability of capital decisions is the ultimate impact on the Rates. This indicator identifies the impact within the proposed Rates attributable to the proposed changes in the Capital Programme. This impact is illustrated in Table 5 below.

Table 5
Impact of Capital Investment Programme on the Rates (- is saving)

	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000
Incremental impact on Rates	-1.6%	2.2%	0.0%	0.7%

Prudential Indicators for 2019/20 to 2022/23

5. External Debt Indicators

5.1 Authorised Borrowing Limit

The Act requires the Council to set an affordable borrowing limit, which relates to gross debt. This limit is referred to within the Prudential Code as the Authorised limit and must not be breached. It is therefore set at a level which while prevents excess borrowing and provides headroom for the operational management of the treasury function. The authorised borrowing limit, or estimated debt, to 2022/23 is set out in table 6 below.

Table 6
Council Authorised Borrowing Limit

	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000
Authorised Borrowing Limit	77,780	78,334	77,628	77,366

5.2 Operational Boundary

Unlike the Authorised Borrowing Limit, the Operational Boundary is not a limit and instead provides an indication of the most likely, but not the worst case, estimate of gross external debt.

Table 7
Operational Boundary for Borrowing

	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000
Operational Borrowing Limit	70,709	71,213	70,571	70,333