Strategic Policy and Resources Committee

Friday, 17th October, 2008

MEETING OF STRATEGIC POLICY AND RESOURCES COMMITTEE

Members present:	Councillor D. Dodds (Chairman); and Councillors Adamson, Attwood, M. Browne, Convery, Kirkpatrick, Lavery, Long, C. Maskey, McCann, Newton and Rodway.
Also attended:	Councillors Ekin and Rodgers.
In attendance:	Mr. P. McNaney, Chief Executive; Mr. G. Millar, Director of Improvement; Mr. T. Salmon, Director of Corporate Services; Mrs. H. Louden, Head of Financial Services; Mr. R. Cregan, Improvement Manager; Mr. S. McCrory, Principal Committee Administrator; and Mr. J. Hanna, Senior Committee Administrator.

Apologies

Apologies for inability to attend were reported from Councillors W. Browne, Crozier, A. Maskey, P. Maskey and Smyth.

Introduction to District Rates Issues

The Director of Corporate Services reminded the Committee that, at its meeting on 22nd August, it had been informed that the rates finalisation for the financial year 2007/08 had resulted in the Council owing the Land and Property Services agency £4,128,553.40. A letter had been forwarded to the Chief Executive of the Land and Property Services expressing disappointment at the actual rates figure and requesting a detailed explanation for the scale of the clawback and a re-assessment of the estimate which had been provided to the Council for 2008/09. A detailed response had been received from the Agency providing an explanation of the factors which had led to the 2007/08 clawback position. These had included:

- the losses arising from domestic vacant properties which had increased from £3.6 million to £6.1 million;

- the losses from non-domestic vacant properties had increased from £10.6 million to £14.1 million;

- the introduction of the £500,000 cap on rates payable had led to a loss of £1.2 million; and

- there had been valuation reductions of £7.5 million on the non-domestic side.

He reminded the Committee also that the projected rates finalisation for 2008/09 would result in a clawback of £700,000. However, that projection did not include additional rate income which would accrue from Victoria Square and vacant property inspections.

The Director explained that, since Members were about to embark on the rate setting process for 2009/10 in the context of a turbulent economic outlook, it was essential that they be provided with accurate and timely information about the rate base and had confidence that Land and Property Services would ensure that the collectable rate return was maximised in order to ensure that the burden on the ratepayer was minimised. He stated that the Institute of Revenue, Rating and Valuation, the leading experts in that field, had been engaged to provide the Council with a detailed technical report on rating issues and the reports which had been submitted for the Committee's consideration for the remainder of the meeting had been based mainly on their findings. In addition, a representative of the Institute, Mr. P. Doherty, was in attendance to provide a short presentation and he was welcomed to the meeting by the Chairman.

Mr. Doherty indicated that there were a number of issues in the report which he wished to highlight. He referred to the estimated Penny Rate Product and expressed the view that it was not a true estimate but simply a figure based on the valuation list at a point in time which took no account of potential changes to the tax base in the year for which the estimate was provided. This was a major shortfall and a significant barrier in the financial planning process and he expressed the need for a new estimating model to be introduced.

Mr. Doherty referred to the liaison arrangements which existed between the Council and the Land and Property Services agency and expressed the importance of developing this on a more formal basis and incorporating it into a Service Level Agreement to enable both parties to have a clear understanding of each other's responsibilities, needs and expectations. He referred also to the cost of collecting rates and the rating of vacant properties and indicated that these would be dealt with in more detail later in the meeting.

Noted.

Rates and Financial Planning

The Director of Corporate Services stated that, in basic terms, there were two key factors in relation to the setting of the rate. These included:

- the level of net expenditure which the Council needed in order to deliver its priorities – this was information which was collected from within the Council; and

- an estimate of what income the Council would receive from the rates – that estimate was provided by Land and Property Services.

It was therefore critical that the Members were provided with an estimate of the rates income which was as accurate as possible as an overestimation might lead to a shortfall in income and an underestimation might lead to an unnecessary high rate being set.

He explained that in its report the Institute of Revenue, Rating and Valuation had suggested that the rates estimate, that is, the estimated Penny Rate Product was not a true estimate because it took no account of potential changes to the rate base in the year in which the estimate was provided. This had resulted in large variances between estimated and actual rates income in previous years:

2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
£2.2 m	£2.2 m	£1.1 m	£5.3 m	£3.9 m	-£0.6 m	-£4.1 m

The Director pointed out that from the years 2001/02 till 2005/06 there had been a significant underestimation of what the rates would yield. However, in 2006/07 and 2007/08 the position had been reversed and, accordingly, the Council had owed money to the Department of Finance and Personnel. While it was acknowledged that the figures were only an estimate, this had shown that the Members were not being provided with a reasonable estimate of rates income. For example, in 2005/06 if the Members had had a more accurate estimation they could have decided to set the rate between 3 and 4% lower than they had done or, alternatively, it could have been decided to set the same level of rate and use the additional income to deliver on more priorities.

For the 2008/09 rate setting process the Council, through the work of the Building Control Section, had identified a number of key business properties which had not been included on the valuation list but it had been known that they would become rateable during 2008/09. The Land and Property Services had agreed to include those properties into the estimated rate income calculation and as a result the rate yield had improved by 3%. The Institute of Revenue, Rating and Valuation had indicated that that approach was a step in the right direction but did not go far enough. As indicated earlier, there was a need for the Council to work with Land and Property Services to develop a new estimating model for the calculation of the estimated rate income and for the forecasting of the outturn of the actual rate income. Another key issue in this regard was that, once the rate had been set in February of each year, the Council had to wait a further 20 months to find out the actual level of rates collected. The Institute had recommended that the Agency should provide a monthly update to the Council on the actual rates position.

The Director explained that the Rates Regulations (Northern Ireland) 2007 did not include a specific requirement on the Department of Finance and Personnel to provide Local Authorities with an estimate of rate income. Also, Councils were not obliged to use the estimate which was provided by the Land and Property Services agency. Accordingly, the consultant's report had recommended that the Council should lobby the Minister to amend the regulations to include the aforementioned specific requirement. In addition, the Department should have a duty to undertake revised calculations during the year and to notify local authorities of any major variations to the estimated rate income, whether higher or lower than the estimate, which were likely to occur. With regards to the final outturn figure for the actual rating, it had been recommended that the regulations should be amended to require notification to be given to local authorities by 30th June following the end of the financial year. That date was in line with the statutory timetable for completing the Council's annual accounts.

Noted.

Vacant Properties

The Committee was advised that the level of losses in rates income which arose from vacant properties in Belfast was a major concern. In 2007/08 losses from domestic vacant properties had increased from £3.6 million to £6.1 million and for non-domestic vacant properties from £10.6 million to £14.1 million. Currently, vacant domestic properties were not charged rates and non-domestic vacant properties were only charged 50% rates. Therefore, it was important to make sure that properties were properly identified as being vacant. That work was the responsibility of Land and Property Services, however, it was understood that no physical verification of vacant properties had been carried out by the Agency since 2005.

In order to rectify this, an agreement had been reached between the Council and the Agency to enable the Council's Building Control Service to carry out, over a six-week period, inspections on behalf of Land and Property Services in order to check whether properties defined as vacant were in fact that. The registers from the agency had shown that approximately 13,500 properties had been listed as vacant across the City. Staff from the Building Control Service had surveyed a total of 10,521 of the listed properties and had found 51% of them to be occupied. That meant that 5,365 properties in Belfast had not been paying the level of rates that they should have been. The details of those properties had been passed to the Agency so that rates bills could be issued.

The Director advised the Committee that it was estimated that that exercise would result in additional £3.33 million of rate income for the Council. An amount of £1.14 million should be received as part of the 2007/08 finalisation figure and the remainder would be received in 2008/09 and 2009/10. If the properties were to remain occupied, this would represent a year on year additional rate income of £2.19 million. The exercise had been carried out at no cost to the ratepayer and was an excellent example of how the Council could join up both internally and externally to deliver on projects. It demonstrated also the value of having a Building Control Service which had an intimate knowledge of the properties in the City and staff who had been able to use that knowledge outside of traditional building control boundaries. The Agency had recently requested the Building Control Service to carry out further vacancy inspections and this had been agreed by the Health and Environmental Services Committee on the basis that the full costs would be recovered from the Land and Property Services.

Noted.

Rates Arrears

The Committee was advised that the Minister with responsibility for the Department of Finance and Personnel had announced in March that the amount of debt in respect of rates amounted to £148 million approximately for the whole of Northern Ireland. For Belfast the equivalent figure was £46.3 million. The Director of Corporate Services pointed out that the level of arrears did not impact initially on the amount of rates paid to the Council, since the monthly payments which were made by the Department were based on the estimated rate income. However, arrears did become an issue for the Council when they became an irrecoverable debt and had to be written off.

When that occurred, the amount then became a loss on collection and was reduced from the amount of rates payable to the Council as part of the rates finalisation calculation. In order for the arrears to be written off, the Land and Property Services agency was required to exhaust its debt recovery process.

He explained that in recent years the amount of debt which had been written off for Belfast was relatively small, that is, £444,000 in 2005/06, £389,000 in 2006/07 and £414,000 in 2007/08. However, there was increased concern, with the current level of arrears, that that position might change. There was concern also that the capacity of the Land and Property Services agency to recover debt was being reduced as it had a large number of priorities to deal with. He suggested that the Members might wish to explore those issues with the representatives of the Agency when they were in attendance later in the meeting.

Cost of Collecting Rates

The Committee considered the undernoted report:

"**Relevant Background Information**

Members are aware that the rates are collected by LPS and not the Council. The cost of collecting the rates is charged to the Council as part of the actual PRP final calculation. As LPS collects the rates for all district councils in Northern Ireland, the cost of collection is apportioned between all the local authorities. This apportionment is done on the basis of value of properties (NAV/capital value) in a district council area.

The following three tables show the cost of collection that has been apportioned to ratepayers in Belfast over the past three years.

Table 1 - Overall

	Total cost of collection	Belfast Apportionment	%age	Increase
2004/05	£10,234,272	£2,495,617	24.38%	
2005/06	£10,413,797	£2,512,236	24.12%	£16,619
2006/07	£11,251,000	£2,685,313	23.87%	£173,077

Table 2 - Domestic

	Total cost of collection	Belfast Apportionment	%age	Increase
2004/05	£5,221,719	£774,413	14.83%	
2005/06	£5,262,432	£775,079	14.84%	£666.00
2006/07	£5,680,976	£834,318	14.69%	£59,239

Table 3 - Non Domestic				
	Total cost of collection	Belfast Apportionment	%age	Increase
2004/05	£5,012,523	£1,721,204	34.33%	
2005/06	£5,151,365	£1,737,157	33.72%	£15,953
2006/07	£5,570,024	£1,850.995	33.23%	£113,838

As can be seen from the tables, ratepayers in Belfast bear a considerable proportion of the total cost of collection particularly in relation to non-domestic properties.

Key Issues

The IRRV, in their report, argue that NAV/capital value is not a good basis for apportioning the cost of collection across local authorities. They argue that a fairer basis would the number of rateable properties because this is the main driver of the keys costs of billing, collection and enforcement.

Table 4 below compares the cost of collection to Belfast using the two apportionment models. As can be seen from the table using the number of properties as the apportionment basis, for the 2006/07 figures, would lead to a reduction of £492,480 in the cost of collection for Belfast. Members should note however that the total cost of collection would not change and that the £492,480 saving for Belfast would lead to increase cost of collection for other local authorities.

Table 4 - Comparison					
2006/07	Present Apportionment	%age of Total	Apportionment based on Hereditaments	%age of Total	Difference
	£	%	£	%	£
Domestic	834,318	14.69%	988,607	17.40%	+154,289
Non-Domestic	1,850.995	33.23%	1,204,226	21.62%	- 646,769
Total	2,685,313	23.87%	2,192,833	19.49%	-492,480

Recommendations

The Committee is requested to consider whether the Council should make representations to the Minister to have the Rates Regulations (NI) 2007 amended so that the apportionment of the gross cost of collection is based on the number of rateable hereditaments as reflected in the valuation lists as at 31 March of each financial year.”

The Committee noted that consideration would be given to the recommendation contained in the report at the end of the meeting following the presentation by the representatives of the Land and Property Services agency.

Service Level Agreement with Land and Property Services

The Committee considered the undernoted report:

“Relevant Background Information

The District Rate accounts for 74% of the Council’s total income. It is therefore the most important source of income to support our annual expenditure. At the same time, it represents considerable expense to the ratepayer. A key element of the Council finance strategy is therefore to maximise the amount of collectable rate income in order to ensure priorities can be delivered and at the same time minimise the burden on the ratepayer.

Although the Council has responsibility for setting the District Rate, the Department of Finance and Personnel is responsible for rating reform. Land and Property Services (LPS), an executive agency within DFP, is responsible for valuing all properties, maintaining the valuation list, billing and collecting rates and administering rate relief schemes. Members should note that LPS was formed as part of the RPA and has merged the Rates Collection Agency, Valuation and Lands Agency, Ordnance Survey of NI and Land Registers NI.

Over the past year the Council has been working closely with LPS and good working relationships have been established. Building Control Service already has a formal agreement with LPS in regards to notifications of new and altered buildings. The purpose of this report is to recommend that the Council enters into a formal agreement with LPS in the form of a service level agreement for the overall service provided by LPS. By doing this the Council will be better placed to work with LPS to improve its key processes and to ensure that it provides value for money to the both the Council and the ratepayers in Belfast.

Key Issues

The service level agreement could cover the following areas:

- ***Estimated Penny Rate Product***

  The LPS will review in partnership with BCC the current estimating methodology used in the calculation of the estimated penny rate product. The BCC will agree to provide appropriate information about new buildings, alterations and demolitions that are likely to impact in the financial year that is the subject of the estimate.

  The Estimated PRP will be provided to the City Council no later than 1st November of each year.

  A revised EPP for the year in question shall be provided to BCC on a monthly basis

- ***Finalisation of Penny Rate Product***

  The LPS shall provide the BCC with a monthly update on the progress of the collection levels and within one month of the end of the financial year will provide BCC with an estimated finalisation figure. LPS shall provide a final figure no later than 30th June following the end of the financial year.

- ***Maximising Rate Collection Levels***

  BCC expects LPS to maximise IN YEAR rate collection at a level that is comparative with other local authorities in the UK.

  BCC expects that all rateable occupiers will be identified and billed on a timely basis in order to minimise arrears and losses on collection.

  The LPS shall provide the BCC with a monthly update on the progress of the collection levels showing comparative collection statistics for previous years.

  ***NOTE*: In year collection level means current year debit less payments in respect of the current year i.e. excludes payments in respect of arrears.**

- ***Losses on Collection***

  The City Council shall be provided with a detailed analysis and explanation by category of the losses on collection. The analysis should be provided in tabular form with comparisons shown for previous years.

- ***Cost of Collection***

  The City Council shall be provided with a detailed breakdown and an explanation of the costs of collection. The analysis should be provided in tabular form with comparisons shown for previous years.

- ***Property Inspections***

  Given the importance of ensuring that all properties are brought in to rating in order to maximise rate income and cash flow the City Council expects that vacant properties will be inspected on a regular basis

  In order to ensure that income is maximised the City Council expects that completion certificates will be served in all cases where it is deemed necessary.

  The LPS shall undertake to provide BCC with a monthly update on the progress of the inspections of empty property.

The performance in relation to these areas could then be monitored on a monthly or quarterly basis.

<u>Recommendations</u>

Members are asked to agree to the following:

1. **The establishment of a service level agreement between Belfast City Council and LPS.**

2. **The agreement to be negotiated on the basis of the areas outlined in this report."**

The Committee agreed to consider the question of the establishment of a Service Level Agreement following the presentation by the representatives of the Land and Property Services agency.

Presentation by Representatives of
Land and Property Services

The Committee was advised that, in accordance with its decision of 19th September, representatives of the Land and Property Services agency were in attendance to discuss the various rates issues. Accordingly, Messrs. J. Wilkinson, A. Bronte, A. Scott and Ms. G. Fryer were admitted to the meeting and welcomed by the Chairman.

Mr. Wilkinson welcomed the opportunity to address the Committee in relation to the rates finalisation for 2007/08 which had resulted in a clawback from the Council of over £4 million. He stated that a number of factors had contributed to this including reductions in the valuation tax base, significant losses in collection arising from increased vacancy discharges, increases in allowances awarded in the landlord sector, losses in revenue arising from the cap on rates and increases in the cost of collection. He expressed his disappointment at such a variance between the estimate and the outcome but indicated that these were a natural part of the process and reinforced the need for closer working between the agency and the Council in calculating the estimates. He pointed out that the agency had worked together with Council officers over the previous 18 months and were committed to developing that relationship and improving the processes in regard to the estimated Penny Rate Product.

In response to a number of questions, the members of the deputation made the following points:

- the amount of rates arrears for the Belfast City Council area had fallen from an opening balance of £46.3 million to £22.9 million. The debts would only be written off when all recovery processes had been exhausted and while the amount of debts which were written off were fairly low – approximately 98% of rates were collected – the agency had advised the Assembly Committee to the Department of Finance and Personnel that it would review its debt recovery and write-off procedures and in doing so would consult with Local Government finance officers.

- in regard to the levels of irrecoverable debt for 2008/09 and 2009/10, the agency could look only at past trends and could not estimate the figures with any certainty. However, the Land and Property Services agency would undertake to look at the question which had been raised and see if those figures could be provided to the Council;

- the agency would commence a regular process of updating information in relation to the listing of vacant properties and this would be done in partnership with the Council's Building Control Service;

- the Land and Property Services agency would be willing to develop and enter into a formal Service Level Agreement with the Council in relation to rates issues; and

- with regard to how the cost of the collection of rates was apportioned, this was determined by the Rates Regulations (Northern Ireland) 2007 and was a matter which the Council would have to address through the Minister with responsibility for the Department of Finance and Personnel.

The Chairman on the behalf of the Committee thanked the representatives of Land Property Services for attending and they retired from the meeting.

After discussion, the Committee agreed:

(i) to authorise officers to develop for submission to the Minister with responsibility for the Department of Finance and Personnel and the Rating Policy Division a paper which dealt with the following matters:

  (a) the apportionment of the cost of the collection of rates to be based on the rateable hereditaments as reflected in the valuation lists as at the 31st March of each financial year;

  (b) the amendment of the regulations in relation to a specific requirement on the Department of Finance and Personnel to provide Local Authorities with an estimated Penny Rate Product;

  (c) to amend the regulations to place a duty on the Department to undertake revised calculations during the year and notify Councils of any major variations to the estimated Penny Rate Product;

  (d) to place a requirement on the Department to notify Councils of the final outturn figure for the actual Penny Rate Product by 30th June following the end of financial year;

  (e) issues in relation to debt and rate arrears; and

  (f) other potential changes to the rating policy.

(ii) to endorse the establishment of a working group between representatives of the Council, Land and Property Services and the Institute of Revenue, Rating and Valuation to work on improvement; and

(iii) to authorise the establishment of a Service Level Agreement between the Council and the Land and Property Services agency for the overall service provided by the agency.

Chairman