



**Belfast City Council**

**Report to:** Strategic Policy and Resources Committee

**Subject:** **Update on Financial Estimates and District Rate 2010/11**

**Date:** 11 December 2009

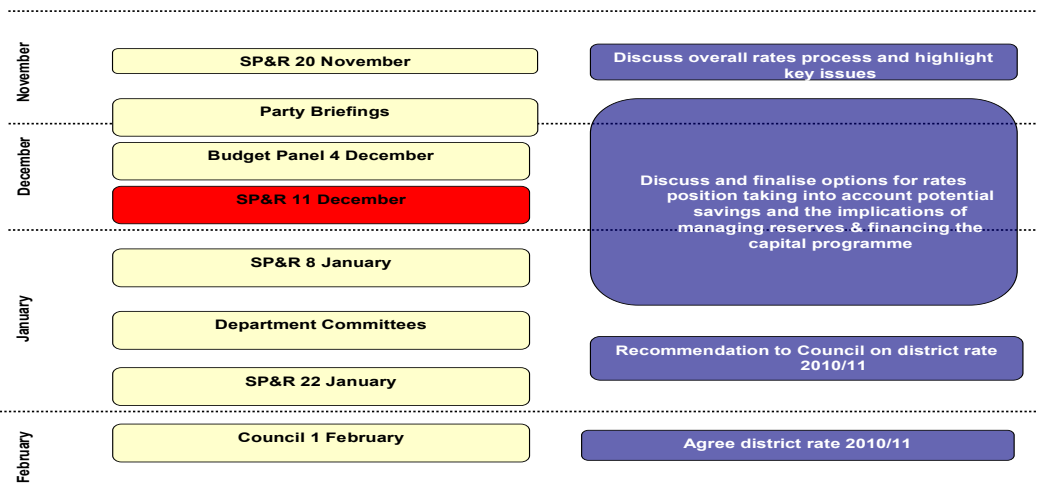
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**Relevant Background Information and Purpose of Report**

Members will recall that, at the last meeting of the Strategic Policy and Resources Committee, the following process was agreed for setting the district rate and agreeing the estimates for 2010/11.

**Timetable for Rate Setting Process 2010-2011**



The purpose of this report is to:

- update Members on progress; and,
- discuss a number of options for further consideration.
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**Key Issues**

**1. Objectives**

It is proposed that the overall strategy for setting the district rate for 2010/11 should be to achieve the following objectives:

- To agree a district rate which is acceptable to Members
- Strengthen the Council's financial position, most notably the district reserves
- Establish cash limits for department estimates and deliver efficiency savings
- Provide affordable and sustainable financial arrangements to deliver Members' capital programme and City Investment Strategy aspirations.

In this context, Members will need to consider the following before finalising the district rate and estimates for 2010/11:

- The reserves position of the Council
- How the capital programme and City Investment Strategy will be financed
- Department estimates and efficiency savings
- Thematic Budget
- The EPP position

## 2. Summary of Current Position for 2010/11

The table below summarises the current position in terms of the key factors which will influence the rate setting decision for 2010/11. As can be seen from the table, the current overall impact on the district rate is a 7.81% increase which equates to a 3.28% increase to the ratepayer. For the average capital domestic value this will mean a £24.38 increase in the ratepayer's annual rate bill. Of the 7.81% increase on the rate, some 5.73% relates to investment in the capital programme or in reserves and just over 2% of the increase relates to Departmental Estimates.

Current Estimated Rate Increase 2010/11		
	2010/11 Increase	% Rate Increase
Departmental Estimates	2,912,649	2.17%
CIF	1,000,000	0.75%
Revenue Contributions to capital	955,180	0.71%
Capital Financing	812,060	0.61%
General Exchequer Grant	(125,960)	<b>(0.09)</b>
<b>Rate Increase before Reserves</b>		<b>4.15%</b>
Movement in Reserves	4,900,000	3.66%
<b>District Rate Increase</b>	<b>10,453,929</b>	<b>7.81%</b>
<b>Average impact on ratepayer</b>	<b>24.38</b>	

Each main element of the table is discussed in more detail below.

### (a) Department Estimates

This is money required by departments to deliver services and typically covers expenditure on headings such as salaries, supplies and services. All departments have prepared estimates for 2010/11. As a consequence net expenditure is budgeted to rise by £2.9m which equates to a 2.17% increase on the rate. This has been mainly driven by increased utility costs (£786k), superannuation contributions (£700k) and landfill tax (£542k) along with the loss of external income (£1.3m). Despite these uncontrollable cost increases, the proposed departmental increase is the lowest for some time and this has been achieved by reducing costs in areas such as consultancy, use of external facilities and office equipment. Details of department's estimates will be brought to

the Strategic Policy and Resources Committee in January prior to submission to the individual Departmental Committees.

The department increase of 2.17% compares to the latest government inflation figure of 1.5%. However, this figure reflects prices at October 2009 and does not include a forecast element for 2010/11. The HM Treasury, "Forecast for the UK economy" forecasts that inflation by 2011 will be in the range of 1.6% to 2.7%.

### **(b) City Investment Strategy**

This was developed by the Council to help deliver Members' aspirations by supporting major iconic projects in the city and to act as a mechanism for the Council to help lever additional money into the city.

To date, the Council has committed funding to four key iconic projects across the city:

- (i) Titanic Signature Project - £10m committed
- (ii) The Mac - £550,000 committed
- (iii) The Lyric - £1.25m committed
- (iv) The Connswater Community Greenway - £4.2m committed.

Together these 4 projects have levered in over £153million of investment in the city. The committed cost for the Council (up to 2013) for these four projects is £16m of which nearly £4.5m has so far been raised by 1 April 2009. In December 2007, it was agreed by the Strategic Policy and Resources Committee that the City Investment Strategy would be funded through the investment of £1m, £2m and £3m over a three year period. 2010/11 is the third year of this arrangement and therefore an additional £1m of funding to cover the city investment strategy will be required.

### **(c) Capital Programme**

Up to this year the council has been able to pay for its capital expenditure through revenue contributions and use of internal cash. In basic terms this means the council was able to pay for capital schemes with its own money rather than having to borrow. The financial position of the organisation, as previously has been reported, has now changed. This means that the organisation must borrow up to £58m to finance current committed schemes in the capital programme. All the money does not need to be borrowed at one time but it does mean there will have to be a stepped increase in the rate over the next four years in order to meet this financial commitment. For 2010/11, capital financing will need to be increased by £1.77m which is the equivalent of a 1.32% increase in the rate.

### **(d) Reserves**

At the Strategic Policy and Resources Committee meeting on 20 November 2009, Members were informed that the forecast for reserves at the end of 2009/10 was £2.7m. Since this meeting a detailed review of the balances has been carried out and the revised year end forecast for reserves is now £4.3m. Members should note that this closing position also allows for £2.3m of voluntary redundancies to be financed during 2009/10, should this be agreed. (Both the voluntary redundancy exercise and the 2009/10 financial position are discussed in more detail in separate reports which are also being discussed by committee today.)

There is therefore a need to build reserves up to a more acceptable level for an organisation of this size. This needs to be set in the context of future external financial pressures such as RPA and the implications of the regional rate for 2011/12. In addition, the implementation of the Local Government Finance Bill could mean a more prescriptive approach to the level of reserves and therefore BCC needs to have a sound reserves position as it moves forward.

Best practice guidance from CIPFA and advice from the local government auditor would indicate

that reserves should be in the range of £8m to £10m. We would therefore recommend to Members that, as a minimum, a contribution should be made to reserves from the rate over the next three years as follows:

- 2010/11           £2.5m
- 2011/12           £1.5m
- 2012/13           £1.0m

#### **(e) Thematic Budget**

This budget heading was first established by Members in 2009/10 in recognition that the cross-cutting work which the Council is trying to encourage could not be solely delivered within functional budgets. It was agreed that the budget of £500,000 should be used to kick start projects and build the infrastructure required to deliver thematic working. In June 2009 the Strategic Policy Resources Committee agreed to allocate the budget to as follows:

- Older People                             £87,000
- Health & Well Being                     £100,000
- Safer City                                 £145,000
- Better Care for the Environment       £57,000
- Children and Young People             £100,000.

Examples of how the budget has been used in 2009/10 include:

- Fuel Stamp Scheme
- Good Morning Project
- Older Peoples Convention
- Community Safety Warden posts
- Development of Safer City Plan
- Joint funding with Public Health Agency and Health and Social Services Trust for Health and Well Being posts
- Alcohol and obesity projects
- Neighbourhood Programme for young people
- City Centre Programme for young people
- Biodiversity DVD
- Waste Categorisation Survey

Members will need to decide on the size of this budget for 2010/11 and how it will be allocated. Proposals will be brought to the Strategic Policy and Resources Committee on 8 January 2010 as to how the budget could be allocated in 2010/11. £500k has already been factored into the rates position described above for thematic budgets.

**(f) Estimate Penny Product (EPP)** – this provides an estimate of what the rates will yield in income for the Council for 2010/11. As the Council is dependent on the district rate for 74% of its income it is essential that as accurate as possible EPP is provided by Land and Property Services (LPS). A first draft EPP has been received from LPS and this shows a 1.2% increase from last year. This is better than expected given the current economic climate and it would appear that the work Council officers are doing in conjunction with LPS to try to maximise the collectable rate is starting to bear fruit.

#### **Summary of the Current Position**

To summarise, the current position is that a 7.81% increase in the rate will allow Members to:

- Meet the cost requirements of delivering planned services to the population of Belfast;
- Improve the reserves position by £2.5m;
- Deliver the rate financing requirements of the city investment strategy and the **current** capital

programme.

### 3. Options for Savings

The outstanding issue which requires discussion is efficiency savings. The voluntary redundancy exercise, if agreed by Members will generate £1m of savings in 2010/11. These are not included in the 7.81% rate increase described above.

In addition, the organisation has been working hard on a number of efficiency projects, such as the review of the centre, better procurement, improved use of technology and the mini budget review. These projects have not been fully developed but is estimated that savings in the region of £1m could be generated. Again, these potential savings do not form part of the 7.81% rate increase. It is proposed that Members ask officers to bring a report back to the Strategic Policy and Resources Committee meeting on 8 January identifying, in further detail, the areas where £1m of savings could be achieved in 2010/11 and the implications of the savings proposals. This report will have to contain measures which can be achieved in a short timeframe with minimal additional costs. At the next meeting, Members will be requested to approve the efficiency programme and by doing so it means that the £1m savings can be factored into the 2010/11 estimates process.

If the potential savings for 2010/11 (£2m) were applied to the rate, then the rate increase of 7.81% would fall to 5.52%. The rates position, however, is different from other years because a significant proportion of the rates increase for 2010/11 must be used for replenishing reserves and financing current capital expenditure. This means that there is little headroom for Members to do new things such as expanding the current capital programme. Members may therefore wish to consider alternative uses for the potential £2m efficiency savings. For example:

- applying £1m of the savings to finance additional capital borrowing would result in a further £10m being available to apply to new capital schemes;
- given the uncertainty over RPA financing Members could decide to accelerate the replenishment of reserves by applying a proportion of the savings to this area.

If new investment is agreed to be put into new capital borrowing, the Director of Property and Projects will then work with Members to agree the prioritisation of the schemes to be funded from such investment.

### 4. Implications for the Overall Rate Position

The tables overleafbelow summarise the potential rate options discussed above and their impact on the ratepayer.

## Summary of Potential Rate Increases

	District Rate Increase	Total Rate Increase	Impact on Ratepayer
<b>Current Position</b> <ul style="list-style-type: none"> <li>• No additional capital finance outside current programme</li> <li>• £2.5m investment in reserves</li> <li>• No VR / other savings</li> </ul>	7.81%	3.28%	£24.38
<b>Current Position plus £2m efficiency savings applied to:</b> <ul style="list-style-type: none"> <li>• Additional capital finance for new programme</li> <li>• Additional Reserves</li> </ul>	7.81%	3.28%	£24.38
<b>Current Position minus £2m efficiency savings applied to the rate but:</b> <ul style="list-style-type: none"> <li>• No additional capital finance outside current programme</li> <li>• £2.5m investment in reserves</li> </ul>	5.52%	2.32%	£17.25

# Implications for Ratepayers

PROPERTY	Ave Capital Value	Increase in Rate Bill		
	/NAV	5.52%		7.81%
<b>Domestic Properties</b>		£	£	£
Terrace House	86,425	12.96		18.32
3-Bed Semi-Detached House	132,173	19.83		28.02
4-Bed Detached House	293,843	44.07		62.29
Apartment	83,379	12.51		17.68
Average Capital Value	115,000	17.25		24.38
<b>Non-Domestic Properties</b>				
Office Property	12,728	166.74		235.47
Retail Property	10,247	134.24		189.57

## 5. Key Questions

Members will need to address the following questions:

- (a) Do they agree that a further £1m should be invested in the City Investment Strategy?;
- (b) Do they agree that a minimum of £2.5m should be set aside as a contribution from the rates to reserves?;
- (c) Should further work be done by officers to develop an efficiency programme to meet a target of £1m and a report brought back to the next P&R meeting?; and
- (d) Should the VR exercise efficiencies and efficiency programme savings (£2m in total), if agreed, be used to reduce the 2010/11 rate or be invested in the capital programme or reserves?

## Recommendations

Members are requested to:

1. Note the contents of the report;
2. Consider whether they wish to finalise the answers to each of the key questions in section 5 above; and
3. Agree to receive a report at the 8 January 2010 Strategic Policy and Resources Committee on the allocation of the thematic budget 2010/11, the council's efficiency programme, the breakdown of the Departmental Estimates and the overall rate position.

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