Belfast City Council

Report to:	Strategic Policy and Resources Committee
Subject:	Update on Revenue Estimates 2011/12
Date:	22 October 2010
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Relevant Background Information

1.1 The Council is statutorily obliged to set a district rate by 14 February every year. It is important to note that the rates bill received by ratepayers contains two principal elements. The first is the district rate which is set and received by local Councils. The district rate accounts for 45% of the total rates bill. The second element is the regional rate which is set and received by the Northern Ireland Executive and this accounts for the remaining 55%. In terms of the district rate, this provides 74% of the total funding of Council activities; the remaining amount comes from fees, charges, derating support and specific grants.

1.2. The rates bill, including both the district and regional elements, is levied by the **Land and Property Service (LPS)** which is an executive agency of the Department of Finance and Personnel. Rates are a property tax, based on the valuation (the NAV) of how much the property would be rented for in the case of business premises, and how much it would be sold for (capital value) in the case of domestic premises.

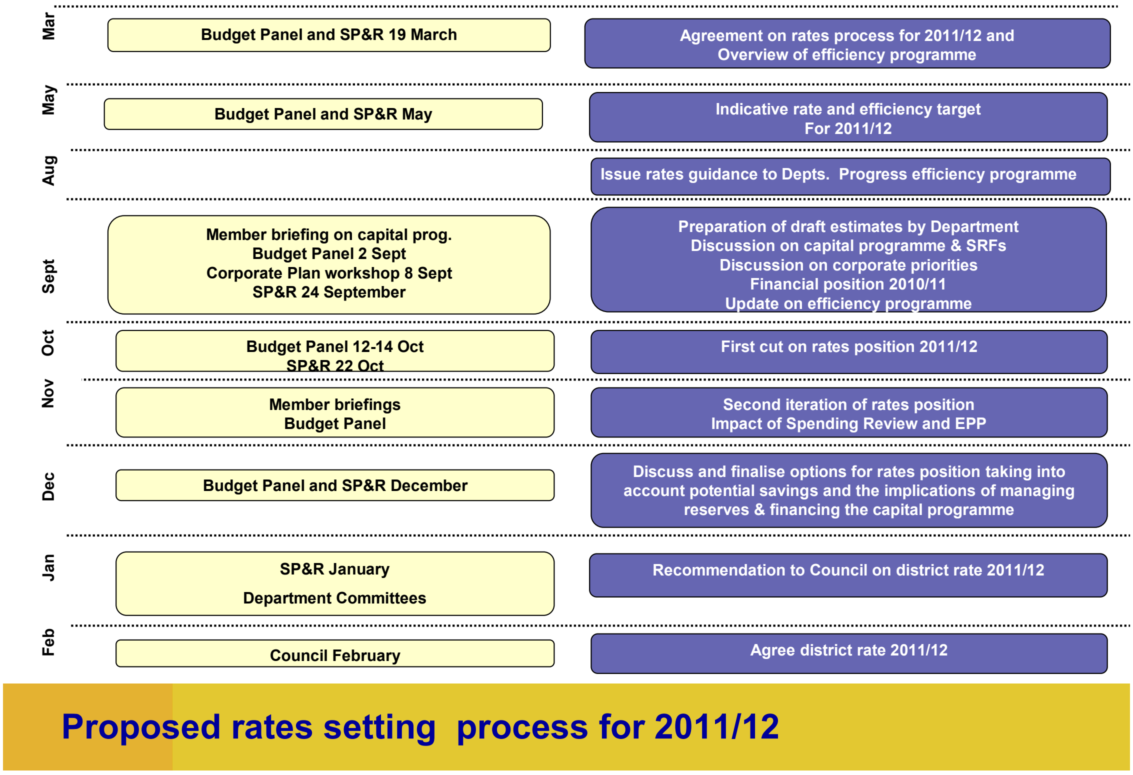
1.3. Each year, normally in November, the **LPS** will issue to local Councils an estimate of how much it expects to raise from the total rate collected from their area. This amount is known as the **estimated penny product (EPP).** Economic conditions obviously play a major role in the growth or decline of the rate base. In times of economic prosperity the rate base will normally rise, whilst in times of recession the rate base will fall as businesses close and the level of bad debt increases. However neither of these things happen immediately as it takes time for new properties to be put on the rate base and similarly it takes time for properties to come off the valuation list.

1.4. Members will note that the amount to be collected by way of the rate is always an estimate. This means that once the rate is actually collected for the year of account, an **actual penny product (APP)** will be established and a **finalisation** figure will be provided by the LPS to the Council. This will mean either that less has been collected than estimated, in which case the Council will be required to pay money back to the LPS, or more has been collected than estimated, which means that the LPS will pay a balance payment to the Council. **Members will be happy to note that the finalisation figure for 2009/10 has now been received from the LPS and shows a slight positive surplus of around £200k.**

1.5. Apart from the notification of the **EPP** and **APP** the other main variables in setting the rate are the agreement of:

(i) the departmental estimates
(ii) the level of the capital programme
(iii) the level of the city investment strategy
(iv) special contingency budgets, eg Waste Plan
(v) the level of reserves.

1.6. The agreed Council process for setting the rate for 2011/12 is set out in the table below:



1.7. The Committee agreed at its meeting on 21 May 2010 that an upper target for the indicative rate for 2011/12 should be set at 2.5%, followed by a direction to officers to work up three scenarios within this limit of 0%, 1% and 2.5%.

1.8. In addition an indicative efficiency target of £1.7m was agreed and officers were directed to develop an efficiency programme which in so far as possible would not impact upon the delivery of frontline services.

1.9. The purpose of this report is to give an initial assessment on the range of scenarios for the rates of 2011/12. It is important to note that much more detailed work is required and there is a range of external variables, most notably the EPP, which are still not fully established. More detail on these variables is set out at paragraph 3 below. The figures presented within this report are therefore **subject to change and will be refined in the period between now and Christmas**. Nonetheless Members have expressed a desire to engage early in this process and the initial scenarios are presented to assist Members in the party briefings and consideration of the capital programme which will take place over the coming weeks.

1.10 Members will also need to consider the issues arising from two other reports on the agenda: The Proposals for Use of the 2010/11 Underspend and the report on the Capital Programme.

Key Issues

2.0 Current Position

2.1 Scenario 1 – zero growth in the rates

The first scenario for the consideration of Members is one which means zero growth in the rates. Based on current estimates, this scenario would mean the following:

	2011/12 Increase £m	**% Increase**
Departmental Estimates	2.3	2.01%
City Investment Strategy	0.0	0.00%
Capital Programme	0.7	9.47%
Waste Plan	1.3	106.35%
Rate Increase before Reserves	**4.3**	**3.40%**
Movement in Reserves	-4.5	-100.00%
District Rate Decrease	**-0.2**	**-0.18%**

2.1.1 Departmental Estimates – This is the 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 2011/12 and these are subject to ongoing review and challenge. Based on current estimates, this scenario would mean that **net expenditure is budgeted to rise by £2.3m** which equates to some 2% increase from 2010/11. Two of the main elements are increases in landfill tax and gate fees (£1.3m) and increased pension contributions (£0.6m), both of which are outside the Council's control. There has been considerable emphasis placed on minimising departmental estimates and absorbing inflationary pressures. The indicative efficiency target of £1.7m has therefore been surpassed. In order to achieve the overall zero growth scenario, Departments have identified efficiency savings of £2.2m. These are explained in more detail in Appendix 1.

2.1.2 Capital Programme - There is also a separate report on the agenda on the capital programme. Most of the capital programme is currently financed through loans and therefore the rates set need to cover the cost of borrowing to the council. This scenario provides the additional £700k needed to finance existing ongoing schemes in 2011/12 and to finance the **Mercury Abatement at the Crematorium and developments at Dunville and Woodvale Park. Additional capital schemes which are subject to Members' prioritisation cannot be funded from this current zero growth scenario**.

2.1.3 City Investment Strategy – This scenario assumes **no growth** from the £3m per annum currently invested in the City Investment Strategy. This fund has been put in place to support major iconic projects and help lever in additional money into the city. This fund is currently supporting the Titanic Signature Project, the MAC, the Lyric and the Connswater Greenway. There is a separate report on the agenda on Investment in the City.

2.1.4 Waste Plan – The costs of managing waste continue to rise. Indeed, it is estimated that costs to Belfast City Council will be some £5m higher in 2014/15 compared to 2010/11. The council needs to prepare financially for this increase in order to avoid a one off hike in the rates in 2014/15. The zero growth rates scenario therefore assumes a stepped increase of some £1.3m to help meet this financial commitment in 2014/15, building on the £1.2m set aside in 2010/11. This money will primarily be directed to actions which enhance recycling, thus reducing the amount of waste for landfill and assisting the Council to meet its landfill diversion targets. Future reports will provide more information on the financial implications of the Waste Plan.

2.1.5 Reserves – Members will recall that a significant element of the rate increase in 2010/11 was attributable to the need to increase reserves to an acceptable level. Given that approach and the 2010/11 underspend, this zero growth scenario assumes that there does not need to be a contribution from the rates to reserves in 2011/12.

2.1.6 Summary

Taking into account departmental cost increases, the additional financing needed for the capital programme and the funding needed for the Waste Plan, reductions of almost £8m are needed in order to achieve this zero growth rate scenario. These reductions represent some 6% of rateable income.

2.2 Scenario 2 – 1% growth in the rates

This scenario reflects the same position as scenario 1, except that it also allows some £1.5m to be made available to fund City Priorities. These could be used to fund additional revenue projects and/or additional capital projects. For ease of reference, the £1.5m would fund some £15m of capital expenditure if it was all invested to finance capital schemes.

2.3 Scenario 3 – 2.5% growth in the rates

This scenario reflects the same position as scenario 1, except that it also allows some £3m to be made available to fund City Priorities. These could be used to fund additional revenue projects and/or additional capital projects. For ease of reference, the £3m would fund some £30m of capital expenditure, if it was all invested to finance capital schemes.

2.4 The separate report on the agenda on the capital programme sets out potential capital projects which could be prioritised for investment within scenario 2 or 3 and Appendix 2 sets out some information on potential options for investment in revenue programmes on a local area basis.

3.0 Future Variables Impacting on Rates Setting

As already advised, there are some significant variables which are still uncertain at this stage which could significantly alter the scenarios outlined above. The key outstanding variables are:

3.1 Clarity on the EPP – the estimated penny product (EPP) is provided by LPS to the Council as an estimate of what the rates will yield in income for the Council in 2011/12. As the Council is dependent on the district rate for some 74% of its income, this figure can make a significant difference to the rates that the council needs to set in order to cover its planned expenditure. The EPP will only be available in November, although engagement is continuing in the interim with LPS officials.

3.2 Effects of cuts in government funding – the implications of the Spending Review on the council for 2011/12 are not known at this stage but should external funding be withdrawn, this would have an impact on council services and potentially staff. Further work is needed around the risks to external funding as the situation becomes clearer.

3.3 Decisions on the use of the 2010/11 underspend – there is a separate report on the agenda on this issue. If the proposals within the report are agreed, they would provide £700k of additional savings in 2011/12 which are not factored into the scenarios above.

3.4 Review and Challenge – much work is still ongoing to review the figures presented and ensure their accuracy.

3.5 Level of the Regional Rate – whilst this has no direct impact on the estimated expenditure of the council, the regional rate represents some 55% of the rates bill experienced by rates payers. It will therefore be a relevant factor in determining the level of district rate and is currently unknown.

4.0 Proposed Process For Moving Forward

It is recognised that this is only an initial assessment of the current position and that much more work and engagement is needed with Members in the coming weeks and months to provide Members with the necessary information and advice to support their decisions about the level of rates to be set.

In particular more work is planned on:

- Obtaining greater clarity on the future variables;
- Developing the detail on what can be achieved within the various scenarios;
- Working up proposals for any investment in City Priorities, including prioritisation of the capital programme;
- Providing further advice and information on the Waste Plan;
- Providing further advice on reserves.

This will enable the scenarios to be worked up in more detail for Members' consideration. Ongoing engagement is planned with Members during November through the Budget and Transformation Panel, the Strategic Policy and Resources Committee and party briefings. A further report will be provided to Members for the Strategic Policy and Resources meeting on 19 November.

5.0 Decision Required

To note the information provided and that a further report will be provided to Committee at its meeting on 19 November.

Recommendations

Members are asked to:

(a) note this update report on the rates and that further engagement is planned on this issue in the coming weeks and months;
(b) agree that the efficiency programme should achieve a minimum of £2.2m in 2011/12 in the areas outlined; and
(c) approve the appointment of a permanent graphic designer in order to facilitate the achievement of some of these efficiencies

Documents Attached
Appendix 1 – Efficiency Programme – 2011/12 Appendix 2 – Options for investment in City Priorities

Appendix 1

Efficiency Programme – 2011/12

Table One below presents the latest position in relation to the capturing the efficiency savings and presents the actual versus target position. As you can see from the table the actual figures have surpassed the required £1.7m efficiency target.

Table One

Efficiency Split		**Target**	**Actual**
		£'000	**£'000**
	Assets / Land	200	294
	Budgetary Challenge	388	769
	ICT	195	98
	Income Generation	122	245
	Procurement	357	320
	Service Review	440	522
	Total	**1,702**	**2,248**

The following sections provide an overview of the type of projects/activities that have been completed across departments to highlight the diversity of work that has been completed to deliver the 2011/12 Efficiency Programme.

Assets & Land

A total efficiency saving of £294k has been identified under this theme. The efficiencies are made up from a range of areas, including reviewing car parking arrangements, reductions in rental costs/rates/premises costs and a reduction on the corporate land bank costs for unused properties.

Budgetary Challenge

Significant savings of £769k are proposed to be realised through challenging budgets across the Council. Some examples of this type of savings are:

- More co-ordinated approach to graphic design - £135k
- Reductions in planned costs of conferences - £77k
- Consultancy - £292k
- Reductions in printing and stationery requirements - £38k
- Reductions in materials needed - £55k

A temporary graphic design post has been employed for the last year in Corporate Communications and has made savings in external design agency costs. It is therefore proposed that a permanent post is created, costing some £35k, and this will achieve savings of £135k per year. Committee approval is needed to create this permanent post.

ICT

Efficiencies have been identified totalling £98k. These relate to various initiatives, for example integration of the invoice register, consolidation of utility bills, and e-invoicing. They will reduce the requirement for manual processing and therefore reduce agency staff costs. Server virtualisation and the roll-out of the print strategy will also achieve savings through a reduction in electricity and toner expenditure respectively.

Income Generation
A total of £245k has been identified under this theme. For example, additional income is proposed to be generated by ISB from external sales of existing ISB products and an increase in Crematorium fees and charges (subject to committee approval).

Procurement
The total efficiency saving from the procurement theme is £320k and some of the key areas making up this figure are:

- Advertising vacancies;
- Floral displays;
- Consultancy;
- Catering supplies;
- Banking contract; and
- Playground/sports equipment.

Service Reviews
A major challenge for the organisation is to find ways to deliver better value for money services. Members have already made it clear that priority should be given to streamlining back office functions such finance, HR, Payroll, Business Support etc.

Service review efficiencies totalling £522k are being proposed, around half of which have been identified in Finance and Resources Department. Parks & Leisure Department will make operational service efficiencies, which will absorb much of the additional costs of the Connswater Community Greeenway in 2011/12. A range of service reviews have been completed within the Health & Environmental Services Department. These included completing a review of the shift patterns in the Recycling Centres which reduced the requirements for overtime. Within the Development Department, savings are proposed from reductions in overtime costs and a reduction in posts.

Appendix 2

Options for investment in City priorities

Members asked for information about what could be achieved should the Council decide to go for growth options in the rate. The following issues and opportunities have been identified:

Mitigating risks to external funding

The assumption inherent within the current estimates, that other things remain equal, carries with it some degree of risk in what is volatile financial environment. Commentators have noted that the Northern Ireland economy continues to show a decline in key economic indices and in terms of confidence. A number have suggested that the worst effects of the recession will be felt when the impact of public expenditure cuts hit the system. Whilst the impacts of the CSR will take some weeks to become clear, it would be prudent to plan our finances in such a way that mitigates the risk to future service delivery and investment of reductions in funding.

A key area where there is potential for CSR to impact is on those services which are grant funded by central government departments, including food safety, community safety and good relations. **A crude approximation of the impact of a 20% reduction in this funding is that it could mean a shortfall of £500k in 2011/12 on the basis of current estimates.** Other risks also exist with respect to the impact of the economic downturn on the rates base and on income from Council services, such as that already being felt by building control.

Continuing Capital Investment

There is a separate item on the agenda on the capital programme which sets out proposed priorities for the capital programme. For information, **approximately £1m of additional capital financing (approximately 1% in the rate) will provide £10m of capital schemes** and would permit Members to agree further capital commitments.

Investing in local areas

At the workshop on 8th September, Members reinforced the need to make a difference to local people on the ground during these difficult times. Members were frustrated by the lack of a co-ordinated approach to regeneration locally and at plans that had no resources devoted to their delivery in local areas. A growth scenario in terms of revenue provides opportunities for Members to consider the following:

- Enhance thematic working across the city – this budget has been held at £500,000 in the current estimates.
    - Potential projects include: Youth Diversionary Projects as part of community safety/young people themes; ensuring the future sustainability of the community safety warden scheme; further work to improve public behaviour in waste minimisation and littering through targeted education programmes; enhanced good relations programmes, such as the “City Hall for all” programme and local projects;

- Create enhanced programmes to ensure maximum value is derived by local communities from any new capital spend, for example programming activity to support the parks redevelopments at Woodvale and Dunville; this will of course be dependent on delivering the capital projects.

- Pilot new and innovative approaches to integrated service delivery at a local level and the engagement of local people in improving their areas. Working in collaboration with Members, on a North/South/East/West basis, a sum, notionally £250,000, could be committed to facilitating local planning, delivering local programmes and events and environmental improvements in the North, South, East and West of the city. All content would be determined by Members in engagement with local communities (Appendix A).

- Boosting the local economy and supporting regeneration projects; for example piloting new and innovative approaches to local regeneration; addressing dangerous or dilapidated properties; building the Council's capacity on development planning; enhanced community tourism initiatives and city events.

These proposals and others can be worked up in more detail for Members' consideration.

Appendix A: Growing the "City of Neighbourhoods" model - A new way of planning with local people

1. Members want better local planning and integration of local services

At the workshop on corporate planning on 8th September members made a number of points about the current corporate plan and the changes that they wanted to see in the new plan. In particular Members said:

- That the Council's interventions in the city must be seen, felt and touched by local people and communities;
- The local people are frustrated by local planning processes that are not linked to resources available to deliver them;
- That the Council must work towards facilitating and improving services and areas <u>with people</u> rather than simply <u>for people;</u>
- That we must work to better integrate services locally, firstly as one Council and then with partner organisations.

These are aims which may take us the life-cycle of the next corporate plan to fully realise. Experience has shown that trying to change the entire system can be laborious and can take a long-time to yield results. It is therefore proposed that a specific project is created which symbolises and tests our ability to deliver on all the principles set out above which has the potential to yield real results for local people in the first year of the new plan.

2. We know that people's priorities differ across the city

The NSEW workshops held with Members, our most recent survey and the experience of front-line services show that different issues are important in different parts of the city. For example, our public survey showed East prioritising Value for Money; South the Economy, West, Safety and North, young people. This proposal will support Members to empower local people to get things done about the kind of low cost/high impact issues that matter to them, within the context of a specified budget which will allow the Council to get local people involved in decisions about local budgets in a manageable way, whilst the longer-term infrastructure and capacity to deliver full participatory budgeting is being developed.

This approach - doing with local people, rather than for – also allows the local communities to capitalise on the skills, experiences, professional expertise, networks, time of local people to improve local areas. Services and activities are created together so that there are mutual benefits for the user, for the neighbourhood and for the Council.

Without tapping into the enormous resources that the public already possess, we are missing a huge opportunity to improve our programmes, services and facilities, and offering programmes that people and value and use – where people can give something and get something back. Tapping into this is the ultimate efficiency.

We want to ensure that there is a consistent approach across the organisation, which allows good practice to flourish be recognised. In turn, this will help us deliver better for the city.

Making the most of our capital assets

The Council has a number of assets, which are incredibly important across the city. However, as Mike Morrissey has highlighted[1], you can only sweat the asset so far; the real efficiencies are derived from doing business differently. For example, the Grove WBC has still room to develop and could be further enhanced by drawing community services into what is an attractive, welcoming building. A key aim of this project would be to allow for the co-facilitation of multiple services and programmes across a variety of BCC venues and to start to bring ore consistency to usage terms, opening hours etc…so that it is simple and easy for local people to know what they can expect.

The proposal

Our aspiration is to better connect with local people and to build capacity within the organisation and the city to influence and address local issues, tackle inequalities and improve relationships. A new integrated neighbourhood working approach would develop clear **outcomes, values and processes** which will steer our approach to working <u>in</u> and <u>with</u> local neighbourhoods.

Through this neighbourhood delivery approach, we will ensure that the 'business as usual' of the organisation has a substantially increased profile, and ensure that the various functions and services of the organisation work cohesively in local neighbourhoods, delivering the Council's quality of life agenda.

Over the period April 2011 – March 2012, it is therefore proposed, that we actively pursue an integrated planning model, across all departments. The objectives of the project are to:

- use integrated planning at a neighbourhood level as a tool to improve regeneration, community cohesion, community safety and health and well-being outcomes;
- develop 4 integrated plans using all of the Council's resources to work in and with local neighbourhoods in a co-ordinated manner;
- enable and empower local people to actively participate, through planning and volunteering opportunities, in the area plans;
- enable local people to determine small-scale capital enhancement programme and programmatic budget priorities;
- establish an inter-community and statutory forum to design and oversee the linked area plans; and
- compare and contrast a range of neighbourhood approaches to engaging with other statutory partners.

4. Indicative activities and budget

Spatial planning facilitation (4 areas)	100,000
Local programmes and events (participatory budgeting)	400,000
Small-scale capital enhancements	400,000
Learning and development (city-wide staff and volunteers)	20,000
Marketing and communications	20,000
Total	**£940,000**

[1] Good Relations in a changing urban environment (May2010) M. Morrissey