Belfast City Council

Report to:	Strategic Policy and Resources Committee
Subject:	**Update on Revenue Estimates 2011/12**
Date:	4th February 2011
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1. Relevant Background Information

1.1 It was agreed at the Council meeting on 1 February that the revenue estimates for 2011/12 would be taken back for further consideration at Strategic Policy and Resources Committee on 4 February. This is due to the late notification by Land and Property Services (LPS) of a significant change to the estimated rates income. This report provides background on the change in estimated rates income and sets out the options for the way forward. The rates must be set by 14 February and a special Council meeting will held on Wednesday 9 February for this purpose. At the request of councillors, LPS have also been asked to attend the SP&R meeting on 4 February to respond to Members concerns. Separate information will be made available for councillors to aid their discussions with LPS at the meeting.

1.2 As Members are aware, approximately 74% of the total funding for the Council's activities comes from the district rate. Information on rates income is provided by Land and Property Service (LPS) who maintain the valuation list for the city and collect the rate.

1.3 Each year, the LPS will issue to local councils an estimate of how much it expects to raise from the total rate collected from their area for the coming year. This is known as the estimated penny product (**EPP**). On a quarterly basis during the year, updates are then provided by LPS of the actual penny product (**APP**) (the amount of money actually estimated to be collected) and finalisation occurs in September, following the financial year end. If the amount collected at finalisation exceeds the estimate the Council gets a payback, if it is less than the estimate the Councils pay the balance back to LPS.

1.4 Members will be aware of previous difficulties with the LPS forecasts of rates income, most notably an underestimate of £4.1m relating to 2007/08 resulting in this amount having to be being repaid to Government from BCC reserves. This led to a significant period of BCC working in partnership with LPS including developing a Memorandum of Understanding, assigning BCC staff to review vacant properties and increased liaison with LPS officials. Extra in year forecasts are now produced and finalisations have been reasonable compared to original forecasts.

2. Position in 2010/11 – Current Financial Year Update on Actual Penny Product

2.1 Members were advised at SP&R in November 2010 of an expected £600k reduction in our APP anticipated rates income for 2010/11(letter from LPS of 27 October). We were also advised by LPS on 3 December that the EPP for the coming year 2011/12 was effectively flat, with no growth. These notifications were factored into our in year position and rates setting process respectively.

2.2 Due to concerns about the figures provided and the effect of the recession on the rate base, a full report on LPS/Rates issues was discussed at SP&R on 10 December and a letter was issued to LPS on 10 December by the Chair of SP&R **(Appendix 1)** and the issues discussed with Minister Wilson on 20 December. This was followed up by a letter to Minister Wilson on 23 December. LPS was also invited to attend the SP&R on 18 February 2011.

2.3 Responses were received from John Wilkinson, Chief Executive of LPS on 23 December **(Appendix 2)** and Minister Wilson on 14 January, both emphasising the positive nature of the partnership and the active engagement with BCC. However no indication was given by LPS of any amendment to the previous figures provided for the EPP and the anticipated APP.

3. Most Recent Update

3.1 Unfortunately, we have been advised by LPS on 26 January that the latest figure for the anticipated APP for 2010/11 is an estimated clawback of some **£3.5m, an increase of £2.9m from that advised in late October.** This also led to officers having serious concerns about the validity of the 2011/12 EPP figure provided by LPS on which the rates setting assumptions are based. There has been extensive engagement with LPS in the last couple of days to analyse and understand this position.

3.2 There are 3 key reasons for the changes which impact on both years:

(a) There has been a reduction in the valuation list for non-domestic properties (for example, due to the removal of a number of demolished properties etc) which leads to a reduction in the level of rates billed;

(b) There has been an increase in the level of write off of irrecoverable debt, particularly that associated with bankruptcies and liquidations; and

(c) The number of vacant non domestic properties which are excluded from paying rates has significantly increased (for instance, because the property is deemed to be non occupiable etc)

4.	Impact of the Current Position – 2010/11 – APP Clawback

4.1 We are currently finalising the 2010/11 forecast financial position. Members will recall that we had reported a forecasted underspend of some £2m in November for 2010/11. You are also aware that some £500k of monies set aside for VR in 2010/11 is no longer required. Given this prudent financial planning, we would expect that these monies and some recently notified underspends will be able to address the additional £2.9m of clawback in 2010/11 not factored into our previous forecast, without recourse to reserves.

4.2 However, there will be limited, if any investment in reserves (opening reserves for 2010/11 are some £9.1m) and effectively the council will have had to absorb an unexpected £3.5m hit to its finances in 2010/11.

4.3 Members should note that council officers met with LPS officials again on 1 February to explore potential actions which may reduce the clawback position for 2010/11. **It is estimated that an additional £0.5m could be raised through expediting the processing of a number of rates assessments where the bills have not yet been issued and other measures. This action is helpful and may ultimately lead to a reduction in the estimated clawback to £3m when it is finalised in September, although equally there are many other factors that could also impact on this final position. However, based on discussions, it is unlikely to improve the current estimated EPP for 2011/12.**

5.	Impact of the Current Position – 2011/12

5.1 Due to the significant estimated clawback on the APP for 2010/11, officers met with LPS to seek a detailed reassessment of the EPP on which the current estimates for 2011/12 are based. In a series of meetings the planning assumptions of LPS were reviewed with the result that the EPP figure has been revised from 0% (on which the present estimates are based) to -2% (minus 2 per cent). This forecasting process is complex particularly in the recession, but based on current information an EPP of minus 2 per cent is the best information available. This represents some **£2.5m of reduced income** compared to the figures used in the rate setting process.

5.2 This means that if the Council wishes to achieve the same outcomes and level of capital investment included in the previous estimates discussed by Strategic Policy and Resources Committee, it would have to **increase the level of the rate by 2%** to 4.5%.

5.3 The Table summarises the key elements of the council's finances for 2011/12 based on the 2.5% district rate increase as previously discussed with Committee. This does not take account of the revised EPP of minus 2%.

District Rate and Estimates 2011/12

	2011/12 Increase / (Decrease)	% Rate Increase
Department Estimates	1,478,413	1.14
Current Capital Programme	528895	0.40
Additional Capital Schemes	3,200,000	2.48
City Investment Strategy	0	0.00
Waste Plan	1,300,000	0.99
City Priorities	1,000,000	0.77
General Exchequer Grant	(214,000)	0.16
Movement in Reserves	-4,500,000	-3.46
District Rate Increase		2.50
Average impact on ratepayer		£8.39

6. Options for Rates Setting

6.1 As Members are aware, departmental estimates have increased by some 1.3% in 2011/12 compared to 2010/11. Whilst potential underspends against these departmental estimates are possible during 2011/12, it is advised that further cuts to departmental estimates would represent a significant risk at this time, given that efficiency savings of £2.9m have already been included and that there has been a real terms cut of over 2%. It is therefore suggested that if Members agree that expenditure commitments must be reconsidered, then the most appropriate options relate to the £1m set aside for investment in local area initiatives and the £3.2m set aside to finance £20.5m of capital expenditure. The options proposed are set out below.

6.2 (1) Sit at 2.5%. There would be no protection against the likely £2.5m rates clawback. This would mean that planned investments would have to be reduced. The £1m revenue for local initiatives would have to be on a non recurrent pilot basis in 2011/12 and could not be sustained into 2012/13. The non recurrent funding could be found for one year only, given that not all programmes planned for within the rates setting process will start on 1 April meaning that funds can temporarily be redirected to finance local initiatives. Capital investment would have to be reduced to £11m from the current planned £20.5m. We would be most likely in the middle of Council positions, below current inflation and in line with the assumed regional rate increase.

6.3 (2) Revise the rate increase to 3.5%. BCC would have protected itself against some £1.25m of rates clawback by increasing the rates to 3.5%. In addition, the £1m revenue for local initiatives would be on a non recurrent pilot basis in 2011/12 and could not be sustained into 2012/13. Capital investment would be held at the current planned £20.5m. We would be most likely in the upper third of Council uplifts, below current inflation but above the assumed regional rate increase.

6.4 (3) Revise the rate increase to 3.5%. BCC would have protected itself against some £1.25m of rates clawback by increasing the rates to 3.5%. In addition, the investment in local initiatives would be £0.5m sustainable for the future and £0.5m on a non recurrent pilot basis in 2011/12 which could not be sustained into 2012/13. Capital investment would be reduced to £15m from the current planned £20.5m. We would be most likely in the upper third of Council uplifts, below current inflation but above the assumed regional rate increase.

6.5 (4) Revise the rate increase to 4.5%. BCC could achieve the same level of investments in 2011/12 and would have protected itself against some £2.5m of rates clawback in 2011/12 (our current best assessment). We would be most likely in the top 4 councils uplifts and above inflation and the regional rate increase.

6.6 These options, and their implications, are set out in the table below.

Scenario	**Average cost to domestic ratepayer per year**	**Additional Revenue Investment**	**Additional Capital Finance**	**Additional Capital Investment**	**Position of Councils**
2.5%	£8.40	£0m sustainable £1m non recurrent pilot in 2011/12 only	£1.7m	£11m	Middle
3.5%	£11.85	£0m sustainable £1m non recurrent pilot in 2011/12 only	£3.2m	£20.5m	Top 1/3
3.5%	£11.85	£0.5m sustainable £0.5m non recurrent pilot in 2011/12 only	£2.5m	£15m	Top 1/3
4.5%	£15.20	£1m sustainable	£3.2m	£20.5m	Top 4

6.7 The table below, for notation purposes, shows the domestic and non-domestic rate for the above scenarios. The Council will ultimately need to confirm the relevant rates for the relevant scenario, when it is agreed.

Scenario	**Domestic Rate**	**Non-Domestic Rate**
2.5%	0.3002p	26.2249p
3.5%	0.3032p	26.4811p
4.5%	0.3061p	26.7332p

6.8 Members will wish to consider the implications of each scenario in terms of the additional costs per annum for Belfast ratepayers and the additional investment that each scenario can deliver.

7. Action regarding validity of LPS information

7.1 This whole episode raises serious concerns about the quality of the information provided by LPS. Whilst it is acknowledged that the recession presents many challenges for forecasting and that Belfast has, we understand, been disproportionately hit in terms of bad debts, nonetheless the APP figures provided present a significant reduction in one quarter from previous forecasts of 2010/11, with knock on implications for the EPP in for 2011/12.

7.2 We therefore asked the Institute of Revenues Rating and Valuation (IRRV) who are UK experts in rating issues to review the information provided by LPS and the significant change since the end of October. Their report is attached at **Appendix 3**. They have not had a chance to consider all the underlying data on which the estimates are based but they have made the following observations:

- The estimated EPP is not really an estimate – it is simply a figure based on the values in the valuation list at a point in time and takes only limited account of potential changes to the tax base for the forthcoming year;
- The process takes little account of possible reductions in rateable value due to the appeals process – this has resulted in a number of large reductions in 2010/11, many of which are retrospective;
- More regard needs to be taken by LPS about the impact of forecasts on local councils and more regular information should be shared with councils;
- The electronic estimating model should be scrutinised to ensure that it is fit for purpose and there should be an improved notification process between LPS and councils in regard to planned losses;
- It is argued that both the reducing tax base and the increase in write offs should have been better forecast by LPS, in terms of the original EPP for both 2010/11 and 2011/12.
- In future weeks, more information should be obtained from LPS on the potential for additional income from new assessments; details on write offs; costs of collection and the individual elements of the revised EPP. An independent audit of the EPP methodology in the near future is also suggested.

7.3 We would therefore recommend the need to commission an independent assessment of the current difficulties and the identification of recommendations to improve future forecasting. We would also wish to raise the concerns with the Minister of the Department of Finance & Personnel.

Resource Implications

Resources of £3.5m will need to be set aside in 2010/11 for the estimated clawback compared to the original EPP. Income is expected to reduce by some £2.5m in 2011/12 compared to previous estimates.

Recommendations
It is recommended that Members note the above report and agree: (a) which option to take forward to council for the striking of the district rate; (b) that officers will provide further information and recommended actions for improvements in the forecasting and monitoring by LPS at the meeting on 18 February; (c) that an independent assessment should be commissioned to understand more fully the current significant revisions to previous estimates and to recommend improvements to future forecasting by LPS; and (d) that Members concerns should be raised with the LPS when they attend the SP&R meeting and with the Minister of the Department of Finance & Personnel.

Decision Tracking

Key to Abbreviations

Documents Attached
Appendix 1 – Letter to John Wilkinson, LPS from SP&R Chairman 10 December **Appendix 2 - Letter from John Wilkinson LPS to SP&R Chairman 23 December** **Appendix 3 – IRRV report**