



Belfast City Council

Report to:	Strategic Policy and Resources Committee
Subject:	Rates Issues
Date:	20 June 2008
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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.

To help with this work the Council has enlisted the services of the leading experts in this field – the Institute of Revenue, Rating and Valuation. The IRRV has provided the Council with a detailed technical report on rating issues. A copy of the IRRV report is provided at Appendix One. This Committee report summarises the key findings of the IRRV report and makes a number of recommendations for improvement.

The Council has worked with IRRV to produce a "Councillors' Guide to Rates" and this will be distributed at the meeting.

Key Issues

Rates and Financial Planning

In order for Members to decide on the level of District Rate to be set for a particular year they need to have information on two key areas:

- the level of net expenditure which the council needs to deliver its priorities, and
- the level of estimated Penny Rate Product (PRP) as notified by the DFP. The estimated Penny Rate Product is the amount of rates which would be collected if the rate was set at 1 penny.

As the setting of the District Rate is one of the key decisions Members have to make, it is essential that the information provided to them on the areas noted above are as accurate and timely as possible.

The IRRV, in their report, have suggested that the estimated PRP is not truly an estimate because it takes no account of potential changes to the rate base in the year for which the estimate is provided. As can be seen from the table below, this has resulted in large variances between the estimated PRP and the actual PRP.

2001/02	2002/03	2003/04	2004/05	2005/06	2006/7
£2,179,193	£2,193,547	£1,121,183	£5,287,440	£3,937,347	- £633,595

This shows that for the years 2001/02 – 2005/06 there was a significant underestimation of what the rates would yield. In 2006/07, the reverse was the case and the Council owed DFP money. While it is acknowledged that the estimate can always only be an estimate, these figures show that Members are not being provided with a reasonable estimate of the PRP. For example, in 2005/06, if Members had a more accurate estimation they could have decided to set the rate at 3%-4% lower than they did or they could have decided to set the same level of rate and to deliver on more priorities.

Members should note that for 2008/09 rate setting the Council, through the work of Building Control, identified a number of key business properties which were not on the valuation list but it was known that they would become rateable during 2008/09. An example of this is the IKEA store. LPS agreed to build these properties into the estimated PRP calculation and as a result the rate yield improved by 3%

The IRRV have indicated that this approach is a step in the right direction but does not go far enough. Their report recommends that the Council should work with the LPS to develop a new estimating model for the calculation of the estimated PRP and forecasting of the outturn of the actual PRP.

Their report also recommends that the current work which the Council's Building Control Service does with LPS should be expanded to cover the provision of details of major developments / demolitions that they consider will take place in the year relevant to the rate estimate.

Members should also note that the Rates Regulations (NI) 2007 does not include a specific requirement on DFP to provide local authorities with an estimated PRP. Also, councils are not obliged to use the estimated PRP provided by LPS. The IRRV report recommends that the Council should lobby the Minister to amend the regulations to include a specific requirement on DFP to provide local authorities with an estimated PRP. It is further recommended that DFP should have a duty to undertake revised calculations during the year and to notify local authorities of any major variations to the estimated PRP, whether lesser or greater than the estimate, that are likely to occur.

With regards to the final outturn figure for the actual PRP, it is recommended the regulations should require notification should be given to local authorities by 30th June following the end of the financial year. This date is in line with the statutory timetable for completing the Council's annual accounts.

Vacant Properties

One of the key areas of work which the Council has been working on to improve the rates income has been that of vacant properties. Currently vacant domestic properties are not charged rates and non-domestic vacant properties are only charged 50% rates. It is therefore important to make sure that properties are properly identified as being vacant. This work is the responsibility of LPS. It is our understanding that no physical verification of vacant properties has been done by LPS since 2005 even though the level of vacant properties has risen from 6% in 2005/06 to 11% in 2007/080.

On initiation from the Core Improvement Team, an agreement was reached between the Council and LPS that the Council's Building Control Service would carry out, over a six week period, vacancy rate inspections on behalf of LPS to check whether properties

defined as vacant were still in fact vacant.

The registers from LPS showed that some 13,500 properties were listed as vacant across the city. Staff from the Building Control Service surveyed a total of 10,521 properties and found that 51% of them to be occupied. In essence this means that 5,365 properties in Belfast were not paying the level of rates that they should have been. The details of these properties have been passed to LPS so that rates bills can be issued.

In financial terms, it is estimated that this exercise will result in an additional £3.33m of rate income for the Council. £1.14m will be received as part of the 07/08 finalisation figure and the remainder will come through in 2008/09 and 2009/10.

As a consequence of this exercise the vacant property list is more up-to-date and accurate. The Council will receive an additional £3.33m income - £2.19m of this represents year on year additional rate income assuming that the properties remain occupied.. It has been done at no cost to the ratepayer and is an excellent example of how the Council can join up both internally and externally to deliver on projects. It also demonstrates the value of having a Building Control Service which has an intimate knowledge of the properties in the city and staff who are able to use this knowledge outside of traditional building control boundaries.

Although, this exercise has brought the vacant property list up-to-date, the key issue is how it is going to be maintained. It is recommended that Members seek assurances from LPS that the vacant property list will be maintained on an on-going basis.

Rates Arrears

Members may be aware of recent press coverage in relation to the level of rates arrears. In March the Minister indicated that the arrears amount to £41m for 2006/07 and total arrears have reached just over £148m. For Belfast the equivalent figures are £13.4m and £46.3m.

The level of arrears does not initially impact on the amount of rates paid to the Council as the monthly payments made by DFP are based on the estimated PRP. Arrears become an issue for the Council when they become an irrecoverable debt and are written off. When this happens, the written off debt becomes a loss on collection and is reduced from the amount of rates payable to the Council as part of the rates finalisation calculation.

In recent years the amount of debt which has been written off for Belfast is relatively small - £444k in 2005/06 and £389k in 2006/07. There is a growing concern, however, with the current level of arrears that this position may change. There is also a concern that the capacity of LPS to recovery debt is being reduced as it has a large number of priorities to deal with. With this in mind Members are asked to agree that the Director of Corporate Services formally writes to the LPS to request:

- A profile of the arrears in terms age broken down by domestic and non-domestic for Belfast City Council.
- A profile of the arrears by the different stages of the debt recovery process.
- The likely levels of irrecoverable debt for 2007/08, 2008/09 and 2009/10.
- The steps being taken to recover all arrears.

Cost of Collection

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.

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 be the number of rateable properties because this is the main driver of the key 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

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.

Recommendations

The Committee is requested to agree :

1. The Council should work with the LPS to develop a new estimating model for the calculation of the estimated PRP and forecasting of the outturn of the actual PRP.
2. The Council should discuss with LPS expanding the role of the Building Control Service to cover the provision of details of major developments / demolitions that they consider will take place in the year relevant to the rate estimate.
3. The Council should lobby the Minister to amend the regulations to include:
 - a. A specific requirement on DFP to provide local authorities with an estimated PRP.
 - b. The DFP to have a duty to undertake revised calculations during the year and to notify local authorities of any major variations to the estimated PRP, whether lesser or greater than the estimate, that are likely to occur.
 - c. The final outturn figure for the actual PRP should be required to be notified to local authorities by 30th June following the end of the financial year.
4. Note the outcome of the vacant property project, the excellent work carried out by the Building Control staff and the resultant impact on the rates.
5. The Council to formally seek assurances from LPS on how the vacant property list is going to be maintained on an on-going basis.
6. The Director of Corporate Services formally writes to the LPS to request:
 - a. A profile of the arrears in terms age broken down by domestic and non-domestic for Belfast City Council.
 - b. A profile of the arrears by the different stages of the debt recovery process.

- c. The likely levels of irrecoverable debt for 2007/08, 2008/09 and 2009/10.
- d. The steps being taken to recover all arrears.

- 7. 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.