



**Land &
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CHIEF EXECUTIVES OFFICE			
CX	IMPR	BSM	CMS
RMU	C.COMM	CFM	P&L
0 2 OCT 2008			
OTHER DEVEL.		LEGAL	H&ES
REFERENCE	MCN 3/10		

*CORP Copied to Salmon
R. Cregan 31/10/08*

Mr Peter McNaney
Chief Executive
Belfast City Council
Adelaide Exchange
24-26 Adelaide Street
BELFAST
BT2 8GD

Date: 30 September 2008

Dear Peter,

FINAL ACTUAL PENNY PRODUCT 2007-2008

In his letter of 9 July 2008 and enclosed attachments Arthur Scott set out details of your Council's Provisional Actual Penny Product (APP) calculation for the 2007-2008 financial year and advised that following further detailed analysis and review final outturn figures would be issued in September 2008. Work on that further review is now complete and details of the final APP for the 2007-2008 year for Belfast City Council are provided in the Schedules attached to this letter.

Regretfully the calculation confirms that the Penny Product outturn for 2007-2008 is less than the Estimate on which the monthly payments were made by the Department. In monetary terms the shortfall is £4,128,553.40 and in accordance with the Regulations this amount will have to be repaid by the Council. Normally this adjustment would be made in November but following representations and subsequent consultation with the Department it has been agreed that the adjustment will be made in the March 2009 payment. This will give the Council a further period of time to plan for the adjustment.

Analysis of the outturn has identified a number of reasons for the shortfall in revenue and these are detailed as follows.

- The EPP for 2007-2008 was based on collection percentages of 96.06% on the non-domestic side and 90.68% on the domestic side. The APP calculation shows the outturn of these collection percentages dropped to 90.32% on the non-domestic side and 87.88% on the domestic side. There will be a combination of reasons for 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 (including the social sector) arising mainly from a 50% increase in the level of allowance under rating reforms, losses in revenue arising from the Cap and increases in cost of collection.

- Vacancies in the domestic sector increased from £3.656million in the 2006-2007 year to £6.132million in the 2007-2008 year and in the non-domestic sector they increased from £10.605million to £14.128million.
- The CAP introduced as part of the St Andrew's Agreement and too late to be included in the original EPP led to a loss in revenue of £1.156million.
- Cost of Collection increased by £465,350.
- The valuation tax base saw a number of significant value reductions. For example the Queen's University Halls of Residence at College Gardens, Malone Road and Sans Souci Gardens with rateable values of just under £1million were granted exemption status as a result of reform legislation. The former Etam store at 17 Donegall Place was reduced from a rateable value of £350K to zero back dated to August 2005. A Government building at 658, Upper Newtownards Road had a reduction in rateable value of £241K backdated to 1April 2006. There was a redevelopment at 1, Odessa Street leading to a reduction in rateable value of £270K and of course the City Hall was removed from the List. In all we identified significant value reductions that is to say reductions of £50K and greater in the non-domestic List of £7.5million although in some cases there were compensating increases.
- Significant refunds that is to say those of £25K and above and in the main arising from valuation reductions and other situations amounted to just under £2million. Two significant refunds were Royal Mail at Tomb Street, £501K and Royal Courts of Justice at Chichester Street, £285K both arising from backdated reductions in valuation.

It is disappointing to see such a variance between the Estimate and the outcome but such variances are a natural part of the process and reinforces the need for closer working between the Agency and the Council in calculating the Estimate.

We will shortly turn our attention to the Estimated Penny Product (EPP) for the 2009-2010 year. By working together we hope to improve the accuracy of the Estimate by identifying and sharing the key issues to affect the tax base over the next 18 months and agreeing the main assumptions that should underpin your Estimate of likely revenue.

To facilitate this partnership approach and the tailoring of the Estimate we propose to extend the period to produce and agree the estimate as follows;

- Early October provide you with an Estimate based on Rateable Values in the Valuation Lists at the end of September 2008 and using the most up-to-date information on losses and cost of collection and where appropriate Rating Reform matters. We will meet with Council Officials to discuss and explain the main changes in the Estimate. This will also provide a useful opportunity for you to challenge the Estimate and to confirm that any value significant issues for example properties not yet valued or reductions are addressed to your satisfaction.
- Early November provide you with an Estimate based on Rateable Values in the Valuation Lists at the end of October 2008 and any agreed significant assumptions for example new properties that will enter the Valuation Lists later will be prepared and

issued. You will have a further opportunity to discuss and/or comment on that Estimate before a final Estimate is calculated.

- Early December a final Estimate together with agreed assumptions will be prepared and issued to you and Local Government Policy Division around the first week of December.

I trust you find the proposed arrangements for calculation of the Estimate for 2009-2010 helpful and that our joint effort will lead to a robust Estimate for that year. Should you have any queries with this or the 2007-2008 outturn please do not hesitate to contact Gail Fryer at Belfast 02890 252110 or e-mail (gail.fryer@dfpni.gov.uk)

Yours sincerely,
John

JOHN WILKINSON

Council: BELFAST

CALCULATION OF ACTUAL RATE PRODUCT (DOMESTIC) 2007/2008

GROSS RATE INCOME

2007/2008 Domestic Rates Assessed	89,274,392.31
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Less COST OF COLLECTION

(975,213.87)

Less LOSS ON COLLECTION

Allowances (Excl. Discount)	(2,016,481.57)
Vacancies	(6,132,463.00)
CAP	(1,155,570.51)
Irrecoverables / Shorts	(4,540.66)
3% Rebates Afforded	(535,045.81)
	<u>(9,844,101.55)</u>

Total Domestic Rate Product

78,455,076.89

Actual Domestic Penny Product = $\frac{\text{Total Domestic Rate Product}}{\text{Net Dom. Regional Rate} + \text{Dom. District Rate}}$ = 130,086,348.68

Amount due to BELFAST Council in 2007/2008

= Actual Domestic Product x 2007/2008 Domestic District Rate

= 130,086,348.68 x 0.2423

= 31,519,922.29

Council: BELFAST

CALCULATION OF ACTUAL RATE PRODUCT (NON-DOMESTIC) 2007/2008

GROSS RATE INCOME

2007/2008 Non-Domestic Rates Assessed 173,029,113.56

Less COST OF COLLECTION (2,175,449.49)

Less LOSS ON COLLECTION

Allowances (Excl. Discount)	(32,867.18)	
Vacancies	(530,145.23)	
Vacant rating	(13,598,609.68)	
Irrecoverables / Shorts	(409,776.08)	
		<u>(14,571,398.17)</u>

Total Non-Domestic Rate Product 156,282,265.90

Actual Non-Dom. Penny Product = $\frac{\text{Total Non-Domestic Rate Product}}{\text{Non-Dom. Regional Rate} + \text{Non-Dom. District Rate}} = 3,109,222.41$

Amount due to BELFAST Council in 2007/2008

= Actual Non-Domestic Product x 2007/2008 Non-Domestic District Rate

= 3,109,222.41 x 21.16

= 65,803,894.01

Council: BELFAST

CALCULATION OF ACTUAL RATE PRODUCT 2007/2008 - SUMMARY

	£
AMOUNT DUE - DOMESTIC	31,519,922.29
AMOUNT DUE - NON-DOMESTIC	65,803,894.01
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TOTAL	97,323,816.30
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AMOUNT PAID 2007/2008	102,384,064.00
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ADJUSTING AMOUNT AS A RESULT OF FINAL PENNY PRODUCT CALCULATION	<u>(5,060,247.70)</u>
REPAYMENT OF HB COSTS	931,694.30
ADJUSTED FINALISATION PAYMENT TO BE MADE IN NOV.08	<u>(4,128,553.40)</u>