Belfast City Council

Report to:	Strategic Policy and Resources Committee
Subject:	**Update on Revenue Estimates 2011/12**
Date:	19 November 2010
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Relevant Background Information

1.1 An update on the revenue estimates for 2011/12 was presented to the Strategic Policy and Resources Committee at its meeting on 22 October 2010. As advised within that report, the rates bill received by ratepayers contains two principal elements – the district rate received by local Councils and the regional rate which is set and received by the Northern Ireland Executive.

1.2 For information, over the last ten years, the district rate increases have ranged from 2.83% to 7.81%, with an average increase of 5.6%. It is important to note that the setting of the rate for 2011/12 reflects two unique circumstances:

(a) the recession means that the rates base is no longer growing. This represents a significant risk for the future finances of the Council, given that the district rate provides approximately 74% of the total funding for the Council's activities; and
(b) on the positive side, there is a one off opportunity to reallocate money that was needed in 2010/11 to boost reserves.

1.3 The October report to the Strategic Policy and Resources Committee on rates setting presented information on three scenarios, as requested by Members – 0%, 1% and 2.5% increases in the rates. This was a preliminary assessment of the overall position and there were a range of internal and external variables which were still uncertain at that stage. In addition, at the October meeting, Members agreed to action a number of proposals which would utilise some £1.1m of the 2010/11 underspend. These proposals will produce savings of some £700k for 2011/12 which now need to be factored into the rates setting process.

1.4 This report provides an update on our assessment of the revenue estimates for 2011/12, reflecting our current analysis of both the internal position and the external variables and providing more information on what can be achieved within the various scenarios.

Key Issues

2.0 Updated analysis of zero growth in rates

2.1 The scenario for zero growth in the rates has been updated from the October position to reflect:

(a) the £700k savings arising from implementation of the agreed proposals for the use of the 2010/11 underspend; and
(b) the current indication of the industrial derating grant for 2011/12 from DOE which is a reduction of £210k from the 2010/11 budget.

Table 1

	2011/12 increase £m	**% increase**
Department Estimates	1.5	1.3
City Investment Strategy	0.0	0.0
Capital Programme	1.4	19.1
Waste Plan	1.3	106.3
De-rating Grant decrease	0.2	4.8
Rate Increase before Reserves	**4.4**	**3.6**
Movement in reserves	-4.5	-100
District Rate Decrease	**-0.1**	**-0.07**

2.2 **Departmental Estimates –** This is the money required by departments to deliver services and typically covers expenditure on headings such as salaries, supplies and services. Based on current estimates, this scenario would mean that net expenditure is budgeted to rise by £1.5m which equates to some 1.3% of an increase from 2010/11. Given that inflation has been estimated at 3.1%, **this represents a real terms cut of some 1.8%**, in line with that faced by the Northern Ireland Executive. The key drivers for the departmental estimates increases include costs which the council has limited control over such as:

- Payroll costs – increases in pension contributions and assumptions on nationally agreed pay rises for employees earning less than £21,000 and staff increments
- Increase in landfill tax
- Loss of external income in areas such as building control
- Inflationary pressures

In order to minimise the impact of these cost pressures, some £2.9m of cash savings have been identified and deducted from budgets for 2011/12, as part of the efficiency programme. This has been achieved without any cut in front line services. This will mean that the Council will achieve savings of some **£12m since 2006/07**. These are set out below in **Table 2** and explained in more detail in **Appendix 1**.

Table 2

Efficiency Split	**Target £'000**	**Actual £'000**
Assets / Land	200	294
Budgetary Challenge	388	769
ICT	195	98
Income Generation	122	245
Procurement	357	320
Service Review	440	522
Use of Underspend		700
Total	**1,702**	**2,948**

2.3 **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.** It will also provide £700k for the financing of some £4.85m of additional capital investment, which is explained more fully in section 4 below.

2.4 **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.

2.5 **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.

2.6 **Industrial De – Rating Grant –** The Council currently receives a grant from the DOE to cover those properties affected by the policy on industrial de-rating. Following a review by LPS, the number of properties which attract this grant has fallen, predominantly due to the increase in vacant properties. Our latest information is that the grant from the DOE will reduce by some £210k in 2011/12, but there is a risk that this may be further adjusted during 2011/12, if the level of industrial vacant properties continues to rise.

2.7 **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.

3.0 **Key Risks/External Variables**

3.1 There are a number of external variables which have been previously highlighted and which represent risks to the scenarios outlined above.

(a) **Clarity on 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.

We have been engaging with LPS on both the EPP for 2011/12 and the updated rates assessment (APP) for 2010/11. The separate report on the Financial Position – Quarter 2, 2010/11 outlines that the LPS has advised that the estimated rates income for 2010/11 will be some £0.6m less than planned. This is a matter of concern both for 2010/11 and future years, as the economic downturn leads to more vacant properties, appeals and bad debts. These rates scenarios are based on a “flat” EPP rather than the traditional growth scenario of previous years. Members will need to consider the need for sound financial planning and the risks to the rates base in setting the level of the rates for 2011/12.

(b) 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 at present the Council receives around £4m in government funding to support various activities such as community relations and community safety. It is unlikely that we will know how any cuts will impact on the Council by the time the rates need to be set. Members will therefore need to consider the potential risks to the Council finances from cuts to central government funding in setting the level of the rates for 2011/12.

(c) Level of the Regional Rate – At this stage the increase in the regional rate is unknown but it is likely that it will be at least in line with inflation. Members are reminded that the regional rate accounts for 55% of the rates bill and that inflation has been estimated at some 3.1%.

4.0 Investment Implications of Scenarios

4.1 Members had asked for a number of scenarios to be considered. This report sets out the implications of the three previously identified scenarios and an additional 2% scenario to assist Members discussions. Each scenario builds on from the zero growth scenario set out in section 2 above. With scenarios of 1%, 2% and 2.5%, further sums would be available for investment in either capital or revenue projects.

4.2 At the Members workshop in September there were strong views about the importance of investment in the City. The key arguments were in terms of delivering for the citizen to show value for their rates contribution and support for the beleaguered construction sector, as well as enhancing the economic multiplier effect. The current tendering environment is also favourable, at the moment, given the difficulties in the construction sector. These are set out in **Table 3** below.

Table 3

Scenario	Average Cost to Ratepayer Per Annum	Additional Revenue Investment	Additional Capital Finance (Table 4)	Additional Capital Investment (Table 4)	Additional Total investment (revenue and capital)
0%	-£0.23	0	£0.7m	£4.85m	£0.7m
1%	£3.34	£1m	£1.2m	£8.0m	£2.2m
2%	£6.79	£1m	£2.5m	£15.0m	£3.5m
2.5%	£8.40	£1m	£3.2m	£20.5m	£4.2m

A. Capital Investment

4.3 The Council has delivered several beneficial projects over the past few years and has just let a significant contract for the Connswater Community Greenway. **Table 4** gives some examples as to the level and type of capital investment that could be considered, depending on the particular rates level agreed by Members.

Table 4

Project Title	Gross Project Cost	Financing Cost – Rates Impact	Gross Project Cost	Financing Cost – Rates Impact	Gross Project Cost	Financing Cost – Rates Impact	Gross Project Cost	Financing Cost – Rates Impact
Rate increase	**0%**		**1%**		**2%**		**2.5%**	
Pitches - Various Locations			£3.0m		£10.0m		£10.0m	
Alleygates	£0.85m		£1.0m		£1.0m		£1.0m	
Mary Peters Track 2013	£3.0m		£3.0m		£3.0m		£3.0m	
Other Schemes	£1.0m		£1.0m		£1.0m		£6.50m	
	£4.85m	**£0.70m**	**£8.0m**	**£1.23m**	**£15m**	**£2.5m**	**£20.5m**	**£3.22m**

4.4 The above table provides examples of what could be achieved under the various scenarios. **Members will need to agree the level of the rates and the actual schemes which will be financed under that scenario.** The particular schemes used as an example were chosen for the following reasons:

- they are commitments by Council
- they are the most straightforward schemes in terms of deliverability as they do not depend on other funding or other people's land
- they will have short run economic benefits in terms of construction jobs
- they will have long run benefits in terms of improving the quality of service, providing new facilities and provide a positive impact upon equality, social inclusion and good relations
- in some instances they will assist in levering further resources.

4.5 Specifically the **Pitches and Changing Accommodation Strategy** is a £30m plan to enhance provision right across the City with two thirds of provision via use of school playing fields and support from DCAL and Sport NI. The Council's £10m will address our provision and create new pitches, bring existing pitches up to standard and enhance or produce new changing accommodation and helps our leverage of others resources. The outcomes include:

- better facilities
- healthy active lifestyle opportunities
- diversionary activity from anti-social behaviour
- greater social inclusion of young people and positive cross community impacts.

4.6 **Alleygates** are a popular tool to address peoples concerns regarding safety and security and have major benefits in upgrading and maintaining clean, green environments.

4.7 The **Mary Peters track** is a clearly stated objective of the Council and has obvious long run sporting benefits. More immediate bonuses exist in terms of the World Police and Fire Games 2013 and the Glasgow based Commonwealth Games of 2014 which if properly harnessed have substantial tourism and economic benefits for the City.

4.8 Other schemes relate to various proposals in the existing Capital Programme which are neither too expensive or too dependent on external funding – see **Appendix 2** for the full list of current uncommitted capital schemes.

B. ***Additional Revenue Investment***

4.9 Within the October revenue estimates report, there was a proposal to pilot new and innovative approaches to integrated service delivery at a neighbourhood level.

4.10 An additional £1.0m of revenue would secure a £250k budget for the four city areas. This would facilitate a member led process to allocate resources at a local level and to prioritise local actions. This process could be supported by information from the SRFs, the Public Consultation Survey and the My City My Neighbourhood programme. The next stage of the My City My Neighbourhood programme is a member led local engagement programme. A report on the My City My Neighbourhood programme is a separate item on the Committee agenda.

4.11 Examples of what the area budgets could be spent on include:

- Additional arterial routes support
- Health awareness programmes which would tackle issues like suicide and mental ill-health
- Safer neighbourhood programmes
- Improved small scale tourism initiatives
- Increase in youth activities
- Support to local traders, to animate local activity

4.12 It is proposed in the separate Committee report on the Financial Position – Quarter 2, 2010/11 to invest £100k in a pilot of this initiative in 2010/11, based on a number of guiding principles. If agreed, learning from this pilot could help inform the future development of integrated service delivery at a local level (if this is affordable within the recommended rates scenario).

5.0 Implications of the Scenarios for Ratepayers

5.1 The following tables summarise the potential rate options and their impact on the rate payer.

Table 5

District Rate Increase	District Rate Impact on Domestic Ratepayer Per Annum	District Rate Impact on Domestic Ratepayer Per Week
0%	-£0.23	£0.004
1%	£3.34	£0.064
2%	£6.79	£0.131
2.5%	£8.40	£0.162

Table 6

Average District Rates Bills based upon scenarios of -0.07%, 1%, 2% and 2.5%

PROPERTY	Ave Capital Value /NAV	District Rate 2011/12			
		-0.07%	1.00%	2.00%	2.50%
Domestic Properties	£	£			
Terrace House	86,425	-0.17	2.51	5.10	6.31
3-Bed Semi-Detached House	132,173	-0.26	3.83	7.80	9.65
4-Bed Detached House	293,843	-0.59	8.52	17.34	21.45
Apartment	83,379	-0.17	2.42	4.92	6.09
Average Capital Value	115,000	-0.23	3.34	6.79	8.4
Non-Domestic Properties					
Office Property	12,728	-2.28	32.56	65.13	81.41
Retail Property	10,247	-1.83	26.21	52.43	65.54

6.0 Summary

Members are asked to consider the information above and recommend a district rate for Belfast City Council which recognises the economic recession and the challenges and risks it presents, can demonstrate value for money to the ratepayer, represents sound financial planning and delivers Members' ambitions for improved services for the citizens of Belfast.

Resource Implications

A range of rates scenarios have been presented – 0%, 1%, 2% and 2.5%

Recommendations
Members are asked to: (a) note this most uptodate assessment of the revenue estimates for 2011/12 and the risks highlighted; (b) note that further engagement is planned with Members on the corporate plan and departmental plans which are proposed to be delivered with the resources available; (c) recommend a level for the rates for 2011/12; (d) agree that Members briefings should take place to prioritise and agree the capital projects which are affordable within the recommended rates scenario; and (e) note that key messages will be developed to assist Members based on the recommended rates scenario.

Decision Tracking

Key to Abbreviations

Documents Attached
Appendix 1 – Effiicency programme 2011/12 Appendix 2 – Uncommitted Capital Schemes

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
	Use of Underspend	0	700
	Total	**1,702**	**2,948**

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

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.

Use of the Underspend
The Committee has agreed to proposals for utilisation of £1.1m of the 2010/11 underspend which will generate savings of £700k in 2011/12. These savings are estimated as £600k from employee costs due to voluntary redundancies and £100k from energy saving initiatives across the Council and water savings at the Zoo.

Appendix 2: Uncommitted Capital Schemes

Project Title	Gross estimate	External funding estimate	Net estimate
Pitch Provision - Pitches and Changing Accommodation Strategy	*10,000,000*	*0*	*10,000,000*
Alleygates Phase 3	*700,000*	*0*	*700,000*
Mary Peters Track 2013 (8 lane track & spectator stand)	*2,895,600*	*0*	*2,895,600*
Gasworks Northern Fringe Site Development - Infrastructure	*1,675,000*	*0*	*1,675,000*
Botanic Gardens - Tropical Ravine	*4,000,000*	*2,500,000*	*1,500,000*
BVCB/BWC Relocation	*1,500,000*	*0*	*1,500,000*
Titanic Memorial Gardens	*220,000*	*120,000*	*100,000*
Wireless Bin Monitoring System	*217,000*	*0*	*217,000*
Zoo - Floral Hall Refurbishment	*3,565,000*	*2,065,000*	*1,500,000*
Cliftonville Playing Fields Redevelopment (could be part of pitches strategy?)	*605,000*	*450,000*	*155,000*
Development of New Recycling Centre (Springfield Road)	*2,900,000*	*0*	*2,900,000*
Barnetts Demense - Mountain Bike track	*336,000*	*261,000*	*75,000*
Grove LC Demolition and Clearance	*500,000*	*0*	*500,000*
North Foreshore Business Park Development - Infrastructure	*28,860,000*	*4,362,500*	*24,497,500*
PC Strategy	*1,000,000*	*0*	*1,000,000*
Andersonstown LC - Handball Courts and Spectator Accommodation	*655,000*	*655,000*	*0*
St Georges Market - rewiring and emergency lighting	*142,500*	*0*	*142,500*
Skegoniel Site Incorporation into Grove Park	*600,000*	*0*	*600,000*
New Leisure Centre - North Belfast	*14,850,000*	*0*	*14,850,000*
New Leisure Centre - South Belfast	*14,850,000*	*0*	*14,850,000*
New Leisure Centre - East Belfast	*14,850,000*	*0*	*14,850,000*
WfH Conference Centre	*25,000,000*	*17,000,000*	*8,000,000*
Vehicle replacement programme 2011/12	*1,900,000*	*0*	*1,900,000*