



Northern Ireland
Assembly

COMMITTEE FOR
FINANCE AND PERSONNEL

OFFICIAL REPORT
(Hansard)

Rating Issues

8 March 2011

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Daithí McKay (Chairperson)
Dr Stephen Farry
Mr Paul Frew
Mr Paul Girvan
Ms Jennifer McCann
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Ronan Cregan)	Society of Local Authority Chief Executives
Mrs Julie Thompson)	
Mr Alan Brontë)	
Mr Iain Greenway)	Land and Property Services
Mr John Wilkinson)	

The Chairperson (Mr McKay):

I welcome Julie Thompson, director of finance and resources, and Mr Ronan Cregan, the head of finance and performance. I invite you to make an opening statement.

Mrs Julie Thompson (Society of Local Authority Chief Executives):

As members will be aware, the rate base is the key income stream of district councils, providing around 75% of our funding. Therefore, we welcome the opportunity, on behalf of the Society of Local Authority Chief Executives (SOLACE), to discuss with the Committee the work that has been done by councils in partnership with Land and Property Services (LPS) to ensure that rates income is maximised.

We rely on Land and Property Services for the collection of rates, for information about the estimated penny product (EPP), which provides an estimate of the likely rates income in advance of a financial year, and for information on the actual penny product (APP), after the year end is finished. Land and Property Services also provides regular updates on the movements of the rate base during the year.

In recent years, councils have worked closely with LPS to maximise the amount of rate income. An example of that working between Belfast City Council and Land and Property Services is our building control unit, which passes information to Land and Property Services, allowing it to value new properties more quickly. Our building control unit also inspects properties that are defined as vacant to confirm that they actually are vacant. Where properties are found to be occupied, details are passed to LPS so that a bill can be issued.

Recently, LPS has also made improvements for all councils by providing three versions of the EPP, meeting with council officers to discuss the EPP, and providing quarterly APP forecasts. Governance arrangements have also been improved by the setting up of a strategic steering group, comprising representatives of the main stakeholders. That joint working culminated in the signing of a memorandum of understanding between Belfast City Council and Land and Property Services in June 2009, which is updated annually. Our understanding is that that memorandum of understanding will be rolled out this year to the rest of the councils.

The Committee will be aware of the recent difficulties around a significant reduction in the estimated rates income for Belfast. In late January, Land and Property Services informed the council that the reduction in rates income for 2011-12 was forecasted to be £3.5 million and that the impact for 2011-12 would be an estimated £2.5 million shortfall. Unfortunately, that position was notified to us a matter of days before we were due to set the rate for 2011-12 and after the rate-setting work had been completed. The council, finally, set a rate of 2.95%, but had to cut

back on its capital expenditure plans and funding of local area initiatives.

As I said, the rate base is the key income stream for local authorities. The council recognises that, although LPS has the responsibility for collecting the rates, it cannot be held accountable for the performance of the rate base in itself. At present, rates income in Belfast is falling, with a growing number of non-domestic vacant properties and exclusions. Rates arrears are a problem, and, in such a situation, it is even more important that the Land and Property Services forecasts are as accurate as possible and that communication is more frequent. To continue the process of improvement, the council is working with Land and Property Services and the Institute of Revenues Rating and Valuation (IRRV) to finalise a suite of performance indicators and monitoring statements. That will mean that Land and Property Services's performance can be benchmarked against that of other authorities, and that the results can be reported to the council's strategic policy and resources committee and Land and Property Services.

The economic situation means that it is essential that councils, Departments and the private sector work together to sustain and develop the rate base through supportive rating policies and an integrated approach to economic development and regeneration across Northern Ireland. We are happy to provide any further information that the Committee may find helpful.

The Chairperson:

Thank you, Julie. A number of concerns rise out of your opening comments. We will be speaking to representatives of LPS who will, shortly, update the Committee on the penny product working group's discussions that took place on 24 February. In advance of that, can you tell the Committee whether, in your opinion, the improvements that were agreed with LPS will help councils to better manage reductions in predicted rate income? Could you elaborate further on some of the difficulties around communication and being kept updated?

Mrs Thompson:

Improvements will help as we move forward, and, certainly since our recent experiences, there has been a positive engagement with Land and Property Services, both for us and other councils. There have been improvements in that benchmarking information has been provided to allow us to understand the performance of Land and Property Services. There have been improvements in communication, which you mentioned as a key issue. It is important to councils that we get regular information and that we can rely on it on an ongoing basis. Part of that is about ensuring

that forecasts are provided as early as possible, particularly in the rate-setting process. The rates need to be set by mid-February of a particular year, so it is important that we get that information as early as possible. It is our understanding that Land and Property Services is committed to doing that and revising that process for autumn 2011. That is a very positive engagement.

The Chairperson:

The Committee has heard on a number of occasions about the identification of a systems error regarding the payment of interest to ratepayers who have successfully challenged their valuations. What impact do such system errors have on local councils, either directly or indirectly?

Mr Ronan Cregan (Society of Local Authority Chief Executives):

We do not know whether the manifestation of losses is due to a systems error. Our biggest hit has come from the increase in non-domestic vacant properties, particularly around exclusions. In Belfast, the total losses from non-domestic vacant properties were £12 million, and, in one year, that has gone up to £17.9 million. That is £17.9 million of income that is lost to the city. For us, that is not an issue for Land and Property Services but of the rate base itself. One of the key things that the council wants to do is to be proactive in how we look at helping to sustain and develop that rate base, because 75% of our income is yielded from the rate base itself.

Mr O'Loan:

Do you really feel that LPS was seriously at fault regarding the lateness of information coming to you and the broader picture that you have presented? Could it have come to you at an earlier stage to give you that information?

Mrs Thompson:

LPS recognises that that caused significant difficulties for the council, and that has been discussed with our strategic policy and resources committee, with LPS in attendance and with the Minister of Finance and Personnel. There is no doubt that there is a good intention to ensure that that is not repeated as we look forward into next year. It caused us significant difficulties, but the important thing is to learn from that and to move on together to ensure that it is not repeated.

Mr O'Loan:

Do you feel that the quality of the relationship and the sharing of information between you and LPS has been on an improving path over recent years? Do you feel that it is now pretty much at

the level that you want it to be, or does it need further improvement?

Mrs Thompson:

It certainly has been improving over recent years, and the engagement with Belfast City Council is also moving out into other council areas. It goes for many areas. We talked about our building control unit being in close liaison around properties in an operational sense on the ground right through to the financial side and understanding the finances of it. Collectively, we need to understand better what is going on and what is causing the problems, difficulties and the assumptions in the estimates of the rate and to ensure that those are as robust as possible and are worked through as well as possible. I know that LPS intends to continue to build on that work. There is always more to be done to improve those things, and, obviously, there is a need to learn from what has happened in recent months.

Mr O'Loan:

If LPS were feeding more information and more timely information to you, would there be ways in which you could help LPS? Could a good conversation take place that would benefit both?

Mrs Thompson:

Absolutely, and there is no doubt that it is a two-way process. We take the information from LPS, and we need an engagement around that information to ensure that there is a common understanding of what is involved. As I said, that also spreads into the work on the ground. Our building control staff go round looking at properties, observing what is happening and feeding information back to Land and Property Services on an ongoing basis. So, two-way communication is needed.

Mr O'Loan:

We know that there have been problems with rates collection in recent times, particularly as people are having difficulty paying their rates because of the recession. Rates collection is, therefore, very problematic at the moment. Does it then become a problem for you? Do you want more information about those outstanding rates, and can you help LPS in that area?

Mr Cregan:

The councils are hit once the debt is written off, as that becomes a loss of income for us. Take the EPP figures for Belfast for January of this year and for next year: £7.7 million of debt will be

written off. That is an additional £7.7 million of rates income that we will not receive. The key issue for us is knowing well in advance that the debt will be written off so that we can integrate the outcome of that with our financial planning. The earlier we know, the more we can manage that. To be fair to LPS: in comparison with the situation maybe three or four years ago, it has made significant strides in managing and recovering debt as opposed to writing it off.

Mr O'Loan:

You are not really telling me about anything that you can help LPS with. Is that the reality of the situation?

Mr Cregan:

The key area for us is vacant properties rather than debt. The work that we have done around vacant properties has raised £11 million of rates bills that would not otherwise have been issued. John will correct me if I am wrong, but I think that over £30 million of rates bills have been issued across the whole Province. That is a simple piece of work that involves the relationships between our building control unit and LPS staff and the transfer of information.

Mr O'Loan:

For a number of councils, the outcome of appeals has suddenly brought a big hit. Are you getting the information that you need in the pipeline to deal with the risk associated with that?

Mr Cregan:

We are actually meeting this afternoon to discuss monthly monitoring statements. I would argue that that is one area in which there is a weakness. We need to manage that risk, and the earlier we know about it, the better. We are going to draw up about five different monitoring statements, which we will, hopefully, receive monthly. We will then feed them into the rates model.

Mr McQuillan:

Declan touched on a couple of points that I wanted to raise. I want to touch on the fact that there was £5 million more of a loss this year than last year, resulting in an increase from £12 million to £17 million. What do you feel LPS can do to alleviate that problem? I do not think that there is anything that it can do.

Mrs Thompson:

That is about the vacant properties. Certainly, we are working with LPS to look at those vacant properties. However, as we said, the issue is more about what is happening with the rate base itself and what we can all do collectively to try to regenerate cities and areas across the Province to ensure that, where possible, we minimise the number of vacant properties. All that LPS can do is factor in the information in the most appropriate way and on a regular basis so that we get a feel for what is going on. However, a lot of the issues with vacant properties are to do with the rate base itself, which is not something that LPS can deal with.

Mr McQuillan:

You mentioned £11 million of rates bills for Belfast alone and £30 million across Northern Ireland as a whole. Do you feel that LPS can do more to get that money rather than leave it to individual councils to look for it? You say that building control in Belfast City Council does that, and I think that building control in Coleraine Borough Council does the same, but can LPS do anything more?

Mrs Thompson:

As Ronan said, there is an information exchange. It is a matter of everybody bringing what they can to maximise the rates. That is certainly what the memorandum of understanding is about; it is about finding out how we can make a collective contribution and work together to improve the situation.

Mr Girvan:

Thank you for the paper that you have presented here today. I would like an update on the working group that has been set up. I can make reference only to what I know has happened in other areas: the penny product calculation is made; the final figures come through; the rates are set in February and are then collected. It is then found that quite a large amount has not been recovered from the previous year in government clawback. Are there potential paybacks that councils will have to make this year? I appreciate that you have a loss — the large deficit figure that is already there — and then there is the further £5 million to be added this year. Is the working group making any inroads into how that can be addressed earlier?

I appreciate that getting final figures late in the day does not help councils with planning for capital projects or whatever they have ongoing. They need to know those figures well in

advance. Everyone has had growth until now and has factored it into their plans. Now, we are in an economic downturn, a recession, for want of a better word, which has had a major impact on retail and is affecting you. What mechanism is there to recover bad debt, and what involvement do councils have with the LPS to ensure that debt is recovered? I am not sure that LPS knows the ramifications. It attempts to pursue the debt, and when it cannot find a reason to recover the debt, it closes the book and walks away. Is LPS going through a rigorous process to recover moneys that are owed?

Mrs Thompson:

You touched on several issues. As I said, Belfast is in a clawback situation, with an estimated £3.5 million compared to the original EPP we were given, and it has been difficult for us to deal with that. LPS is committed to reducing that figure, and we have not got to the APP — we will not know what the figure is until September.

The penny product working group has been debating how improvements can be made and is looking at how figures can be produced earlier in the process, which could be factored in for autumn 2011. It is also looking at the assumptions driving the estimated penny product to see whether we can get a better collective understanding of the figure work involved.

As far as debt is concerned, as Ronan said, things have improved in recent years, and there is more focus on that by Land and Property Services. From the councils' perspective, we need an early exchange of information and an understanding of the likely impact. It is not about pushing it forward but about understanding what is happening for our own financial planning purposes. We require more accurate figures and more regular updates. We also need LPS to be pushing for debt to be repaid.

Mr McLaughlin:

I have asked questions about clawback before, and I am not sure that it is fully understood. It seems to me that some things are improving. We are getting better, more up-to-date data, and even the systems for updating that data have improved. The system for collecting rates, addressing debt and dealing with voids and reclassifications is better, and the system for capturing necessary and essential information has been improved. However, we still have the situation that causes enormous difficulties for councils, which is the difference between the estimated penny product and the actual penny product.

It seems to me that that is the product of the disconnect at the end of the financial year between what people are doing to tidy up their financial affairs and what councils are doing as regards beginning the process of planning their spending programmes and estimating the rate income that they will need to manage those programmes. On occasion, councils do not say too much when they end up with extra money, and I suppose that is human nature. However, a clawback can have a significant impact on the services that councils are attempting to deliver.

I do not understand why, on a one-off basis, we cannot create a lead-in that allows for synchronisation. The hit would, perhaps, have to be taken at Executive level. However, if, at the end of the financial year and before the rates preparation discussions, you knew whether you are in a clawback or excess position, you would factor that into the following year, not the current year. The hit is in the current year.

I am not suggesting creative accounting. Just put it on the books as an issue to be dealt with, but you plan to do it in the following rates estimate process. You should take it into account before you spend a penny, which would lead to a much better possibility of arriving at some synchronising between the actual and estimated penny product. Have you explored or tested that with LPS and the Department?

Mrs Thompson:

The estimated penny product attempts to do that by trying to forecast the rate impact before going into the financial year.

Mr McLaughlin:

I know that. I have been through that. The point I am making, Julie, is that it has not prevented this problem arising and has not made the difficulties that it creates for councils go away. Surely it is time to come up with some mechanism for just taking it off the agenda. It may mean that you identify and quantify the problem, but there is nobody coming along and beating the door down and saying, "We want £3.5 million back." You have to factor that in because you know that it has to be paid but you are giving yourself the time to do it.

Mr Cregan:

The key issue we have is that it is an estimate rather than a forecast, and the estimate is looking at

the rate base at a point in time whereas people are trying to predict the rates that will be brought in the following year. So, we have started an exercise through which our building control unit looks at all proposed development in the city and tries to gauge the impact on the rate. An example was IKEA opening in Belfast a couple of years ago. That was still not on the list when we were given the EPP but we knew that IKEA would be opening in December and paying rates, so why not include that in the forecast? Our building control now does a full analysis, which gives us a better idea looking forward to the rate base.

Mr McLaughlin:

Would that make the problem go away?

Mr Cregan:

No; it means that we are getting a forecast instead of an estimate, which is a far more sophisticated economic modelling approach than simply taking the list at a point in time because, as you know, the rate base changes daily. That will minimise the risk.

Mr McLaughlin:

We operate not on the estimate or forecasts but on actual. By building in a time lag, everybody is dealing with books that are audited and balanced and people just move forward on that. However, there has to be a time lag to make that a practical proposition. The forecast cannot be accurate so the problem does not go away. The estimates are never the same as the actual, unless by complete coincidence. So, why not just work on the actual and apply the sums subsequently?

Mrs Thompson:

It is a question of who bears the risk. As you said, the estimate and actual will never be in agreement at the minute. Councils bear the full risk of what happens with the district rate. If there is a means by which central government would help us to bear some of that risk, we would be all ears.

Mr McLaughlin:

My first question was: have you ever addressed that? Someone has to carry the risk, and it would not be fair to pass it back on to the councils. I am not sure that the Executive would agree with Mitchel McLaughlin saying that they should. I just do not understand why we are not exploring that.

This is a relatively small place. We build in that uncertainty on an ongoing basis and work with it. If someone took some time out to think about it, we could make the problem go away.

Mr Cregan:

We will make your recommendation.

Mr McLaughlin:

You can quote me. *[Laughter.]*

Mr Frew:

The background paper states that LPS worked with Belfast City Council officials, thoroughly reviewed the 2011-12 figures, and reached an agreed position on them. What was that agreed position? Did their figures just tally up, or was some sort of bartering involved?

With regard to the past and the history of this issue, is it fair to say that, in times of economic growth, councils have always been on the beneficial side of any estimations? I know that we are highlighting last year, this year and the year to come, but how has the council fared in the past couple of years while we have been in recession?

Mrs Thompson:

We were advised about the clawback relating to 2010-11, which was £3.5 million. That was a significant deterioration from where we had been three months previously. We knew, jointly, that we needed to look again at the EPP for 2011-12. There was a timing issue because, at that stage, we were in the middle of finalising the rate-setting process. Therefore, the agreement was around looking at a revised EPP. We knew that the EPP that we had had previously and been advised of and had used up until that stage in the rate-setting process could not stand any longer, and we needed to go through all the figure work with Land and Property Services, in the same way as we had done in December, in order to get to a revised EPP, which we then factored into the rate-setting process. The estimated reduction compared to the previous EPP was £2.5 million.

On your second question, yes, councils have benefited from economic growth. The initial EPP that we had for 2011-12 was flat. There was no advantage or disadvantage from it. Unfortunately, the £2.5 million has meant a decline in our rate base, and, like all councils, we are very concerned about what will happen in the coming years and what it will mean for expenditure

plans for the council as it looks ahead. That is where the business of how we look at our properties across the city centre and how we ensure that the rate base is maximised becomes very important to us. That is less about Land and Property Services and more about how we look, in partnership, at that issue.

Mr Cregan:

We have had to save in the same period. We have had to take about £12 million of cash savings out of the organisation because the growth in the rate base has obviously declined. Therefore, we have had to reduce our expenditure in line with that.

The Chairperson:

Julie and Ronan, thanks for your presentation.

We will now hear from representatives of Land and Property Services. I welcome John Wilkinson, chief executive of LPS; Alan Brontë, the commissioner of valuation; and Iain Greenway, director of operations. We are going to go straight to questions, gentlemen. Some of you will have heard the discussion during the previous session on the predicted reduction in rate income for Belfast City Council. Are other councils affected in that way? In more general terms, what measures can be taken to streamline the process to ensure that those problems are minimised?

Mr John Wilkinson (Land and Property Services):

Good afternoon. I will refer the first question to Mr Greenway, who is rapidly looking through the figures and statistics. The more general issue that you raised is what can be done to minimise or reduce the fluctuations. During the last session, you heard from Belfast City Council. A lot of work has taken place over the last three or four years to improve the penny product estimation process, communications and in-year revisions. Much has been done. As a result of the difficulties in respect of Belfast City Council, early in the new year, we carried out a thorough review of what happened and we are seeking to put improvements in place. We are on a continuum of improvement, and things have improved significantly over the last three years.

I will hand over to Iain, who will give you details on the other councils.

Mr Iain Greenway (Land and Property Services):

I will outline the overall situation. All of this is concerned with predictions along a journey to a finalisation figure. The December figures, equally, are predictions of what the position will be in March — the end of this month.

In September, there was forecasted positive finalisation in total across Northern Ireland of 0·5% of the APP figure. In December, there was a forecast clawback of 0·6% of the figure. The swing was £5·5 million, but that is against a base of £500 million, so it is important to see these figures in context. We are still operating within about 0·5% of the figure run in November 2009 for Northern Ireland as a whole. Picking up on some things that Belfast City Council colleagues said earlier, we are all doing our best to forecast, predict, estimate — whatever word we use — what the economy will do and, for instance, how many properties will become vacant and how many businesses will go into liquidation and have to have their debts written off.

All councils suffered that downward trend. On occasions, certain councils may have bucked the trend because of large new buildings entering the valuation list in their council area. Of that £5·5 million fall, £3 million of it was in Belfast, so Belfast took more than half, whereas, as a rule of thumb, Belfast is about 30% of the rate base. So Belfast over-suffered, in effect.

Other councils saw declines as well. There were four key factors in that, which were all factors in the Belfast situation. Properties were removed from the valuation list as demolished or derelict. There were increases in vacant properties and also vacant properties claiming exclusion from rates; there is a range of grounds on which exclusions can be claimed. There was also an increase in the number of properties recorded as tenanted, with landlords able to claim an allowance in respect of rates for those properties. An increase in the levels of write-off occurred, which was strongly linked to increases in levels of bankruptcy and liquidations. All the councils suffered, though to differing degrees. A few bucked the trend.

Dr Farry:

I am sure that there is a rational explanation for this, but there seems to be a slightly mixed message in that we are hearing about what may be the short-term problem of a change in the APP, while, at the same time, the Executive's published Budget's slightly rosier projection for rate collection over the coming years forms the basis for increased spending allocations. How can those two realities be reconciled?

Mr Wilkinson:

In answer to the first part of your question, the nature of the estimating process means that there will be ups and downs. Iain just quoted the figures to the end of December 2011. If I may explain: at the end of the last financial year, the round figure was £1 billion. The overall position was that the APP was 1.3% ahead of the EPP, so the forecast was within 1.3% on £1 billion. It is not a simple mathematical equation. It is not that x multiplied by y equals £1 billion. All sorts of microeconomic and macroeconomic aspects are fed into the estimation process. Within the overall set of figures, there will, therefore, be some ups and downs. In the earlier session, one of your colleagues said that councils do not jump up and shout when they are in the plus; it is when they are in the minus that the difficulty arises. I am trying to be very diplomatic.

In answer to the second part of your question, we have been working very hard in LPS over the past three or four years, and have always found the Committee supportive of our work. I had prepared a short presentation for you on all the improvements in the amounts collected and the extensive work that we are doing on debt, about which Iain may say more in a moment. The presentation also covers the way in which we are reducing the outstanding valuation cases and how we have put in place a central intelligence investigation unit to look at properties that we know need to be billed but we cannot find the billing details. Right across LPS, a lot of work is going on to improve our performance in valuation, rate collection, reducing debt, and improving intelligence and information. Importantly, we are also improving our linkage and partnership with the 26 councils in Northern Ireland. There are some ups and downs, and there are some mixed messages coming out, predominantly from councils for which the actual figure has fallen slightly below the estimate. However, the overall position is one of improving performance by LPS.

Dr Farry:

In some sense, I suppose that we are talking about a global take from rates. However, there are probably two elements to that: the overall efficiency of LPS in maximising the available rates take; and the independent variable of the potential take from rates, subject to the prevailing economic conditions. The latter is, obviously, beyond your control. From our perspective, we want to ensure that you are operating at 100% efficiency, or as close to that as is reasonable for us to expect. In line with that, you will well know of the concern, which I and others have raised regularly, that the baseline in the current budget for LPS over the past three years has not been

realistic; it has been wrong. LPS is one of the rare victors in the current Budget in the sense that your budget figure is more realistic. On the basis of those revised figures for the coming four years, which I hope that the Assembly will agree tomorrow, as far as everything that must be done by the system to maximise the take from rates is concerned, do you feel that you will have the resource base to ensure that you can operate at maximum efficiency?

Mr Wilkinson:

Yes, I do. I feel that we have now resolved what had been a continual problem within LPS. Some months ago, I sat before this Committee with my permanent secretary, who acknowledged that there was a gap as a result of the starting position — adding in all the rate reforms that we have to administer, there was a gap. Given the work that we have done over recent years, and the fact that the Budget situation has now been formalised, we can move on and continue to make improvements. All of the work that we have done over the past couple of years will greatly help in that.

Mr O’Loan:

Thank you for your report, and its frankness: you have put your hands up and said that you did not do things well in respect of Belfast. Obviously, out of that has come a significant amount of discussion with Belfast that has, hopefully, moved things to a better plane. As for other councils, are you as far forward in having appropriate discussions and drawing proper conclusions so that you are fully understanding each other and providing the information that they think you should be giving?

Mr Wilkinson:

Yes, and I think the way to answer that is to highlight what we have been doing over the past three to four years, going back to 2008 when we set up a strategic steering group to deal with issues, including communication and some of the performance indicators. On the estimates, there is a penny product working group. All of that improvement and development work, although we have done it in smaller groupings, has meant that benefits and improvements have been spread out across all of the councils. We have made changes to systems and information. We have also made improvements in timing. During the previous session, we talked about the regular updates on actual penny product in-year, compared to the estimate from the back-end of the previous year. All of that information has been shared with other councils.

Mr O'Loan:

The feedback that I have received from councils is that they are still not content that they are getting all the information that they would like, and that surprises are far too likely to be sprung on them. Issues arise that could have been prevented if more information had been provided. That information could have led to further questioning, and there could have been a more constructive conversation between LPS and councils. They are not just looking for global figures but for the detail underneath, so that they can ask questions of themselves and of you. Obviously, timeliness of information is important. Councils need to get information much earlier, and that was a significant part of the fault in respect of Belfast. Do you accept that that is the councils' position, and do you accept the validity of that?

Mr Wilkinson:

I accept that we are not fully where we need to be yet, and that there is more work to do. As a result of what happened in Belfast, one of the things that we are looking at is to provide further and better information to all councils.

Mr O'Loan:

I asked the Belfast officials about appeals. I am not quite sure of their exact legal nature: for instance, whether it is always a court action. Significant appeals have had a big effect on councils. Do you feel necessarily secretive about that because of ongoing complicated legal action, or can you give more information earlier to councils as to where those cases stand, when they are likely to be resolved, and your assessment of the risk around them?

Mr Wilkinson:

You have raised another good point. I will ask Alan to come in with a little more detail in a moment, but I have acknowledged that as an issue, and one of the things that I have been doing over recent months is to travel around and visit the chief executives of all the councils in Northern Ireland to engage in one-to-one discussions with them, talk about a wide variety of issues, and discuss the information that they need to work in partnership with us to attempt to forecast and plan for some of difficulties and issues that may lie ahead.

One of the bits of discussion that has been taking place has been around appeals. One of the things that I have been doing is to give the councils further and better information on the appeal situation in each of their council areas. Alan, do you want to add to that?

Mr Alan Brontë (Land and Property Services):

We do try to be as open as we possibly can, and whatever information a council asks for, we will do our best to provide it. I could give you an example in Belfast — we have been talking a lot about Belfast this morning — of a very high profile challenge, when the Odyssey Pavilion was seeking exemption. This information is obviously in the public domain. I challenged that case to the Lands Tribunal for Northern Ireland. That case took quite a number of years to be heard and for a decision to be made. If that decision had been to grant the Odyssey Pavilion exemption, that would have had quite a significant impact on Belfast City Council.

At the other end, there are always a number of appeals and challenges. There are two stages of challenge. It is quite difficult to estimate whether there will be a significant change because, until you get to the property and hear the submission by the agent, pointing out where he or she believes the valuation is wrong, it is difficult to anticipate. We have put it on the list in good faith. Once the cases that may lead to significant reductions are known, where the impact of those on valuation will be material to a council, we would feed that colleagues in Iain's staff, and it would become part of the penny product working group discussions.

I am not sure whether that entirely answers your question. It is a difficult area. It is also an area in terms of public information. If, for example, we were to highlight that we thought that the valuation would be reduced before that was fully discussed, that could prejudice the outcome of our discussions.

Mr O'Loan:

That was implicit in my question. Finally, do you accept that, if you were giving a lot more detail to councils, they could then give useful information back to you? I was concerned about what Belfast City Council was saying about putting its building control officers to work. That sounded to me like essentially duplicating the work that you are doing, which does not strike me as very productive. However, if they were looking at what you are doing and adding to it, I think that could be very useful.

Mr Wilkinson:

I totally agree. There is a huge amount of improvement and useful information being exchanged as a result of all the closer working that we have done with councils over the past period. We are

looking to ensure that there is as little duplication as possible, so when we work with councils we make sure that there is a clear understanding of the work that we are doing and what additions or help councils can provide us to help with billing.

Mr McLaughlin:

Good afternoon. I take it that the working relationship with the building control officers is mutually beneficial. They actually provide a service that you pay for; is that right? They help to keep your database up to date and amend it as necessary.

Mr Wilkinson:

Yes. What happened was that the Valuation and Lands Agency, as it was a number of years ago, set up an exercise with Belfast City Council building control. The concept was that, rather than have someone from building control going out and looking at a property, and then someone from the Valuation and Lands Agency going out and doing it again, it would be a one-and-done piece of work. There was an agreement and understanding about what would be collected and what would be provided for us to do the valuations. That is what was happening.

Mr McLaughlin:

I can see the absolute sense of that. I know that some of these things can be theoretical, but building control officers will have the picture of what is happening with the building stock in any district council area to a very considerable degree.

Mr Brontë:

The Belfast situation is, in a sense, an enhancement of a long-standing arrangement with all councils. All district councils pass to LPS notification of commencement of building works, and we also receive notifications at other stages along that process. We receive the core information of the commencement of building and of completion, but sometimes that is statutory completion, which can be quite a while even after occupation if something has been slightly left undone. We are looking at another stage along that line, which is “occupiable”: in other words, when the building is capable of being occupied. Getting that information on properties from all 26 councils is very useful and greatly aids us in providing that valuation. Also, if we know what commencements there are, we can make a fair estimate of the workload and how that is progressing. However, at the moment, many properties are not being completed and, therefore, cannot be put on the list.

Mr McLaughlin:

I understand that. You were probably listening to the earlier discussion. Is there a practical reason why we cannot use as the baseline the figure from, say, the preceding year? I am using that only as an illustration. The issue that seems to be at the core of the clawback scenarios is the variations in the data because of updates, whether those relate to buildings that have been demolished, completed, re-evaluated or recategorised. We do this almost as an in-year process, so we end up with estimates and forecasts and outcomes.

In my view, it would not bankrupt the Executive if what we were dealing with was the variation in one year. If there were a settled agreement on the outturn and people knew exactly what they were talking about with the status of rateable properties, and that was the baseline for the year going forward, the variation could be picked up in the following year. Is there a good reason why we cannot do that?

Mr Wilkinson:

Personally, I cannot think of a good reason, but I really feel that that is stepping into policy grounds.

Mr McLaughlin:

I understand; it is absolutely an area of policy.

Mr Wilkinson:

All of the work that we have been trying to do over the last four years has been to try to improve the accuracy of the figures.

Mr McLaughlin:

That is measurable. It is obvious to me that you are making progress on that, and it is great work.

Mr Wilkinson:

I am just going to look at Iain and Alan's faces to make sure that we are all on board, but I am personally confident that if we keep going the way that we are, we will iron out the bumps and wrinkles that we have hit. Among 26 councils, we have had one or two difficulties in the past 12 months, but by and large we are happy because the figures have been just a little bit over the

estimations. The problem comes, as you mentioned earlier, when they come in a little under. I am pretty sure that as we iron out the backlogs that we inherited in valuation and get more on top of the collection side, we will get the figures a lot tighter and we will improve the communications, as we have said we would as a result of what happened in Belfast. As we improve all strands, we will get to the point whereby we will be able to manage the situation and provide a better service for the councils.

Mr McLaughlin:

Looking at experience elsewhere, is everywhere else having this annual wrestling match between the estimated penny product and the actual? Is everyone doing it in the same way, no matter where you look?

Mr Wilkinson:

I think the answer to that is yes: the model that we are using is one that we employ under the advice of the IRRV.

Indeed, the way in which we are implementing the model has already been looked at, and we will seek to follow that advice to further improve the situation.

Mr McLaughlin:

I would not mind if the future Committee were to return to this matter, because we will run out of time. It is an interesting subject.

Mr Girvan:

Thank you very much, John. It is good to hear about more co-operation between Departments and such like. What is the role of Land Registry in the process of updating and informing? I am aware that it is not necessarily informing you immediately when a property is registered. We know that some sit in abeyance for some time before they are registered. Does Land Registry feed into your process to enable you to revalue properties? I am aware that that has happened with new properties as they come on and that there are discrepancies over numbers, whether properties have site numbers or street numbers allocated by councils, and all those things have implications. You do not collect the rates for two or three years because the bills have not been going to the right properties. How has that been ironed out?

Mr Wilkinson:

I will hand over to Iain in a second to talk about some of the issues that you raised. I will give an overview of the general issues for LPS and how we see registration. We see the volume of house sales in a given year, and one year of analysing the macroeconomic and microeconomic trends helps our workflows. Alan mentioned commencement and completion lists that come from building control. We look at the amount of activity in the housing market and relate that to our flow lines of work, the amount of valuations that need to be done and how some of that figures into our estimates of the penny product. In a good, strong economy, such as we had up until the past couple of years, the growth in the gross rate base was ironing out all of the little bumps and stones in the road of the past couple of years, so the good growth ironed out some of the difficulties and issues. There is a role to play around general information and more direct feeds into our work plans and processes, and that gives us a feel for the overall position for the penny product forecasts. So, the registration part of the business fits there.

You also mentioned the allocation of addresses. That is something else that is in the handout, which I will leave with the Committee. Again, one of the other issues that we have with getting bills out is having the correct addresses. On top of rate collection, Land and Property Services has been developing Pointer, which is an address set for Northern Ireland. We have been working with the councils, which create addresses, and Royal Mail, which is responsible for postal arrangements, to create a complete database of correct addresses for Northern Ireland. We are working on improving the percentages; I think that they are in the mid-90s at the moment. That is another element of the business that we have been using to improve the overall position.

Mr Greenway:

I will add to what John said and distinguish, perhaps, between the two changes that can occur. One is a new property, and the other is a change of ownership or occupancy of a property. The data on new properties and, indeed, demolished properties, at the other end of the life cycle, comes predominantly from councils and building control. The allocation of addresses ties in very closely there, and what we seek and are working with councils to do is to create a single point of entry to that information for LPS. The addressing team in LPS will make sure that the postcode is applied and so on before it enters the flow lines. That is a challenge because, often at that point, properties have site numbers. The number of properties built in an estate changes, so the legal numbering alters. So, there are issues to be dealt with.

I am not sure that Land Registry would have much input to that process. The change of ratepayer is when we see Land Registry having more of an impact. It tends to be in a lag situation when documents come in for registration — generally some weeks after the change of occupation, but “some weeks” is better than longer than that. One of our director colleagues is working closely with the Law Society to see whether we can get the key information about change of owner on a voluntary basis rather than through a change to the law.

In most cases, the occupier is liable for rates. The registration process will identify the owner, and that can often be a route through which the occupier can be identified. They are not always one and the same. There are complexities at every stage of the journey, but we have been working hard. Aside from being responsible for rate collection, I am responsible for the Land Registry. We are working hard to try to join as much as we can across those two bits of the organisation.

Mr Girvan:

We have encountered an issue, and I want to just find out whether it is something that you have come across. Someone can buy a residential property and put in a planning application for change of use to turn part of the property into a commercial element. They may believe that they have done everything right and, as no building work is involved, they do not inform building control about anything other than the change of use, which is done through the Planning Service. They continue to pay the rates on it as an occupier based on the previous rating. Is there a mechanism to link that up? It is about linking all the processes around planning approval for commercial properties, because it could be sitting like that for many years before it is picked up. I appreciate that you expect visits by building control and others to identify those properties, but is there any link to the planning process?

Mr Greenway:

The key link is to the building control process. There are changes that do not go through building control process, an example of which you have just described. An awful lot of changes to agricultural buildings are not subject to building control regulations. That is a weaker part of our armoury of information gathering, and we continue to work with different parts of government to strengthen those weaknesses.

Mr Wilkinson:

The amount of information that we could usefully use is huge and the sources are many. We also have all the added complexities of whether we can use the information because of data protection and so on. This is a huge subject, and we are working very hard to try to get the best kind of fit around that particular block to enable us to do our job as best we can.

The Chairperson:

John, I thank you and your colleagues for presenting to the Committee today.

Some of the issues that were raised, in particular, those raised by Mitchel, can be included in the legacy report, the first draft of which we will be considering next week.