Joint NILGA and SOLACE Briefing to the Assembly Finance Committee

Monday 6th December 2021

1. Thank you for the opportunity to speak to the Committee this afternoon. NILGA & SOLACE welcome the opportunity to provide oral evidence in relation to the Non-Domestic Rates Valuations (Coronavirus) Bill. From the outset, we note that the Bill has not been subject to a formal consultation process, as identified in the accompanying “explanatory and financial memorandum”.

   NILGA

2. Because rates, whether domestic or non-domestic, are essential to the services delivered by and the very sustainability of councils, a much closer dialogue would have been preferable, regarding the preliminary work which we understand was developed as far back as April 2021, and which led to this Bill. Co-design is a Programme for Government underpinning ethos, which if fulfilled, results in better legislation and better outcomes, so hopefully going forward this can be accommodated in a much more joined up way. In saying that, we understand that on this occasion this is a very dynamic, exceptional situation and timeline and therefore whatever is required is the order of the day.
3. By way of slightly wider context, NILGA would commend its “Sustainable Council Finances” Paper as put to the 20th October NI Political Partnership Panel following work commissioned by the Finance Sub Group of the Panel earlier in the Covid Crisis period, when councils were losing around £10 million a month in income through service closures and other deficits.
   This Sub Group, which the Minister for Finance kindly attends, unequivocally approved the Sustainable Finances Paper, a Paper which seeks to commission a piece of independent work drawing on departmental and council proposals to transform, sustain and protect local government’s finances to be completed by April 2022, in advance of the May elections. This is a forward thinking, practical, partnership approach and we will offer the Committee the document so that you consider it outside of the short timescales and specific Bill debate. Frankly it is win - win and should be endorsed before the Assembly stands down, per the recommended approach described above.

4. Furthermore, it is a reality that the pandemic and its impacts are far from short term, whatever was thought when the Department implemented Reval in April 2020. The introduction of this necessary piece of legislation further shines a torch on the antiquated and vulnerable rates system, which along with a long-term pandemic could combine to cripple councils. We therefore continue to strenuously urge a complete remodelling of council finances, commissioned before the Stormont recess, appreciative that this – and councils – fall outside of the Independent Fiscal Commission's work.
5. Returning to the Bill itself, as local government bodies working regionally with and for all 11 councils, it would be very helpful if further information from Land and Property Services was provided to help Councils assess the impact if the Bill were not to be passed. This would have helped to inform our understanding and to subsequently support any representation or submission. Relevant information is absolutely crucial to setting objective, fair, affordable rates for 2022/23 and beyond.
6. However, in the here and now, anything that mitigates against further council income losses based upon exceptional times and a realistic approach to affordability & compensation is welcomed. NILGA therefore welcomes this Bill as an attempt to ensure non domestic rates income is protected. It is our understanding that this legislation is designed to protect against the risk of further appeals against the non-domestic rate-base as a result of the pandemic.

7. The Committee will understand that as local government, NILGA and SOLACE require information and time to digest something so crucial to our very survival. Nonetheless we commend our longer term approach to the Committee and thank the Chair and members for this opportunity.

Council

8. Local Government spends over £800m on critical services across the 11 Northern Ireland Councils each year.
9. £350m of this sum is funded from domestic rates, £350m from non-domestic rates, the remaining coming from service income and from government grant support.
10. Non domestic rates income is therefore a very critical source of income for Councils as it funds close to half of our services. Any issues or policies

which threaten the security of non domestic rates income represent a critical financial risk for Councils with the potential to lead to significant service cuts or substantial rates increases.

11. Councils therefore welcome any attempt to ensure non domestic rates income is protected and it would appear that this legislation is designed to protect against the risk of further appeals against the non-domestic rate-base as a result of the pandemic.
12. Non domestic rates income is already under significant financial pressure. At this point, almost 25% of the 2020 non-domestic rates revaluation list is under appeal. This will lead to inevitable and retrospective income reductions once appeals are completed. The last thing needed by Councils is for this exposure to be increased by another layer of further appeals arising from pandemic implications.
13. Local Government has continually highlighted the view that an allowance for successful appeals should be factored into the revaluation process as inevitably the loss in income through appeals has to be replaced by raising rates or implementing service cuts.
14. Furthermore, we would expect that businesses who availed of the Government rates relief packages during the pandemic would not be allowed to appeal for reductions during this period, this would appear counterproductive to the whole Covid 19 government support process.
15. The risk of legislation that does not protect Councils from valuation appeals on the grounds of Covid 19 come in the midst of a range of other financial challenges for Councils as they embark on their 2022/23 rates processes:- For example:
    a. Old rating debt write off during the pandemic has been minimal by Land & Property Services. Until this is brought up to date, a very significant and unknown liability is building up for Councils.
    b. Service income (particularly leisure and off street car parking services) continue to be significantly impacted by the pandemic.
    c. Pay awards, national insurance and significant inflationary pressures (particularly energy) and additional waste costs will also have to be funded.

16. In summary whilst the process and pre-engagement with Councils with respect to the introduction of this Bill could have been significantly improved. All Northern Ireland Councils clearly will welcome any legislation which helps to protect their finances in both the short and long term.

Thank you for your time.

NI Assembly Finance Committee

Committee Membership

Committee Chairperson: Steve Aiken (UUP)

Deputy Chairperson: Paul Frew (DUP)

Membership (9)

Democratic Unionist Party (DUP)

- Keith Buchanan MLA
- Jim Wells MLA

TUV

- Jim Allister MLA

Sinn Fein

- Philip McGuigan MLA
- Maolíosa McHugh MLA
- Jemma Dolan MLA
- Philip McGuigan MLA*

Social Democratic Labour Party (SDLP)

- Pat Catney MLA
- Matthew O'Toole MLA

Ulster Unionist Party (UUP)

- Steve Aiken MLA

* From 5 October 2020 Philip McGuigan replaced Sean Lynch as a member of the Committee

Sustainable Council Finances – Current Crisis Review & Way Forward

1. Government support 2020/21 and 2021/22

Following the realisation of severe income deficits and additional costs solely resultant from the pandemic, and having presented the aggregate of these, NILGA, SOLACE and the 11 councils are grateful for the financial support provided to Councils via the NI Executive in the period above.

In addition to revitalisation and community support funding enabling critical local level support and to communities and partner bodies during the pandemic, the following financial supports provided by Government have ensured that Council finances across NI remain on a sustainable footing until 31st March 2022: -

- £85.3m financial loss support provided by Department for Communities;

- £15.2m support for waste management cost pressures provided by DAERA;

- The ability of Councils to furlough staff through the Coronavirus Job Retention Scheme;

- Rates support provided to businesses (Department of Finance) during the pandemic ensuring Council's most significant source of income has been protected.

Councils also welcome the flexibility absolutely needed, provided by Government, to carry forward some of this funding into 2021/22 as the challenges around loss of service income, additional exceptional expenditure being incurred, and other financial risks continue to present massive challenges.

2. 11 council funding model

Expenditure Budget	**£000**	**%**
Staff costs	**430,726**	48.43%
Waste Management Contracts	**91,264**	10.26%
Overhead and programme costs	**269,698**	30.32%
Capital Financing	**97,719**	10.99%
Expenditure Budget	**889,407**	100%
Income Budget	**£000**	**%**
Domestic Rates	**351,135**	39.48%
Non-Domestic Rates (inc derating grant)	**343,374**	38.61%
Service income	**132,316**	14.88%
Other Grants	**46,705**	5.25%
Rates Support Grant	**14,089**	1.58%
Reserves	**1,788**	0.20%
Income Budget	**889,407**	100%

The 11 Councils evidently account for £900m expenditure across a range of critical services each year. This compares to the wider Ni Public Services budget of £24 billion and is a proportion (less than 4%) which is one of the very lowest across Europe and much lower than anywhere in England, Ireland, Scotland, and Wales. This is a wider issue in terms of sustainability and democratic accountability. In terms of the here and now however, almost 50% of these costs relate to staff costs which provide critical employment and wider economy gains for 12,500 people right across NI. 78% of this expenditure is funded from rates income, 15% from Council service income (e.g., leisure, off-street car parking, planning, and building control) with the remaining 7% funded by Government grants and reserves.

In particular, Rates Support Grant is an absolutely vital source of income for the 7 least wealthy and most deprived councils to assist towards providing parity of service provision with the wealthier local authorities. Other Government grants relate to community services, advice, community safety, environmental health, community relations and business support and form a critical component of Councils' baseline funding.

3. 2022/23 rates striking

Councils are now embarking on striking their rates for 2022/23. The significant financial risks highlighted by them in successive reports to Government are now materialising, at least in part, as economic fragility, the furlough scheme, and other Government funding provided above comes to an end. The following issues now present substantial financial risks and uncertainties for councils: -

- **Service income –** Despite facilities being re-opened, income from leisure and other council facilities which rely on service users attending premises, remains at under 50% of pre-COVID and budgeted levels.

- **Exceptional costs** continue to be incurred by councils to ensure health and safety of employees and service users as well as new working arrangements.

- **Rates income** - work commissioned jointly by Government and councils by University of Ulster Economic Policy Centre during 2020/21 highlighted the substantial ongoing risk to councils' main source of income associated with likely business closures and increased levels of bad debt following the pandemic as well as non-domestic revaluation appeals. **ACTION**: It is important that this work is updated to reflect the current environment and assumptions.

- **Grants** - Government grants such as community services, advice, community safety, environmental health, community relations and business support form a critical component of Councils' baseline funding but remain subject to annual confirmation and potential cuts. It is currently hoped that Central Government will ensure that current grant income levels will be protected considering the wider financial challenges and very limited budgets (compared to all other levels of government) facing councils.

- The baseline level of **Rates Support Grant** has been cut by over 24% from £15.865m to £11.924m. If not reversed, this will result in rates increases or service reductions throughout the 7 recipient councils, exacerbating inequalities in so doing.

These issues present very substantial challenges to councils for the upcoming rates process. Unless deficit mitigation occurs along the lines afforded councils across the rest of the UK, via national and devolved funding, **addressing these challenges purely by councils' financial efficiency / rates setting will require either service reductions/ redundancies or rates increases at a time of significant challenge for businesses and householders**. It is important therefore that engagement continues with Government in relation to these financial risks between now and rates striking. As well as considering further financial support for councils, it is important that further non-cash interventions and tools are made available in the event that significant savings are required to be realised. These include: -

- Engagement with Department of Finance to allow councils to capitalize relevant costs associated with the implementation of efficiency programmes (e.g., voluntary severance).
- Engagement with Department of Finance with a view to councils being able to access PWLB certainty rates for Local Government borrowing and resulting in 0.2% interest savings to facilitate further capital development by local government to stimulate recovery.
- Engagement with Departments of Finance and Infrastructure to explore the potential to increase planning and building control fees.

4. **Beyond 2022/23**

It is **recommended** that engagement by NILGA, SOLACE and the Association of Local Government Finance Officers with colleagues particularly in Department of Finance but also Communities (mindful of RPA review and many other strategic, legislative pieces) and the Executive Office (mindful of how the new Programme for Government and related investment strategies need re-prioritizing) must be stepped up, to present new and sustainable ways of funding Local Government in the future given the substantial risks associated with property-based taxes following the pandemic and consideration of the outcome of the recent NI Business rates review.

Mindful of March 2021 established *Independent Fiscal Commission NI*, which includes the following terms of reference:

- *Review the case for increasing the fiscal powers to the NI Assembly, advising the Finance Minister on powers which could enhance the Assembly's fiscal responsibilities, increase its ability to raise revenues to sustainably fund public services, and provide additional policy instruments. As part of this, the Commission should consider the need for additional budgetary tools to manage any increased financial responsibility.*
- *Carry out research and put forward recommendations to the Minister of Finance that are realistically implementable within the NI context and drawing from the experience of Scotland and Wales, including what has worked well, and where challenges have been encountered in those administrations. This should include the potential costs incurred and realistic timescales of any new powers proposed.*

It is **further recommended** that – whatever is the quicker - the sustainable financing of local councils is either:

(i) Dynamically incorporated into the Commission's work **or**

(ii) A separate (to be integrated) piece of work drawing on departmental and council previous & recent proposals to transform, sustain and protect council finances **is completed by April 2022** (jointly co-designed and financed) and presented with recommendations to the full Partnership Panel as soon as possible after the newly mandated NI Executive from May 2022.

Prepared By ALGFO 31st August 2021, for determination 8th September 2021.