Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Rates Convergence and Proposed Funding Mechanism for Transferring Functions under RPA: Department of Finance and Personnel

22 January 2014

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Daithí McKay (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Ms Michaela Boyle
Mr Leslie Cree
Mr Paul Girvan
Mr Ian McCrea
Mr Mitchel McLaughlin
Mr Peter Weir

Witnesses:

Mr Andrew McAvoy	Department of Finance and Personnel
Mr Brian McClure	Department of Finance and Personnel

The Chairperson: I welcome to the meeting Andrew McAvoy from the rating policy division. Do you want to make a brief opening statement on this issue before we go to questions?

Mr Brian McClure (Department of Finance and Personnel): OK. As the Committee will appreciate, RPA is a DOE issue and a DOE-led issue. However, I think that it is important to brief this Committee, because there are certain implications for the rating system and the development of policy in RPA and for DFP's role in facilitating RPA by making changes to the rating system.

This has come up in some sessions; it certainly came up in the most recent session on the non-domestic revaluation, and questions were asked about it. That prompted us to think that now is the time to tell you what our thinking is, what our Minister's thinking is and what we are doing about helping to facilitate RPA in the context of rating.

The first element, and probably the most significant, is managing rates convergence and the development of a transitional relief scheme to protect ratepayers who would otherwise face sudden and excessive increases as a result of councils coming together and of some ratepayers moving into Belfast from Castlereagh and Lisburn. That is because without intervention they could face significant increases in district rates. So, that is our objective.

The Executive took the decision about, I think, a year ago to provide up to £30 million to fund a transitional relief scheme. We have been working on that since. As far as the legislation is concerned, we have already got an enabling power in the Local Government Bill to allow this to happen. We will be presenting regulations to the Committee in due course when we have finalised the scheme, because DFP will have to make regulations through the Bill.

We looked at a range of options for how the scheme will operate, such as providing grants to councils. However, we, and Ministers, have decided that the best way of doing this is to allow councils to strike their rates in the normal way and for a discount to be given to relevant ratepayers on the rate bill. So, councils will not have to strike differential rates to edge rates up to a common district rate; DFP, working with DOE, will apply that at bill level. Our current view is that we can develop a reasonably generous scheme by stepping the increases over a three- or four-year period. All the modelling that we have carried out with colleagues in DOE suggests that this is doable within the £30 million funding. We cannot take that analysis any further until we know the rates that district councils will be striking for the coming year. Once that takes place, we will be able to do a lot more analysis and to refine the scheme.

Elements of the scheme that have not been decided are the duration of the scheme, what the steps will be — 33%, 66% or 100% — and whether a threshold will be applied for acceptable increases. You might want to put in an inflationary threshold beyond which affected ratepayers will be protected. Those elements have still to be decided, and we will certainly be consulting on that in the spring when we have undertaken our further analysis and when we know what the district rates are.

The Institute of Revenues Rating and Valuation (IRRV) has validated the approach that we have taken. We as a Department thought it important to get an outside organisation to quality assure our policy thinking on this matter. The IRRV agrees with our analysis that the best way to do this is to provide it as a discount on a bill.

We are not complacent about the matter; we are reasonably confident that a good scheme can be developed within a £30 million cost envelope. Our main concern is how we get it to operate alongside non-domestic revaluation, which takes effect on the same date. That is causing us a bit of a headache at the moment. However, I am sure that we will be able to find a way around that. In our view, a transitional relief scheme for RPA, on its own, is workable, deliverable and affordable. That is not to say that there is not an awful lot of work to be done. Further decisions are still to be made, and, as I said, we will consult on those in the spring.

That is rates convergence. The other issue — Mr Weir touched on this in the previous session — is revaluation, which is a mechanism for helping to fund the functions that will transfer to councils. Two or three years ago, there was a lot of consideration of whether that could be done through increasing the district rate while having a regional rate offset. We did a lot of analysis on that, but we believe that it is not a workable solution.

At the other end of the spectrum, we also looked at whether those transferring functions should be funded through direct payment of grants from the donor Departments. We also feel that that has major problems, because it brings it within the realms of public expenditure with all the associated bidding, monitoring and control issues.

So, we are proposing a mechanism that is like a halfway house. It would operate like a grant, but we would hope to use the rating system in a way that would provide a rate-based supplement to each of the 11 new councils to allow them to pay for it. That would operate as a grant. We would then allow councils that extra rateable value to pay for those transferring functions. It is not going to work for some of the major capital projects, but it will work for recurring expenditure and maybe for some of the smaller capital projects. It is an approach that, again, the Institute of Revenues Rating and Valuation, as well as the two Ministers, endorsed. We have been engaging very heavily with the various reference groups that we deal with in local government to explain its workings.

So, that is our current thinking on how we are facilitating RPA. The big issue for us is getting rates convergence and transitional relief to work with any support that is provided as a result of the non-domestic revaluation. We have currently reached a hiatus in our analysis; we cannot do any more until we know what the district rate is going to be next year. Once we have that information, however, we will undertake further analysis and go out to consultation. We are taking an enabling power in the Local Government Bill at Consideration Stage for the transferring functions scheme.

Mr Andrew McAvoy (Department of Finance and Personnel): DOE is working with the Office of the Legislative Counsel (OLC) to draft a provision for the transfer functions mechanism. That would be tabled at Consideration Stage of the DOE's Bill, which is at Committee Stage.

Mr McClure: There is a lot in that, and I am more than happy to take questions.

The Chairperson: Can you elaborate any more on how the figure of £30 million for the transitional protection scheme was arrived at? You said that you were reasonably assured that we will live within that particular budget.

Mr McClure: The reason why I cannot say that I am absolutely assured is because I do not know what the district rates are going to be next year. That is a big unknown, and we do not know the impact of the non-domestic revaluation. I am not losing any sleep over that budget; I think that that should do it. The scheme will, at least, protect all ratepayers who would otherwise face sudden and excessive increases as a result of councils coming together or ratepayers moving from Castlereagh to Belfast or Lisburn to Belfast. I think that that can be done.

The Chairperson: How precisely will that be applied?

Mr McClure: It will operate as a discount in the rate bill, and Land and Property Services (LPS) will apply it. Councils will continue to strike the one district rate. An alternative was to give grants to councils and to allow them to strike differential rates, but I do not think that that would be deliverable.

The Chairperson: What forecasting has the Department undertaken to identify what savings or efficiencies will be realised once the transitional protection is exhausted?

Mr McClure: It is not an analysis that DFP has undertaken; the efficiency of the RPA process overall is more a DOE matter. It is our view that the savings from RPA should start to materialise after about three years, which will help to moderate district rate bills. So, that is another reason why it is a transition scheme. We believe that RPA will lead to the more effective delivery of local services at a lower cost, so district rate bills should be moderated accordingly.

Mr Weir: As you said, there is a lot to get our teeth into. I appreciate that, given that there is ongoing and developing work on rates convergence, we cannot get an absolutely precise picture. We talked about £30 million for a period of three to four years. Do you see that transition as a sliding scale of reduction over whatever the period is? If, for the sake of argument, it was a four-year period, it might well be £11 million in year 1, but it might end up being about £7 million in year 2. So, it might not be simply a straight line.

Do you feel that you would be able to proof this in such a way that means that there will not be unforeseen circumstances, such as any level of bad behaviour being rewarded? At present, there is some knowledge that this is coming down the line, so a council that already has a much higher rate than its neighbour could almost be incentivised to create a situation whereby it gains the maximum amount. It potentially is not that worried immediately about convergence; it could be happy enough before the merger to put things up a bit further to widen the gap a little bit and draw in more money. Do you think that it is likely that you will get something that is secure enough to prevent that?

Mr McClure: That is a very good point. We have considered that. We probably need a mid-term review mechanism in the convergence arrangements to ensure that that does not happen. So, if there are some undesirable behaviours in striking rates or council spend, DFP can go back and review.

Mr Weir: This is more of a point than a question about rates convergence. It is very understandable and quite reasonable that there is some protection for people who, through no choice of their own, would be left with very large rate rises if there were no intervention. The only way in which that could ultimately be applied is to have an overall suppressing downwards effect on the level of rates across the borough as a whole. That will mean that some people are better protected, but, on the flip side of that coin, other people coming in from councils will get a double benefit RPA. If you move from an area with much higher rates, the convergence with a lower rates area will automatically bring down your rates. You will also benefit from any transitional relief. If you take, say, a Fermanagh/Omagh situation, where there is a wide degree of divergence, and if there ended up being £2 million in the first year, it will not be just the people in Fermanagh whose rates would potentially be going up who would benefit from that £2 million; the people in Omagh would also benefit. So, there is a double bonus.

Mr McClure: The people in Omagh will not get a discount on their bill, but they will pay the new rate, which is likely to be lower. The transitional protection is only for those who are moving up to the new average rate from the lower rate. In that particular example, only Fermanagh ratepayers would see the benefit.

Mr Weir: It is almost a form of rate rebate.

Mr McClure: They will get a discount on their bill. You suggested a four-year scheme, so they could pay 25% of the increase in the first year, 50% in next year, 75% in the following year, and then up to the full amount. The transitional protection would be only for those who would otherwise face sudden and excessive increases as a result of councils coming together or as a result of ratepayers moving into Belfast. The same model should operate for both.

Mr Weir: That is interesting. I appreciate that, in the short term, rates convergence is the bigger issue for you in the context of what needs to be put in place. I take slight issue with your comment that that is the more important issue. To my mind, what is done on a long-term rates settlement is arguably the more important issue to correct, because it could be there for 20 or 30 years.

I have heard the hybrid model that you are looking at described reasonably as almost like the notional buildings idea.

Mr McClure: That is a good analogy.

Mr Weir: It is a reasonable enough approach. I see one issue with which there are potential problems with local government. How do you provide both local government and ratepayers with an assurance that, in taking that step, their position for the future will be protected? The one weakness with a single grant that was highlighted comes if you get into tougher economic times — maybe a cut in the block grant or whatever. Legally, you do not have to pay that grant, so it would be easy for a Minister with particular pet projects to cut that. That is why, to be honest, there is no enthusiasm for a pure grant. Do you enshrine in legislation a transfer like notional buildings? Do you have something that can provide a clear-cut reassurance that that —

Mr McClure: That is exactly what we are going to do. We will set out in regulations, which this Committee will scrutinise, a net annual value (NAV) for each of the councils. At some point, we will know what the cost of these transferring functions will be, certainly for resource and smaller capital. We will then work back and calculate an equivalent rateable value using prevailing rates, and we will enshrine that in regulations that will be subject to this Committee's scrutiny and the Assembly's will. So, that is the protection. That is not to say that, at some point in the future, the Assembly could decide that it does not want to do it that way or that it is not affordable or whatever. However, that is the protection for local government.

Mr Weir: That gets round the main bit.

A notional value will effectively mean a transfer of money. Do you inflation proof that in some way? Presumably, a notional block means that, in effect, £100 million worth of services — I am plucking a figure out of the air — will transfer over. If those services were not transferring over and simply remained in central government, the odds are that, five years down the line, they would cost not £100 million but £120 million or whatever it happens to be. How do we ensure that a notional value is not ring-fenced and set in stone or that any additional inflationary costs that emerge are not simply, by inference, simply transferring over to ratepayers?

Mr McClure: That is why it is geared to NAV. Whatever the prevailing district rate is will be the increase that that council will get as grant. That will protect local government from the vagaries of the bidding, monitoring and control of public expenditure. It takes it out of that annual negotiating realm and prevents donor Departments that are faced with budget cuts from deciding just to cut it. So, every year, the grant will be increased by whatever amount the district rate in that district council area increases by. That is your inflation proofing.

Mr Weir: That is very helpful, because, obviously, if you had something that is dependent on individual Departments, a Minister who is faced with having to make £10 million of cuts in his or her Department might think, "Here is a way of cutting £5 million without costing the Department a penny". That would be a tempting route for a lot of Ministers.

Mr McClure: It will operate in the same way as the derating element of what used to be called the general grant.

Mr Weir: Would the timescale mean that it would effectively take in 2015?

Mr McClure: Yes, it would be from 1 April 2015.

Mr Cree: That example covers ground that is exercising my thoughts. You will have two or three societies — if we can call them that — in a new council area. If, for example, that council decided that it needed a 5% increase, that, in effect, would be apportioned over those three areas depending on the historical rate base that they were used to. Is that right? How will it work?

Mr McClure: No, it would be a clean slate on the unified district rate based on the new values that are produced for the revaluation. Therefore, we would work back and provide a NAV. There would not be any need to apportion over the other district councils. It is kind of a new beginning. We will say, "Here are the NAVs produced by the revaluation and here is a supplementary NAV that we will provide to you by way of a grant".

Mr McAvoy: For each of the 11 councils.

Mr McClure: For each of the 11. That is how it would operate. It will not work for major capital projects that straddle 15 April, existing commitments or some of the big regeneration things. However, it could operate effectively for all the resource spend and for as much of the smaller capital spend as possible.

Mr Cree: I will take it a stage further. If, for example, the new council decided to dispose of assets, how would that go into the mix, bearing in mind that the assets would come from one particular area?

Mr McClure: That is all part of the financial management associated with that council. I am not sure that that would wash back on how much of the rating supplement grant they would be paid. They will be paid that rating supplement grant, and that will not vary.

Mr Cree: It will have no effect, then.

Mr McClure: It can vary by the district rate, but it will not have any effect on it. A recalculation will not be required because somebody sold a major asset. We accept that the proposal is far from perfect, but it preserves the independence of local government.

Mr Cree: How long do you think that will take to work its way out?

Mr McClure: We will prescribe it in regulations, and it will remain in place as long as it is needed and as long as the Assembly agrees.

Mr Cree: It should be for a fairly short period.

Mr McClure: For the foreseeable future, I would think.