

Rates Briefing for Elected Members



Around October each year, council officers begin to calculate how much money they will need for the council to operate successfully for the forthcoming financial year. A district rate must be struck by 15th February, for the financial year commencing in April. For many of you, this will be the first time you have been involved in setting your council rate, so members at NILGA felt it would be useful for you to be provided with a short guide to the system and the processes involved. Much of this information is taken from the Councillors Guide 2023, supplemented by updated information from Land and Property Services.



The Rating System in Northern Ireland

You will be aware that in Northern Ireland many public services are not administered by councils, instead delivered by government departments or appointed public bodies in the, for example education, housing, personal social services, roads and water.

For this reason, the Rates levy in Northern Ireland is a combination of two elements, namely:

Regional Rate - this helps to finance those public services that are not administered by councils and is struck by the Department of Finance at a uniform Rate for each of domestic and non-domestic sectors that is applied in every district council area. Although the regional domestic Rate will be the same for each district council area, the regional non-domestic Rate will vary by district council area; and

District Rate - varies from one district council area to another and finances those local services that are directly administered by district councils.



On average approximately 75% of a district council's recurrent revenue income is generated from the district Rate.

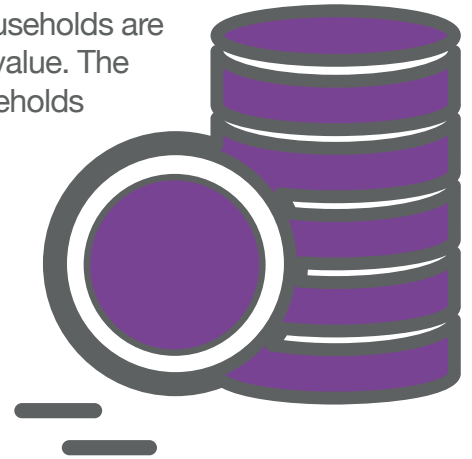
Every district council is legally obligated to strike a separate district Rate for the domestic and non-domestic sectors in their area. This is because non-domestic Rates are levied based on net annual (assumed rental) value, whereas domestic Rates are levied on the basis of capital (assumed purchase) values. Prior to 2021/22, councils were required to use a statutory conversion factor to 'convert' their non-domestic Rate into a domestic Rate. Councils are, however, now free to 'de-couple' their domestic Rate from their non-domestic Rate.

Current Rating System – domestic and non-domestic hereditaments (properties)

A discrete capital value system is used to apply a single tax rate to assess the Rates due in respect of each domestic property. Consequently, every domestic property rate payer could pay an amount, which is independent of every other domestic property apart from the fact that the capital value on which the Rate is assessed is currently capped under legislation at £400,000.

This system contrasts with the English system of banding, where households are allocated to one of several different bands according to their capital value. The band determines the amount of Council Tax to be paid, with all households within the same band paying the same amount.

Rateable valuations for domestic properties in Northern Ireland are assessed on the capital value of the property based on 1 January 2005. When assessing the capital value, Land & Property Services (LPS) use information about the sale prices of houses in each district council area. They also assume that all properties have an average state of internal repair and fittings, such as a standard kitchen and bathroom.



If a property was built after 2005, the capital value will be assessed by comparing the property with similar properties that had been built prior to 2005.

The factors that are taken into consideration when valuing a property include:

- size and type of property, such as detached, semi, terrace, flat etc;
- location of the property;
- whether or not the property has a garage or other domestic outbuildings; and
- whether or not the property has central heating.

“Size” means the external area of the property if it is a house and the internal area if it is an apartment.

The total amount of Rates payable on a domestic property annually is calculated by multiplying the Capital Value by the sum of the domestic district and regional Rates for the district council area in which the property is located.

Legislation requires, among other things, the maintenance and updating of the Valuation List. This list is based on each of the district council areas, sub-divided into wards with properties arranged street by street in basic alphabetical order and shows the Capital Value (CV) and Net Annual Value (NAV) of all domestic and non-domestic properties respectively.

Ratepayers have the right to inspect the list and extract information.

Non-domestic properties are still valued based on rental values - otherwise known as NAV (Net Annual Values) – at a prescribed date. This value is then multiplied by the sum of the non-domestic district and regional Rates for the district council area in which the property is located to arrive at the total non-domestic Rates to be levied in respect of each property. The amount of non-domestic Rates to be paid will be calculated with due regard to relevant reliefs and any other applicable NI Assembly support, such as relevant relief following the Covid-19 pandemic.

Periodic revaluations of all non-domestic and domestic properties may be carried out to ensure that the Rate burden within both the non-domestic and domestic sectors is apportioned equitably between all non-domestic and domestic properties respectively. The current valuation list for domestic properties became operative on 1 April 2007 and is based on capital values at 1 January 2005. The most recent non-domestic revaluation was carried out during 2022 and took effect from 1 April 2023 using property values at 1 October 2021.

NI Reval2023



Rebalancing business rates



Land & Property Services (LPS) completed a non-domestic revaluation known as NI Reval2023 in March 2023. This revaluation was a review of the rateable values of all non domestic properties in Northern Ireland. This included properties like shops, offices, warehouses, pubs and hotels.

More than 74,500 non-domestic properties across Northern Ireland have been revalued with new rateable values, based upon an estimate of open market rents as of 1 October 2021. The new rateable values were then used to calculate business rates liabilities from 1 April 2023.

Revaluations are not carried out to generate any extra revenue. They redistribute the total amount of business rates and ensure the rating system remains fair and current, by taking account of economic and relative changes, in rental levels, which have occurred since the last revaluation. The last revaluation before NI Reval2023 took place in 2020.

Annual Revenue Budget and Striking the District Rate

In order to strike the district domestic and non-domestic Rates, each council draws up detailed estimates of expenditure and income for each incoming financial year which runs from 1 April to 31 March. These estimates are referred to as the “Annual Rate Estimates” and a great deal of time and effort is devoted to their preparation.

The Annual Rate Estimates serve two purposes, namely:

- they enable the council to calculate the district Rate income which it estimates that it will need to deliver its services in the forthcoming financial year; and
- they serve as the basis for detailed budgets for the monitoring and control of revenue income and expenditure in the relevant financial year.

Each council is required by legislation to strike its district Rates before the “prescribed date”, which is generally 15 of February in each year.

Annual Accounts

Councils are required to produce annual accounts in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom and the requirements of any Accounts Direction issued by the Department for Communities (DfC).

In these financial statements you will see a summary of the council's financial transactions for the year of account including details of revenue income and expenditure, capital outlays and financing, and loans borrowed or repaid.

The financial statements follow a prescribed format and include an Annual Governance Statement, remuneration report, audit certificate issued by the Local Government Auditor, and relevant notes to the accounts.

Legislation obliges each council to submit its draft annual financial statements to the Department for Communities by 30 June and to publish them on its website by 30 September.

Department for Communities

The Department for Communities has statutory powers to request information, reports and returns from district councils and can order inquiries into any matter relating to council functions.

Where a council fails to discharge a statutory function, the DfC can direct it to take specified action. If a council fails to take such action, the Department can empower its officials to exercise the functions of the council.

As a result of some former central government functions transferring to councils in April 2015, the Local Government Act 2014 has provided the relevant central government departments with powers in relation to district council functions that are similar to the DfC's powers to direct the Council to take specified action.

Local Government Auditor

The Local Government (Northern Ireland) Order 2005, as updated by the Local Government (Northern Ireland) Act 2014, provides that the DfC may, with the consent of the Comptroller and Auditor General (the C&AG), designate a member of the Northern Ireland Audit Office (NIAO) staff as the Local Government Auditor. Once designated, this Auditor carries out their statutory and other responsibilities, and exercises their professional judgment, independently of the DfC and the C&AG. The current Local Government Auditor is Ms Colette Kane.

The statutory responsibilities and powers of the designated Local Government Auditor are set out in the 2005 Order and the 2014 Act. In discharging these, the Local Government Auditor is required to carry out their work in accordance with a Code of Audit Practice (the Code). The scope of external audit in local government is extended to cover not only the audit of the financial statements, but also the audited bodies' arrangements for securing economy, efficiency and effectiveness in its use of resources, as well as councils' performance improvement responsibilities.

The Code focuses on how the Local Government Auditor should carry out their wider range of functions and the audit of the financial statements is conducted in accordance with International Auditing Standards issued by the Financial Reporting Council.



The Local Government Auditor can, if considered appropriate, make a Public Interest Report on any matter coming to notice during an audit. In addition, they can, if considered appropriate, conduct a Special Inspection of a district council in relation to its performance improvement responsibilities.

The results of work undertaken by the Local Government Auditor are reported to the Members of district councils and local government bodies. Their report on each set of accounts is published with the accounts by the Council. They also provide an Annual Audit Letter to each council, which is also published by the council. In addition, a summary of their key findings at each district council in relation to the improvement audits and assessments are published in their Annual Improvement Reports, which are published on the NIAO website.

Budgeting

You should, initially, ask for the Council's overall budget and a broad departmental breakdown. Councils in Northern Ireland each invest tens of millions of pounds annually and your strategic knowledge of the budget is a starter for ten.

Budgets are useful tools for:

- Forecasting future financial demands,
- Monitoring and controlling expenditure, and
- Identifying gaps in service provision.

For budgets to be effective:

- The appropriate employees and councillors should be involved in setting the budget
- Budget targets should be achievable,
- The budget should be monitored regularly, at least on a monthly basis
- Action must be taken to rectify inaccurate estimates in the budget within the budgetary period, and
- Lessons must be learned for setting the next year's budget



Planning the budget takes place at both corporate and individual service level. Normal practice is for the Service Directors or Heads of Services to work with the Chief Executive (who is designated as the Chief Finance Officer) and the officer (usually a Director) who is responsible for the financial affairs of the council to produce budget proposals to be presented to the council for consideration. The council's consideration is usually preceded and supported by a consideration of initial proposals by an appropriate subcommittee of councillors. This subcommittee may be a standing subcommittee, or a subcommittee formed for the express purpose of considering the Rate estimates and associated budget.

The budget proposals must be finalised by a statutory date each year (the 'prescribed date'), typically 15 February, which is the date by which each council must have determined its district Rate and set its annual budget.

Please note the following:

- The financial year typically runs from 1 April to 31 March, so upon your election the budgets for that year will already be agreed, although revisions are possible to address policy changes or other relevant issues, and
- Familiarise yourself with financial definitions and associated abbreviations which will help you understand fully the financial information presented to you. Your Council should provide training for all Councillors on the budget and associated financial processes.