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## **Report to the Finance Strategic Policy Committee**

### **Report on Rates Debtors 31<sup>st</sup> December 2018**

The Local Government (Financial Procedures and Audit) No 2 regulations 2014 provide that a rating authority on completion of the schedules of uncollected rates at the end of each financial year submits a report to the members of the Local Authority.

This report on commercial rates arrears at the 31<sup>st</sup> December 2018 sets out the following information:

- 2018 Local Authority Sector target improvement for rates collection
- Commercial rates funding
- Level of arrears during the period 2014 - 2018
- Rates Collection Percentages Y2014 – Y2018
- Age Profile of the 2018 arrears
- Analysis of the 2018 arrears accounts
- Analysis of the 2018 arrears by rate description category
- 2018 arrears schedule status
- 2018 arrears by electoral area
- Conclusion

#### **2018 Local Authority Sector target improvement for rates collection**

A local government debt management project group was set up in the 1<sup>st</sup> quarter 2015 which consisted of representatives from a number of Local Authorities, the DoHPLG and the LGMA in response to a government review of the collection of all public sector debt. Commercial rates arrears of €394M were outstanding at 1/1/15 within the sector and the focus of the group was to:

- Achieve a target improvement in rate collection for each authority
- Improvements in collection and administration of debt management procedures

The 2018 % collection targets as assigned were banded as below with the lower performing authorities required to improve collection by those higher percentages as outlined in the table.

	<b>Collection % AFS 2017</b>	<b>Target collection rate 2018</b>
<b>Band 1</b>	Above 90%	No change
<b>Band 2</b>	85% - 89%	+1%
<b>Band 3</b>	80% - 84%	+2%
<b>Band 4</b>	Minimum Collection	80%

The 2018 target for Dublin City Council was a collection target of 91.41%. The actual outturn in 2018 exceeded the target levels with a collection of 92.4% and year-end arrears of €27.8M, a reduction of €4.6M (14%) on the 2017 arrears outturn.

### **Commercial Rates Funding**

The City Council exercises restraint in setting commercial rate charges in order to support competitiveness in the economy, nationally and locally, and to sustain the commercial rate base within the City. It should be noted that the City Council's 2019 revenue budget is 35% funded by commercial rates and therefore the performance on rate collection is critical to the funding provision of services.

I have set out in the table below, details of movement in the Council's ARV since 2012.

**Table 1 – Movement in Annual Rate on Valuation**

<b>YEAR</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
ARV	-1.7%	-0.5%	-0.4%	-0.5%	0.0%	+0.78%	0.0%

Whilst the annual reduction in the Council's ARV over the period was modest, the cumulative value of resources foregone is estimated at €64M. The performance of Dublin City Council in the area of commercial rates and other charges it imposes on the business sector compares favourably with the performance of other sectors where above inflation price increases have been the norm over recent years.

The commercial rates annual charges over the period 2014 – 2018 are detailed in table below.

**Table 2 – Commercial Rates Income**

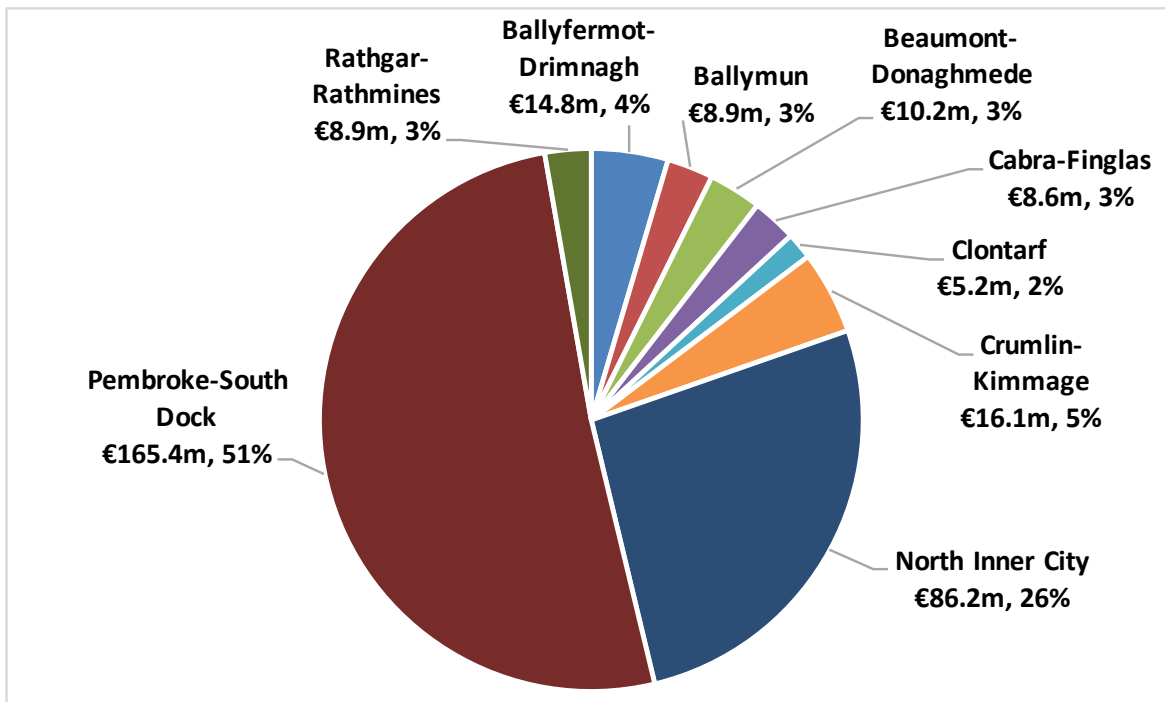
<b>Year</b>	<b>Rates Income</b>
2014	€342,234,446
2015	€336,255,813
2016	€324,501,784
2017	€321,481,363
2018	€324,255,552

*Source: DCC Annual Financial Statements 2014 – 2018*

The 2018 income increase of €2.8M is primarily due to buoyancy. The loss of commercial rates funding on the Irish Water network is compensated by an equivalent DoHPLG annual grant payment direct to the local Authority which was €14.3M in 2018.

The graph below identifies the breakdown of charges per electoral area. Pembroke-South Dock and North Inner City account for 77% of the annual charge.

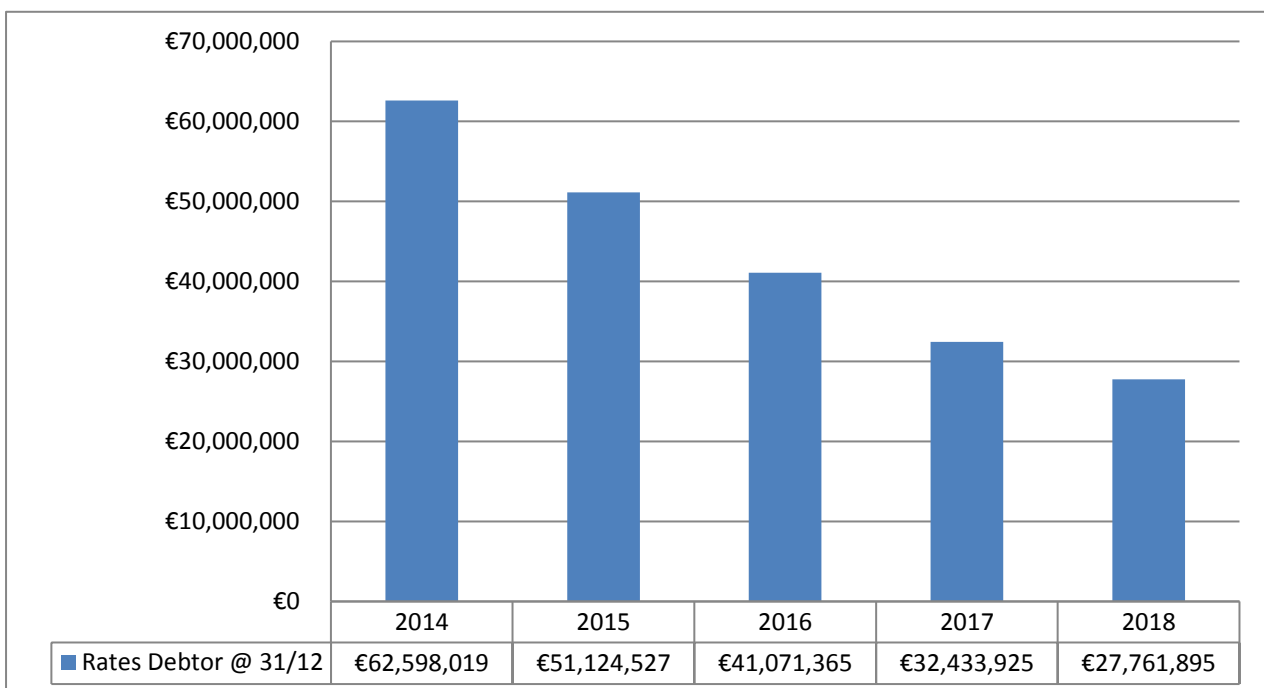
**Graph 1 – 2018 Commercial Rates Income by Electoral Area**



**Level of Arrears for the Period 2014– 2018**

The economic downturn and global financial crisis which initiated the recession post 2008 significantly impacted to the increased level of arrears of €76.3M in 2012. The table below clearly outlines the changing level of arrears over the period. The reduction in arrears to €27.8m in 2018 is primarily due to an improvement in the annual % collection, a focused debt management approach, improvement in economic factors and the conclusion of liquidation / receivership cases. It should be noted that the current level of arrears of €27.8m is the lowest since 2001.

**Graph 2 – Rates Debtor Y2014 – Y2018**



## **Rates Collection Percentages Y2014 – Y2018**

Table 3 below outlines the year on year improvement by DCC in the collection of rates having increased collection performance by 8.4% since 2014. This equates to an improved cash performance of €28M per annum.

The reduction in receipts of €5.8M in 2015 compares favourably in comparison with the reduction of the total warrant for collection €17.3M (arrears + annual charge) between 2014 and 2015. The reduction in receipts of €11M in 2016 compares favourably in comparison with the reduction of the total warrant for collection €21M (arrears + annual charge) between 2016 and 2015. The increase in receipts of €3.8M in 2017 compares favourably with a reduction of €4.8M in the 2017 total warrant for collection. The 2018 receipts level compares favourably with 2017 given the reduction of €5M in the total warrant for collection.

The 2018 write offs include €8.2M in respect of vacancy refunds as provided by S71 of the Local Government Dublin Act 1930 as amended by S31 of the Local Government Act 2014. In addition, an amount of €0.7M was written off in 2018 following determination of appeals on valuation by the Valuation Tribunal and valuation revisions. The balance of amounts written off is primarily in respect of those cases where debt recovery procedures have been exhausted and there is no prospect of recovery.

**Table 3 – Analysis of DCC Rates Collection Y2014 – Y2018**

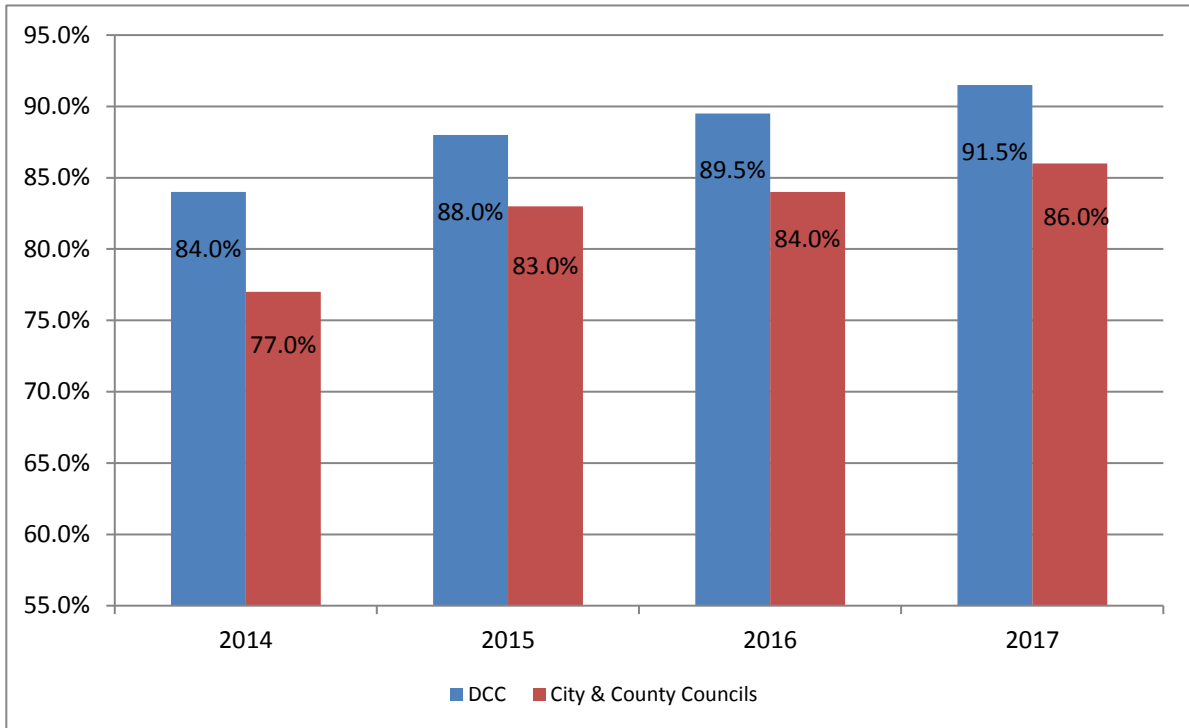
<b>Year</b>	<b>Arrears 01-Jan</b>	<b>Charge</b>	<b>Write Off</b>	<b>Total for Collection</b>	<b>Receipts</b>	<b>Arrears at 31-Dec</b>	<b>Specific Doubtful Arrears</b>	<b>% Collected</b>
	<b>€m</b>	<b>€m</b>	<b>€m</b>	<b>€m</b>	<b>€m</b>	<b>€m</b>	<b>€m</b>	
2014	74.0	342.2	33.7	382.5	319.9	62.6	0.0	84.0%
2015	62.6	336.3	33.6	365.2	314.1	51.1	7.1	88.0%
2016	51.1	324.5	31.4	344.2	303.1	41.1	5.7	89.5%
2017	41.1	321.5	23.2	339.4	306.9	32.4	3.6	91.5%
2018	32.4	324.3	22.3	334.4	306.7	27.8	2.5	92.4%

*Source: DCC Annual Financial Statements 2014 – 2018*

The City Council's collection performance compares favourably with the comparative average of the Irish Local Authority Sector. Graph 3 below outlines the average annual sectoral % collection performances of 77%, 83%, 84% and 86% respectively for the years 2014 - 2017. The 2018 DCC collection at 92.4% represents an improvement of 0.9% on 2017 which equates to a value of approx. €3M. Whilst noting the improvement in collection, it is also acknowledged that some sectors and locations have not benefitted to the same degree from marginally improving economic factors.

No 2018 comparative figures for the sector are available to date.

**Graph 3 – DCC vs City and County Councils Rates Percentage Collection**

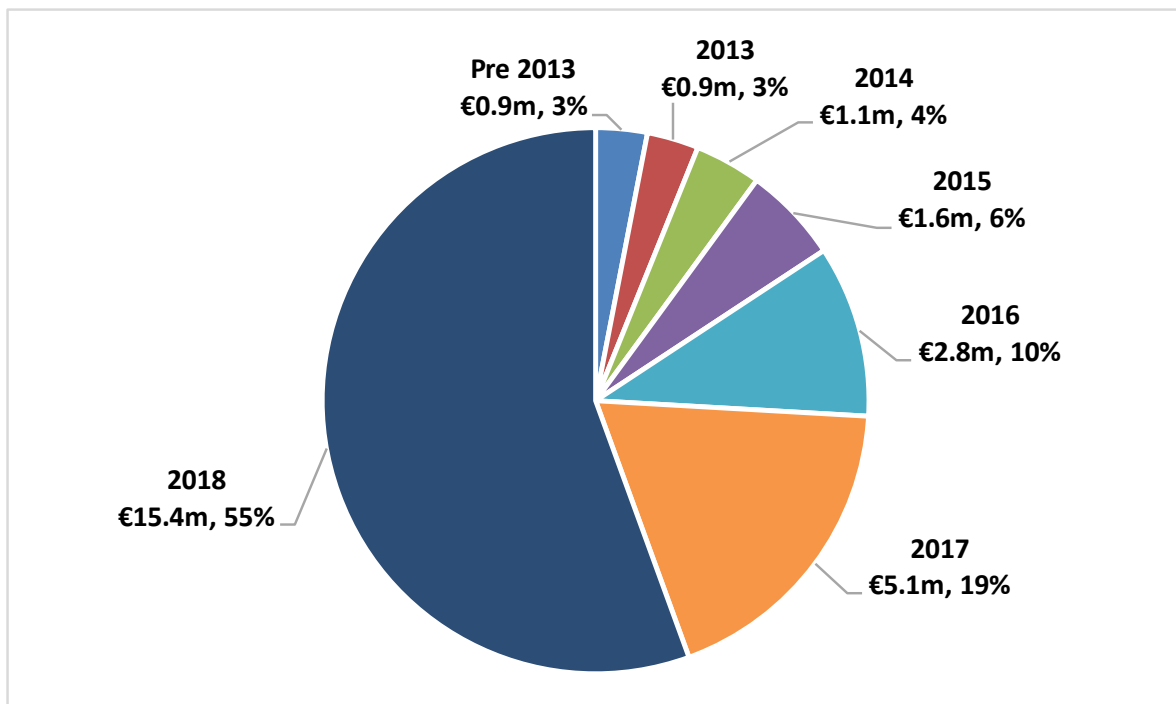


Source: DCC Annual Financial Statements 2014 - 2017  
Local Government Audit Service Activity Report

**Age Profile of the 2018 Arrears of €27.8M**

The graph as below shows that €15.4M (55%) of the arrears comprise of charges accrued in respect of 2018 and €5.1M (19%) refers to charges accrued in 2017 with the balance of €7.3M (26%) in respect of charges pre 2017.

**Graph 4 – Age Profile of 2018 Arrears**



### Analysis of the 2018 Arrears Accounts

There are 4,270 accounts in arrears @ 31/12/18 which equates to 21% of the total number of rate accounts in 2018. The number of accounts in arrears has reduced by 410 in comparison with 2017 (reduction of 9%) which reflects the positive performance in debt management. The table below shows that 63% of those accounts in arrears have an annual charge below €5,000. In addition, 80% of the arrears value (€22.1M) relates to accounts where the annual rates charge ≤ to €50,000.

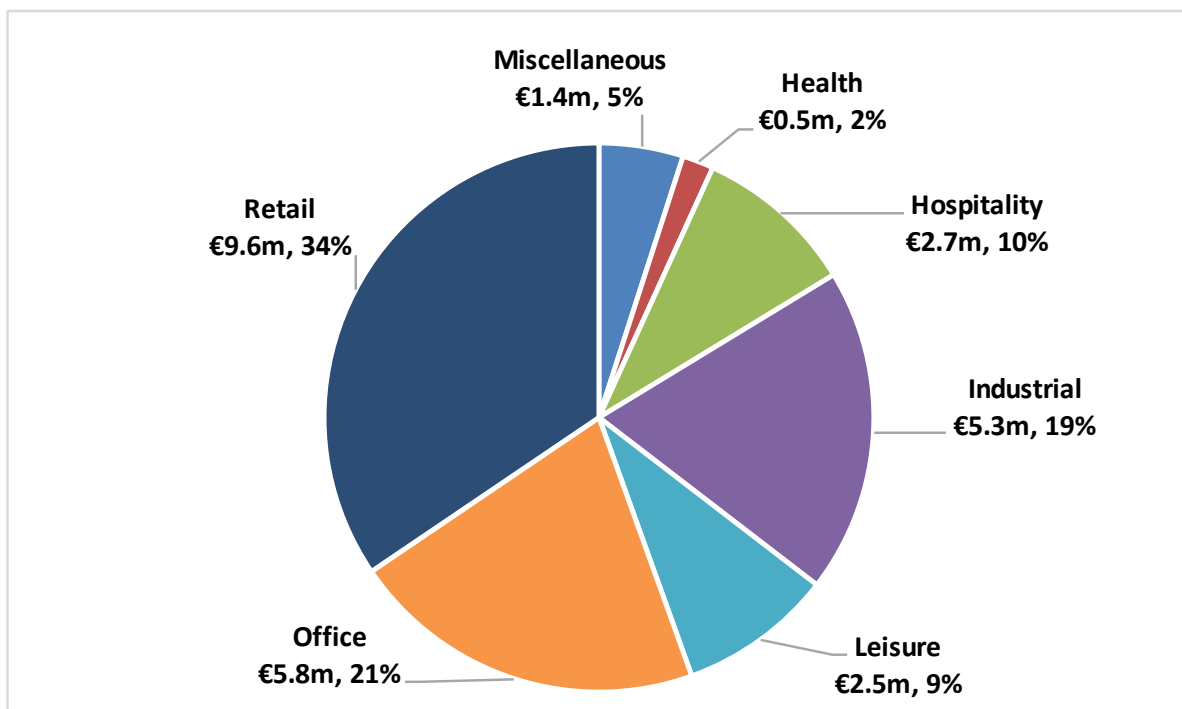
**Table 4 – Rate Arrears by Charge Range**

Charge 2018	No. of Accounts	No. of Accounts in Arrears	Actual Arrears Based on GL €m	Actual Arrears %
0.00-999	2,107	534	0.5	1.8%
1,000-2,999	5,924	1,332	3.4	12.2%
3,000-4,999	3,718	835	3.7	13.3%
5,000-9,999	3,902	847	6.3	22.7%
10,000-24,999	2,730	503	6.0	21.6%
25,000-49,999	1,065	135	2.3	8.3%
50,000-74,999	372	31	0.9	3.2%
75,000-99,999	172	13	0.4	1.4%
100,000+	433	40	4.3	15.5%
<b>Total</b>	<b>20,423</b>	<b>4,270</b>	<b>27.8</b>	<b>100.0%</b>

### Analysis of the 2018 Arrears by Rate Description Category

Further analysis of the arrears identifies the breakdown per category as per the graph.

**Graph 5 – Arrears by Category**



## 2018 Arrears Schedule Status

The table below outlines the current status of the breakdown of the €27.8M arrears.

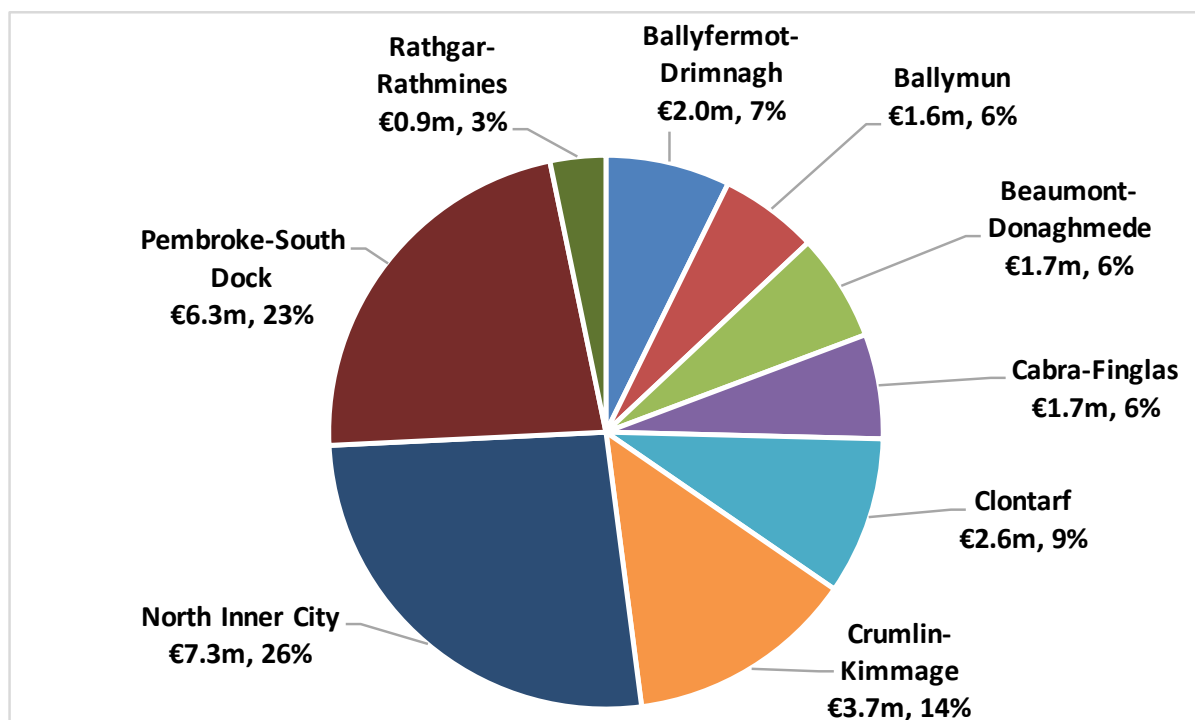
**Table 5 – Analysis of Arrears Schedule Status**

Status	Arrears Amount	Arrears Amount %
	€m	
Court Proceedings	6.6	23.7%
Liquidations / Receiverships / Ceased Trading	2.5	9.0%
Revisions / Appeals / VTA	3.0	10.8%
Settlements agreed / Pending / Being Discharged by Instalments	7.3	26.3%
Under Investigation / Law Dept	3.1	11.2%
Account For Write Off / Written Off	1.2	4.3%
Decree Obtained / Warrant	4.1	14.7%
<b>Total</b>	<b>27.8</b>	<b>100.0%</b>

## 2018 Arrears by Electoral Area

The graph below shows the breakdown of the arrears per electoral area.

**Graph 6 – Arrears by Electoral Area**



## **Conclusion**

In setting and collecting commercial rates, the Council is tasked with performing an extremely delicate balancing act in ensuring that local businesses pay rates on time and being conscious of supporting those businesses where financial pressures present from time to time.

The council operates its rates policy on a consistent basis, with flexibility and reasonableness, seeking to ensure that where difficulties exist, arrangements can be put in place which allows rates to be paid on a basis that facilitates businesses to continue trading.

However, in certain cases, legal recovery of the debt is being and will be pursued where customers have failed to agree or not adhered to previously agreed payment plans.

The 2019 opening arrears of €27.8M have reduced to €23.1M at 9/03/2019.

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