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## Report to the Finance Strategic Policy Committee

### Report on Rates Debtors 31<sup>st</sup> December 2016

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 2016 sets out the following information:

- 2016 Local Authority Sector target improvement for rates collection
- Background on financial adjustment and impact on commercial rates
- Level of arrears during the period 2012 - 2016
- Rates Collection Percentages Y2012 – Y2016
- Age Profile of the 2016 arrears
- Analysis of the 2016 arrears accounts
- Analysis of the 2016 arrears by rate description category
- 2016 arrears schedule status
- 2016 arrears by electoral area
- Valuation tribunal appeals
- Conclusion

#### **2016 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 DoHPCLG 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 target reductions as assigned were banded as below with the low performing authorities required to improve collection by a higher percentage in comparison to the high performing authorities.

	<b>Collection % AFS 2015</b>	<b>Increase in collection rate 2016</b>
<b>Band 1</b>	Above 90%	0.5%
<b>Band 2</b>	85% - 89%	1.25%
<b>Band 3</b>	81% - 84%	1.75%
<b>Band 4</b>	76% - 80%	2%
<b>Band 5</b>	70% - 75%	3%
<b>Band 6</b>	Below 70%	Increase to 70%

The 2016 target for Dublin City Council was a collection target of 89.25% and a reduction of arrears from €51.1M (2015) to €43.1M (2016). The actual outturn in 2016 exceeded the target levels with a collection of 89.5% and an arrears of €41.1M.

### **Background on the Financial Adjustment and Impact on Commercial Rates**

The City Council is far from isolated from the impacts of the economic recession and is acutely aware of the severity of the economic downturn and its impact on ratepayers and subsequent financial impact on Council resources. It should be noted that the City Council's 2017 revenue budget is 37% 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 2010. The Council's ARV has decreased over the period and it has been reduced in every year from 2010 – 2015 and remains at the 2015 level for 2016 notwithstanding increases in the CPI.

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

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
ARV	-2.0%	-0.69%	-1.7%	-0.5%	-0.4%	-0.5%	0.0%

Whilst the annual reduction in the Council's ARV over the period was modest, the cumulative value is estimated at €105.5M. 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 2012 – 2016 are detailed in table below.

**Table 2 – Commercial Rates Income**

<b>Year</b>	<b>Rates Income</b>
2012	€341,260,508
2013	€341,150,111
2014	€342,234,446
2015	€336,255,813
2016	€324,501,784

Source: DCC Annual Financial Statements 2012 - 2016

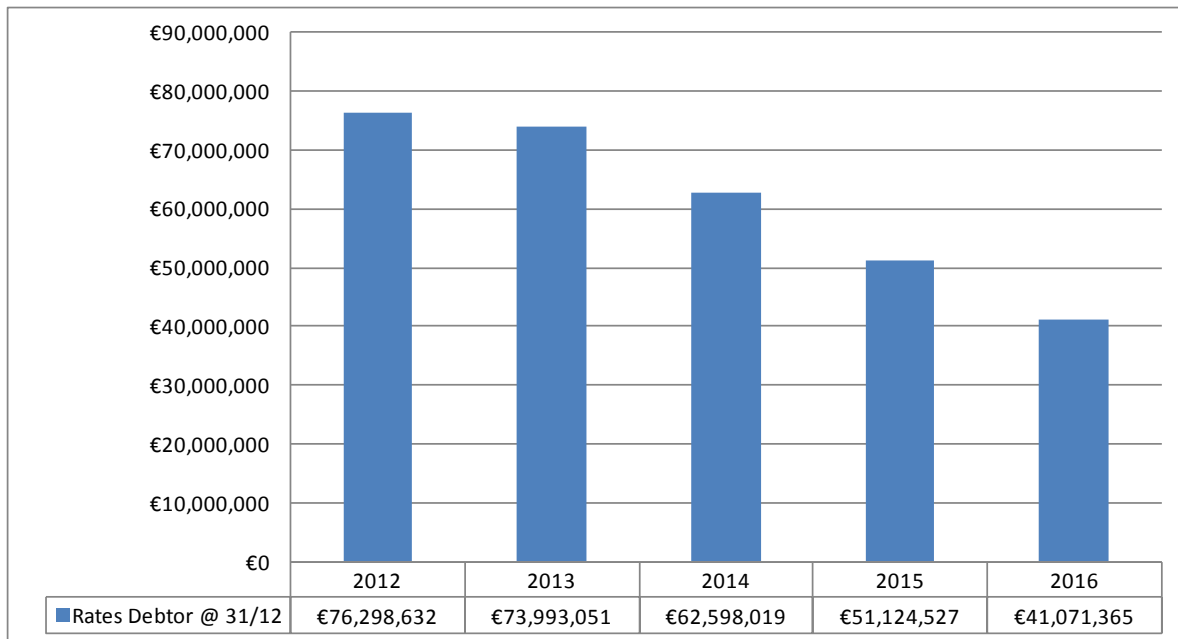
The 2016 income reduction of €11.7m is primarily due to the financial loss resulting from appeals to the valuation tribunal; reductions in global valuations and the exemption of rates on the Irish Water network. The loss of commercial rates funding on the Irish Water network is compensated by an equivalent DoHPCLG grant payment direct to the local Authority of €14.1m in 2016. In addition a once off grant compensating amount of €3.2M was paid in 2016 in respect of the loss of rates following the global revaluations.

It should be noted that the City Council has reduced expenditure from €926.8m in 2008 to €817m in 2016 in response to contracting exchequer grants and reductions in goods / services funding and conscious of the financial pressures on the commercial sector and the need to respond positively in exercising constraint in setting the Annual Rate on Valuation in order to support competitiveness in the economy.

**Level of Arrears During the Period 2012 – 2016**

The economic downturn and global financial crisis which initiated the recession post 2008 has significantly impacted and is correlated to the increase 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 from €76.3M in 2012 to €41.1M in 2016 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.

**Graph 1 – Rates Debtor Y2012 – Y2016**



**Rates Collection Percentages Y2012 – Y2016**

Table 3 below outlines the year on year improvement by DCC in the collection of rates having increased collection performance by 9.5% since 2012.

This compares favourably with the comparative average of the Irish Local Authority Sector being 76%, 77%, 77% and 83% respectively for the years 2012 - 2015. The 2016 DCC collection at 89.5% represent an improvement of 1.5% on 2015. Whilst noting the improvement in collection, it is also acknowledged that some sectors and locations have not benefitted from marginally improved economic factors.

No 2016 comparative figures for the sector are available to date.

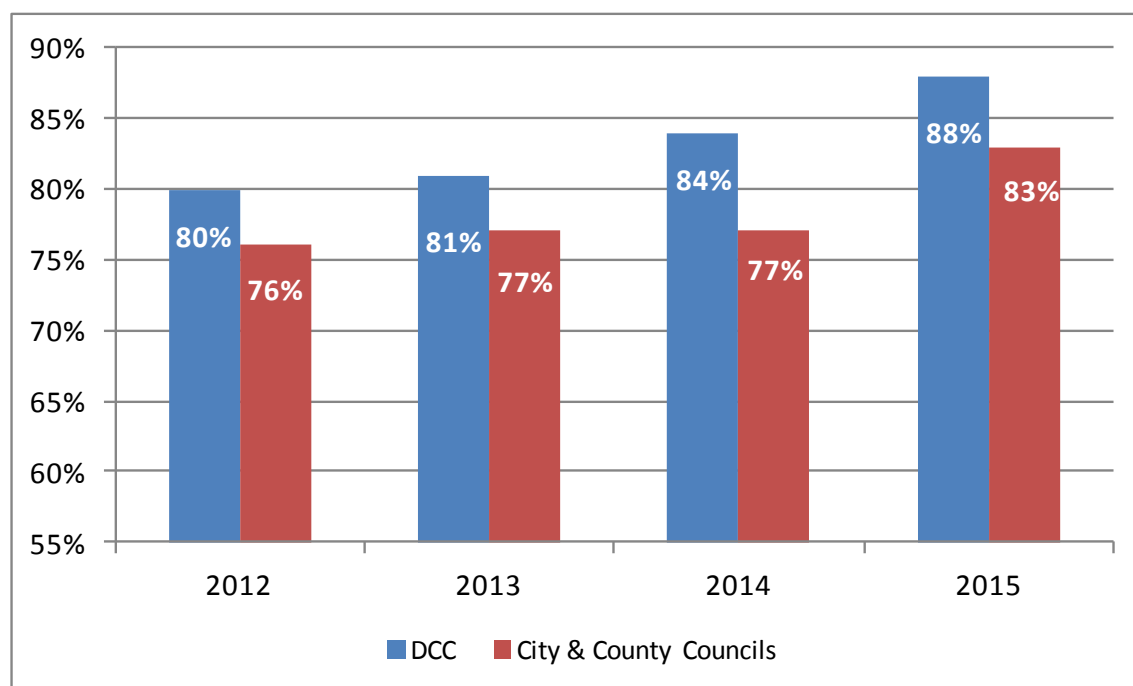
**Table 3 – Analysis of DCC Rates Collection Y2012 – Y2016**

Year	Arrears 01-Jan	Charge	Write Off	Total for Collection	Receipts	Arrears at 31-Dec	Specific Doubtful Arrears	% Collected
	€m	€m	€m	€m	€m	€m	€m	
2012	73.9	341.3	36.8	378.3	302.0	76.3	0.0	80.0%
2013	76.3	341.2	37.8	379.7	305.7	74.0	0.0	81.0%
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%

Source: DCC Annual Financial Statements 2012 – 2016

The increase of €14.2m in the 2014 receipts compared with 2013 is primarily due to changes in valuation of the global, multi and interdepartmental categories which had a net increase in valuation of €10M. The balance of €4.2M refers to an improved performance in the other commercial sectors. 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.

It should be noted that €11.2M was written off in respect of vacancy refunds (50% of rates due on vacant premises) 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 €6.7 M was written off in 2016 following determination of appeals on valuation by the Valuation Tribunal. 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.

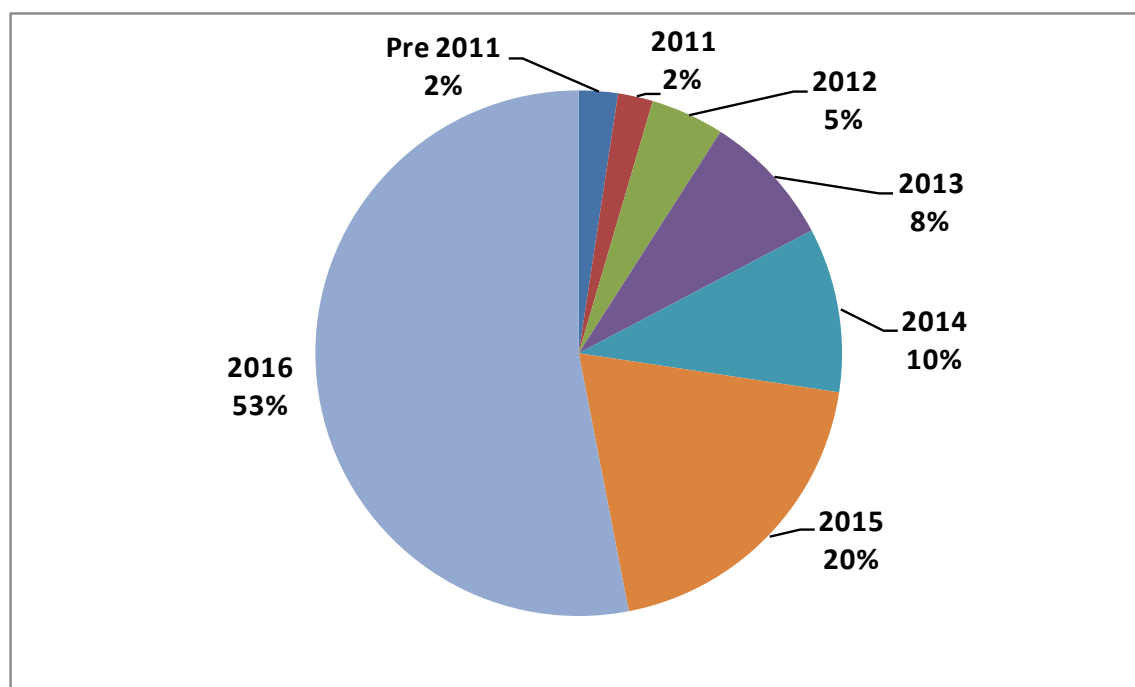
**Graph 2 – DCC vs City and County Councils Rates Percentage Collection**

Source: DCC Annual Financial Statements 2012 - 2015

### **Age Profile of the 2016 Arrears of €41.1m**

The graph as below shows that €21.8m (53%) of the arrears comprise of charges accrued in respect of 2016 and €8m (20%) refers to charges accrued in 2015 with the balance of €11.3m (27%) in respect of charges pre 2015.

**Graph 3 – Age Profile of 2016 Arrears**



### **Analysis of the 2016 Arrears Accounts**

There are 5439 accounts in arrears @ 31/12/16 which equates to 26% of the total number of rate accounts in 2016 (20,685 rate accounts). The number of accounts in arrears has reduced by 765 in comparison with 2015 (reduction of 12%) 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, 83% of the arrears value (€34m) relates to accounts where the annual rates charge ≤ to €50,000.

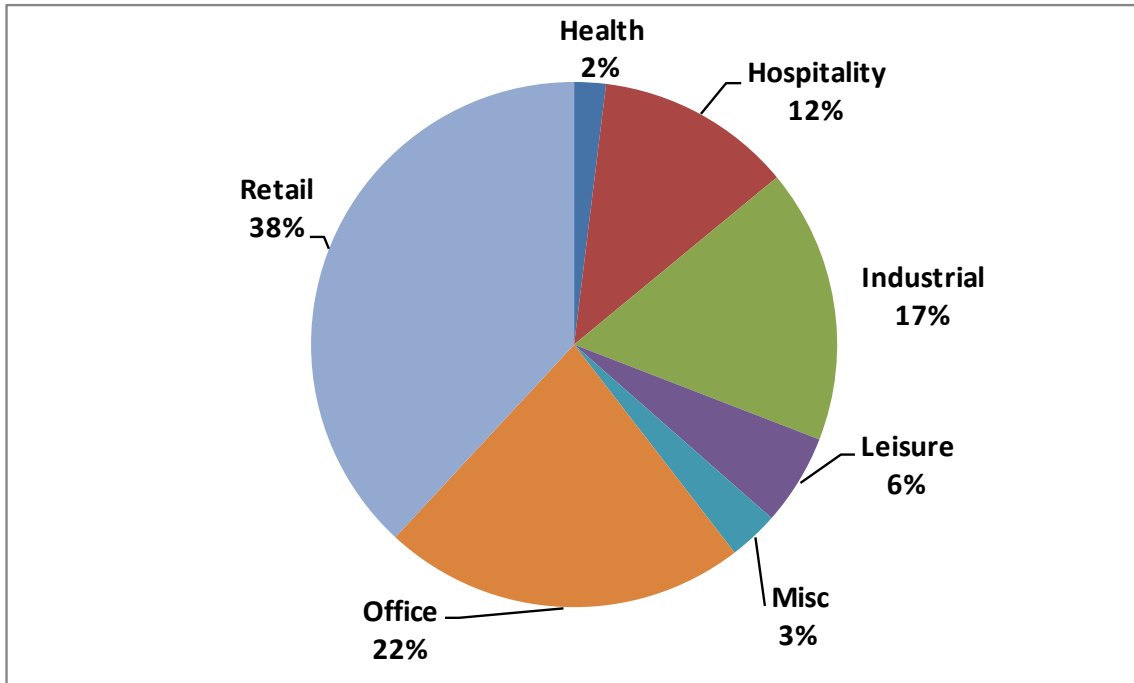
**Table 4 – Rate Arrears by Charge Range**

Charge 2016	No. of Accounts	No. of Accounts in Arrears	Actual Arrears Based on GL	Actual Arrears %
			€m	
0.00-999	2,168	716	1.3	3.1%
1,000-2,999	6,077	1,606	4.9	11.9%
3,000-4,999	3,717	1,087	5.3	12.9%
5,000-9,999	3,923	1,071	9.5	23.0%
10,000-24,999	2,783	672	9.5	23.2%
25,000-49,999	1,054	175	3.8	9.2%
50,000-74,999	367	44	1.4	3.5%
75,000-99,999	171	18	0.7	1.6%
100,000+	425	50	4.8	11.6%
<b>Total</b>	<b>20,685</b>	<b>5,439</b>	<b>41.1</b>	<b>100.0%</b>

## Analysis of the 2016 Arrears by Rate Description Category

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

**Graph 4 – Arrears by Category**



## 2016 Arrears Schedule Status

The table below outlines the current status of the breakdown of the €41.1M arrears.

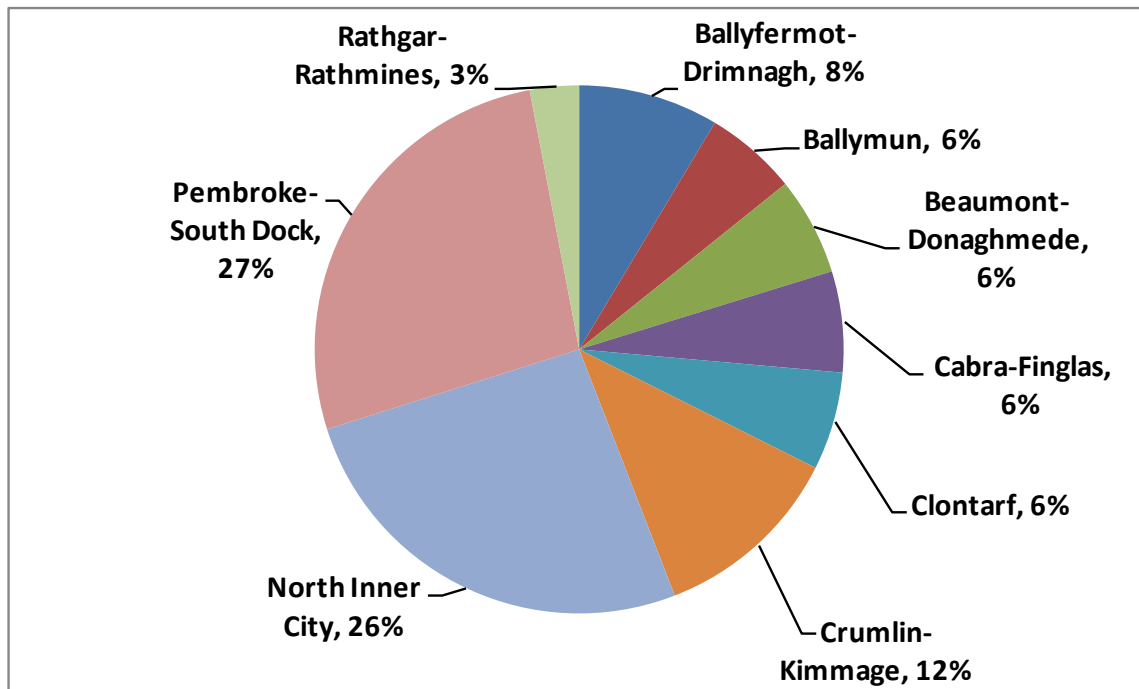
**Table 5 – Analysis of Arrears Schedule Status**

Status	Arrears Amount	Arrears Amount %
	€m	
Court Proceedings	10.1	24.5%
Liquidations / Receiverships / Ceased Trading	3.0	7.3%
Revisions / Appeals / VTA	3.1	7.6%
Settlements agreed / Pending / Being Discharged by Instalments	12.1	29.4%
Under Investigation / Law Dept	4.7	11.4%
Account For Write Off / Written Off	2.1	5.1%
Decree Obtained / Warrant	6.0	14.6%
<b>Total</b>	<b>41.1</b>	<b>100.0%</b>

## 2016 Arrears by Electoral Area

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

**Graph 5 – Arrears by Electoral Area**



## Valuation Tribunal Appeals

The arrears figure of €41.1M includes an amount of €2.8M in respect of those increased valuations on ratings following the revaluation process which are awaiting assessment and determination by the Valuation tribunal. It is expected that details will be forwarded by year-end and the financial impact concluded.

## 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 the business community through periods of economic pressure.

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 2017 opening arrears of €41.1M have reduced to €34.2M at 5/03/2017.

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