



# Ibec policy brief

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## Overhaul the commercial rates system – a priority for the next government

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### Ireland's commercial rates system requires a national response. Local authorities do not have the power to reform their funding sources, only central government can.

Local businesses, not central government, are the primary source of income for local government in Ireland. Thus, local authorities have a significant impact on business conditions and cost competitiveness in their locality through commercial rates and other charges.

This policy brief argues that the current commercial rates system is not fit for purpose. It is too expensive and inefficient to operate. A fairer, more transparent system of charges is clearly needed, one that recognises the significant contribution being made by business in each of the 31 local authority areas. Reducing the burden of commercial rates would support job creation and boost local employment, particularly in the SME community.

### Progress on local government reform

Local government in Ireland has been the subject of substantial change in recent years. As a key part of the public service reform agenda, the need to make local government more effective and efficient was recognised. For example, staff numbers across local government have fallen by 25% since 2008, from 37,243 to 28,100.

The Local Government Reform Act 2014 reduced the number of local authorities from 114 to 31, including the abolition of all 81 town councils. Councils merged in Limerick (city and county), Waterford (city and county) and Tipperary (north and south). The number of elected representatives across Ireland fell from 1,627 to 949. Also, the next government will have to decide on the future local governance arrangements for four local authorities in Cork and Galway.

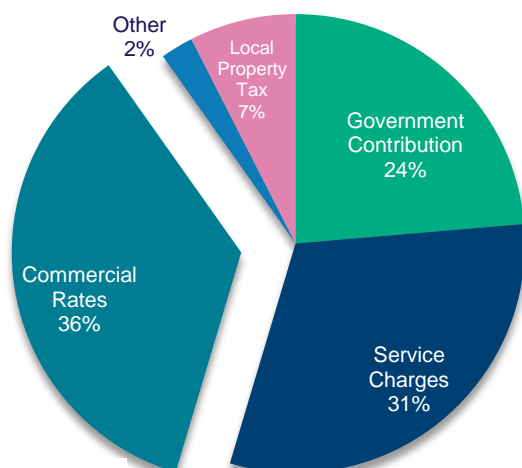
The current public sector reform programme in Ireland places strong emphasis on the need for a collaborative approach to deliver quality service outcomes despite scarce resources. Over 30 common services have already been identified for delivery via the shared services approach. Government is currently examining a solution for accounts payable, leading to a national local authority accounts shared service centre and ultimately the creation of a national financial system.

Recent changes have also seen a number of service areas and responsibilities removed from local authorities on efficiency grounds. Principal responsibility for water and waste water services and associated charges was transferred to Irish Water. Local authorities now provide water services on its behalf. The administration of higher education grants was centralised and outsourced (i.e. Student Universal Support Ireland). Local authorities no longer administer the provision of new or replacement learner-permits or driving licences.

Efforts at local government reform should be redoubled. This should include more ambitious use of shared services to cut waste and duplication; improved public procurement practices; and a greater use of new and proven technologies. Also, each local authority should undertake detailed analysis of services currently provided and identify those appropriate for external service delivery.

We need to reduce the cost of local government in Ireland. This must be achieved through continuous local government reform to deliver greater efficiency and cost competitiveness in service provision. We must also address the growing dependency of the local government sector on business to fund its activities.

Figure 1.  
Sources of local  
government income  
(2016)



Source: publicpolicy.ie

## Business is paying more for less

In 2016 the businesses contribution to the total local government budget grew to €1.47 billion or 36%. This represents an almost 10% increase in the commercial rates contribution since 2008. Commercial rates are a form of local taxation, mostly to fund services that businesses do not consume. This has become all the more apparent in recent years. The transfer of water and wastewater services to Irish Water follows on from commercial waste services no longer being provided by local authorities.

Local authorities use business to balance their books. In other words, business picks up the tab for any expenditure gaps or funding shortfalls that arise in their annual budgets. Reductions in central government contributions and other revenue sources have resulted in local authorities becoming ever more reliant on local business for their revenue. This is not sustainable.

## Local property tax must make a fairer contribution

Government has attempted to alter how local authorities are funded. The local property tax (LPT) was introduced to offset the reductions in central government allocations to local authorities. The LPT replaced the short-lived household charge and the non principal private residence charge and provides an additional source of funding for local services.

In 2016, eleven local authorities reduced the LPT rate by between 1.5% and 15%, with more than half voting to reduce it by between 10% and 15%. The approach taken by these local authorities is unsustainable. In fact, only four local authorities took the decision not to cut the LPT rate this year.

Cuts in the LPT amount to a giveaway to those who contribute least to local authority finances but consume the majority of services provided. Local authorities that have cut the LPT rate continue to look to local businesses to plug any resulting shortfalls in funding.

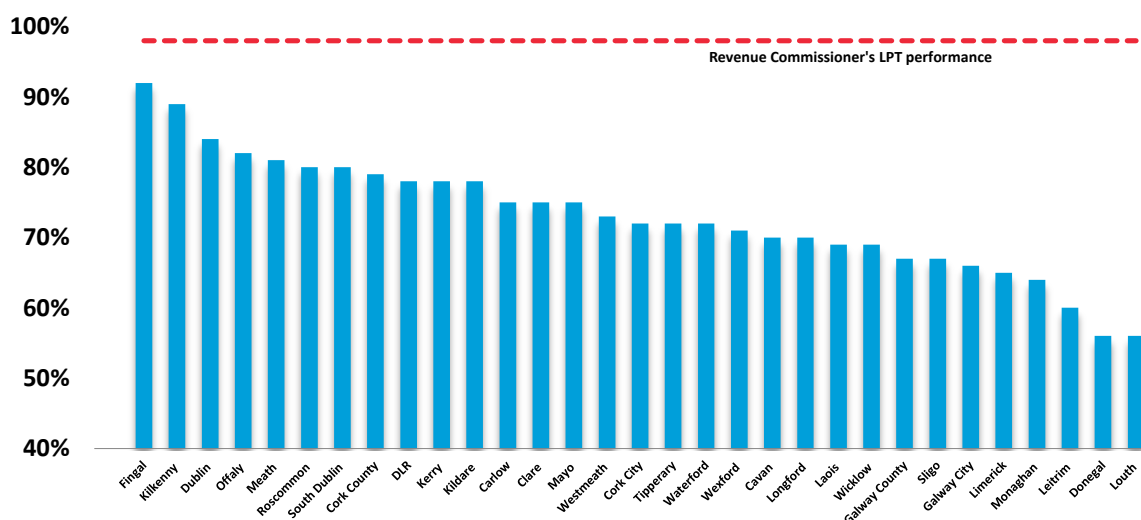
Instead of reducing the local property tax take, this money could have been better spent supporting job creation and boosting local employment in the area, particularly in the SME community. Increased revenue from the LPT should be used by creating a €25 million annual "town growth fund" to support the revitalisation of town centres. This competitive fund would be based on a matched funding principle and would provide a minimum of €250 million investment over five years. It should be based on a genuine partnership between local authorities and local business, which would identify projects that would best support growth in their towns.

## Let's call time on the valuations system

The valuations system underlying the commercial rates-setting process is arcane. Its roots trace back to 1826. Each local authority sets the annual rate on valuation (ARV) common to all commercial and industrial premises in their respective areas using the rateable valuation set by the Valuation Office. The result of this out-dated process is that companies are being hit disproportionately, irrespective of company size or employment headcount.

Progress is simply too slow on a countrywide commercial and industrial rates revaluation process in accordance with the provisions of the Valuations Act (2001). In fifteen years, revaluations have occurred in only six local authority areas. Work is only now underway in six further areas, leaving businesses across 19 local

Figure 2. Local Government rates collection performance (2014)



authorities still to undergo revaluation. The Valuation (Amendment) (No.2) Act 2015 does have measures to potentially speed up the process but it does not tackle inherent problems with the system.

The revaluation process is designed to be revenue-neutral for each county. It has already created 'winners and losers' in local authority areas where revaluation has occurred. It is estimated that 60% of businesses will see a reduction in their rates bill. However, 40% of businesses will face higher charges.

Local authorities should not impose higher commercial rates on those intending to appeal the results of the revaluation process. Companies should not face an increase in their rates-bill until the appeals process has been concluded. This will give greater certainty to employers in areas to be revalued.

Certain sectors are being adversely impacted regardless of strategic national importance. For example, the renewable energy sector is vital to meeting our obligations under the EU2020 targets. However, based on current evidence, the revaluation process will ultimately lead to an increase in rates on existing infrastructure. The telecommunications sector faces a similar scenario. This could threaten new investments and ultimately our national competitiveness. Local charges and the methodologies used in valuing key assets must be in line with other countries.

## The commercial rates system is broken

Local authorities have difficulties with cash collections and debt management due to economic conditions, staffing and resource pressures. According to the review on debt management (July 2014) commissioned by the Department of Public, Expenditure & Reform making minor improvements to collections and debt management procedures for commercial rates would yield an additional €106 million per annum. More fundamental reform in commercial rates could reap greater gains.

In 2014, only 73% of total commercial rates due were successfully collected, with individual local authority collection rates varying from 56% to 92%. The net result was approximately €220 million remaining uncollected for the year in which it was levied. Focusing on the rates of collection only tells part of the story.

It is the responsibility of each local authority to set the ARV, to levy commercial premises and of course, for collections. The programme of local government reform has so far neglected commercial rates administration. There has been no attempt at introducing a national shared service for commercial rates. The cost of administering the fragmented commercial system is approximately €31 million per annum. In the UK, for example, the cost of administering commercial rates is only 0.36%. The fact that the cost of administration in Ireland equates to €155 million over the lifetime of a government highlights the urgent necessity to radically change the system.

## Need for centralised collection

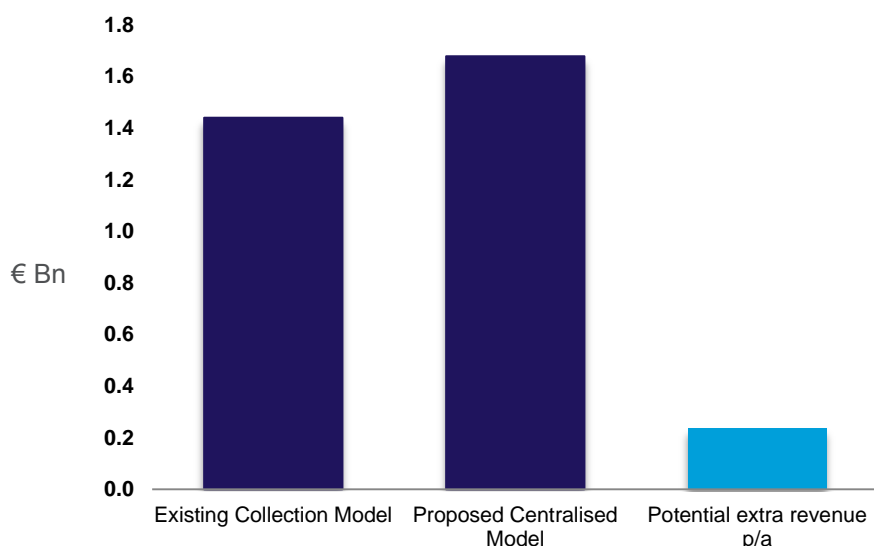
The efficient solution would be a centralised collection procedure. The Office of the Revenue Commissioners should be given the responsibility to collect commercial rates. On current performance, Revenue could do this for a third of the current administrative cost, at an efficiency rate of 0.83%.

This would reduce the level of non-payment, in addition to building on administrative efficiencies saving €16 million a year. Such an approach would benefit from Revenue's experience in rolling out the LPT, which has a high degree of compliance. It also has well-established mechanisms for dealing with customers in positions of hardship. The compliance rate for the first three years of the LPT (2013-15) is estimated at 97 percent of 1.9 million properties respectively. At this rate Revenue would collect €207 million more per annum in commercial rates. Coupled with lower administrative and debt management costs, this reform could yield €1.2 billion over the lifetime of the next government. Central government should legislate for a centralised collection procedure and explore other areas where this model may unlock efficiencies as part of a wider campaign of public service reform.

## Ultimately, replace commercial rates with a Site Value Tax

The current commercial rates system needs to be streamlined. It should be replaced by a simple and transparent Site Value Tax. The National Competitiveness Council has called for the current commercial rates system to be replaced with a "tax on the unimproved value of commercial property and land which is zoned and serviced for development". This would allow rate payers to review and calculate their liabilities on the basis of self-assessment.

Figure 3. Potential for efficiency savings



## Government must prioritise the reform of local authority funding.

Let's call time on the rates system that can trace its roots back to 1826. It is simply too expensive and inefficient to operate. A centralised approach to collections could yield €1.2 billion over the lifetime of the next government. This could be used to improve services and support reductions in rates paid. Rebalancing the burden of commercial rates would support job creation in local areas, particularly in the SME community. It will be up to the next government to make this happen.

## Ibec recommends that the next government:

- Gives responsibility to the Revenue Commissioners to collect commercial rates in order to reduce the level of non-payment.
- Replaces the archaic commercial rates system with a simple and transparent site value tax.
- Redoubles the local government reform agenda to deliver more efficient and effective services that bring consistent value.

## Ibec government, enterprise & regulatory affairs team



### Aidan Sweeney, Senior Executive – Government, Enterprise and Regulatory Affairs

As Ibec's senior executive for government, enterprise and regulatory affairs, Aidan's focus is on growing enterprise and entrepreneurship, the better regulation agenda and ensuring Ireland is a hub for innovation, creativity and start-ups. He has special responsibility for the public service agenda, public procurement and infrastructure delivery. He leads Ibec's interaction with local government and is a member of Dublin City Council's Finance SPC. He represents Ibec on the high level group on business regulation. He was actively involved in the successful campaigns of Ibec and business community, as well as that of the broader civil society, in the referenda on the Lisbon and Fiscal Stability Treaties.

Prior to joining Ibec, Aidan was a Brussels-based public affairs consultant who identified, tracked and progressed business development opportunities across a number of sectors with the European institutions or Member State governments, as well as having spent time in the Delegation of the European Commission in Washington, DC. He is a graduate of Trinity College Dublin and University College London.



### Andrew Ennis, Policy Executive

Andrew Ennis is a Policy Executive at Ibec. He joined Ibec in 2014 having previously worked in RTE for 5 years. Since joining Ibec Andrew has been working across policy teams and sectors within Ibec, building on expertise in high-level policy issues at regional, national, all-island and EU level.

His role involves engaging with members and Government on a range of policy issues of relevance to Irish business and representing Ibec at external events.

Andrew holds a B.A. in Politics and a H.Dip in Economics from UCD, and a PG.Dip in Law from DIT.