



Houses of the  
**Oireachtas**  
Tithe an Oireachtais



Public Accounts Committee | June 27 2013

# ‘Patchwork rates revaluation process is self-defeating’

– John Deasy

*Ms Geraldine Tallon, Secretary General of the Department of the Environment, Community and Local Government called and examined.*

**Deputy John Deasy:** I welcome Ms Tallon and her officials. I will start by asking Ms Tallon about rates, specifically rates arrears and rates that have been written off. The most up-to-date figures I have seen have been for 2006 to 2010 in response to Dáil questions I asked about the amounts that have been written off and the amounts in arrears in local authorities around the country. Figures suggest that it is more than €300 million in both categories. Between 2006 and 2010 the figures suggest that €311 million has been written off and the amount owed to date seems to be more than €300 million. Having regard to the different local authorities, town councils, county councils and city councils, there seems to be some disparity with regard to who is writing off these amounts. In the case of some county councils the figures suggest that no amounts have been written off and the same appears to be the case for town councils. In the case of some other local authorities massive amounts of money have been written off. The amount of uncollected rates increased fivefold, for example, in Wicklow County Council in the space of two years, with the amount increasing from €824,000 to €4.1 million.

Kinsale and Athy local authorities were the only authorities that had reduced the amount owed in uncollected rates over the period. Athy, Kells, Trim and Cashel were the only four town councils that did not write off commercial rates. Kildare and Meath county councils were also in that category, while the amounts for other urban areas were massive. There are two issues. Basically, the amounts of uncollected rates are going up and up. That is the trajectory; that is the trend. We are writing off far more in arrears. What are the regulations and the guidelines with regard to individuals and local authorities when it comes

to writing off arrears and commercial rates? Is this done arbitrarily? Is it a subjective issue with regard to local knowledge and the particular business in question? What are the guidelines within the Department and how are decisions made when it comes to writing off arrears?

**Ms Geraldine Tallon:** I thank Deputy Deasy. The position with regard to rates collection has deteriorated a little bit in recent years and that is, perhaps, understandable in the economic climate that we face. We monitor the rate collection level. We monitor the level of rates on an annual basis. We monitor the range of sources of income into each local authority because we provide a general purpose grant to bridge the gap for local authorities and ensure they are all able to provide an equivalent level of service. We have figures that show us the rates income, the income from goods and services and the income from all local sources, grants, subsidies, etc., and we use them in looking at the general purpose grant allocation from the local government fund to ensure financial viability.

**Deputy John Deasy:** So this must be of serious concern. Effectively, Ms Tallon is saying that less money is coming in. The Department is monitoring the amount of money that local authorities have to actually operate and provide services. That pool of money is deteriorating as the years go on and the figures prove that. Therefore, what are the guidelines with regard to writing off these arrears?

**Ms Geraldine Tallon:** We are also looking at the level of collection of rates for commercial water charges, housing loans and all the sources of income of local authorities. Ninety percent of rates were collected in 2008, 85% in 2009, 81% in 2010 and 78% in 2011. That shows a trend in terms of collectibility. There is considerable variation from authority to authority in terms of rates collection. The top performer in 2011 was Offaly, which collected 92% of its rates, while at the other end of the spectrum Donegal collected 57%.

**Deputy John Deasy:** I have all the figures. I have asked a parliamentary question.

**Ms Geraldine Tallon:** There are variations.

**Deputy John Deasy:** There are massive variations. It is germane to this committee and to the taxpayer. The question is: what are the guidelines with regard to the writing off of arrears? Ms Tallon has just said some authorities are better than others.

**Ms Geraldine Tallon:** Yes.

**Deputy John Deasy:** There is an issue here with regard to the taxpayer and the purse. What is the Department's role in informing and communicating to those local authority officials how and when to write off arrears and when not to?

**Ms Geraldine Tallon:** Each local authority invoices and collects. That is a matter for every local authority. The Department is not involved at all from that point of view.

**Deputy John Deasy:** What is its role in regard to the writing off of arrears?

**Ms Geraldine Tallon:** We expect them to operate in accordance with normal accountancy standards and procedures. We expect that the procedures applied by the local authorities are reviewed by the local government audit system and the auditors look at the position with regard to the write-off of debt. We do not expect that local authorities will continue to maintain on their books debt that is totally uncollectible but we do not have the information in terms of the pattern of businesses.

**Deputy John Deasy:** Sure. I deal with businesses and local authority officials all the time, but it is clear - Ms Tallon accepts this – that there are big differences between local authorities when it comes to the collection of commercial rates.

**Ms Geraldine Tallon:** Yes, because there are very big differences in economic circumstances locally. Local government is local, so we have to account for local variation in terms of business experience.

**Deputy John Deasy:** This brings me to my second point. I am going to question whether that actually happens. I will get to the nub of where I am going with this. The Valuation Office, as Ms Tallon is aware, is engaged in a revaluation process. In the case of Waterford City and county it is undertaking a comprehensive revaluation of businesses and their commercial rates levels as we speak. Certificates are being issued. In many cases, retailers in particular have received certificates that would suggest they will be asked to pay 200% or 300% more than at present. The average increase for retailers is 50% to 100%. What has happened is that the rates base has shrunk in the past five, six or seven years and less money is being taken in by the local authorities. The figures prove this. It is arbitrary and it is a patchwork around the country. There is no consistency whatsoever. The Valuation Office is engaged in a revaluation. As it said to a collective group of businessmen in my home town of Dungarvan last week, when asked why the rates were being increased on their backs, the answer was "You are the ones who are left." Effectively, they are the people who cut their cloth, were efficient and let people go, yet the reward was a doubling and tripling of their rates in many cases. Even though the Valuation Office has a statutorily independent role, which is underpinned by legislation, there is a very close relationship with the Department of the Environment, Community and Local Government. The officials in local authorities levy and collect the rates in towns and counties throughout the country. What is happening is that the rates base is shrinking, a revaluation process is being undertaken and the ultimate result is that the problem will be exacerbated, resulting in a further shrinking of the rates base in the country. It is self-defeating. We are looking at a diminishing return as the years go on. I wonder whether the senior officials in the Department of the Environment, Community and Local Government understand this, because people on the ground and in local government understand it painfully well and are very concerned. They have very strong opinions, particularly about the communications and the relationship between local authority officials and the Valuation Office and how the Valuation Office goes about its business.

Does the Department share those concerns with regard to what is happening with commercial rates? Businesses now face the prospect of paying, in the case of retailers, 50% or 100% more in a business environment that probably has never been this bad since the foundation of the State. The profile of these people is that many have massive levels of personal debt and the footfall is not there. The Department of the Environment, Community and Local Government must have an opinion on what is happening on the ground with regard to this cohort of people who actually fund local authorities around the country.

**Ms Geraldine Tallon:** I understand the point Deputy Deasy raises. I will answer him at a broad level and I will answer him at a more specific level if he just gives me a little bit of time in that regard. We would be extremely conscious that this is a time of very fundamental change as far as local government is concerned and a lot of that change is impacting on the finance departments of local authorities. We have a very active programme of local government reform. We have a very active programme in relation to Irish Water, and I have already mentioned the amount of work being done to extract assets and liabilities and the cost base for Irish Water. We have a very active programme of shared services development in the local government sector that is requiring very significant work by finance departments to extract costs for payroll, costs for HR, costs for all sorts of back-office functions, costs for functions that could be delivered regionally, etc. There is the added complexity in Waterford of work related to the merger between Waterford city and Waterford county. There is a variety of layers of process of significant change involved in the local government system.

We have been very conscious, and Ministers have been extremely conscious, of the pressures on business locally in the current economic climate and that has been part of the driver for efficiency gains and cost retrenchments within the local government sector. We are now in a situation where, under the efficiency programme we have had for a number of years, €830 million in verified savings have been identified in the local government system and that, obviously, has a bearing on the overall cost base and the level of pressure being placed externally on sectors. Some 9,000 staff have gone out of the local government system to help create that cost reduction. Rate levels have been contained. ARV increases have been contained and generally reduced over the past number of years and the strong advice and emphasis from the Department and from the Minister has been, "No rate increases in the system", in recent years.

Against that quite complex background, you have this independent exercise being undertaken by the Valuation Office, which does not come into my bailiwick and over which I have no particular control one way or the other, and there may be a discussion that needs to be had with the Valuation Office in terms of the approach there.

**Deputy John Deasy:** This is key.

**Ms Geraldine Tallon:** Could I continue for a minute?

**Deputy John Deasy:** I have got to stop Ms Tallon there because businesses do not understand what she just said. Her Department is engaging in a process in the case of amalgamations or abolition of town

councils. In my home town, they have an ARV level which might be lower than the county level. That ARV level will be, to use the Department's word, "harmonised". Effectively, there is a risk that ARV level will be increased. Therefore, the rates within Dungarvan Town Council will be increased as a result. On top of that, revaluation will add a massive increase to businesses in that particular town council area. I understand that the Valuation Office is statutorily independent but Ms Tallon is absolutely absorbed in and critical to this process because her Department is engaged in administering part of one of those increases. There is a serious systemic problem in government here when a Department is so wrapped up in the administration of an increase that it states to the businesses that are affected by the second increases that it is really nothing to do with the Department. I have gone through this with the different Departments. I have gone through this with the Departments – Public Expenditure and Reform, Finances, and Jobs, Enterprise and Innovation – and no one is taking any leadership on this issue. Everyone is saying, "It is nothing to do with me".

In my opinion, it has everything to do with the Department of the Environment, Community and Local Government and it cannot continue to say that because officials in local government levy and collect the rates that the Valuation Office applies. Those officials are the ones who deal with the individual businesses. They must deal with the hassle that goes with collecting a rate that might have doubled or tripled, and there is a personal issue associated with that. The Department of the Environment, Community and Local Government is critical and integral to this entire system and it cannot say that it has really nothing to do with it.

**Ms Geraldine Tallon:** I did not for a moment say it had nothing to do with my Department. I simply said the Valuation Office does not come under my Department and, therefore, I do not control and I cannot in a formal sense account for what the Valuation Office does, but in no sense did I say that my Department does not have an interest or does not have a concern. We have a big interest and a big concern in this area because, as Deputy Deasy stated, not merely in terms of the situation that Waterford county and city finds itself in a local government reform context, but right across the country in terms of the future approach to municipal districts in place of town councils, the rate base and the rating position in rating towns and in counties has to be merged, and there is a complex job of work-----

**Deputy John Deasy:** If that is the case, I will ask Ms Tallon a question. The Valuation (Amendment) (No. 2) Bill 2012 was introduced in the Seanad last year. That Bill completely changes the system of assessment in this country when it comes to commercial rates on properties. It moves to a system of self-assessment. Can Ms Tallon tell me what input her Department had in that piece of legislation? If Mr. Lavery wants to answer that question, he can.

**Ms Geraldine Tallon:** That piece of legislation does not come under my Department. We would have had engagement with the Department of Finance in relation to the preparation of the legislation, as many Departments do.

**Deputy John Deasy:** The Department of Public Expenditure and Reform.

**Ms Geraldine Tallon:** The Department of Public Expenditure and Reform. I am sure the Department of Finance has an interest as well. A number of Departments would have been involved and engaged.

Deputy Deasy will be aware, though, that our Minister would have dealt with this issue on a number of occasions because questions have been raised right around the country in terms of the implications for rate payers of local government reform and we have said this is a complex area of work where there will be adjustment over a period. There is a balance to be struck in maintaining the necessary revenue base of local government. As I have explained, in maintaining the necessary revenue base of local government, local government has done enormous amounts to try to shrink its costs, and has done that with considerable success. We have to try to maintain the revenue base without creating excessive pressure for rate payers. There is a balance to be struck as far as those are concerned.

**Deputy John Deasy:** Fair enough.

**Ms Geraldine Tallon:** We do have some experience in the system at this stage, in terms of how the revaluation has actually worked out in practice. My understanding of the revaluation exercise is that it is intended to redistribute the rates burden equitably across the rate-paying sectors, that it is not intended to – and does not – increase the total rates payable in the year following valuation. South Dublin and Dún Laoghaire have had the revaluation exercise implemented. Once the notifications go out, there is an opportunity for rate payers to make representations.

**Deputy John Deasy:** I am painfully aware of the system. I have spoken to the Commissioner.

**Ms Geraldine Tallon:** The practical experience in South Dublin and Fingal was that in south County Dublin the proportion of rate payers with a reduced liability following the revaluation was 49%.  
**Deputy John Deasy:** We know these figures. The Valuation Office comes in frequently. The figures are documented. The theme so far this morning has been communication or lack of it, on the property tax and household charge, as Deputy Nolan said. There is no communication happening between Departments, particularly on legislation that affects businesses and local authorities around the country. There was no significant engagement on the drafting of that legislation and the effect it would have on businesses throughout the country and, by extension, the local authorities which collect it. We have a serious problem. There is a gulf between different Departments on this issue.

Ms Tallon mentioned maintaining the rate base. The rate base is being eroded. The ones left are being asked to pay more. It is unsustainable. They fund local government and are being asked for more every year. The business environment is getting worse and everybody is saying that is just the way it is, it nothing to do with them, it must continue. The Valuation Office is an independent agency and says it is not its responsibility. I am not singling out the Department of the Environment, Community and Local Government on this issue but it is an integral part of government when it comes to this very basic, fundamental matter of administration and the taxpayers who fund the Government. There is a massive

disconnect in Government between Departments as it relates to people who fund the Government. This is very fundamental and basic.

We need to examine the legislation that will be enacted next year to see if it melds with the realities of the economies that exist out there. Everyone needs to take a good look at this because the more I ask the more I am convinced the Government has forgotten about the realities when it comes to rates and the ability to pay. There is no linkage between levying people increasing rates and their ability to pay. That is a fundamental flaw in our taxation system. We will see our rate base eroded continually. I have asked the Comptroller and Auditor General to examine these issues, particularly the administration when this Bill is enacted and how we will deal with a case where different counties have different methods of assessment. I have also asked the Valuation Office to come before the committee to explain the different processes involved.

Having spoken to many people in local government, they are not happy. They think the disconnect between their office and the Valuation Office is unhealthy for Government generally, not just the people in question. They think the Valuation Office lacks the requisite local knowledge and there is a problem in our system. The Department of the Environment, Community and Local Government has a massive role in this because the officials under the umbrella of the Department think completely differently in some cases from the senior officials in the Department. They are the ones who have to deal with these businesses. I am very concerned about this and hopefully the Comptroller and Auditor General will be able to examine it in the coming weeks.