

**Local Property Tax (Local Adjustment Factor)
2016**

Chief Executive's Report

**Meeting of Galway County Council on 19th
September 2016**

Finance Unit
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1. Introduction

1.1 Legislative Requirements

The Chief Executive's Report has been prepared in accordance with the Local Property Tax (Local Adjustment Factor) Regulations (S.I. 296 of 2014). Under section 20 of the Finance (Local Property Tax) Act 2012, as amended by section 5 of the Finance (Local Property Tax) Act 2013, a local authority may as a reserved function resolve to vary the basic rate of the Local Property Tax within its functional area by a maximum of +/- 15%.

Any decision by a local authority to vary the basic rate of LPT must be taken by 30th September each year in order that it can have effect from 1 November (the liability date) and therefore determine the LPT liability for taxpayers in that local authority area the following year.

The Local Property Tax (Local Adjustment Factor) Regulations 2014 take account of relevant provisions in the Finance (Local Property Tax) Acts which provide that, in varying the rate, a local authority must take account of its financial position, and have regard to a number of factors:

1. The local authority's estimation of the income it will receive and the expenditure it will incur in the period for which the varied rate is to have effect,
2. The financial position of the local authority,
3. The financial effect of the varied rate, and
4. Feedback from any consultation held.

2. Estimation of Income and Expenditure for the period for which the varied rate is to have effect

2.1

The required detail is set out on Schedule 1 attached in the format as prescribed in the regulations.

The information disclosed is based on the adopted budget of Galway County Council for 2016 and our best estimate of Income and Expenditure for 2017. In 2015 Local Property Tax (LPT) replaced the Local Government Fund as a source of funding. As in 2016 the Department for Housing, Planning, Community and Local Government have confirmed that 80% of the LPT collected will be retained locally and they have also confirmed that in 2017 no local authority will receive any less income in total than they received in 2016 with any shortfall on locally retained LPT being made up from an equalisation fund. Additionally the Pension Related Deduction is now included in a revised LPT baseline.

In the case of Galway County Council the Department have advised that the total LPT expected to be collected in County Galway amounts to €14.55M and of this €11.64M will be retained locally with an amount of €2.9M being provided from the equalisation fund to leave the estimated LPT contribution for 2016 at €14.5M, i.e. the amount received in 2016.

Every local authority has the power, from 1 July 2014, to vary the basic rate of LPT by up to 15%. It should be noted that if Galway County Council decides to vary the LPT basic rate upwards (by up to 15%) in 2017, it will retain 100% of the resultant additional income collected in the local authority area. Similarly, if Galway County Council decides to vary the LPT basic rate downwards (by up to 15%) in 2017, the resultant loss in LPT income will be reflected in reduced LPT funding to the authority. No additional funding from the Equalisation Fund will be provided. The value of a full 15% LPT increase or reduction would be €2.18M.

The main variance on income relates to the fact that the Department have advised that there will not be any compensation for the reduction in Global Valuations that occurred at the end of 2016 and consequently income for 2017 is forecast to be €0.5m lower than in 2016. Current estimates of expenditure for 2017 total €107.1M an increase of €2.2M over 2016 budget which includes additional payroll costs arising from national pay agreements, additional costs due to a reduced head count being funded by Irish Water and an increase in the provision for vacant rate properties.

However, the overall budgetary position has been outlined in a separate report to Council which shows that changes such as reduced income, increasing costs and areas of activity, and the need to make further provision for vacant commercial property means that there is a clear requirement for increased income as in the alternative services will be reduced through significant expenditure reductions in order to achieve a balanced budget.

3. Financial position of the Local Authority

3.1

The required detail is set out in Schedule 2 attached in the format as prescribed in the regulations.

The main point to note here is that the cumulative deficit to the end of June 2016 stands at €1.8m. This deficit will most probably increase in size from mid-year arising from among other things a requirement for an increased provision for vacant / uncollectable rates. The Local Government Auditor has again highlighted the importance of addressing the deficit which is particularly challenging in the current economic climate.

In preparing the budget for 2017, the Council will need to address the budget deficit and make increased provision for vacant/uncollectable rates. Addressing these issues without increasing income will inevitably impact on our ability to budget for existing services in 2017 without considering any additional areas of activity.

4. Financial effect of the varied rate

4.1

The Department of the Environment have advised that the estimated yield from Local Property Tax for 2016 for County Galway is €14.5M. A 1% variation amounts to €145k and a 15% variation amounts to 2.18M. Current statistics as supplied by Revenue indicate that just over 90% of properties in County Galway have been valued in the first three valuation bands. In that context each 1% variation in the base rate would result in an annual adjustment of €0.90 for those whose houses are valued in the first band up to €100,000 (34.2% of properties), of €2.25 for those whose properties are valued between €100,001 and €150,000 (32.8% of properties) and of €3.15 for those whose properties are valued between €150,001 and €200,000 (23.6% of properties). Therefore for over 90% of households a 1% variation would bring about an annual household change of €3.15 or less.

Annual Effect of 1% Adjustment	
34.2% of Households +/-	€0.90 per annum
32.8% of Households +/-	€2.25 per annum
23.6% of Households +/-	€3.15 per annum

The percentage of properties within each Valuation band (based on property values as at 1st May 2013) for our area are:

LPT 2016 Valuation Bands	0-100,000	100,001-150,000	150,001-200,000	200,001-250,000	250,001-300,000	Over 300,000
Galway County Council	34.2%	32.8%	23.6%	5.4%	2.0%	2.0%

While the effect of a variation on individual households is extremely limited the impact of a loss of even 1% or €145,000 to Council income is quite significant given that this impacts directly on our limited discretionary expenditure. Expenditure which is most discretionary arises in the areas of matching funding for co-funded activities, all grant assistance including housing, community, economic, burial grounds, arts etc. and our own local contribution to activities such as road maintenance. Any decrease in income will impact on our ability to give grant assistance in the first instance and thereafter would impact on other areas of "discretionary" activity depending on the

actual value of any reduction. This is particularly the case given the clear need to increase income in order to continue existing service delivery and the scope for reducing expenditure without impacting on services is non-existent.

If the Council decided to maintain the existing rate and not to increase the LPT base rate for the financial year 2017 this would mean that a balanced budget could not be achieved without cuts to many services and significant reductions on some services.

If Council were to decide to increase the property tax the additional amounts payable by each household would be as set out above with 90% of households paying less than an additional €3.15 per annum if the rate was increased by 1% and less than €47.25 per annum if the rate was increased by 15%. An increase of 1% would result in an additional income of €145,000 for the Council while a 15% increase would result in an additional €2.18m income for the Council. The Members will be aware that almost every area of activity would benefit from additional resources.

5. Feedback from public consultation

5.1 Introduction

A period of 30 days was provided for written submissions, commencing on Thursday 28th July 2016 and closing on Sunday 28th August 2016.

No submissions were received and consequently there is no feedback to record in this report arising from the period for public consultation.

Schedule 1

Estimation of Income and Expenditure of Galway County Council

	Budget 2016	Estimated 2017
Income		
Commercial Rates	25,590,000	25,687,000
Local Property Tax 80% retained	11,442,000	11,643,000
Local Property Tax 20% Equalization Fund	1,064,000	863,000
Pension Related Deduction	1,950,000	2,012,000
Subtotal Local Property Tax	14,456,000	14,518,000
Grants and Subsidies	32,094,307	31,500,000
Other Income	32,781,298	32,695,000
Total Income	<u>104,921,605</u>	<u>104,400,000</u>
Expenditure		
Payroll Expenses	47,500,000	48,000,000
Loan Interest and Principal Repaid	2,675,000	2,140,000
Social Benefits	4,820,000	4,932,000
Capital Grants Paid	4,052,500	4,256,000
Other Expenditure	45,874,105	47,772,000
Total Expenditure	<u>104,921,605</u>	<u>107,100,000</u>

Schedule 2

Financial Position of Galway County Council

Position as at
30 June 2016

Assets

Current Assets	76,409,977
Loans Receivable	35,643,467

Liabilities

Current Liabilities	59,111,026
General Revenue Deficit	1,884,000
Loans Payable	
Voluntary Housing / Mortgage Loans	35,046,859
Non mortgage Loans	10,380,053

Indicators

Ratio of Loans Payable to Revenue Income	43%
Ratio of Current Assets to Current Liabilities	1.3 : 1