Tackling the rates burden

Ensuring competitiveness for Irish retail through a fair and transparent commercial rates system and effective local government

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Retail Ireland

Retail Ireland is the leading public affairs, government relations and trade representation body for the Irish retail industry. We represent a broad mix of the very best in Irish retail from global multiples to indigenous Irish chains to smaller, independent and stand-alone operators and are proud to be the voice of Irish retailers.

Retail Ireland operates as a dedicated unit within Ibec, Ireland's foremost business, enterprise and employers group. Ibec and its sector associations, work with government and policy makers both nationally and internationally, to shape business conditions and drive economic growth.

We also provide a wide range of professional services direct to members.

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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 area through commercial rates and other charges.

At present Ireland's commercial rates system is too expensive and inefficient to operate. A fairer, more transparent commercial rates system that recognises the significant contribution made by retailers in each of the 31 local authorities is needed. Overhauling our antiquated commercial rates system needs to be combined with ambitious local government reform that delivers greater efficiency and cost competitiveness in service provision.

The Irish retail sector is a driving force in the Irish economy employing over 280,000 people in every town and village across the country. The sector is also the biggest contributor to the Irish exchequer, generating 23% of total tax receipts in Ireland. This is more than twice that of Ireland's second largest sector, financial services which accounts for 11%.

Few sectors were as hard hit by the economic downturn and subsequent recession in Ireland. While the economy has enjoyed a sustained recovery, compared to many other sectors, the recovery in retail has been modest and retail sales values remain significantly off their peak. Sales values in 2016 grew by only 1.9% compared to 2015's growth of 2.4%.

Deflation and heavy discounting continues across most categories of retail with consumer prices now back to 2009 levels. Allied to weakening consumer demand and lower margins, retailers have also had to contend with significant increases in labour costs, rents, rates, energy and insurance costs. Britain's decision to leave the European Union poses a further ongoing threat to the Irish retail sector.

Retail is either the largest or second largest employer across all regions. Unfortunately, employment growth in retail continues to be slow and below expectations growing by only 2.3% (6,300 more employees) in the past four years. These growth figures are very disappointing when you consider that employment in retail declined by over 45,000 from a peak of some 320,000 in 2008.

Retail development is critical to the vitality of every Irish town and village. As an active member of the Retail Consultation Forum Retail Ireland welcomes the coherent and collaborative approach taken by government through the *Framework* for *Town Centre Renewal*, to rejuvenate and revitalise towns and villages around the country.

Apart from the positive economic impact retail has on its communities, many retailers also play an important role in improving the communities where they operate by supporting a range of social and environmental causes.

Innovation in technology and changing consumer demand represent both a compelling opportunity and considerable challenge for Irish retail. 'Migration towards online shopping has increased significantly in the last ten years, with the number of people who shop online increasing from 19% to 50%.

Currently 75% of online purchases are made from international online retailers, who have no physical presence in Ireland, pay no commercial rates in Ireland and make no contribution to the Irish economy or our communities'[1]. International online retailers have a massive competitive advantage over high street retailers who continue to struggle with increasing overheads and falling consumer demand.

For the majority of retailers the three biggest input costs are labour, rent and local authorities rates. Given the range of challenges facing the retail sector over the coming years, and its key economic and social role in Irish society, every effort should be made to control and reduce costs. Within the industry there is growing concern that in the case of commercial rates, the current system is adding an unnecessary burden and cost to doing business.

The rates burden

In 2017 total business contributions will directly account for €1.47 billion or 34% of the total local government budget. This represents a 10% increase in the total value of commercial rates collected since 2010. Such increases put a great strain on retailers who are currently operating within very tight margins and are under pressure from a high cost base and acute currency pressures. Greater cost competitiveness in key areas such as labour and rents, along with reducing and minimising government imposed costs like rates, would support and facilitate growth in the Irish retail sector at this time.

Current system lacks clarity

The current valuation system which underpins the commercial rates-setting process is arcane and not fit for purpose. The lack of reliable and consistent information on the methodologies used in valuing key assets is creating uncertainty amongst retailers. This lack of information decreases Ireland's competitiveness, as it discourages growth and expansion and deters overseas investment. Retail Ireland acknowledges the Valuation Office's efforts to become more transparent and provide an interactive service through Navdirect.

However this system is very difficult to navigate and inconsistent. The following example, taken from Navdirect, shows that two supermarkets of similar size, in the same local authority but on opposite sides of the road are being charged different prices per meter squared. Why such a difference exists is unknown to Retail Ireland, the supermarkets themselves, neighbouring businesses or perspective businesses considering an investment in the local area.

Use	Area (m^2)	NAV (€ per m^2)	NAV (€)
Supermarket	1,418.16	€110.00	155,997.60
Supermarket	1,431.95	€95.00	136,035.25

Recommendation for change

Commercial rates are a form of local taxation on business and are affecting Ireland's competitiveness and negatively impacting town centre renewal. Retail Ireland recommends that central government introduce a Valuation Bill by the end of 2017 and redouble their efforts to progress local government reform. Retail Ireland would like to see the following recommendations incorporated within these reforms:

1. **Introduce a centralised collection process**
2. **Stop linking rents to rates**
3. **Reform the revaluation system**
4. **Progress on local government reform**
5. **Increase local property tax intake**

1. Introduce a centralised collection process

Local authorities have difficulties with cash collection 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 for commercial rates would yield an additional €106 million per annum.

More fundamental reform to collections would reap greater gains. For example, 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.

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 rates system is approximately €31 million per annum. The total commercial rates bill in England is €25.4 billion, over 17 times the total value of the commercial rates collected in Ireland. Yet the cost of collection in that jurisdiction is only a little over 3 times that in the Republic of Ireland, at €95 million. This highlights the urgent necessity to radically alter the current system in order to improve its efficiency.

[1] *Retail Ireland. Shaping the future of Irish retail 2020 [internet]. Retail Ireland [sited 2017 May 26]. Available from www.retailireland.ie*

The high level of non- compliance and the inefficiency of rate collections is putting unnecessary pressure on compliant retailers and reduces local authorities ability to invest in the streetscape and commercial vitality of our towns and city centres. The efficient solution would be a centralised collection procedure.

Retail Ireland proposes that the Office of the Revenue Commissioners should be given the responsibility for the collection of 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.

Savings made through a centralised collection process should be used to reduce commercial rates across local authorities. Without reform of the collection and debt management processes our town and village centres will become less competitive and attractive locations and will lose their ability to compete against online retailers.

2. Stop linking rents to rates

The antiquated process of allowing each local authority set 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, is resulting in many retailers being hit disproportionately, irrespective of company size, employment headcount, profitability and location.

This link also does not take into account where a neighbouring property has benefited from the ban on upward-only rent reviews or where a large retailer or anchor tenant has been able to negotiate a lower rent over smaller retailers.

The inherent unfairness of this system means that retailers whose leases still include an upwards only rent review provision, and therefore do not reflect the market rent, pay higher commercial rates than other retailers, as high rents ultimately lead to higher commercial rates.

3. Reform the revaluation system

The national revaluation programme currently underway is the first general revaluation of all commercial property in the State since the middle of the 19th century. This system which underpins the commercial rates-setting process is arcane and not fit for purpose. For example, in 2014 under the national revaluation programme a shop and forecourt in Limerick employing 10 full time and 25 part time employees saw their commercial rates bill increase from €7,228 to €26,630 per annum. After appealing the revaluation rate their commercial rate reduced to €21,449. While the Valuation Office sought and received information from the retailer, the Office was unable to provide an explanation as to what scheme or methodology they used to calculate this new rate.

In addition, 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. For some these could be substantial and unforeseen and make business planning very difficult.

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 retailers in areas to be revalued.

The current system is rigid and inflexible as valuations can only be revisited if there has been a material change of circumstances to a property. Thus, if a retailer has expanded or reduced the size of its surface area, it can apply for a new valuation to be set. However, a retailer that has lost business due to the impact of a major infrastructure development or a new larger competitor locating nearby is not considered for a material change of circumstances.

Furthermore, if we are to maintain our national competitiveness and minimise the impact of Brexit through encouraging investment and attracting new retailers into the market, commercial rates and the methodologies used in valuing key assets must be open and transparent and in line with other countries.

In Northern Ireland retailers pay similar commercial rates but water and waste services are included in this rate while retailers in Ireland must pay those in addition to commercial rates.

Northern Ireland completed the revaluation process of roughly 73,000 businesses in 18 months. To date, revaluations have only been completed in six rating authority areas and completion of the overall national revaluation programme is not expected until 2021, highlighting the slow pace and overall inefficiency of our revaluation system.

If the Government are to ensure the benefits of economic recovery are felt in every part of the country, and want retail to play an active role in the regeneration of rural Ireland, they must act now to reform the revaluation process to ensure retailers all over Ireland pay rates at a level which are reasonable and reflect economic reality.

4. Progress on local government reform

The current public sector reform programme aims to make local government more effective and efficient. Recent changes have seen the number of local authorities reduced from 114 to 31, including the abolition of all 81 town councils, and a number of service areas and responsibilities removed from local authorities on efficiency grounds.

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.

Commercial rates are a form of local taxation, mostly to fund services that businesses do not consume. Local authorities use business to balance their books. In other words, retail picks up the tab for any expenditure gaps or funding shortfalls that arise in their annual budgets. In recent years 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.

Business decisions and planning require certainty and local authorities need to provide this to their rate payers. Currently retailers are receiving demands for annual increases in rates running into several hundred percent. Such increases are completely unmanageable and cannot be planned for.

Where increases in commercial rates are warranted, Retail Ireland would like to see a system of phased or gradual increases introduced. This new system would limit how much a bill can change each year as a result of revaluation.

5. Increase local property tax intake

In 2017, four local authorities reduced the Local Property Tax rate by 15%. The approach taken by these local authorities is unsustainable. It amounts to a combined revenue loss of €30 million. On a positive note, there has been a rise in local authorities voting against cutting the LPT rate since its introduction. Local authorities that have cut the LPT rate continue to look to local businesses to plug any resulting shortfalls in funding.

Increased revenue from the LPT should be used to ensure our town centres and city centres are revitalised and regenerated as thriving, exciting places to live, visit and spend time. At the same time retail, one of the largest contributor to local authority finances should see increases in service provision which have been radically reduced or withdrawn in recent years.

As retail shifts towards omni-channel retailing, physical retail space will be transformed and retailers may potentially require less traditional space in our town and city centres in the future. Innovation in such spaces is required to ensure they are still attractive places to visit for consumers.

Safeguard retail’s competitiveness

In order to maintain retail’s key economic and social role in Irish society, we must seize the opportunity to reduce the cost burden on Irish retailers and improve the competitive position of a vital sector of Ireland’s economy. To do this Retail Ireland believes that responsibility should be given to the Revenue Commissioners to collect commercial rates in order to reduce the level of non-payment.

Central government should work to replace the valuation process with an open and transparent system and local government needs to deliver more effective and efficient services. These changes can only be brought about through a new Valuation Bill supported by continuous local government reform.

Retail Ireland accepts that an overhaul of the commercial rates system will be a significant undertaking for government and that time, support and commitment from local government, and a number of government agencies, will be needed if we are to deliver more efficient and effective services that bring consistent value.

However such an overhaul is required to ensure the continued vibrancy of the retail sector which is coming under increasing pressure from rising business costs, including commercial rates.

This paper was jointly produced by Retail Ireland and Ibec’s Policy Unit.