

LPT VARIATION REPORT
MEETING OF CORK COUNTY COUNCIL-26TH SEPTEMBER, 2016

Consideration of variation of the basic rate of the Local Property Tax

Introduction:

The Local Property Tax (LPT) became effective from 1 July 2013 and is an annual self-assessed tax which is applied to the market value of residential properties. The charge is administered by the Revenue Commissioners and the proceeds are accounted for as exchequer funding in the national Budget. An amount equivalent to annual LPT receipts are assigned to the Local Government Fund by the Minister for Finance and distributed to local authorities by the Minister for the Housing, Planning, Community and Local Government.

Role of elected members in relation to setting of local adjustment factor:

Section 20 of the Finance (Local Property Tax) Act 2012 (*as amended by Section 5 of the Finance (Local Property Tax) (Amendment) Act 2013*) provides each Local Authority with the power to vary the basic rate of the Local Property Tax within its administrative area (by a maximum of plus or minus 15% of the basic rate). Section 20 of the 2012 Act was commenced with effect from the 1st of July 2014 by the Finance (Local Property Tax) Act 2012 (Specified Date) Order 2012.

The Local Property Tax (Local Adjustment Factor) Regulations 2014 require that before determining whether or not to pass a resolution to vary the basic rate of local property tax, there are certain matters to which the local authority must have regard including:

- 1. Report on Income and Expenditure**
- 2. Financial position of the local authority**
- 3. Financial effect of variation**
- 4. Outcome of public consultation process**

Reports have been prepared for each of these headings in this document.

It is important to note that the Members decision in this respect, applies for a period of one year from the next local property tax liability date. The 5% reduction to the basic rate of LPT, passed by the Members on 28th September, 2015, applied for the period 1st November 2015 (liability date) to 31st October 2016. The rate reverts to the basic rate at the 1st November 2016, i.e. the pre-adjusted rate. The Elected Members must now consider whether to reduce the basic rate, leave it unaltered or increase it, for 2017.

1. Report on Income and Expenditure:

1.1 Local Property Tax Income Allocation 2016:

In 2016 80% of LPT income collected was retained locally with the remaining 20% paid into an equalisation fund to ensure no local authority was worse off from local retention of LPT in 2016 compared to General Purpose Grant allocations in 2014.

Of the 80% retained locally (€31.9m) an amount of €8m was allocated as additional discretionary funding with the proviso that the cost of any local variation of the basic rate of LPT must be funded from this element of the allocation. A decision was taken by the Council to reduce LPT by 5% at a meeting of the Council held on 28th September 2015. The cost of funding this reduction amounted to €1.99m thereby reducing the discretionary element of the allocation to €6m.

Of the 80% retained locally €2.9m was in place of the 2014 Local Government fund/ (GPG) allocation.

The remainder of the 80% allocation, amounting to €20.9m, was allocated by the Department of the Housing, Planning, Community and Local Government to self-fund some services in housing and roads.

Details of the 2016 LPT allocation are set out as follows:

Analysis of Local Property tax allocation 2016	
Local Property Tax allocation 100%	39,838,656
Less : 20% Equalisation Fund	7,967,731
LPT Retained Locally 80%	31,870,925
Less : LPT surrendered via 5% variation	1,991,933
Post variation allocation 2016	29,878,992
Assigned to :	
Discretionary 2016 expenditure (Revenue Budget)	5,975,798
Local roads maintenance and improvement (Revenue Budget)	5,616,315
CLSS (Hsg. Assoc./Vol. Body loan repayments) (Revenue Budget)	4,100,000
LGF retained	2,951,435
<i>(Total assigned to Revenue Budget)</i>	18,643,548
Housing Capital Projects (Capital)	11,235,444
Post variation allocation 2016	29,878,992

1.2 Local Property Tax Income Allocation 2017:

Department of Housing, Planning, Community and Local Government (DHPCLG) circular Fin 04/2016 dated 27th July 2016 re-affirms the Government's intention that 80% of all Local Property Tax receipts within the local authority area where the Tax is raised will be retained locally. The 20% balance will to be paid into an equalisation fund to be re-distributed to local authorities, to ensure that all authorities receive, at a minimum, an amount equivalent to their LPT baseline.

The Council's LPT allocation for 2017 is €32,493,299 representing 80% of the LPT income of €40,616,623 that it is anticipated will be collected in Cork County administrative area in 2017. This year's allocation reflects a slight increase of €622,374 (post equalisation) from 2017.

The DHPCLG has advised that this income of €32,493,299 will be allocated as follows:

- (a) The LPT Baseline, which has been revised for 2017, of €8,402,758. As in 2015 & 2016, an amount equivalent to the 2014 Local Government Fund/GPG allocation of €2,951,435 is repeated in 2017. In addition, from 2017, the baseline is increased by €5,451,323, being the 2014 income from Pension Related Deduction (PRD). This is to assist local authorities in meeting the costs arising from changes in PRD under the Lansdowne Road Agreement. Therefore Cork County Council's new LPT Baseline is €8,402,758 and will be funded from the 80% LPT allocation to Cork County. It should be noted this is not an increase in income for 2017 as PRD deductions currently retained by local authorities as an income stream will, from 2017 on, be remitted directly to the Exchequer.

- (b) 20% of the 2017 LPT income collection amounting to €8,123,325 is provided for allocation at the discretion of the Council. The net proceeds from this allocation are available as discretionary income to fund enhanced or additional services. This is the element of LPT income which will reduce or increase if the Council decide to vary the basic rate of the LPT for 2017.

- (c) The balance of €15,967,216 will be allocated by the DHPCLG to fund social housing and roads services.

Analysis of Local Property tax allocation 2017	
Local Government Fund allocation 2017	€8,402,758
Discretionary LPT income (20% of anticipated LPT income) 2017	€8,123,325
To self-fund Housing and Roads transportation services	€15,967,216
Total LPT allocation 2017	€32,493,299

The following table sets out details of the Council's LPT allocation 2017.

Cork County Council		
Local Property Tax Allocation (Pre Variation)		
	2017	2016
Projected Gross LPT Income for County	€40,616,623	€39,838,656
Less amount allocated to Equalisation Fund – 20%	<u>€8,123,325</u>	<u>€7,967,731</u>
LPT retained locally – 80%	<u>€32,493,299</u>	<u>€31,870,925</u>
Allocated as follows:		
Revised Baseline - Replaces GPG Allocation 2014 & PRD 2014	€ 8,402,758	€ 2,951,435
Assigned for discretionary purposes - including variation of basic rate	€8,123,325	€7,967,731
Balance to self-fund Housing and Roads Services	<u>€15,967,216</u>	<u>€20,951,759</u>
LPT allocation	<u>€32,493,299</u>	<u>€31,870,925</u>
Cost of Variation if 5% is applied – reduction affects the discretionary element of the LPT allocation	<u>€2,030,831</u>	<u>€1,991,933</u>

Note. The total LPT allocation to Cork for 2017 is higher than 2016. The 2016 allocation was based on an overall estimate nationally of €474m (pre-variation) compared with €484m (pre-variation) for 2017.

1.3 Cost/Gain from varying the basic rate of the LPT:

The estimated LPT collection in the Cork County administrative area in 2017 is €40,616,623 and the cost of funding or gain from each 1% reduction/increase to the basic rate amounts to €406,166. This will result in a total funding requirement of over six million, €6,092,493, if a decision is taken to apply the maximum 15% reduction. If the decision is to apply the same reduction as in 2016 of 5% it will require funding of €2,030,831.

Projected Cork Co. Co. LPT Income			2017
			€40,616,623
Cost or Gain from:			
1% Variation	€406,166	9% Variation	€3,655,496
2% Variation	€812,332	10% Variation	€4,061,662
3% Variation	€1,218,499	11% Variation	€4,467,829
4% Variation	€1,624,665	12% Variation	€4,873,995
5% Variation	€2,030,831	13% Variation	€5,280,161
6% Variation	€2,436,997	14% Variation	€5,686,327
7% Variation	€2,843,164	15% Variation	€6,092,493
8% Variation	€3,249,330		

A reduction to the basic rate of LPT will be funded through the discretionary element of the LPT allocation e.g. if the maximum reduction is applied, the discretionary element of the LPT funding will reduce from €8,123,325 to €2,030,832. Conversely an increase to the basic rate will be added to the discretionary element of LPT e.g. if the maximum increase is applied, the discretionary element of the LPT funding will increase to €14,215,818.

1.3 Preparation of Budget 2017:

The 2017 Budget will be prepared on a phased basis with input from the Corporate Policy Group, Members and Chief Executive at differing stages of the process. The Local Government (Financial and Audit Procedures) Regulations 2014 and its associated Circular Fin 05/2014 made provision for an outline budget strategy prepared in consultation with the CPG, and submitted to the DHPCLG by end of September.

The CPG discussed the 2017 Budget strategy and the variation of the Local Property Tax (LPT) on 6th and 20th September, 2016 and confirmed the basic assumptions and the broad parameters for budget 2017. The broad overview and

strategic budgetary decisions were agreed on the basis of information known at the time of these meetings. Further details are awaited about the impact of the national budget on other aspects of the council's income and expenditure in 2017.

1.4 National Budget:

The Estimated Income and Expenditure for 2017 is based on an assumption that State grants and subsidies will be continued at 2016 levels adjusted by known activity changes in 2017 (e.g. rental accommodation scheme payments). An adjustment has also been made to account for the funding of some housing and road grants from LPT. It should be noted that adjustments could apply to schemes for which grants and subsidies are currently allocated to the Council as *"the detail of other grant funding to local authorities will be considered, as normal, as part of the national budget process."* Details of the National Budget 2017 will become available on 11th October 2016.

1.5 Key dates:

- The Revenue Commissioners and the Minister for Housing, Planning, Community and Local Government must be notified by **30 September 2016** if the council decides to vary the basic rate of the LPT for 2017.
- In addition a preliminary estimation of Revenue and Capital Income and Expenditure 2017 should be submitted to the DOECLG by **23rd September 2016** to meet EU budgetary timelines.
- Consultation with the CPG about the parameters and content of the 2017 Budget will continue as will the group's input into the budget strategy in the coming weeks.
- The 2017 National Budget will be presented to Dáil Éireann on 11th October and this will be followed by commitments from the DHPCLG and other funding bodies to contribute funds for specific operational and capital programmes.
- The 2017 Annual Budget meeting must be scheduled within the prescribed period of 1st to 30th November 2016. Once commenced the meeting can be adjourned for up to 14 days from the date of the initial meeting.

1.6 Basis of preparation of Report on Income and Expenditure:

As the timing of the preparation of this report predates both the national budget and the preparation of the Council's Draft Budget 2017 the Report on Income and Expenditure (as per table below) is based on the current year's budget adjusted to take account of changes affecting Local Property Tax income and any other anticipated changes impacting grants, subsidies and activities.

Some preliminary work has also been carried out to project payroll and loan charges for 2017. This will continue for remaining expenditure and income provisions in the context of the budget strategy during the development of the draft budget in October 2016. This timing also allows for greater certainty in relation to anticipated changes in activity levels and other grant allocations.

The following table sets out the Estimation of Income and Expenditure and is prepared in accordance with the Format prescribed in Schedule 1 of the Local Property Tax (Local Adjustment Factor) Regulations 2014.

1.7 Estimation of 2017 Income and Expenditure of Cork County Council

	Est Outturn 2016	Estimated 2017
Income	€	€
Commercial Rates	127,623,856	128,258,856
LPT/LGF /PRD**	14,386,066	16,526,083
Grants & Subsidies***	65,616,665	65,616,665
Other Income	<u>88,362,211</u>	<u>88,662,211</u>
Total Income	<u>295,988,798</u>	<u>299,063,815</u>
Expenditure		
Payroll Expenses	126,158,711	130,858,711
Loan interest & principal repaid	15,019,807	15,019,807
Social Benefits (transfer payments to households)	8,880,119	8,880,119
Capital grants paid	5,615,324	5,615,324
Other expenditure	<u>139,648,866</u>	<u>141,683,866</u>
Total Expenditure	<u>295,322,827</u>	<u>302,057,827</u>

The following assumptions have been made:

**2017 LPT income is based on the 2016 revenue budget allocation with no reduction in the 2017 basic rate. Any decision to vary will be reflected in a corresponding reduction of Other Expenditure. Details of the actual revenue/capital split of LPT allocation for 2017 are not currently available.

*** Includes LPT allocated to self fund housing and roads.

2.1 Report on the Financial Position of Cork County Council

The table below sets out the financial position of the Council in the format required in the Local Property Tax (Local Adjustment Factor) Regulations 2014 and is based on the financial position as at 30 June 2016.

Financial Position of Cork County Council	
	<i>at 30/6/2016</i>
ASSETS	
Current Assets	184,838,275
General revenue reserve	12,883,306
Loans receivable	144,456,203
LIABILITIES	
Current liabilities	92,514,902
General revenue reserve	
<i>Loans Payable*</i>	
Voluntary housing/mortgage loans	123,219,610
Non mortgage loans	280,040,194
INDICATORS	
	%
Ratio of loans payable to revenue income	1.3
Ratio of current assets to current liabilities	1.9

2.2 Indicators:

Ratio of loans payable to revenue income: 1.3 : 1

This ratio otherwise known as the gearing ratio reflects the Council's ability to repay its loans with its revenue income and falls within the recommended range.

Ratio of current assets to current liabilities: 1.9 : 1

This ratio otherwise known as the liquidity ratio reflects the Council's ability to pay its current liabilities and also falls within the recommended range.

Both indicators reflect that the Council's financial position is reasonably stable.

2.3 Current assets:

Current assets @ 30/6/2016	
	€'M
Trade debtors & prepayments(net of provisions)	44.9
Cash & Bank	139.1
Stock	.8
Total	184.8

2.4 Current liabilities:

Current liabilities @ 30/6/2016	
	€'M
Creditors & Accruals	72.7
Deferred income	4.0
Due within 1 Year	15.8
Total	92.5

2.5 General Revenue Reserve:

The general revenue reserve reflects the cumulative revenue account surplus or deficit. Cork County Council is presently in surplus from Revenue Account operations over an extended period of time. A deficit on the revenue account balance would indicate that the council had incurred more expenditure than income earned over a previous period - if a deficit is not addressed the council would ultimately encounter cash flow problems which would hinder future operations.

The council has a general reserve of €12.8m at 30th June 2016 which includes a €0.665m surplus for the period to 30th June 2016 plus the revenue reserve of €12.2m reported in the balance sheet to 31st December 2015. The increase in the 2015 general revenue reserve was mainly due to surplus over budget NPPR income together with a reduction in bad debt provision for rates due to collection performance.

Since 2009, in common with all local authorities, the Council has been subject to the provisions of Circular Fin 03/2009 Control and Monitoring of Local Authority Contribution to General Government Balance. This circular requires local authorities to keep their capital, revenue and bank accounts in balance each year and as a result revenue and capital expenditure can only be incurred by local authorities in any financial year to the extent that corresponding income is received.

3. Impact of variation of Basic Rate of LPT:

Section 17 of the Finance (Local Property Tax) Act 2012 provides for the calculation of the Local Property Tax charge for liable properties. The charge is calculated by multiplying the mid-point of the valuation band that the property falls into by the basic rate.

Local Property Tax = Mid-point of valuation band multiplied by basic rate		
<u>House valued at €180,000</u> Band €150,000 - €200,000 Midpoint = €175,000		
Basic Rate of LPT	LPT Rate Varied by -5%	LPT Rate Varied by -15%
€175,000*0.18% =€315	€175,000 * 0.171% = €299.25	€175,000 * 0.153% = €267.75
	Savings for category = €15.75	Savings for category = €47.25

Economic impact of a 2.5%, 5%, 10% or 15% LPT reduction for the property owner

Valuation Band	Midpoint		0.18%	LPT If reduced by: 2.5%		LPT If reduced by: 5%		LPT If reduced by: 10%		LPT If reduced by: 15%	
				0.176%	Savings Per House	0.171%	Savings Per House	0.162%	Savings Per House	0.153%	Savings Per House
			€	€	€	€	€	€	€	€	€
0	100,000	50,000	90	88	-2	86	-5	81	-9	77	-14
100,001	150,000	125,000	225	219	-6	214	-11	203	-23	191	-34
150,001	200,000	175,000	315	307	-8	299	-16	284	-32	268	-47
200,001	250,000	225,000	405	395	-10	385	-20	365	-41	344	-61
250,001	300,000	275,000	495	483	-12	470	-25	446	-50	421	-74
300,001	350,000	325,000	585	570	-15	556	-29	527	-59	497	-88
350,001	400,000	375,000	675	658	-17	641	-34	608	-68	574	-101
400,001	450,000	425,000	765	746	-19	727	-38	689	-77	650	-115
450,001	500,000	475,000	855	834	-21	812	-43	770	-86	727	-128
500,001	550,000	525,000	945	921	-24	898	-47	851	-95	803	-142
550,001	600,000	575,000	1035	1,009	-26	983	-52	932	-104	880	-155
600,001	650,000	625,000	1125	1,097	-28	1,069	-56	1,013	-113	956	-169
650,001	700,000	675,000	1215	1,185	-30	1,154	-61	1,094	-122	1,033	-182
700,001	750,000	725,000	1305	1,272	-33	1,240	-65	1,175	-131	1,109	-196
750,001	800,000	775,000	1395	1,360	-35	1,325	-70	1,256	-140	1,186	-209
800,001	850,000	825,000	1485	1,448	-37	1,411	-74	1,337	-149	1,262	-223
850,001	900,000	875,000	1575	1,536	-39	1,496	-79	1,418	-158	1,339	-236
900,001	950,000	925,000	1665	1,623	-42	1,582	-83	1,499	-167	1,415	-250
950,001	1,000,000	975,000	1755	1,711	-44	1,667	-88	1,580	-176	1,492	-263

Properties with valuations in excess of €1M are charged at a property tax rate of 0.18% for the first €1,000,000 (using €975,000 as the midpoint) and at a property tax rate of 0.25% for the balance in excess of €1M

The following information was provided by the Revenue Commissioners in relation to property valuation bands in the Cork County administrative area. It is based on property values at the 1 May 2013 valuation date together with returns filed to date. It indicates that 91% of properties registered to the Cork County administrative area are in valuation bands less than €250,000. In 2016 liable persons on average would have paid €246 (average of first four bands) based on the 5% reduction applied (i.e. an average annual reduction of €13). The maximum 91% of liable persons would have saved in 2016 is €20 per annum.

LPT 2016 Valuation Bands	0 to 100,000	100,001 to 150,000	150,001 to 200,000	200,001 to 250,000	250,001 to 300,000	Over 300,000
Cork County Council	22.2%	26.5%	30%	12.6%	4.4%	4.3%

Economic impact on Cork County if the 2017 LPT is varied :

	Cork County Council	Discretionary LPT Allocation 2017
Local Property Tax 2016	€40,616,623	
80% of LPT Retained	€32,493,298	
Assigned in lieu of State funding for Housing & Roads Services	-€15,967,216	
GPG allocation	-€8,402,758	
Available for local activities & projects if no change to the local property tax for 2017	€8,123,325	€8,123,325
2.5% reduction : Projected cost of a -5% local adjustment factor in 2017	-€1,015,416	€7,107,909
5% reduction : Projected cost of a -5% local adjustment factor in 2017	-€2,030,831	€6,092,494
10% reduction : Projected cost of a -10% local adjustment factor in 2017	-€4,061,662	€4,061,663
15% reduction : Projected cost of a -15% local adjustment factor in 2017	-€6,092,493	€2,030,832
2.5% increase : Projected additional income from a +5% local adjustment factor in 2017	€1,015,415	€9,138,740
5% increase : Projected additional income from a +5% local adjustment factor in 2017	€2,030,831	€10,154,156
10% increase : Projected additional income from a +10% local adjustment factor in 2017	€4,061,662	€12,184,987
15% increase : Projected additional income from a +15% local adjustment factor in 2017	€6,092,493	€14,215,818

A reduction to the basic rate of LPT must be funded from the discretionary element of the LPT allocation. The discretionary element of LPT allocated to Cork County Council for 2017 will reduce from €8,123,325, to €2,030,832 if the maximum reduction of 15% is applied.

4. Report on Outcome of Public Consultation Process

The Local Property Tax (Local Adjustment Factor) Regulations 2014 made provision for a minimum consultation period of 30 days by a local authority with the public in its administrative area. The consultation process was initiated to facilitate members of the public make known their views about the potential impact of varying the LPT on individuals, businesses and local authority services. This Council commenced the public consultation process on the 20th July 2016 by the placing of a notice in the local and national newspapers inviting submissions from the public with a closing date of 26th of August, 2016 for receipt of submissions.

A copy of the notice published is set out below:

Cork County Council
NOTICE OF CONSIDERATION OF SETTING A LOCAL ADJUSTMENT FACTOR
The Finance (Local Property Tax) Act 2012 (as amended), makes specific provision that elected members of a local authority may pass a formal resolution to vary the basic rate of the Local Property Tax for their administrative area by a percentage known as the local adjustment factor. At the meeting set by Cork County Council to consider this matter, the members may set a local adjustment factor within the range of +/- 15% of the basic rate, or, may decide not to adjust the basic rate.
Cork County Council will meet in September 2016 to consider the setting of a local adjustment factor.
Cork County Council welcomes written submissions from the public on this matter specifically covering the potential effects of varying the basic rate of the Local Property Tax on businesses, individuals and on local authority services.
Submissions must be received by the 26 th of August 2016 and be sent to: LPT Submission, Cork County Council, Corporate Services, Floor 14, County Hall, Cork
or emailed to lpt@corkcoco.ie
Tim Lucey Chief Executive, Cork County Council

Submissions:

No submissions were received by the closing date.

Overall Summary:

This report is submitted for consideration by the Members in accordance with Section 20 of the Finance (Local Property) Tax Act 2012 and Paragraph 8, Part 4, of the Local Property Tax (Local Adjustment Factor) Regulations 2014 Under Section 21 of the Act a Local Authority that has varied the basic rate of the LPT must inform the Revenue Commissioners of that decision not later than the 30th of September in the year prior to which the LPT variation takes effect & Article 9, Part 5, of the Local Property Tax (Local Adjustment Factor) Regulations 2014 requires that notification of a variation must also be received by the Minister For Environment Community & Local Government not later than that date. To comply with those requirements the adoption of the resolution by a Local Authority varying the basic rate of the LPT must be made prior to that date of 30th September.

As provided for in Article 8 of the Local Property Tax (Local Adjustment Factor) Regulations 2014 the varied rate of Local Property Tax applies for a period of year from the next Local Property Tax liability date i.e. from 1/11/2016 to 31/10/2017 after which time the rate of LPT reverts back to the initial (basic) rate as defined in the 2012 Act.

The investment members made in 2016 as a result of the LPT decision delivered tangible and worthwhile benefits across all communities. In considering the determination of the Local Adjustment Factor members are asked to consider the contents of this report together with the need to retain and expand current levels of Service.