Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Rate Collection and Rate Debt Targets: Land and Property Services

20 June 2012

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Conor Murphy (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Mr Roy Beggs
Mrs Judith Cochrane
Mr Paul Girvan
Mr David Hilditch
Mr William Humphrey
Mr Paul Maskey
Mr Mitchel McLaughlin
Mr Adrian McQuillan

Witnesses:

Ms Judith Andrews	Land and Property Services
Ms Patricia McAuley	Land and Property Services
Mr John Wilkinson	Land and Property Services

The Chairperson: Land and Property Services (LPS) is here to give us some evidence. I welcome John Wilkinson, the chief executive, Patricia McAuley, the director of revenue and benefits and Judith Andrews, the head of operations and finance. We were also due to hear from Jeff McGuinness, but I think he has taken off with the Minister.

That was an incorrect addition. OK. We had given him two jobs today.

John, if you or some of your colleagues want to make some opening remarks, we will then open it for some discussion with the members.

Mr John Wilkinson (Land and Property Services): Thank you, and good morning everyone. I will start by giving you a bit of an overview of where we are and where we have got to. Just to start —

The Chairperson: Sorry; for members' information, the briefing paper on this item is at tab 7 of your packs.

Sorry about that, John.

Mr Wilkinson: I will give some background to start: 2011 was another difficult year, with the economy still in recession and economic forecasts showing that the situation was going to continue into 2012. The impact of that on LPS rate collection activity is twofold. First, there is little or no growth in the valuation lists. There is very little new construction and new property, so that keeps collection levels fairly static. Secondly, and very importantly, many ratepayers find it increasingly difficult to pay rates. That is evidenced by continuing bankruptcies and vacancy levels, and I will come back to that in a moment. These factors affect both collection and debt management.

We have provided the Committee with some provisional figures for last year. I stress that they are provisional figures and subject to audit sign-off in the publication of accounts that will take place over the next month. The important point to mention is that cash collection is up and rate debt is down. To quote a couple of statistics, the figures last year were very heavily impacted by economic recession, first as evidenced in the number of individual bankruptcies, which was up by 28% when compared with the year before. Secondly, there is a growing trend in vacancies. One issue that we have all seen covered quite extensively on the news and in the media over recent months is the number of vacant shops in Northern Ireland; something like one in six shops is considered to be vacant.

Moving on to the challenge that lies ahead in 2012-13, the economic climate will continue, and that will create challenges for us. We have set a target for collection of £1·1 billion this year. That will be a stretching target, but it recognises the good performance and progress we have made over each of the past four years. Similarly, the debt reduction target we have set, £145 million, will be extremely challenging as well. However, both of these targets will be impacted by the improvements and the progress that we have made over recent years.

I would also like to mention the rating of empty homes. We will be collecting and pursuing debt in the same way as we would for any other class or type of property, but over the months ahead we will analyse payments associated with what is a new policy that was introduced in the middle of last year. There are still some considerable challenges remaining with the rating of empty homes. We have still got work to do with the identification of ownership, and we are still receiving substantial numbers of applications for the removal of property from the valuation lists. These are some of the issues that you may want to pick up on in the evidence session that follows. We have also set some debt write-off provision for next year at a similar level to last year, and we have made some additional provision for the rating of empty homes.

Just to bring you right up to date, the position as at the end of the first couple of months of the 2012-13 year is that we started a collection challenge a couple of months ago, where we were looking to collect around £1·1 billion in cash. At the beginning of the financial year, that is obviously £1·1 billion of debt. In the opening couple of months, we have collected something like £300 million, so the debt at this point probably stands at around £0·8 billion. Payment levels are below what we had forecast and expected in the first couple of months of the year. It is very early days to be commenting on debt, but we see that the number of individual bankruptcies is still rising.

Just to summarise, the economic recession is impacting very heavily on the business. It makes both the collection and the debt management a challenge. The early indications are that it is going to be another difficult and challenging year. Thank you, Mr Chairman.

The Chairperson: Your target is £1·1 billion. What percentage is that of the rates assessed?

Mr Wilkinson: The headline figure for rates assessed is about £1·4 billion. The cash collection challenge is £1·1 billion. That reflects the fact that we will not collect all the rates. There are various discharges in there, and the cost of collection and so on. I do not know what it is as a percentage; my maths are not that good. Have any of my colleagues worked that out?

Ms Patricia McAuley (Land and Property Services): I have not.

The Chairperson: Then there is the reduction in rating debt: the target you set last year was £145 million. You exceeded that at £149 million. You have set the same target for this year again. Obviously, by your own admission and evidence to the Committee, these are challenging times. Are you taking additional measures to be sure that you will hit the target?

Mr Wilkinson: We will just continue doing what we have done over the last year. However, we will do additional work, for example, in improving our timeliness — the speed at which we bill — and improving the speed at which we follow up action in terms of references to court. We are doing some other things in terms of our processes. One of them has been to use tracing services to find people who owe us money. There is a lot of activity going on; a constant improvement of our position.

Mr Girvan: Thank you for your presentation to the Committee. I would like to have a ballpark figure for where we stood this time last year within the recovery. I appreciate that you have said that we now stand at a collection of around about £300 million. What does that look like, in a ballpark figure, compared to what happened last year?

Ms Judith Andrews (Land and Property Services): Compared to this time last year, we are definitely behind. That is evidenced by a number of factors. One big thing that we are seeing this year is an increase in the uptake of benefits. For example, ratepayers on the domestic front can discharge their rates through housing benefit. So we have doubled the uplift linked to the district and regional rate increase in housing benefit this year. The whole debt process is cyclical. We bill, then send out supplementaries, then go to finals and recovery. So it is still early days. However, last year we had an increase of 8% in court processes and decrees to take people to court for debt.

Mr Girvan: That brings me on to the point that an increased number of properties are getting certificates of unfitness, which removes them from the rating process, with a view to creating dereliction, really, which is creating a problem in a number of areas. We are going to have to look at that and see if we can deal with it. Some of those properties are intentionally being made that way in order to remove them from the rating structure. Increasingly, worryingly, that is on the domestic housing end. Increasingly, we are also finding dereliction on the high street. That is going to culminate in the removal of roofs from premises, right in the middle of high streets. I am just asking for some guidance. Have you noticed any increase in your workload on that basis? I know that councils are finding an increase from the point of view of environmental health. They are being asked to investigate properties and to issue those certificates. Ultimately, some of those premises paid a small percentage of rates last year, but will now be removed from that due to pressure being brought by property owners who proceed to put their properties into a state of dereliction.

Mr Wilkinson: I will deal with the question in two halves. First, on the domestic side, with the introduction of the rating of empty homes, we have seen an influx — I would not say an increase, because previously no rates were payable if a property was vacant, so it did not matter — of a large number of applications and appeals because of dereliction. People want properties removed from the valuation list, because obviously a liability charge is being raised.

I anticipated that I might be asked this, so I pulled some figures together first thing this morning. Take last year, for example: we normally expect around 1,800 to 2,000 of those sorts of domestic challenges, but because the rating of empty homes was introduced, that figure increased to just over 6,500. So, there was a big increase, and that is continuing. Indeed, in the first couple of months of this financial year, we have seen nearly 1,600 further cases. We have cleared about 1,000, but there are still some remaining to do. I think that that trend will continue, because we still have a rump of empty domestic properties for which we are looking to ascertain ownership liability. As we do that, some of those cases will manifest in further challenges and appeals to the district valuer. That is the domestic side of the question.

I will now turn to your point about the high street. I think that the position with regard to non-domestic property liability at 50% was brought in in 2004. So, obviously there has been a 50% liability for rates since then. I think that what is exacerbating the position at the moment is the economic recession. In better times, the pain, if you like, of paying non-domestic vacant rates was not as hard to bear as it is at the moment. That takes owners and occupiers down the route of constructive vandalism, which I have seen. I have 38 or 39 years' experience as a chartered surveyor. I worked in England previously and, in the 1980s, I saw this. Factory roofs were removed to avoid the payment of vacant rates, which had been introduced at that time. That is another factor.
From my point of view, I cannot do anything other than deal with the facts and circumstances as they are. Be it a domestic property or a non-domestic property, there is an inspection and consideration of the facts, and then we make a decision about whether the disrepair warrant a reduction in the value, removal from the list or otherwise. I cannot do anything other than operate within the rating system and within the powers that I have.

Mr Girvan: That point brings me back to something that we should be looking at in the round, in conjunction with feeding back into the Department for Social Development (DSD). There is a housing crisis in certain areas where there is a lack of social housing. Some of these properties could be made habitable with very little work, and therefore could generate money either through housing benefit or other means, which would generate some revenue for LPS that would ultimately go back into our spend. I think that we need to look at how we can target and deal with some of these empty properties that are ultimately destroying some beautiful estates, good estates where we have properties lying empty that have intentionally been put into a state of dereliction by landowners and property owners in order to avoid paying rates on them. A body of work needs to be looked at in conjunction with DSD on that matter.

The Chairperson: OK, fair enough.

Ms McAuley: In relation to domestic properties and the number of requests for removal from the list, I am sure members know this better than I do, but it is probably important to understand that a lot of those properties may have been uninhabitable for a long time. I am sure we are all aware of properties, particularly in rural parts of the country, that have been derelict for a long time. Many people have kept them on the valuation list because that allows them to apply for planning permission for a replacement dwelling. However, when the rates bills start to come through the door, people have to weigh up whether it is worth paying the rates on the property and whether they are ever actually going to use it for a replacement dwelling. That is part of the issue and part of the reason for the increase in applications.

Mr Girvan: They do not need to do that any longer after PPS 21.

Ms McAuley: Indeed, but that was one of the things in the past. It is probably worth recording that the Minister, the Executive and the Assembly have passed legislation which allows a number of reliefs in relation to non-domestic property, particularly on the high street, things like the empty properties relief and the window-dressing. While the window-dressing does not do anything about the occupation of the property, it at least makes it look a bit better from the point of view of somebody walking or driving down the high street. Things have been done to try to help in terms of the rates themselves and the look of the high street.

Mr Mitchel McLaughlin: Thank you very much. There is a background of a fairly strong performance in some very negative economic circumstances, which have thrown up additional challenges. You can readily see that. I am interested in the write-off guidelines and the reference to bankruptcies, liquidations and administrations. Some 50% of the planned write-off is in that area alone. Is that an automatic process? Or are there circumstances of bankruptcy or administration in which LPS follows through to get its percentage, at least?

Ms McAuley: Essentially, what happens is when a company or individual is made bankrupt or liquidated, we write the debt off. However, at the end of the liquidation process, when the whole business is being wound up, if there is money paid — sometimes creditors get 10p or 50p in the pound — we write that back on and seek to recover whatever that amount is once the liquidation process is finished.

Mr Mitchel McLaughlin: Can you just elaborate on the first point you made? You initially step back?

Ms McAuley: If a company is liquidated or an individual is made bankrupt, we write the debt off, because, at that stage, there is no possibility of recovering it. We keep in contact with the Insolvency Service and liquidators on any of those properties. If, at the end of the process, creditors are being paid a certain amount, our debt is lodged with the liquidator, and we will get our share. That can be 20p or 50p in the pound, or whatever it is. We then write that back in, and we will collect that amount of money.

Mr Mitchel McLaughlin: The rates are the main means of raising revenue for the Executive, so any impact on that impacts on programme spend and the delivery of front line services. Is there a way of quantifying the percentage return in relation to, say, the restatement of claim at the end of the process? I am sure that there is an administration cost in tracking those. Some of them end up being irreversible and irrecoverable. Is the process to follow that through to see the final settlement percentage a cost-effective operation?

Ms McAuley: I do not know if we track that.

Ms Andrews: To be honest, the return, in dividends that we get back, is relatively low.

Mr Mitchel McLaughlin: That is what occurred to me.

Ms Andrews: We have to follow due process, in that we have to try to recover the moneys. There is also a risk-based assessment of the likelihood, but, where there is strong enough evidence, we will put in the claim. Unfortunately, we are not a preferential creditor, so we are down the pecking order in terms of receiving dividends from bankruptcies and liquidations.

Mr Mitchel McLaughlin: That is interesting. Is it a court decision or an Executive decision that we are not regarded as a preferential creditor, given that it impacts on the Programme for Government?

Mr Wilkinson: It is a legal position.

Mr Mitchel McLaughlin: That is to say a court position?

Ms McAuley: Yes.

Mr Wilkinson: I do not know if we have any figures, but we can —

Ms Andrews: We can get you figures, but the returns are very low.

Mr Mitchel McLaughlin: I am concerned. We talked earlier about the strange phrase "constructive vandalism" — it is hard to marry those two words — but I know exactly what was being described and I think that we have all seen those circumstances. However, I am aware of people who have walked away from business and even the possibility of recovery in the current economic circumstances, because of the rates liability. To then find that we are not a preferential client here — do we just take that on the chin?

Ms McAuley: As long as the business is there, we will pursue it. As John indicated, we will pursue businesses and individuals to the courts. We are sometimes criticised for that because we are seen to be being very hard. On the other hand, we have a statutory duty to collect the rates. Last year, we issued almost 46,000 court processes, almost 3,000 more than the year before.

Mr Mitchel McLaughlin: Was that under the formal debt recovery process?

Ms McAuley: That is right; yes.

Mr Mitchel McLaughlin: We are talking here about insolvency and bankruptcy — just the consequence of the current economic circumstances. Is it not your default position to stand back from the court process without prejudice to your ability to collect, but, if there is disposal of assets at the end of that process you then —

Ms McAuley: Our ability to collect it, yes.

Mr Mitchel McLaughlin: — restate your interest.

Ms McAuley: Once the company or the individual is declared bankrupt, the process is that we have to write off the debt. That is the process that we go through. However, as we said earlier, if something comes out at the end, we then bring that back in. As Judith explained, the return is very low. At the end of the day, if the business is going bankrupt, there is not very much money to go around anyway. If we are not a preferential creditor, we are going to be lower down the list than others, and we very often end up with not very much.

Mr Mitchel McLaughlin: Yes. Is it possible to get that information as well — the quantum of money involved and the legal basis? That seems to be something that is worth taking another look at. Thank you.

Mr D Bradley: A few weeks back, there was quite a debate in the public domain around the revaluation of non-domestic properties. A lot of householders listened in to that, and some of them are asking why their rates have remained the same despite their property's value decreasing hugely over past years. I have been contacted by several people who make that argument. What is your response to people who ask for their properties to be revalued as a means to — in their view — reduce their rates bill?

Mr Wilkinson: Obviously, the policy decision about a domestic revaluation would be made by the Minister. It is useful to understand the fact that domestic revaluation came into effect on 1 April 2007. The valuation date for that revaluation was January 2005, and, when people are talking —

Mr D Bradley: In the good times.

Mr Wilkinson: Absolutely. When people talk about property values falling, it is a recent memory from about the autumn of 2007 when the market started to turn significantly. In conjunction with the Northern Ireland Statistics and Research Agency, Land and Property Services recently issued a residential property price index, which is available for all to see on the internet. We have used all the information that we have on sales of property to put that index together. It shows how property prices increased from January 2005, peaked in the middle of 2007, and then fell sharply away. From memory, I think that we are just at the point now where property values are starting to drop a little below where they were in January 2005. Those are the important issues. At some point, a decision may be taken on a domestic revaluation.

Mr D Bradley: At some point?

Mr Wilkinson: That is not for me to decide, but it would be the case.

Ms McAuley: Just as the Minister and his officials said about non-domestic revaluation, a domestic revaluation will only redistribute the burden. Some people will gain, there is no doubt about that; others, however, will lose. Whether you are among the losers or the gainers will depend simply on whether the value of your house has gone down by more or less than the average. A revaluation would not necessarily reduce the rates that we have to pay; it will depend on where your house falls in the bands.

Mr D Bradley: Will whether you are a gainer or a loser depend on geographical location?

Ms McAuley: It may do, although it will depend on the housing market in an area and on how property values have changed since the last revaluation.

Mr Wilkinson: Changes can vary with property types as well. In the residential property price index that we have just published you will see that some of the steeper falls in recent months have been in terraced and semi-detached properties, whereas detached houses and bungalows have held up a little better. Changes can depend on geography and on property type as well.

Mr D Bradley: It has been five years since the last revaluation. What is the normal interval?

Mr Wilkinson: I do not think that there is a normal interval as such. Although I am not quite sure about the legislation in Northern Ireland, legislation that I have seen in GB talks about quinquennial revaluations. However, there has not been a council tax revaluation in GB since 1993, and the values and bands are set on 1991 levels. A decision would be made when values are no longer credible for the tax base. However, as Patricia said, the overall amount of money raised is a multiplier of the value and the rate, and, at the end of the day, you need to collect the same amount of money to run public services. The total amount does not change between revaluations, although there may be changes in the values and the rate. That is how the system works.

Mr Beggs: Thank you for your presentation; it reflects a reasonably positive view of the organisation. It is certainly better than when I was last on the Finance Committee —

Mr Wilkinson: Some years ago.

Mr Beggs: You had some difficulties with your computer system. You said that receipts have been down this year. I am trying to get a sense of the risk that is building for public finances and for rate payers who may ultimately have to carry the cost of others' non-payment of rates. Are receipts in all categories — lump sum, direct debit and general payments — down?

Ms Andrews: It is interesting to look at the trend in receipts. One of our big contributions are direct debits. They are holding out; they are principally domestic rate payers, so they are around the same level. We are seeing a reduction in direct credit or BACS payments, which tend to be non-domestic properties, such as retail businesses. In addition, public bodies can sometimes pay through BACS. There is a downward trend in that regard.

It is also interesting that we are seeing shifts in how people are paying. For example, there is a slight increase in our credit card facility. If you pay upfront by the discount date, which, I think, was 4 May, you get a 4% discount, which is very attractive in this economic climate. We found that some people who were paying by direct debit have shifted to a single payment through cheque or cash. That is a trend as well. Overall, however, we are running behind where we were this time last year.

Mr Beggs: You said earlier that if companies go into liquidation, that is the money gone. What processes do you go through to chase domestic rate payers who fail to pay? As I said earlier, other rate payers ultimately have to pick up that burden in increased rates that local councils would be forced to apply.

Ms McAuley: We send out the bill, and we send out a final demand if it is not paid. After a period, if the money has not come in, we begin to look at a court process. As I said to Mr McLaughlin earlier, our court processes last year were 46,000. We listed people to go to court. About 19,500 decrees were awarded in court. In roughly half of cases, when a court process is issued, the person will contact us and set up an arrangement to pay. Essentially, that cuts the number in half. We want people to contact us as early as possible to set up arrangements and so on. When people go through the court process and decrees are awarded, we will then lodge that decree. If it is a domestic debt for less than £5,000, we go through a number of processes, but, at the end of the day, we lodge the debt with the Enforcement of Judgments Office. It has means by which it can collect the debt, such as an order charging land so that, for example, if an individual sold land, we would get the value of the rates back from it.

If a company owes more than £750, we normally consider going through bankruptcy proceedings. If an individual owes more than £5,000, we would also consider bankruptcy. On one hand, we are reluctant to take people through bankruptcy proceedings because it is a very difficult thing for anybody to manage. On the other hand, if you have already engaged with the party and they have broken previous payment arrangements and it is clear that they will not be able to pay the amount, we will take them through to bankruptcy.

Mr Beggs: There was a difficulty with rates on vacant property in the past because a significant number were occupied and people did not pay rates. We said that there can be problems with landlords making them uninhabitable. Have you carried out any research into whether the other possibility occurred? Have some landlords improved the quality of their vacant properties to make them more habitable and attractive to tenants? Perhaps planning applications or building controls could be assessed. Is there any anecdotal evidence that indicates that the contrary has happened?

Ms McAuley: We have not done any research on that. The difficulty with the rating of empty homes is that the original 36,000 properties that we assessed are not the same 36,000 for which we sent out bills on 1 April. Properties move in and out of being "empty homes" all the time, and some of them become occupied. Whether a property is occupied because it was temporarily vacant or because the landlord has put a bathroom in or done whatever he needs to do to make it habitable, we do not have any information to tell us.

Mrs Cochrane: Are there patterns across council areas? Have some council areas more of a debt problem than others? When they are striking the rates, there is probably a little bit of a percentage put in for anticipated write-off. Are some council areas worse than others?

Ms Andrews: That is the type of thing that we would look at through the penny product process for the funding allocations for councils. We would report on the debt. Interestingly, the variance is very small, probably about 5%. It seems to equalise itself, because the debt trends are coming from certain types of rate payer who are generally fairly well distributed. Even for Belfast City Council, which is the biggest council, the debt percentages are not that far off the overall average. There are no big deviations across councils.

The Chairperson: Thank you very much for that. There were one or two requests for follow-up information, so if you could send that to the Committee we would be very grateful.