



**SUBMISSION
TO THE
LOCAL GOVERNMENT EFFICIENCY
REVIEW GROUP**

MARCH 2010

SUBMISSION SYNOPSIS

1.0 Introduction

This paper seeks to identify areas for improvement within the current governance and property development areas and has been prepared by a cross-divisional working group of the Society of Chartered Surveyors representing over 2,000 qualified chartered surveyors

The SCS represents over 3,000 surveyors working in different areas of the building and development industry, including 800 probationers who are undergoing their assessment of professional competence in order to achieve the gold standard of chartered status.

This submission is a summary of a larger submission that is currently being finalised by the SCS. Further detail is available on any of the areas highlighted within.

2.0 Administration

2.1 Streamlining of Local Authorities

Consideration should be given to the consolidation of areas within the local authorities in Ireland, thereby reducing overheads and creating efficiencies in the management structure. Currently there are 88 authorities, and by consolidating certain functions within these various local authorities, it would lead to improvements in coordination and implementation of planning and development policy across the country.

2.2 Fire and Conservation

With regard to the renovation and continued reuse of protected structures, it is proposed that each Local Authority Fire Officer and Conservation Officer would meet with the developer to agree the method for redevelopment of the property. Currently an anomaly exists whereby the proposals agreed with the Conservation Officer are not acceptable to the Fire Officer and vice versa and in most reported cases, both Local Authority personnel refuse to meet leaving the developer in a position where the property cannot be renovated. This creates issues with proposing any redevelopment or renovation works to protected structures in terms of the granting of permission and granting of a fire certificate.

Another point we would like to raise is in relation to the new regulations on fire and disabled access compliance. The Building Control Regulations have been revised and there are now new procedures in place for Fire Safety Certificate (FSC) Applications. The 7 Day Notice represents a significant change in the Fire Safety Approvals process. It should be noted however, that a Disability Access Certificate (DAC) is required prior to works being able to commence on site. This means that in practice the 7 Day Notice, which attempts to facilitate expedient

commencement on site, is unable to deliver this shortened timeframe as the DAC is still required, which takes eight weeks to be granted. Thus, the expedient process intended by the 7 Day Certificate is negated in reality. We submit that the 7 Day notice be extended to cover the DAC as well as the FSC.

2.3 Economic Expertise

An economic analyst should be employed in every Local Authority to work with the planners in producing development plans and in guiding ongoing economic policy in the administrative area. In recent years, the built environment has become more complex with Local Authorities competing at a national and international level for development and investment. It is therefore extremely important that all new Local Authority standards and objectives have sound economic rationale. This would ensure the viability of large-scale planning applications, as from the outset these proposals would be vigorously assessed in terms of their economic impacts, as well as their planning and development aspects.

Rigorous economic analysis is required to deliver robust plans and policy and this can only be achieved through the contribution from an experienced and qualified economic professional. This analyst should form part of the planning team and report directly to the Director of Planning Services.

2.4 Architectural Expertise

It is also proposed that each Local Authority should have a designated County Architect or at minimum, an architect holding a senior position. The Government's Policy on Architecture recognises that the 'availability of architectural expertise at the appropriate levels in the public service is a key requirement in the delivery of a quality built environment to the citizens of the State'. As with the economic analyst, this in-house architectural expertise should form part of the planning team to ensure that an attractive and sustainable built environment is created, one where people choose to live and work.

The streamlining of Local Authorities could provide a net saving and this could be reallocated to fund the appointments of the economic analyst and architect in 2.2 and 2.3 above.

2.5 Director of Services

Our final point is in relation to the appointment of the Directors of Services within Local Authorities. We submit that all Directors should be qualified and experienced in the relevant area prior to their appointment. This will create a more efficient and knowledge-based system within Local Authorities.

3.0 Development Levies

The traditional approach of Local Authorities increasing rates on an annual basis on all properties within their area is no longer acceptable. It is apparent that within the real economy at present all costs of business are being examined including salary levels, office overheads (i.e. telecoms, electricity) and rental payments to landlords. As part of this exercise the rates that are being charged by the local authorities should also be reviewed and where possible reduced in line with the significant reduction in all costs being achieved throughout the economy. It should be noted that in many local authorities, the rates bill is based on calculations carried out in 2007 while costs in the wider economy are now back in some cases to 1999 levels.

Typical examples of where local authority revenue calculations are out of kilter with other costs in the economy is in the Dublin City Council and South Dublin County Council's draft development plan proposals for planning contributions:

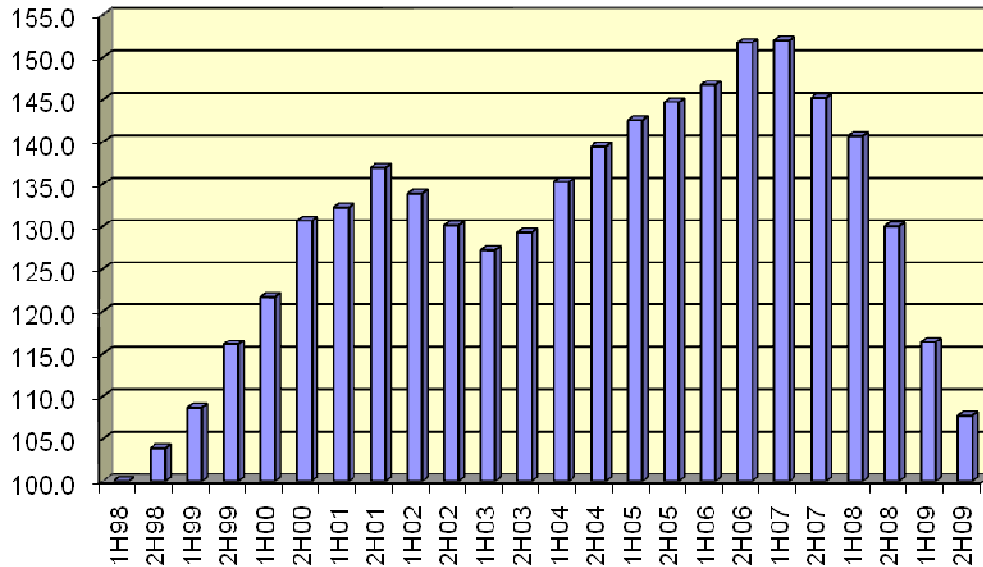
South Dublin Planning use	Current contribution levy	Proposed contribution levy	Percentage change/increase
<i>Commercial</i>	€83 per m ²	€111 per m ²	33.7%
<i>Residential</i>	€11,067 per apartment unit	€12,000 per apartment unit	8.43%

Dublin City Planning use	Current contribution levy	Proposed Contribution levy	Percentage change/increase
<i>Commercial</i>	€110 per m ²	€127 per m ²	15.5%
<i>Residential</i>	€11,500 per apartment unit	€156.62 per m ²	36% (based on average 100 m ² apartment)

Source: South Dublin County Council and Dublin City Council

The levies currently imposed by Councils are related to the price for works which is subject to change to match how much the Council pays for the services it buys, e.g. road construction, maintenance, etc. It should be reflected in the levies to be charged by the Councils that this index is in fact reducing, yet the proposed levies would increase the amounts payable for developments. The Society of Chartered Surveyors Tender Price Index has in fact shown a decline of 7.5% in

tender prices for the second half of 2009 to below 1999 levels (a decrease of 17.2% for the year as a whole) which would in fact reduce the levies payable to significantly below the rates being proposed by Councils. The reduced levies are appropriate given the prevailing economic and market conditions.



Source: Society of Chartered Surveyors

This index reflects the dramatic fall off in all sectors of the construction industry including residential, commercial, public sector and civil engineering works and the fact that the output of the industry is likely to reduce to a third of its peak of €38bn in 2007. The fall in tender prices comes despite increases in the cost of labour and material inputs and reflects the situation where contractors are bidding at or below cost in order to secure a share of the ever diminishing market.

The issue of Local Authority funding requires immediate attention. Approximately 20% of the income each year has recently been derived from development levies. Given the economic climate and increasing barriers to the property development market, this is an unreliable form of income and other funding mechanisms need to be put in place such as water charges and property tax as outlined in Sections 3.0 and 9.0.

4.0 Water Charges

Local Authorities should aim to be self-financing in the long term and exchequer support should be replaced with increased revenue generation from local sources and increased cost recovery levels for appropriate services. Charging for domestic water services would be consistent with this approach, and should be within the remit of a single national water authority.

Particularly given the difficulties arising from the usage of water by residential occupiers over January period, this is considered an appropriate response. It was reported during this period that usage soared in Clare county by around 20% as people left taps open in attempt to stop their pipes freezing over. The affect on supply was acknowledged across the country resulting in water shortages.

5.0 Rates

Rates represent an annual tax liability on commercial premises, which produce a revenue stream of approximately €1.25 billion to local authorities. This has represented approximately 26% of local authority funding but as other forms of funding decrease in the current climate rates have effectively taken on a more central role. For commercial property owners and occupiers rates previously comprised approximately 10-15% of occupation costs as a percentage of rental value. However, the significant changes in the general economy and the market over the past 24 months have effectively increased this figure to approximately 20-25% whilst trading conditions have declined. The impact can be greater in local authority areas where a general revaluation has been undertaken. Furthermore, the overall increases in the rate multipliers vis-à-vis inflation indicate that in the periods 1997 to 2002, and 1997 to 2007 the rates multipliers increased by approximately 29% and 66% respectively whereas the CPI increases were 18% and 40%

The current position whereby the revaluation is referenced to a base date of September 2005 i.e. approaching the height of the market is also predominantly skewing the increased liability towards retailing. It is considered that the base valuation date should be revisited and updated to a more current level. Consideration should also be given to implementing a phased introduction of new rates assessments whereby the increases/decreases resulting from the revaluation process can be phased in over, say, a 3 or 5 year period to even out the impact on commercial businesses.

At present a commercial premises must be entirely vacant in order to qualify for vacancy relief. However it must be vacant as at a single specific date and if not then no refund can be claimed. If a landlord loses a tenant during the year then they are liable for full rates amount. This impacts on the options available to owners and occupiers in considering rationalisation of commercial accommodation or temporary lettings of portions of a vacant premises as the vacancy relief on the remainder will be lost. If a landlord were to do a short-term letting of space at the beginning of the year, notwithstanding that it may be vacated two months later, the landlord is liable for rates for the entire year for that portion of the property.

We propose that this single date provision should be removed and changed to allow vacancy at any point during the year, and a pro rata payment made if tenancy changes during the period. Where a property has a single rateable valuation the entire property must remain vacant to get rates refund relief. This hampers a landlords ability to consider say letting the building in sections as occupancy of part is deemed occupancy of the entire. Again the law should be changed to allow flexibility. Consideration should be given to legislative changes to enable both partial occupation and partial vacancy relief.

6.0 Obsolescent Buildings

It is recommended that occupiers or owners should be enabled to off-set up to 50% of their rates bill on selected designated capital upgrade works to their properties. This could include specific listed items such as upgrades to building envelope (i.e. insulation/glazing), upgrades to mechanical/electrical components (i.e. heating, lighting, etc) to comply with the highest Building Energy Rating certification levels. This proposal would encourage investment in obsolete property thereby reducing CO² omissions while also stimulating employment within trades and material suppliers involved with the upgrade works.

Refurbishment of existing buildings is extremely important as around 60% of the buildings that will be standing in 2050 have already been built¹. This means that we must maximise the carbon saving opportunities of retrofits and refurbishments, whether it is to update existing homes, offices or industrial sites.

Given that an estimated 24% of vacant commercial space is obsolescent in the city centre, we submit that options should be examined to allow for the redevelopment and regeneration of floor space to allow for temporary use of these buildings without incurring a 'double levy' once the building is redeveloped in full in the future. For example, a commercial office block that could provide short term retail space or other uses should not incur development contributions if it is to be used temporarily for these uses. If such a temporary change of use incurred levies, it would in effect be double charged once the full redevelopment of the office space occurred in the future once economic conditions have stabilised. This measure would incentive the use of currently vacant buildings in the city centre for short term use as incubator units or similar and encourage diversity and activity in these vital areas.

A system of grants could be provided to owners of protected structures and/or obsolescent buildings in relation to retrofitting of energy efficient measures. It is acknowledged that in the present environment, funds may not be available for this purpose however in any event we would propose a reduced or zero-rated VAT rate for upgrading works to

¹ Carbon Trust Research, UK

protected structures and obsolescent buildings. This would encourage the redevelopment of existing stock, stimulate the construction sector, and create jobs while creating a net positive impact on the Exchequer. The renovation of existing properties is also a more sustainable method of development with less carbon emissions and a lesser impact on the environment.

To improve energy efficiency, hence reduce CO2 emissions, in existing and obsolescent buildings, the proposed technical improvement works would include:

- a) Retrofit of the building envelope,
- b) High efficiency lighting and controls
- c) Energy efficient electronics and appliances
- d) Retro-fit water heating
- e) Retro-fit HVAC (heating, ventilation and air-conditioning systems)

Grants, even though difficult to fund at the present time, should be given to owners of properties to incentivise the completion of these works. More energy efficient building will attract interest on the open market as occupiers are seeking to reduce their running costs, which includes heating and electricity bills.

7.0 Optimum Collection & Use of Property Data

The Irish government should consider streamlining the process for the collection, retrieval and use of property data such as property valuations and rates, register of legal title and land deeds etc. through the application of computer assisted mass appraisal (CAMA) within a geographic information system (GIS). These systems are used worldwide (including Northern Ireland) – particularly for property taxation – and they have been proven to *'increase efficiency, enhance currency and transparency, and ultimately facilitate a more frequent revision of the tax base'*.²

The implementation of a GIS means that *'valuers need to spend less time collating information and inspecting properties on site and can, therefore, carry out more efficient, cost effective valuations'*.³

Government decision makers can also derive the following benefits from the application of this technology:

- Optimisation of resource allocation both efficiently and cost effectively.

² McCluskey, W., Deddiss, W., Mannis, A., McBurney, D., Borst, R. (1997) Interactive Application of Computer Assisted Mass Appraisal and Geographic Information Systems, *Journal of Property Valuation & Investment*, Vol. 15, No. 5, 1997, pp 448-465.

³ Tretton, D. (2007) Where is the world of property valuation for taxation purposes going? *Journal of Property Investment & Finance*, Vol. 25, No. 5, 2007, pp 482-514.

- Facilitating the sharing of key data sets across Government Departments to support policy creation and implementation.
- Offering transparency to the citizen in how investment and taxation decisions are based strictly on objective criteria - which can be represented in an easily accessible digital and visual format.
- Monitoring of projects to prevent fraud, misappropriation and overspend.
- Ensuring that services and infrastructure are delivered to areas of greatest need and also ensuring that these services are interoperable.

8.0 Service Charges

There is an increasing problem with the payment of residential service charges in respect of apartments in mixed-use developments. This is creating situations in many developments where services such as cleaning and security are being suspended as there are insufficient funds available. This has resulted in an increase of non-payment of service charges being recorded at approx 90% by property managers at the coal face of this issue. A survey was undertaken in October 2009 by the IPFMA in conjunction with the SCS which is referred to within this submission.

These results highlight the growing problem in this area. In the years to 2009, 62% of respondents confirmed that between 80-100% of service charges were paid, yet this has decreased to approx 25% in 2009 within this percentile. Many developments (approx 56%) are suffering from a situation where services have been decreased or withdrawn. A downward spiral is developing whereby the shortfall in service charges being collected results in less services being provided to apartment dwellers, with the result that more residents refuse to pay charges - a vicious circle! Worryingly, a number of respondents to the survey have confirmed that sinking funds are now being utilised to fund ongoing maintenance and running costs, resulting in a precarious future for the property assets.

The SCS proposes that as part of the annual Form 12 Tax Return, a residential investor claiming Section 23 or similar relief should have to include proof of payment of the service charge before the relief is provided. As investors are the largest proportion of owners (approx 53%) who do not pay service charges, this would ensure that charges are paid before year end.

In terms of other owners in the development, proof of service charge payment could be mandatory each year in order to qualify for mortgage interest tax relief. For the relief to continue to be deducted at source, each owner would submit a receipt proving payment of the applicable service charge.

These measures would substantially increase the number of service charge payments and improve the quality of life for residents. It also has the advantage that the payments are made prior to receiving tax relief, in the form of Section 23/50, or mortgage interest relief.

9.0 Fuel Subsidy

Affordable wealth is such that can be obtained with less than 10% of household income⁴. While this assumption has its limits, the Institute of Public Health (IPH) states that fuel poverty arises as a result of the relationship between household income, energy efficiency of the property and fuel prices⁵.

The household sector accounts for 26% of total energy consumption and 29% of total CO2 emissions according to the IPH report.

We propose that an evaluation of building stock is undertaken of all Local Authority housing and BER certificates produced for each property. The fuel subsidy would then be linked to the energy rating of the relevant housing. The more energy efficient the home, the less subsidy provided and vice versa. While we are not proposing a decrease in the overall subsidy paid, the method in which it is allocated should be improved to link payment to actual efficiency of the relevant homes.

The proposal is that a post occupancy assessment of all social housing is carried out to review energy usage and efficiency of each unit and the carbon emissions calculated. The housing is upgraded as necessary to reduce energy usage and carbon emissions.

10.0 Property Tax

The SCS believes that there is a need to widen the tax base following a lengthy period of overreliance on stamp duty.

In the residential sector, the SCS is supportive of the concept of an annual property tax in lieu of stamp duty for purchasers of principal private residences. Any methodology adopted should avoid any anomalies or unfairness, as may exist between urban and rural property, age and means of the occupier/owner, which will impact on affordability. A ten-year moratorium would be required as the transition period starting from the date that the stamp duty was originally paid, otherwise the more recent purchasers will be paying this proposed tax 'on the double'.

⁴ Boardman, B and Milne, G (1997) 'Making Cold Homes Warmer: the Effect of Energy Efficiency in Low Income Homes, EAGA Charitable Trust, Keswick

⁵ Institute of Public Health (2007)

Any proposal on stamp duty needs early clarification otherwise a state of complete paralysis will envelope the already slow residential market. The SCS would welcome the provision of an up-to-date database for all residential property (a house price register) and suggest that such a database is transaction based, i.e. based on actual transaction prices rather than valuation opinions.

There are four possible methods that have been identified:

Self certification: This method would be based on self-assessment and so would have some issues regarding correct valuation appraisals.

Agent Certification: This method would create an additional cost to owners, although tax relief could be given to assist in defraying the up front cost.

Valuation Office: A residential property databank based on market values could be undertaken and co-ordinated or undertaken by a body such as the Valuation Office.

Number of Rooms/Size: The proposed tax could be based on the number of bedrooms or total house size (gross area in sqm). This would make it unnecessary for ongoing valuations to update market values, and remove any differentials in terms of value created by location.

The SCS submits that out of the options outlined above, the method of taxation should be valuation based. Over the medium term, a database recording transaction amounts should be compiled, and this could form the basis for the valuation on which the tax would be based. Given that this would take time to compile, for the short term a self-assessment method could be utilised whereby owners would enter a brief synopsis of their property on-line including such aspects as estimated gross area, location, number of bedrooms and estimated market value.

11.0 Conclusion

It is acknowledged that a major review of the financing structures for local authorities is required, and dramatic improvements to the existing system incorporated. While there have been improvements, the current economic environment creates an impetus for changes to be delivered expediently and rationally. The SCS looks forward to a continued debate on this subject and will make our members available to meet with you should you consider appropriate to continue this discussion. We hope that this brief synopsis is of interest and are available to discuss in more detail at your convenience if considered of interest.