



Draft Budget Strategy for Financial Year 2020 in compliance with the Local Government (Financial and Audit Procedures) Regulations 2014
For consideration at a special meeting of Dublin City Council scheduled for 23rd September 2019

1. Executive Summary

This draft budget strategy prepared in compliance with SI 226 of 2014, proposes that Dublin City Council's revenue base is expanded to provide for services which are key to the growth of the City and to deal with specific financial pressures. This requires an increase in commercial rate ARV from 0.261 to 0.264 (of 1.15%), with a yield of €3.9m, a reduction in the commercial rates vacancy refund rate of 5% to 35% with a yield of €750k and applying the national basic LPT rate thereby providing an additional €12m funding. This document is required to be presented to elected members as part of the LPT process (i.e. September), in advance of the statutory budget meeting scheduled for November 18th 2019. As a result, there is uncertainty attached to some key parameters as presented.

2. Introduction

2.1 Background

The relevant legislative provisions are The Local Government (Financial and Audit Procedures) Regulations 2014 (S.I. nos. 296 and 439 of 2014), Circulars Fin 08/14 and Circular Fin 5/2019. The legislative framework prescribes the format of financial data provided. In this report, financial information is based on actual data to date (September 2019) along with reasonable estimates of likely outturns for the current financial year 2019. A comprehensive mid-year review of the financial performance was carried out in July 2019.

2.2 Relevant Factors

The factors relevant to the 2020 Budget are:

- Movements in commercial rates including the overall quantum of rateable properties
- The setting of the vacancy refund rate
- The setting of the commercial rate (ARV)
- Expenditure commitments and service demands in 2020
- The setting of the LPT rate

- Efficiencies gained in 2019 and scheduled for 2020
- The level of government grant funding
- Financial management and cost pressures in the current (2019) and year (2020)
- Capital expenditure and income in 2020.

Dublin City Council's financial position is set out in the prescribed format in **Appendix 1**.

2.3 Objectives

The objective of Dublin City Council's Budget Strategy is to develop a financially sustainable approach to funding operational services and capital programmes for the financial year 2020. The strategy seeks to ensure that the resource base as identified is adequate to provide services to business and communities and further ensure that service provision and expenditure commitments are priced giving best value for money to Dublin City Council and the people who live, work, invest in or visit Dublin City.

3 Factors relevant to Budget Strategy

3.1 Importance of Commercial Rates to Service Provision

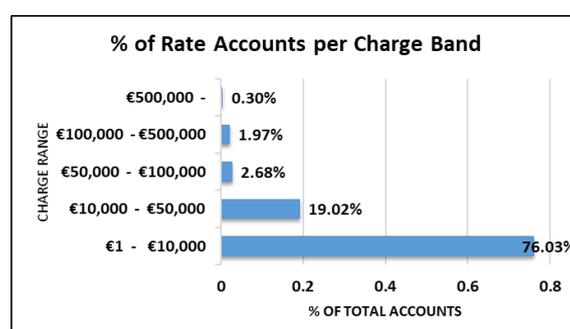
The funding of local government services occurs through a range of sources – specific government grants, commercial rates, income from services, LPT funding applied to specific services and LPT discretionary funding. Any savings made by Dublin City Council in a financial year are applied towards the funding of services in the following year. **Appendix 2 and 3** sets out the trends in recent years as to the value of inputs from these sources to the funding of services. All sources of funding are important, including commercial rates. The buoyancy of trade in Dublin City is crucial to the City's economic prospects. Dublin City Council services support trade and so it is appropriate that commercial entities makes a contribution for their trading environment. This contribution must be appropriate and not at a level which dampens trade and removes potential for growth.

3.2 Increase in the ARV

Details of commercial ratepayers in Dublin City by band in 2019 are set out in **Appendix 4** and Tables 1 and 2. Almost 77% of commercial ratepayers have a rates charge in 2019 of €10K or under, while almost 40% of commercial rate payers have a rates charge in 2019 of under €3,000. By contrast, almost 50% of the total rates debit is paid by 2% of commercial rate payers or 426 accounts.

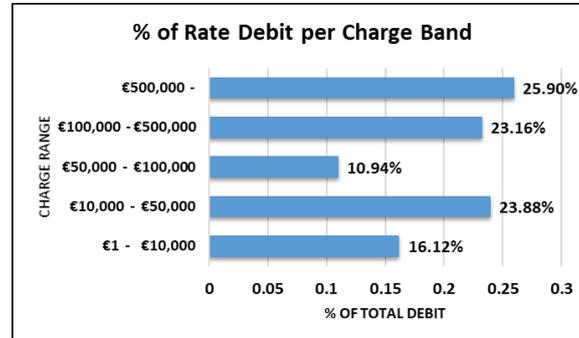
- 76% of ratepayers receive a bill of less than €10k.
- 19% of ratepayers receive a bill of between €10k and €50k.
- 5% of ratepayers receive a bill in excess of €50k.

Table 1



- 5% of ratepayers pay 60% of the rates charge
- 19% of ratepayers pay 24% of the rates charge
- 76% of ratepayers pay 16% of the rates charge

Table 2



This budget strategy is based on the recommendation to increase the ARV for commercial rates in the financial year 2020 to a multiplier of 0.264 from 0.261 i.e. a 1.15% increase. See **Appendix 5**.

3.3 Vacancy Refunds

The Local Government Reform Act provides for elected members to determine, by resolution, the vacancy refund rate to apply to electoral districts within the local authority's jurisdiction. In Dublin City a vacancy refund rate of 50% had applied under the Dublin 1930 Act until 2017 when the vacancy rate was changed to 45%, and in 2018 when the vacancy rate was further reduced to 40% (i.e. where a rateable premises has been vacant, 60% of rates due is liable, with 40% not paid). In many other local authorities, a full 100% vacancy rate refund has applied prior to and since the reform act. In other words where a rateable premises was vacant, no rates are due.

Dublin City Council has reviewed the impact on payments of the changes made to the vacancy refund rate in November 2016, applicable for the financial and budget year 2017 and also the second reduction applied to the vacancy refund rate for the 2018 Budget and financial year. It must be emphasised that commercial rates, vacancy related or otherwise, are pursued until payment is made. Consequently the payment timeline varies based on how quickly the debt is discharged. It is preferable for Dublin City Council that rates liabilities are discharged promptly for cash flow purposes and to maximise efficiencies so as to minimise resource usage. The in-depth analysis of payments made in respect of vacant commercial property compared actual payments made in 2016, 2017 and 2018.

Payments made relating to vacant commercial property in 2017 indicate a lower payment rate than payments made in 2016, however payment rates in 2018 have almost returned to 2016 levels. The cause of the change payment patterns cannot be definitively stated (e.g. a growing acceptance of the change in policy, improvement in the economic climate). A further exercise will take place in 2020 comparing the payment pattern in 2019 with earlier years. Based on this review of payment patterns across 2016 to 2018, it is recommended to further adjust the vacancy refund rate in

the 2020 Budget by a reduction of 5% to 35%. This will yield an estimated additional €750k receipts, provided for in the draft budget strategy.

Over the period 2015-2018, the value of vacancy rates refunds in Dublin City has reduced from €13.2m to €8.2m primarily due to increased demand for vacant commercial premises and the reduction of the vacancy credit from 50% to 40% . Table 3 provides details of vacancy refunds in Dublin City in 2015 - 2018.

Area	2015		2016		2017		2018	
	No. of Accounts	Vacancy Credits	No. of Accounts	Vacancy Credits	No. of Accounts	Vacancy Credits	No. of Accounts	Vacancy Credits
Central Area	479	€2,730,963	474	€2,722,532	438	€1,840,997	386	€1,576,846
North Central Area	207	€872,939	118	€386,775	165	€653,156	173	€396,574
North West Area	263	€1,085,722	211	€964,994	271	€1,127,763	274	€906,740
South Central Area	334	€1,527,788	287	€1,370,056	258	€1,055,855	255	€992,709
South East Area	954	€6,949,833	814	€5,762,024	854	€5,090,095	784	€4,330,278
Misc								
Total	2237	€13,167,245	1904	€11,206,380	1986	€9,767,866	1872	€8,203,146

3.4 Variation of the Local Property Tax 2020

Report 268/2019 relates to the consideration of the Local Property Tax Local Adjustment Factor in respect of the financial year 2020. In summary, the report proposes that the elected members move from applying a 15% reduction in the LPT basic rate to applying the national basic rate thereby providing an estimated €12m in additional funds.

3.5 Financial Pressures in the current year 2019

The 2019 operational budget of €970.9m was adopted by the elected members and an Annual Rate on Valuation of .261 was struck, representing an increase of 1.1%. Financial management within Dublin City Council ensures that significant budget variances are identified and appropriate actions are taken to minimise any adverse financial impact.

Expenditure Pressures

Insurance

The need to make increased provision for insurance premium payments and for expenditure on historic claims represents a real challenge to the City Council in 2020. Prior to February 2017 the Council operated a hybrid risk transfer/insurance model. In areas of high risk/potential liability - public liability, property, employer's liability and professional indemnity - it carried a high degree of self-insurance, up to a €500,000 threshold per individual claim in each risk class. In addition, it purchased insurance cover in respect of claims over the self-insurance threshold. In other areas of risk/liability (e.g. motor insurance) the City Council purchased 'ground up' cover or near 'ground up' cover (i.e. cover with a low claims excess).

The main change that occurred in February 2017 in relation to risk transfer/insurance is that the City Council moved from largely self-insurance to the purchase of 'ground up' cover or near 'ground up' insurance cover as set out in the table below:

Table 4 – Insurance Excess

Insurance Class	Previous Policy Excess per Claim (Pre 1 Feb 2017)	Current Policy Excess per Claim (Post 1 Feb 2017)
Public liability	€500,000	Nil
Employer's liability	€500,000	Nil
Employee professional indemnity**	€500,000	€5,000
Property	€325,000	€5,000

The bulk of the City Council's insurance business is placed with IPB, which is a mutual general insurance company providing public liability, property, employer's liability and motor insurance cover mainly for local authorities, Education and Training Boards (ETBs) and a small number of other public sector organisations. Originally established in 1926, the members (owners) of IPB are local authorities and ETBs. (The City Council availed of the 'Teckal' exemption to procure the additional insurance cover directly from IPB without the need for a public procurement process.)

Two factors are contributing to the increase in insurance costs:

- The premium charged by IPB for public liability insurance cover has increased significantly based on their assessment of the number and value of Dublin City Council public liability claims since 2017 and
- the need to resolve historic pre 2017 claims. It is now estimated that at the time of the move to 'ground up' cover (i.e. February 2017) the total value of outstanding claims not covered by insurance, which remain the responsibility of the City Council, was just under €80m. Since February 2017 approximately €33m has been spent on these claims by the Council leaving a remaining liability of €46m which must be financed.

The expenditure issues impacting on the financial outlook for Dublin City Council in 2019 and 2020 are:

- Insurance related costs (€23.5m across 2019 and 2020)
- Increased costs of management fees relating to social housing units (€800k increase in 2019 and likely to be larger in 2020)
- Increased spend on void housing units by contractors (€850k increase in 2019)
- Funding of implementation of national pay agreements, 82% only funded by government grant (€4m gap in 2019)
- Costs of DFB services (€2.4m in 2019 and €5m in 2020 expenditure increase)
- Reduced government funding of Housing Capital works programmes requiring increased DCC borrowing costs (2019 and 2020)

Homeless Services

The costs of service provision for homeless persons continue to increase as a result of increases in the homeless presentation rates. Trends in demand for homeless related services have been well documented and debated over 2019 and previous years. Dublin City Council has worked consistently with The Minister for Housing, Planning & Local Government on the implementation of the Action Plan for Housing and Homelessness: Rebuilding Ireland. Addressing homelessness is a key pillar of the action plan. Based on my engagement with the Minister, I am satisfied that funding will be given for additional costs incurred by Dublin City Council for the provision of homeless related services due to increased presentation, notwithstanding that written confirmation of such funding has not yet been received.

Table 5 - Homeless Funding

Analysis of Homeless Expenditure						
	2019 - Adopted		2019 - Revised		2020 - Estimated	
	Budget	% Share	Budget	% Share	Budget	% Share
Expenditure	149,926,520.00		169,774,607.48		178,634,598.10	
Income						
DoHPC&LG	126,899,740.00	84.6%	146,747,827.48	86.4%	155,607,818.10	87.1%
Dublin LA's	7,250,000.00	4.8%	7,250,000.00	4.3%	7,250,000.00	4.1%
Other (HSE/Health & Misc)	1,028,205.00	0.7%	1,028,205.00	0.6%	1,028,205.00	0.6%
Total Income	135,177,945.00	90.2%	155,026,032.48	91.3%	163,886,023.10	91.7%
DCC Contribution	14,748,575.00	9.8%	14,748,575.00	8.7%	14,748,575.00	8.3%
Total Expenditure	149,926,520.00	100.0%	169,774,607.48	100.0%	178,634,598.10	100.0%

Note: The above analysis is based on the following assumptions:

- Dublin City Council's contribution is fixed at €14.7m.
- Dublin Local Authority's contribution is fixed at €7.5m.
- The funding for all increased expenditure is passed to the DHPLG.
- Per the analysis the DHPLG funding is moving from €149.9m (adopted 2019) to €178.6m (Est 2020).
- There is increased DHPLG funding of €28.7m
- The DHPLG funding increase moves from 84.6% to 87.1%.

3.6 Income Trends 2019 and 2020

2019 Income

Dublin City Council has limited income sources and it is critical to service provision that these funds are secured. Income pressures in 2019 have been:

- Income due from the Health Service Executive (HSE) re the Dublin Fire Brigade (DFB) ambulance service not paid (€4m unpaid)

- Reduced government funding of Housing Revenue and Capital works programmes.

2020 Income

Commercial Rates and Local Property Tax have been considered separately. In relation to income from goods and services, it is envisaged that no material increase will realise.

Irish Water Related Rates Income

The Department of Housing Planning and Local Government (DHPLG) is considering proposals to introduce a 'global' valuation apportionment approach to Irish Water properties. Dublin City Council understands that the DHPLG is considering using population as a basis of apportionment. Thus far, Irish Water valuations and consequent rates income have accrued to the local authority in which the property is situated. While population is a basis of apportionment used in most global valuations, there is precedent for other apportionment basis to be applied. In this case, Dublin City Council strongly disputes that the scale of Irish Water properties situated in Dublin City can be narrowly correlated solely to population of Dublin City. Such a basis (i.e. population) is evidently inappropriate given the wide geographical connection of water and sewage flows dealt with at facilities in Dublin City. In the event that the DHPLG proceed with the current proposal, there is a probable loss of Irish Water related rates income to Dublin City Council of €8.9m. Elected members will be aware of a commitment given by Government that the Irish Water transition process would be revenue neutral for local authorities. The DHPLG have indicated that partial grant funding for Dublin City Council is being considered for 2020. This is not confirmed and in addition has expressly been flagged as being for one year only.

In summary, Dublin City Council will potentially have €8.9m less in Irish Water Rates income in 2020 and have probably €8.9m less from 2021 onwards (in perpetuity).

HSE Related Ambulance Income

Income in respect of the ambulance services has not been paid by the HSE to an annual value of €4m in 2017, 2018 and 2019.

Funding of national pay agreements

Further, as of now (early September 2019), grant funding for the costs of implementation of the Haddington Road and Public Sector Stability Agreement (PSSA) is expected to be provided for 2020 at 86% of incurred cost as against 100% provided to Government Departments. Table 4 gives details of the funding shortfall over the period 2018 to 2020 being €4m in 2020 and €10.42m from 2018 to 2020.

Table 6 – Analysis of Payroll Compensation

	2018		2019		2020	
Projected Payroll Increase	16.808	100.0%	22.775	100.0%	29.855	100.0%
Notified Compensation	13.447	80.0%	19.714	86.6%	25.854	86.6%
Shortfall in Compensation	3.361	20.0%	3.061	13.4%	4.001	13.4%
Cumulative Shortfall	10.42					

3.7 Service Demands 2020

In framing this draft budget strategy, due regard has been given to service demands likely to present in 2020. The most significant are:

- Insurance related costs (€23.5m across 2019 and 2020)
- Increased costs of management fees relating to social housing units (€800k increase in 2019 and likely to be larger in 2020)
- Costs of Dublin Fire Brigade services (€1.9m in 2019 and €5m in 2020 expenditure increase)
- Provision of discretionary area fund in 2020 - €6.1m
- Increased cost of public lighting energy - €0.5m
- Non exchequer funded increase in the PSSA - €4m
- Loan financing costs of capital projects in 2020
- Increased costs of pension & gratuities

3.8 Efficiencies made in 2019 and planned for 2020

Over the course of 2019, efficiencies have been made in how service provision is structured and the associated costs of same. With regard to staff, Dublin City Council staff numbers at 30th June 2019 reflect a modest increase of both core and non-core staff, from 5290.15 at December 2016 to 5384.55 at 30th June 2019 in line with service requirements.

Staff

Table 7: Staff Numbers Dec 2016 to June 2019

	Dec 2016	June 2018	June 2019
Headcount	5618	5727	5921
Core	5451	5485	5723
Non-Core	167	242	198
WTE	5290.15	5384.55	5586.25
Core	5131.5	5153	5395.80
Non-Core	158.65	231.55	190.45

Procurement

Dublin City Council continues to pursue value for money outcomes for supplies, services and works, through the introduction of local contracts and frameworks and through availing of central led, regional and national procurement arrangements. The Office of Government Procurement (OGP) and The Local Government Operational Procurement Centre (LGOPC) existing and pipeline contracts and frameworks, identifies potential for Dublin City Council to generate further savings through aggregation and leverage across all areas of Dublin City Council operations.

3.9 Capital Expenditure and Income 2020

The budget strategy is based on the forecasted capital spend for 2020 as identified in Dublin City Council's 2020 to 2022 Capital Programme. A detailed Capital Programme for the period 2020 to 2022, based on further analysis, will be presented to the Elected Members in November along with the Operational Budget for the financial year 2020.

4.0 Summary

This draft budget strategy proposes that Dublin City Council's revenue base is expanded to provide for services which are key to the growth of the City and to deal with specific financial pressures. This requires an increase in commercial rate ARV from 0.261 to 0.264 (1.15%), with a yield of €3.9m, a reduction in the commercial rates vacancy refund rate of 5% to 35% bringing an additional €750k receipts and applying the national basic LPT rate i.e. no variation, resulting in an additional €12m funding.

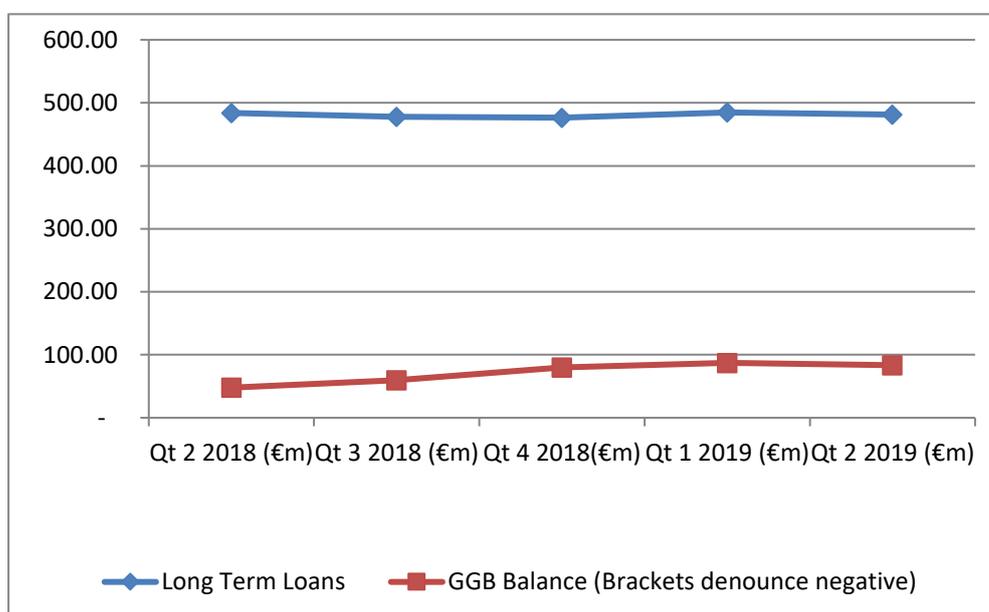
Kathy Quinn
Head of Finance

18th September 2019

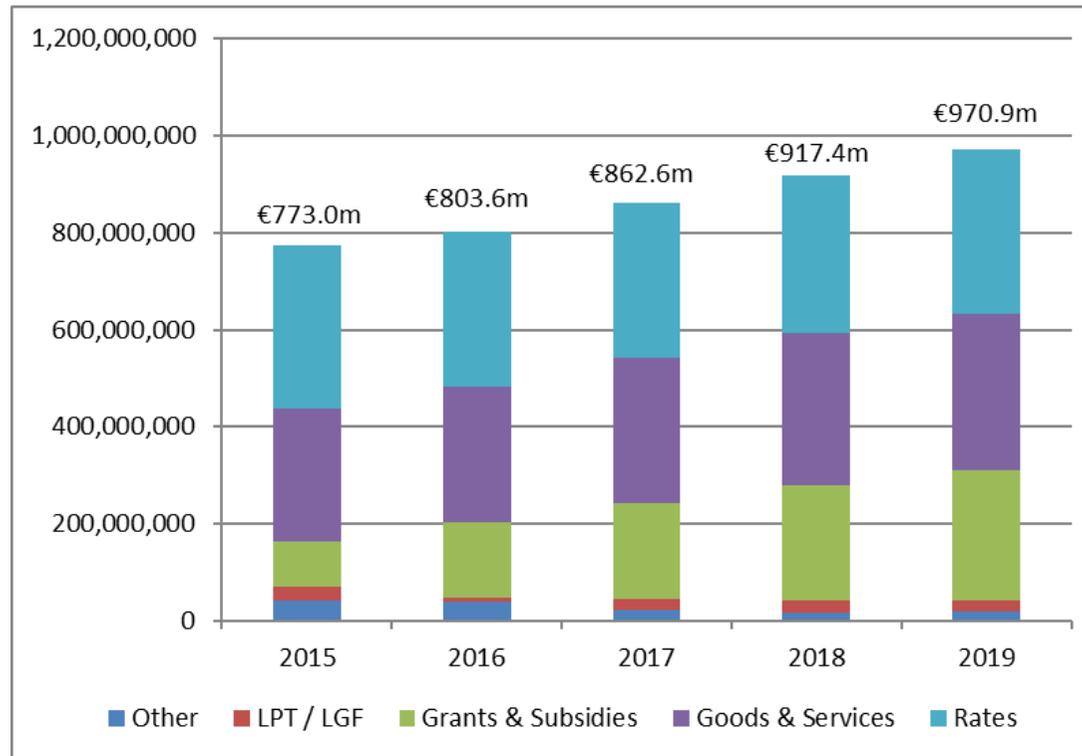
Appendix 1

	As at Year To 28th of June 2019
ASSETS	€
Current assets (including cash and investments)	537,661,201
General revenue reserve (if surplus)	19,356,670
Loans receivable	487,751,508
	-
LIABILITIES	€
Current liabilities (including overdraft)	370,417,561
General revenue reserve (if deficit)	-
Loans payable	-
Voluntary housing/mortgage loans	377,521,375
Non mortgage loans	103,899,590
	-
INDICATORS	-
Ratio of loans payable to revenue income	49.6%
Ratio of current assets to current liabilities	1.45:1

	Qt 2 2018 (€m)	Qt 3 2018 (€m)	Qt 4 2018(€m)	Qt 1 2019 (€m)	Qt 2 2019 (€m)
Current Assets	542.68	450.38	353.44	651.63	537.66
Current Liabilities	391.82	291.16	189.15	475.75	370.42
Creditors(<1yr)	533.37	527.23	565.49	574.03	571.29
Long Term Loans	484.12	477.85	476.51	484.72	481.42
GGB Balance (Brackets denounce negative)	47.91	59.64	79.93	87.23	83.70
Movement against Q4 of previous year	17.66	29.39	49.68	7.30	3.77
2017 Q4 GGB Balance	30.25				



Appendix 2 - Budgeted Total Income by Year 2015-2019



Appendix 3 – Table of Budgeted Total Income by Year 2015-2019

	2015	2016	2017	2018	2019
	€m	€m	€m	€m	€m
Other	42,429,916	39,555,651	22,083,530	17,650,408	19,473,607
LPT / LGF	28,718,895	6,800,295	23,068,969	23,085,071	23,098,626
Grants & Subsidies	90,901,501	156,338,323	198,858,013	238,626,125	267,984,878
Goods & Services	275,181,883	280,557,963	297,898,169	313,238,087	322,172,370
Rates	335,783,018	320,305,036	320,667,649	324,811,937	338,194,241
Total	773,015,213	803,557,268	862,576,330	917,411,628	970,923,722

Appendix 4 - Rate Bands 2019

CHARGE 2019	No Of Accounts	Cumulative total	% per band	Cumulative Total	Total debit per band	% of Debit	Cumulative Total
€1 - €999	2039	2039	10.01%	10.01%	€ 1,257,958.44	0.37%	0.37%
€1,000 - €3,000	5843	7882	28.69%	38.70%	€ 11,370,762.46	3.36%	3.73%
€3,000 - €5,000	3682	11564	18.08%	56.77%	€ 14,351,402.60	4.24%	7.98%
€5,000 - €10,000	3923	15487	19.26%	76.03%	€ 27,552,555.16	8.14%	16.12%
€10,000 - €25,000	2791	18278	13.70%	89.73%	€ 42,890,692.63	12.68%	28.80%
€25,000 - €50,000	1083	19361	5.32%	95.05%	€ 37,903,256.99	11.20%	40.00%
€50,000 - €75,000	385	19746	1.89%	96.94%	€ 23,153,712.68	6.84%	46.85%
€75,000 - €100,000	161	19907	0.79%	97.73%	€ 13,850,996.21	4.09%	50.94%
€100,000 - €500,000	401	20308	1.97%	99.70%	€ 78,364,316.17	23.16%	74.10%
€500,000 -	61	20369	0.30%	100.00%	€ 87,603,849.52	25.90%	100.00%
TOTAL	20369		100.00%		€ 338,299,502.86	100.00%	

Appendix 5 - Estimated Rates 2020

	Estimated NEV 2020	%	ARV	Total Income	Movement
Current	€ 1,328,677,531	0%	0.261	€ 346,784,836	
Increase applied to the GARV					
Increase	€ 1,328,677,531	0.38%	0.262	€ 348,113,513	€ 1,328,678
	€ 1,328,677,531	0.77%	0.263	€ 349,442,191	€ 2,657,355
	€ 1,328,677,531	1.15%	0.264	€ 350,770,868	€ 3,986,033
	€ 1,328,677,531	1.53%	0.265	€ 352,099,546	€ 5,314,710
	€ 1,328,677,531	1.92%	0.266	€ 353,428,223	€ 6,643,388
Decrease applied to the GARV					
Reduction	€ 1,328,677,531	-0.38%	0.260	€ 345,456,158	-€1,328,678
	€ 1,328,677,531	-0.77%	0.259	€ 344,127,481	-€2,657,355
	€ 1,328,677,531	-1.15%	0.258	€ 342,798,803	-€3,986,033
	€ 1,328,677,531	-1.53%	0.257	€ 341,470,125	-€5,314,710
	€ 1,328,677,531	-1.92%	0.256	€ 340,141,448	-€6,643,388