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Report to the Chairperson and members of the Finance Strategic Policy Committee

Dublin City Council's LPT Local Adjustment Factor

1.0 Background

A review of Local Government Funding as applies to Dublin City Council was recently commissioned with the report presented to the March Finance SPC meeting. One issue considered in the review was the setting of the Dublin City Council's LPT Local Adjustment Factor. This issue was brought to the Budget Consultative Group (BCG) at its meeting held on 21st April. A copy of the Local Government Funding review was provided to all BCG members along with an explanatory document. The BCG were asked to

- examine the impact of the approach taken to date and
- evaluate if there are other feasible approaches that would yield additional resources to support additional services.

2.0 Budget Consultative Group (BCG)

The BCG is a non-statutory group of elected members which meets to discuss financial / budgetary issues. The Local Government Acts provide that the Corporate Policy Group (CPG), made up of the Lord Mayor and chairs of the SPCs and LCDC be consulted with in regard to the preparation of the draft budget by the Chief Executive. Since 2004, the CPG has relied on the work of the BCG in budgetary matters. The BCG has a member from all the political groupings on Dublin City Council and is chaired by the Chairperson of the Finance Strategic Policy Committee.

3.0 Overview of LPT

The LPT framework is complex with many deductions. So as to refresh the understanding of all SPC members, an overview of LPT deductions, as provided in the funding review report, is as follows:

...LPT Funding Deductions and Allocations

LPT funding undergoes statutory deductions which can be broken down as follows:

a) Equalisation Fund:

20% of total LPT funding goes straight into the Equalisation Fund and 80% kept locally for the Council's use.

b) Council Margin Vote Increase:

15% of the total LPT sum is then taken from the remaining 80%. This is due to the council voting down the 15% margin increase on LPT every year. Despite these deductions, there is still a sizeable amount of LPT funding left. In theory this represents a new locally generated source of revenue for the Council. However this is not the case. Following the statutory deductions, the remaining LPT funding must undergo the following three allocations:

- 1) The Department of Housing, Local Government and Heritage will direct the Council to allocate an amount of LPT funding for the 'self-funding' of housing and roads. 'Self-funding' is a term used by Government which implies that Local Authorities who are 'self-funding' have enough resources to meet their needs. In the context of LPT, 'self-funding' Local Authorities use LPT funding as a substitute for previous Central Government Grant Funding.*
- 2) The Council must also use LPT funds to pay a fixed amount for Pension Related Deductions (PRD) and*
- 3) General Purpose Grants (GPG) previously funded by Central Government....*

Finally, after these allocations, the remaining sum of LPT funding becomes the Discretionary Funding for the Council. This funding can be used by the Council on whatever they wish. However, the amount remaining after all the deductions and allocations leaves only a nominal sum compared to the original total with some €4.1m in available in 2022.

4.0 Key related points within the Local Government Funding Review

The Local Government Funding review examined the Local Property Tax and how it applied to Dublin City Council in detail. Report extracts are set out below on key LPT related points:

- Concerns held around retention of additional funds
- Funding impact of Adjustment Factor Decisions taken since the introduction of the LPT
- Rationale not to make decisions to secure additional resources
- Trends in applying a reduction to the Local Adjustment Factor

Concerns held around retention of additional funds

...In the event that a Local Authority decides to increase LPT rates, they retain 100% of the additional LPT collected. Whereas a Local Authority that decides to reduce LPT rates, the full cost of that reduction is reflected in a reduced LPT allocation to that local authority. In recent years, Dublin City Councillors have expressed concerns that should LPT rates be increased, the additional funds would be dealt with under the 'self-funding' category resulting in no new funds to Dublin City Council...

Funding impact of Adjustment Factor Decisions taken since the introduction of the LPT

...The Council itself, however, has also taken decisions which have impacted upon this tax take in their continued refusal to implement the available 15% uplift in LPT and indeed their ongoing use of the discretionary 15% discount to LPT. Over the past eight years this is estimated to have resulted in approximately €96 million of lost revenue to the Council due to the failure to apply the base rate and circa €200 million if the 15% uplift is considered...

Rationale not to make decision to secure additional resources

...Local councils have the discretion to vary the tax rate by up to 15% up or down from the base rate, however, many have opted to apply a discount choosing not to maximise their tax income. This was in part due to the perverse incentives that the model encouraged for 'winners' from the scheme to not raise their own revenue but instead rely on redistribution from the equalisation fund and Central Government making up the shortfall and 'losers' from the scheme opting not to increase taxes on their tax base when they do not feel they can utilise that funding directly as they see fit...

Trends in applying a reduction to the Local Adjustment Factor

...Indeed, only Dublin City and South Dublin County Council have consistently opted to negatively vary the LAFV by the full 15% each year since its inception in 2015. Since 2015, it is estimated that some €96 million in LPT income has been foregone by Dublin City Council or so

circa €12 million per annum with almost €200 million in total if a 15% increase had been consistently applied...

4.0 Options considered by the BCG

There are clear benefits to be secured by considering afresh how to secure additional resources through a different approach to the setting of the LPT adjustment factor than taken in previous years. There is an undisputed and evident need for more services and in parallel, in light of fiscal pressures from global issues such as the Covid pandemic and Russian invasion of Ukraine, limited resources. In advance of the 2023 Budget, the BCG members were asked to review this matter to determine if a changed approach can be put in place.

One option would be that the Elected Members agree to apply either a lesser than the maximum reduction or an increase to the 2023 Local Adjustment Factor. A programme of services specifically identified with the additional funding available through this would be agreed as part of the LPT meeting and the subsequent Budget Meeting. In broad terms, a 5% movement in lesser reduction/increase will provide €4.1m additional funding for services. For example if the Local Adjustment Factor was to be left at the basic rate (no reduction, no increase) an additional €12.3m would become available to be allocated to services.

A second option, perhaps to be considered at the start of the next council term (2024 to 2029) would be to determine a programme of services that would be provided based on the funding yield from an agreed approach to the setting of the Local Adjustment Factor, over the lifetime of that council. For example, as in the example above, the Elected Members might agree to set the Local Adjustment Factor at the Basic Rate, for each of the years 2024 through to 2029. In this approach, additional funding of €12.3m would be available to be allocated to services in each year.

5.0 Discussion points of BCG

The discussion of the BCG members included:

- Agreement on the need to secure additional funding for services.
- The value of local services and amenities is well appreciated, more so since the pandemic.
- Concerns were expressed that should a changed approach be taken to the Local Adjustment Factor that the Department of Housing would substitute the additional funds generated (€4.1m for every 5% movement) for grants currently received and thereby negate any benefit to DCC.

- All income options must be scrutinised so as to provide the best services, including relooking at the LPT.
- Local improvements have huge benefits for communities
- The existing arrangements have a lack of visibility of what happens to the LPT liability discharged by Dublin householders.

6.0 Consideration of issue by Finance SPC

The BCG members believe that this issue will benefit from wider discussion, beyond the BCG. The views and comments of the Finance SPC members are sought so as to build a broader perspective on this very important matter

Councilor Seamas McGrattan

Chairperson

Finance Strategic Policy Committee

19th May 2022