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

Further review of 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 Grant Thornton's report presented to the March Finance SPC meeting. The review considered the matter 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 and also to the Finance SPC (Report No.8/2022 refers) at its May meeting. The purpose was to examine the impact of the approach taken to date by DCC's elected members in setting the LPT Local Adjustment Factor for Dublin City and to evaluate if there are other feasible approaches that would yield additional resources to support additional services. It was agreed at the May meeting that a report would be brought to a future meeting for further consideration.

2.0 Update on Key points of Local Government Funding Review (Grant Thornton Report)

The key points of the report are:

- *Concerns held around retention of additional funds*
DCC have received confirmation from the Department of Housing that additional funds generated through increases in LPT will be held by DCC to be allocated by the elected members as part of the budgetary process
- *Funding impact of Adjustment Factor Decisions taken since the introduction of the LPT*
The decision taken by the elected members not to apply a 15% uplift in LPT and to apply a 15% discount has resulted in a loss over years of €192m in funding or €24m in each year
- *Rationale not to make decisions to secure additional resources*
The practice of choosing not to maximise resources available for service provision may have been influenced by aspects of the previous framework in terms of the application of

equalisation measures funded by all local authorities, although just some local authorities benefitted. Through the removal of the equalisation mechanism, this no longer applies.

- *Trends in applying a reduction to the Local Adjustment Factor*
In respect of the 2022 LPT local adjustment factor, most local authorities (22 or 71%) applied an increase. Five (16%) local authorities applied the national basis rate that is no variation. Reductions were applied by 4 (13%). The three councils applying a 15% reduction included Dublin City Council, South Dublin and Dun Laoghaire Rathdown.

3.0 Recent Changes to the LPT Framework

The LPT framework is complex with many deductions. Until now, a process was applied that extracted 20% of LPT receipts from each local authority and assigned these funds to an equalisation funds. DCC received no funding in any year from the equalisation fund. From 2023, an equalisation mechanism will not apply. However, this does not result in the value of funds that would have been extracted to the equalisation process being available to Dublin City Council elected members as part of the budgetary process. The value of funds substituted for government grants previously received have been increased. The amount of funding that the elected members of DCC can determine as part of the budgetary process has increased from €4m to €7m i.e. an increase of €3m, at a minimum. Tables 1 and 2 below, set out the impact of changes to the LPT under two scenarios, the first that a 15% increase and the second that a 15% decrease is applied to the LPT basic rate.

4.0 Two potential 2023 DCC LPT Scenarios

Potential LPT scenarios, one with a 15% increase applied, the other with a 15% reduction applied are set out in Tables 1 and 2. The attention of the SPC members is drawn to item 9 in both tables. Under scenario 1 being a 15% LPT increase, funds available to be allocated by Dublin City Council elected members increases to from €4.1m to €35.5m, by €31.4m. This occurs through the residual €3m remaining of increased LPT receipts, after increases in the substitution for government grants previously paid and €28.4m being the movement from a full 15% reduction to a full 15% increase.

Under scenario 2 being a 15% LPT reduction, funds available to be allocated by the elected members increases from €4.1m to €7.1m. This occurs through the residual €3m remaining of increased LPT receipts, after increases in the substitution of government grants previously paid. Both scenarios present a significantly different outcomes. In the context of the impact of inflation in both 2022 and 2023, the setting of the local adjustment factor is a material budget issue in determining the level of service provision

Table 1 LPT Funding Y2022 & Y2023: 15% increase applied 2023				
No		2,022 €	2,023 €	Movement €
1	Dublin City LPT - 100% <i>note 1</i>	82,048,235	94,556,845	12,508,610
2	Equalisation Fund - 20% <i>note 2</i>	16,409,647	-	16,409,647
3	LPT Retained Locally - 80% <i>note 3</i>	65,638,588	94,556,845	28,918,257
4	Increase LPT Base Rate by 15% in 2023 <i>note 4</i>	12,307,235	14,183,527	26,490,762
5	LPT Funding	53,331,353	108,740,372	55,409,019
	<i>Distribution of LPT Funding</i>			
6	Self-Funding - Housing & Roads <i>note 5</i>	30,133,649	54,185,963	24,052,314
7	Pension Related Deduction (PRD)	16,428,262	16,428,262	-
8	Historic Funding (General Purpose Grants)	2,667,330	2,667,330	-
9	Funding to be allocated by elected members <i>note 6</i>	4,102,112	35,458,817	31,356,705
		53,331,353	108,740,372	55,409,019
10	Each 1% movement in the LPT is valued at:		945,568	
Note				
1	<i>Additional yield linked to Lpt liability for new properties and changes in valuation bands</i>			
2	<i>20% of LPT receipts are no longer withdrawn to Equalisation Fund</i>			
3	<i>100% retained, funds increasing by total of equalisation 20% and additional receipts (1+2)</i>			
4	<i>If 15% increase applied, more funds retained for services of €26.5m from €12.3m loss to €14.2m gain</i>			
5	<i>Value of LPT receipts applied to previously grant funded services up by €24.1m 83% of €28.9m (3)</i>			
6	<i>If 15% increase applied, swing in funds to be allocated by elected members of €31.4m (€14.2m +€14.2m +€3m)</i>			

Table 2 LPT Funding Y2022 & Y2023: 15% decrease applied 2023				
No		2,022 €	2,023 €	Movement €
1	Dublin City LPT - 100% <i>note 1</i>	82,048,235	94,556,845	12,508,610
2	Equalisation Fund - 20% <i>note 2</i>	16,409,647	-	16,409,647
3	LPT Retained Locally - 80% <i>note 3</i>	65,638,588	94,556,845	28,918,257
4	Decrease LPT Base Rate by 15% in 2023 <i>note 4</i>	12,307,235	-	1,876,292
5	LPT Funding	53,331,353	80,373,318	27,041,966
	<i>Distribution of LPT Funding</i>			
6	Self-Funding - Housing & Roads <i>note 5</i>	30,133,649	54,185,963	24,052,314
7	Pension Related Deduction (PRD)	16,428,262	16,428,262	-
8	Historic Funding (General Purpose Grants)	2,667,330	2,667,330	-
9	Funding to be allocated by elected members <i>note 6</i>	4,102,112	7,091,763	2,989,652
		53,331,353	80,373,318	27,041,966
10	Each 1% movement in the LPT is valued at:		945,568	
Note				
1	<i>Additional yield linked to Lpt liability for new properties and changes in valuation bands</i>			
2	<i>20% of LPT receipts are no longer withdrawn to Equalisation Fund</i>			
3	<i>100% retained, funds increasing by total of equalisation 20% and additional receipts (1+2)</i>			
4	<i>If 15% decrease applied, less funds retained for services of €1.9m from €12.3m loss to €14.2m loss</i>			
5	<i>Value of LPT receipts applied to previously grant funded services up by €24.1m 83% of €28.9m (3)</i>			
6	<i>If 15% decrease applied, more funds to be allocated by elected members of €3m (€28.9m-€24.1m -€1.9m)</i>			

4.0 Issues for consideration

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 to date. Inflation rates are at an historic high, energy related inflation in particular is at 3 digits that is running in the hundreds of percentage points. There has been no communication from the Department of Housing around the funding, in whole or in part of the recently negotiated but yet to ratified Public Sector national pay deal. These are not pressures that can be taken on without compensating measures. The budgetary objective is to maintain existing services and doing that will require more funding in light of increased costs. The annual rate on valuation has been held for some years however an increase is under consideration given the prevailing budgetary circumstances. There may be disquiet in the business community on the equity around the potential increase to rates for businesses and not only not apply an increase but to give a reduction to the LPT for householders. In these circumstances, it is fully realised that no increase to all charges would assist householders and businesses alike. Should that occur, services will need to be curtailed as available funding will not cover the increased costs of provision. The value of local services to communities and businesses is acknowledged by all, more than ever in recent years. DCC has not been advised of government funding to alleviate inflationary pressures.

5.0 Summary

The Finance SPC members are asked to discuss and consider the issue of the LPT local adjustment factor in Dublin City Council.

Kathy Quinn

Head of Finance

With responsibility for ICT

15th September 2022