Mayor and Council members

Re: HI -10 -- Budgetary and financial impact of COVID 19.

Dear Member,

As you are aware the onset of the COVID 19 global pandemic crisis has severely impacted on every aspect of our lives, including fundamental economic activity. Public health measures were initially implemented on the 12th of March, followed by more stringent restrictions on the 28th of March, subsequently extended to the 5th of May and finally to the 18th of May. We are now in stage one of the Government Roadmap to lift restrictions and gradually reopen the economy in five phases, up to the 10th of August 2020. Nationally, economic indicators such as the projected €30b current budget deficit and an unemployment rate of 28% are stark reminders of the impact. This of course is reflected locally in the closure of business and the curtailment of movement generally arising from the necessary public health measures put in place by government.

**Rates Impact**

Local government nationally raises €1.7b from commercial rates which is by some way the most significant element of current funding. In the case of South Dublin, rates represent 52% of our income at €132m. Assessments carried out suggest the likely financial impact in terms of realistic rate collection levels. While there is a degree of subjectivity involved around the duration and level of impact going forward, there is broad acceptance that on average 63% of rates collectable will be impacted. In simple terms SDCC must consider the potential impact on the payment and collection of circa €80m. The main categories include

* The hospitality sector containing hotels, pubs, restaurants, drive through, cafes, nightclubs, caravan parks etc.
* The leisure category due to the complete curtailment of sporting activities.
* Fuel/depot and related activity due to the non movement of people.
* The health sector including dentists, opticians, physio, sports, related human health services.
* Offices providing professional services, accounting, legal, architecture, scientific and real estate, closed due to restrictions and a complete collapse in customer demand.

In recognition of the severe impact, the government on the 2nd of May announced the commercial rates alleviation package of €260m, which effectively provides a rates waiver for the three-month period from the 27th of March to the 27th of June. In anticipation that this will cover business severely affected if not fully closed, this will apply to most of our ratepayers and a rates rebate of circa €20m. This is a very welcome development as is the government Restart Programme, whereby small businesses with less than 50 employees and a turnover of under €5m can apply for a grant of up to €10,000.

It is clear that many businesses will be impacted beyond the 27th of June by virtue of scheduled reopening dates, reduced capacity related to social distancing and their reliance on what one assumes, will be an uncertain and gradual return in public confidence in the near term. Beyond these obvious considerations, there remains the continuing public health advice around the possibility of further waves of the virus that may cause future disruption. In this context, the extension of the 3 month rates waiver to six months is in my view, the minimum necessary to protect local government funding and to support the reopening of business. The interrelatedness of these two issues is critically important. Local government and the public sector must be viewed in terms of its capacity to lead economic recovery and the recovery of these very businesses. Any substantial falloff in commercial rates will clearly undermine this capacity. In terms of leading the recovery, I am referring to the annual local spend of €255m, including €63m in wages and its economic multiplier effect. I am also referring to the projected Capital Programme of €516m over the next 3 years. This Council through its careful financial management will contribute €192m to this and is in funds to do so. I remain confident of this and we are proceeding on that basis. It is important to understand however, that ongoing operational capacity and financial stability is vital to that scenario. As it stands, the possibility of a 3 month extension of the rates waiver would leave €40m potentially at risk or more difficult to collect. The degree of difficulty will be directly linked to a return of sorts to business and a return to greater personal spending. While this is by some way the main funding issue, I want to refer briefly to others below.

**Rents Impact**

A small number of tenants (111) have availed of the opportunity to have rents reassessed in the context of COVID. While current rent collection is reasonable (76%), it has fallen behind and is not achieving the level of collection desirable. Engagement with tenants will restart immediately to address this decline before it worsens. The general rent review was completed prior to the crisis. The planned reversal of the OAP allowance for those living with others has not been implemented and will be deferred for now. There was a budget estimate of €1m for this element. This together with a conservative rent shortfall of 10%, could see a shortfall in this area of €4m.

**LPT**

While LPT payments linked to direct debit have been put out to July the government to assist with cashflow, have forward paid 90% of projected LPT revenue which has been very welcome.

**Miscellaneous Income**

This category covers planning fees, parking charges, land rents, road opening licences, fines and library receipts amongst others and has an income value of €11.5m. Given the downturn in activity across these areas a projected deficit of €2m is not unreasonable.

**COVID 19 Expenditure**

Increased spend on hygiene, advertisements, ICT, PPE, office adjustments etc. associated with crisis is unlikely to stop at €1m. The true cost may take a while to realise as new norms are fully evaluated.

**General Expenditure**

We have continued to provide services across all possible areas and while there will be savings related to inactivity, they will be relatively small if our plans to ramp up services prevail. There will be payroll savings associated with our inability to recruit and because we have not had capacity issues during the past few months, despite having 90 staff vacancies. Savings in this area may run to €3-5m.

**Potential Outcome**

While the situation is yet not fully clear to the year end there is little value in speculating beyond what is contained here. If the rates waiver is extended and the net result is an income deficit of below €25m, I firmly believe it is manageable on a one-off basis. I have already alluded to wage and non-wage savings and we can keep these in control to an extent where the impact on front line services is related to the lockdown period only and not material to operations in the latter period of the year.

For a few years now we have structured our budget to incorporate support funding for multi annual programmes and one off capital projects. In simple terms we are forward funding investment in the county through our own resources, which has avoided borrowing and allowed us to accelerate projects without reliance on others. Typical examples include:

* €500k pa for the Playspace Programme.
* €1m pa for our new Pitch Strategy.
* €500k pa for N81 Improvements.
* €500k pa for the redevelopment of Tallaght Stadium.
* €500k pa for our Village Enhancement Programme.
* €750k pa for Enterprise and Tourism.
* €1m for Public Lighting Replacement.
* €1m for Housing Planned Maintenance etc.

In all, there is up to €18m in funding arrangements of this nature developed over recent years. The advantages are as outlined but also that these provisions can be temporarily stood down without impacting on front line service delivery. This will be the approach I will be recommending for the current year if necessary, this together with expenditure and payroll savings outlined above.

**Beyond 2020**

What we do now and in the short term will heavily influence our approach and latitude going into 2021. We need to support rate payers so they can reopen without legacy debt and continue to contribute to local services and economic development, which in turn increases the demand for their services. We need to handle this year’s deficit this year and not carry it forward and have it as an imposition on capacity in years ahead. It appears that the LPT review will not happen, so the much needed income from houses not yet registered may not be forthcoming. Any ambition for an increase in rates income in 2021 can be disregarded. We all hope that we can continue to provide quality services, in new ways if necessary, into 2021 and beyond, but for now our ambition must be to stay on track for remainder of this year and see where it takes us. The annual budgetary process will commence internally in July and will provide an opportunity to further review these matters. In my monthly report to Council I will keep members fully informed as things become clearer and certainly if immediate adjustments are required beyond what I am anticipating.

Yours sincerely,



Daniel McLoughlin

Chief Executive