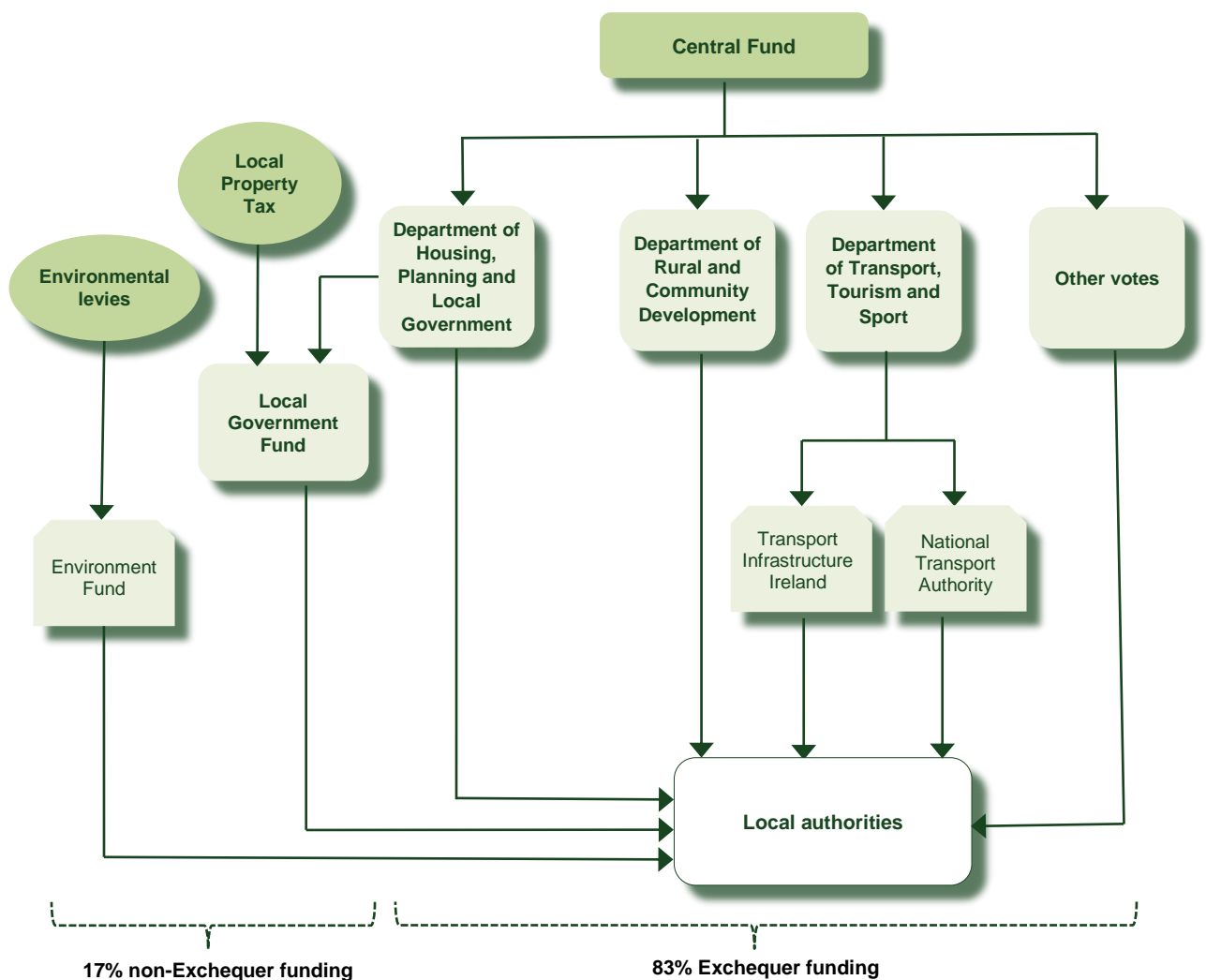


11 Central government funding of local authorities

11.1 Local authorities receive a substantial part of their annual funding from a range of central government departments and agencies (see Figure 11.1). The primary objective of this report is to provide an overview of the funds flowing from and through central government sources to local authorities, and of the purposes for which funds have been provided.

Figure 11.1 Flow of central government funding to local authorities in 2018

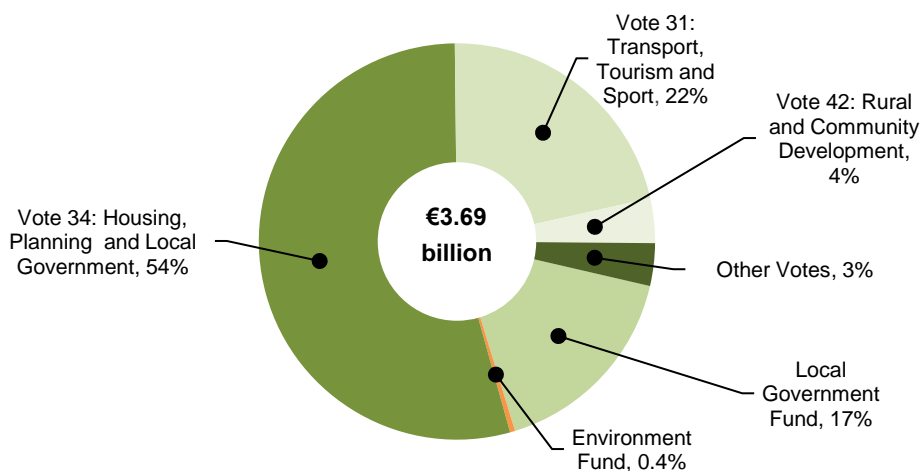


Source: Office of the Comptroller and Auditor General

Central government transfers

- 11.2** In 2018, funding to local authorities from central government sources totalled €3.69 billion (see Figure 11.2) — an increase of 39% on the €2.66 billion in 2017.¹ About 83% of this total originated as Exchequer funding, compared to 64% in 2017. The balance of the funding was provided through the Local Government Fund and the Environment Fund.
- 11.3** The Local Government Fund (LGF) is administered by the Department of Housing, Planning and Local Government (the Department). In 2018, the LGF was financed mainly by local property tax (LPT) receipts (€482 million) and a contribution of €125 million from the Exchequer, via the Vote for Housing, Planning and Local Government.²
- 11.4** The flow of funds to and from the LGF changed materially from 1 January 2018.³
- Local property tax receipts are now paid directly to the LGF by the Office of the Revenue Commissioners — previously, those receipts had passed through the Exchequer.
 - Motor tax receipts are no longer paid into the LGF — they are now paid into the Central Fund.
 - Payments to Irish Water for subvention, payments to local authorities for Group Water Schemes and recoupment of local authority water services capital loans are no longer made from the LGF — these are now paid by the Department.
 - There are no longer payments from the LGF to the Department of Transport, Tourism and Sport to fund regional and local roads and other public transport — that Department now provides this funding directly.

Figure 11.2 Sources of central government financing for local authorities, 2018



¹ Includes all identified transfers of greater than €1 million. There may be some additional smaller transfers that have not been included.

² Local property tax is administered by the Revenue Commissioners. Receipts are paid by the Revenue Commissioners into the Local Government Fund.

³ The amendments were provided for by Part 8 of the Water Services Act 2017.

Source: Analysis by the Office of the Comptroller and Auditor General

- 11.5** The Environment Fund is administered by the Department of Communications, Climate Action and Environment. It was established primarily to support environmental initiatives, campaigns and programmes, many of which are organised at local or regional level under the auspices of local authorities. The Fund is comprised of the proceeds of the plastic bag levy, which is paid by consumers and collected from retailers by the Revenue Commissioners, and receipts from the landfill levy. Disbursements from the Fund are ring-fenced to assist projects that aim to protect or enhance the environment.

Local property tax allocations to local authorities

- 11.6** Up to 2014, the Local Government Fund provided funding to local authorities for their 'day to day' activities through 'general purpose grants'. From 2015, general purpose grants are no longer paid and have been replaced by LPT allocations.
- 11.7** The estimated LPT yield for each local authority is calculated using the Revenue Commissioners' data on net declared liabilities (pre-variation) in the prior year. In accordance with Government decisions, annual LPT allocations are calculated on the following basis
- 80% of LPT yield is **locally retained** in the authority where the tax is raised.
 - The remaining 20% is allocated to **equalisation funding**, for distribution among local authorities that do not have a sufficient LPT base to meet their 'baseline' funding requirements.
 - The 2018 **baseline** of €355 million is linked, for the most part, to the level of funding previously allocated from the Local Government Fund as general purpose grants (€282 million in 2014) and to the level of pension related deductions retained by local authorities (€74 million in 2014).¹ Effectively, the LPT allocation now replaces both of these previous sources of funding.
 - Where equalisation funding from all local authorities is insufficient to bring each local authority to the baseline funding requirement, the Exchequer contributes the difference.
 - The final LPT allocation takes into account decisions taken by elected members of local authorities to apply a **variance** to LPT rates in the local authority area in accordance with the Finance (Local Property Tax) Act 2012 (2012 Act).
- 11.8** Figure 11.3 provides an overview of the allocation of LPT to local authorities.

¹ Pension related deductions are now paid to the Department. In 2018, the Department received €50.9 million from local authorities in respect of pension related deductions — receipts are accounted for as appropriations-in-aid.

Figure 11.3 Allocation of LPT to local authorities for 2018

			2018	2017
	In a surplus position	Requiring equalisation	All	All
	€m	€m	€m	€m
Number of local authorities	10	21	31	31
Local retention (80%)	253	135	388	386
Equalisation funding				
- LPT redistribution (20%)	—	97	97	97
- Exchequer contribution	—	42	42	44
Pre-variation LPT allocations	253	274	527	527
LPT variations	(28)	5	(23)	(26)
Post-variation LPT allocations	225	279	504	501
Of which				
- self-funding of housing/roads services	109	—	109	108
- for authority's own general use	116	279	395	393

Source: Department of Housing, Planning and Local Government

11.9 Local authorities have discretion to vary the LPT rates in their area of operation (a local variation) by up to 15% in accordance with the 2012 Act. Annex 11A shows the impact of variations applied by local authorities in 2018.

11.10 For the 21 local authorities requiring equalisation, €279 million was available for the local authorities' own use, including an additional €5 million collected due to a local variation implemented by seven local authorities.

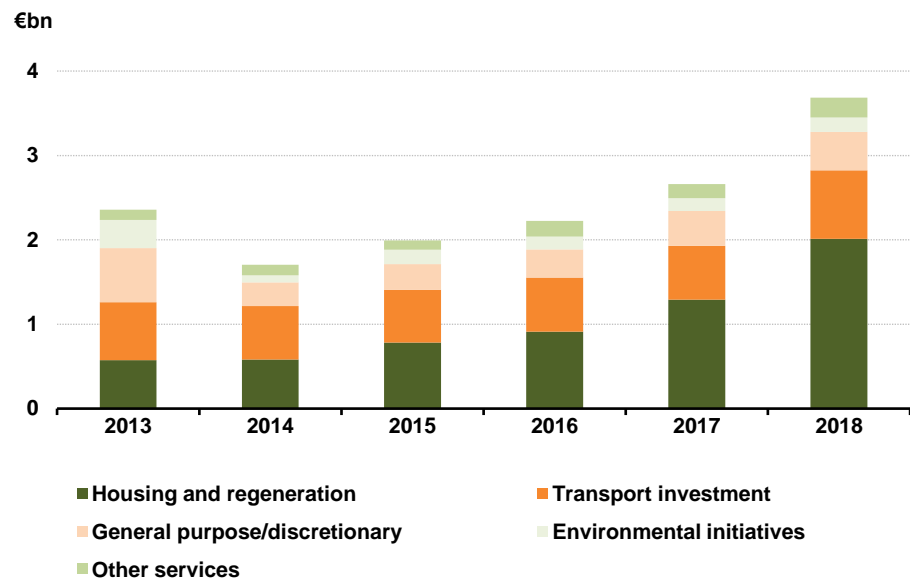
11.11 For the ten authorities in a surplus funding position (relative to the baseline), the Government decided that a portion of the surplus (no more than 20% of estimated LPT yield) should be available for the authority's discretionary purposes, with the remainder (if any) to fund some local services in the housing and roads areas. In 2018

- €116 million was available for the local authorities' own use, after a reduction of €28 million due to a local variation implemented by four local authorities
- €109 million for self-fund housing and road services.

Application of central government funding

- 11.12** Most of the funding sourced from central government and provided to local authorities must be used for specified local authority services. These can be grouped into five broad programme categories. Figure 11.4 presents a breakdown of the transfers to local authorities for 2013 to 2018 showing the programmes being supported (a detailed breakdown is at Annex 11B).
- 11.13** In 2018, around 77% of the total provision from central government to local authorities was accounted for by two categories — housing and regeneration programmes (55%), and transport (22%).

Figure 11.4 Central government transfers to local authorities, by expenditure programme, 2013 to 2018



Source: Annex 11B

Housing

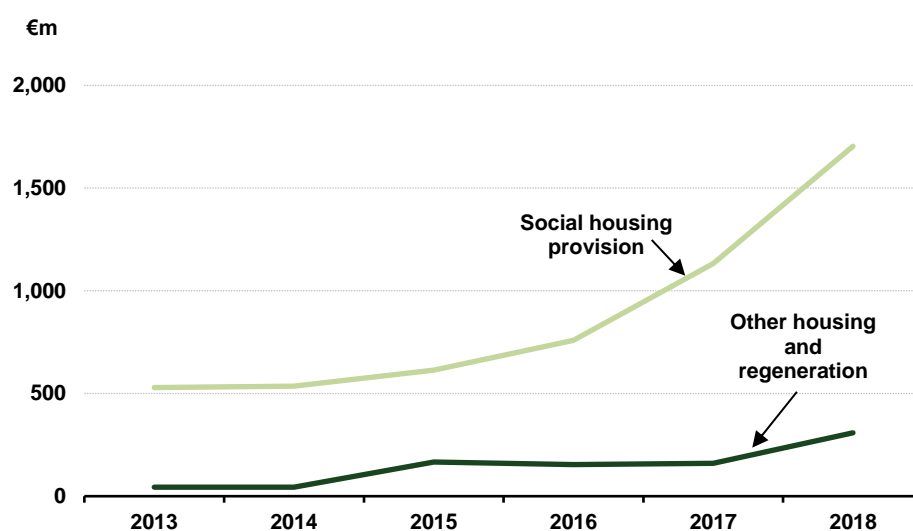
11.14 The Department provides the bulk of the funding for housing and regeneration directly to local authorities. In addition, nine local authorities were required to fund housing services from their LPT receipts, to a value notified to the authority by the Department. Figure 11.5 indicates the trend in the level of central government funding for social housing provision and other regeneration.

11.15 The funding is used by the local authorities to support the provision of social housing stock and a range of social housing and other housing supports, including through

- the local authority build and acquisitions programme
- voluntary and cooperative housing
- the housing assistance payment
- the social housing current expenditure programme
- the rental accommodation scheme
- regeneration and remedial work
- returning vacant local authority housing stock to productive use
- accommodation for homeless persons
- provision of traveller-specific accommodation
- adaptation grants for older people and people with a disability
- energy efficient works on local authority stock.

11.16 In 2018, the Department of Justice and Equality provided €0.5 million to local authorities for housing support activities eligible for EU funding under the Asylum, Migration and Integration Fund (AMIF) — that Department may recoup from the EU up to 75% of the funding provided.

Figure 11.5 Funding to local authorities for investment in housing and regeneration, 2013 to 2018

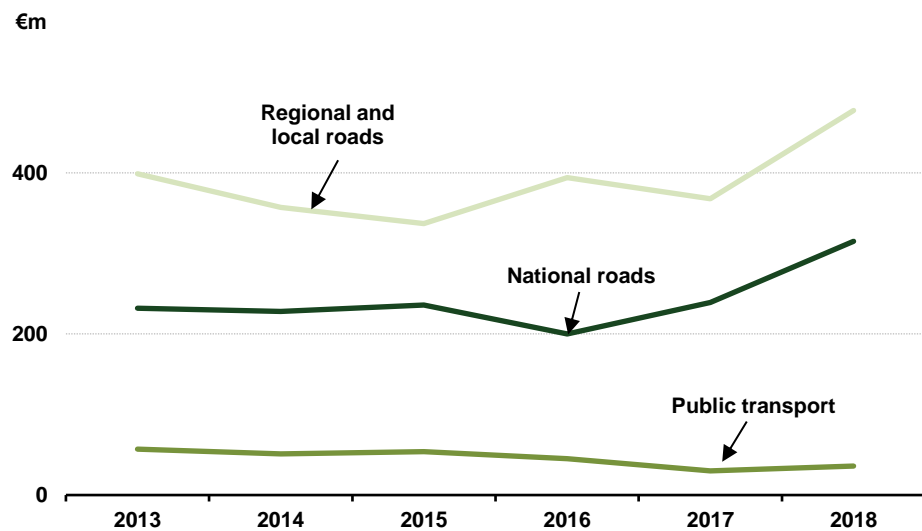


Source: Annex 11B

Transport investment

- 11.17** Improvement and maintenance of national roads is the responsibility of Transport Infrastructure Ireland, operating under the aegis of the Department of Transport, Tourism and Sport. Transport Infrastructure Ireland normally uses local authorities as its agents to deliver roads projects, and channels expenditure through them.
- 11.18** The Department of Transport, Tourism and Sport directly funds local authorities for the upkeep of regional and local roads. The Department determines the amount allocated to each local authority, and uses Transport Infrastructure Ireland's payment system to make the transfers.
- 11.19** The National Transport Authority, also operating under the aegis of the Department of Transport, Tourism and Sport, funds local authorities for certain improvements in the public transport system. Funding objectives include increased accessibility to public transport for older people, improved traffic flows, more routes for cyclists and pedestrians and better access for buses and taxis.
- 11.20** The Department of Rural and Community Development provided funding of €16 million to local authorities (shown in Figure 11.6 under regional and local roads) to carry out improvement works on private and non-publicly maintained roads leading to, for example, multiple homes, farmland, or amenities such as lakes and beaches.
- 11.21** Figure 11.6 shows the trend in the level of funding from central government sources provided to local authorities in respect of the key transport areas.

Figure 11.6 Funding to local authorities for transport infrastructure, 2013 to 2018

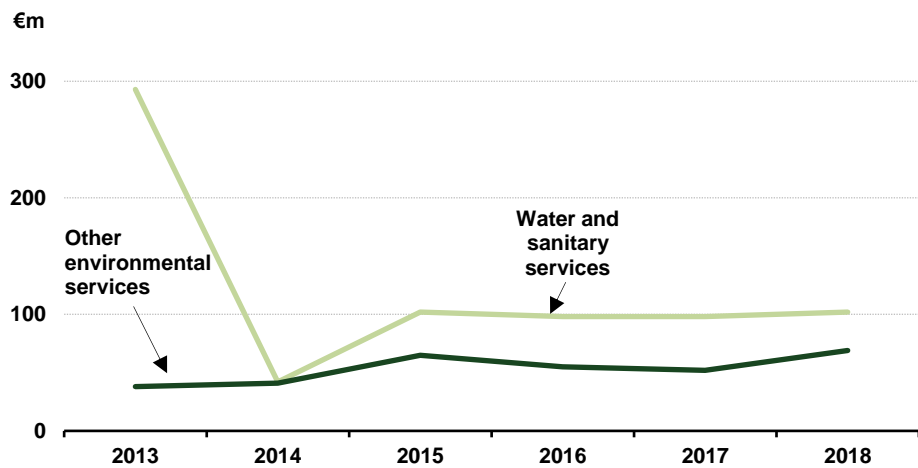


Source: Annex 11B

Environmental initiatives

- 11.22** Figure 11.7 shows the trend in the level of funding from central government sources provided to local authorities in respect of environmental initiatives. Central government funding of local authorities for water and sanitary services investment projects decreased significantly from 2013 due to the transfer of these functions from local authorities to Irish Water.
- 11.23** Funding for environmental initiatives in 2018 includes funds for flood relief works provided by the Office of Public Works.
- 11.24** The Department of Communications, Climate Action and Environment provided €9.5 million in 2018 to local authorities in relation to landfill remediation costs.

Figure 11.7 Funding to local authorities for environmental initiatives, 2013 to 2018



Source: Annex 11B

Other services

11.25 Central government bodies also fund local authorities to assist in providing a range of services such as education, employment, sports and cultural projects, fire and emergency services, heritage services, and library and archive services. Figure 11.8 shows the trend in the level of funding in respect of such services.

Employment

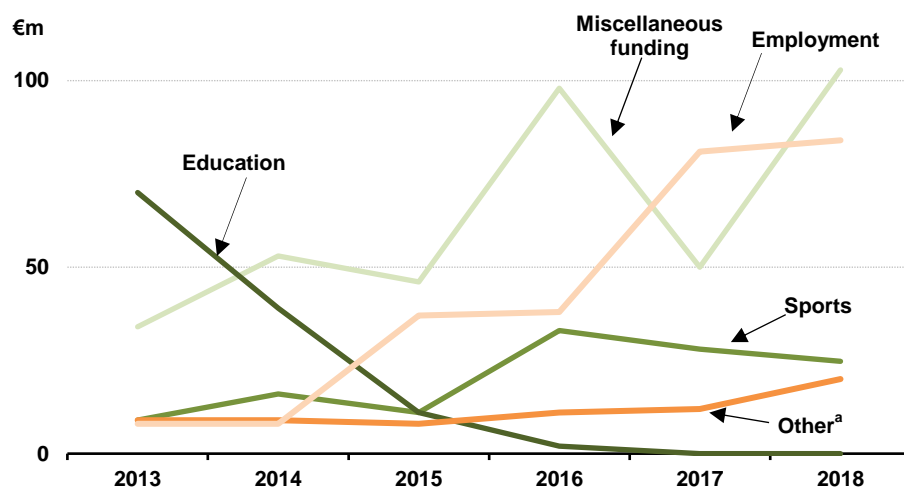
11.26 In 2015, the Department of Business, Enterprise and Innovation (DBEI) began to provide funding to local authorities through Enterprise Ireland (EI), to cover the costs associated with providing local enterprise development supports to the micro-enterprise sector via their Local Enterprise Offices (LEOs). Funding amounted to €33.4 million in 2018.

11.27 The Department of Rural and Community Development provided funding of €40.2 million to local authorities under the Social Inclusion and Community Activation Programme (2018 – 2022).

11.28 The Department of Social Protection reimburses local authorities for expenditure incurred on certain community employment and jobs initiative projects (€8.1 million in 2018).

11.29 The Department of Communications, Climate Action and Environment provides funding to the LEOs through EI in respect of the Department's Trading Online Voucher Scheme which supports small businesses to trade online (€1.9 million in 2018).

Figure 11.8 Funding to local authorities for other services, 2013 to 2018



Source: Annex 11B

Note: a Other category includes fire and emergency services and library services.

Miscellaneous services

- 11.30** The Department of Rural and Community Development provided €52.2 million for miscellaneous capital services.
- 11.31** The Department of Defence paid €3.2 million to local authorities for Civil Defence activities.

Sports and cultural projects

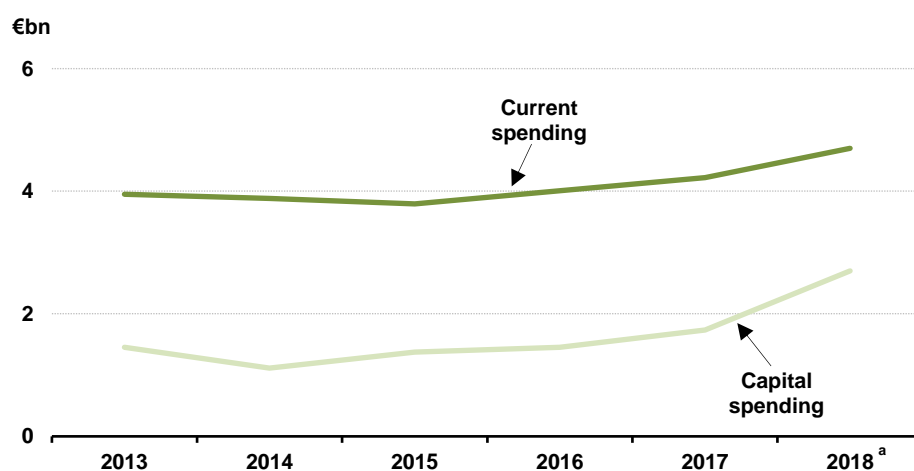
- 11.32** Funding was allocated to sports grants, playgrounds and cultural projects — mainly from the Department of Rural and Community Development (€10.7 million) and the Department of Culture, Heritage and the Gaeltacht (€6.5 million).

Other

- 11.33** The Department of Health provided €7.3 million in funding to local authorities, over 85% of which was for the Local Authority Veterinary Service.

Trends in local authority expenditure, 2013 to 2018

- 11.34** Aggregate expenditure by local authorities in 2017 (the last year for which full audited information is available) was €5.96 billion.¹ This comprised around €4.22 billion in current expenditure and around €1.74 billion in capital expenditure (see Figure 11.9).
- 11.35** Expenditure for 2018 is expected to be €7.4 billion — €4.7 billion of current expenditure and €2.7 billion of capital expenditure.² On that basis, transfers from central government accounted for 49.8% of the total spent by local authorities in 2018 (2017: 44.7%).

Figure 11.9 Local authority expenditure by type, 2013 to 2018

¹ Includes expenditure by the 26 county councils, three city councils, and two city and county councils.

² Collation of local authority expenditure outturns for 2018 had not been finalised by the Department of Housing, Planning, and Local Government at the time of this report.

Source: Department of Housing, Planning and Local Government

Note: ^a Figures for 2018 are estimates. For all earlier years, audited figures are used.

Central oversight of local authorities

- 11.36** There are two main mechanisms for general central government oversight of local authority expenditure — the Local Government Audit Service and the National Oversight and Audit Commission.

Local Government Audit Service

- 11.37** The financial statements of each local authority are audited by the Local Government Audit Service (LGAS).¹ The audit opinion and any matters arising from the audit are reported to the relevant local authority. A copy of each audit report is sent to the Minister for Housing, Planning and Local Government and published on the Department's website. The Department identifies sector wide issues in audit reports for follow up, and engages with relevant local authorities in the event it requires information on a particular issue.
- 11.38** The LGAS also carries out value for money audits of local authority operations. The results of those audits are reported to the Minister.
- 11.39** A LGAS activity report is published annually. It summarises the audit findings in respect of the annual financial statements of each local authority. The latest annual activity report was published in March 2019 and includes the results of the audits of the 2017 financial statements.² The report highlights both sectoral and authority specific issues such as income and expenditure for the sector, the cumulative revenue position of each local authority, and revenue collection performance.

National Oversight and Audit Commission

- 11.40** The National Oversight and Audit Commission was established in July 2014.³ The Commission has a wide range of functions focused on the scrutiny of local government performance, including their financial performance.
- 11.41** It exercises this scrutiny by means of thematic reports and, where warranted, oral hearings on matters within its remit.⁴ It also monitors the implementation by local authorities of its recommendations.

1 Local Government audit fees of €2.1 million were paid to the Department and accounted for as appropriations-in-aid.

2 Local Government Audit Service, *Overview of the Work of the Local Government Audit Service*, March 2019.

3 The Local Government Reform Act 2014 provided for the Commission which was formally established by Statutory Instrument 297 of 2014.

4 The Commission's annual report for 2018 sets out its strategy and reports on its activities. See *National Oversight and Audit Commission Annual Report 2018* (April 2019).

Conclusions

- 11.42** Central government funding to local authorities is highly complex, with transfers from a number of departments for a wide variety of stated purposes. Some streams of funding are delivered directly from funding departments to local authorities, while others are routed through departmental agencies.
- 11.43** Transfers of funding from central government sources to local authorities in 2018 totalled almost €3.7 billion. This represents a cumulative increase of 116% from the lowest level of transfer in 2014, coinciding with the replacement of general purposes grants by LPT-based funding transfers. In parallel with the increased funding, oversight of local authority spending has increased since 2014, through the operation of the National Oversight and Audit Commission.

Annex 11A

Local authorities may vary the rate of Local Property Tax (LPT) in their administrative area for the following year by up to 15% of the basic rate of the Tax.

Four local authorities resolved to reduce their LPT rates for 2018 and seven authorities decided to increase their 2018 LPT rates above the basic rate.

Where an authority decides to vary the LPT basic rate upwards, it retains 100% of the resultant additional income collected in that local authority area. Likewise, where the rate is reduced, that authority absorbs the full impact of the reduction of LPT that is not collected.

Figure 11A.1 Impact of variation by local authority

Local authority	2018 Local variation factor (percentage)	(Loss)/gain to LA following variation, compared to original allocation	Total 2018 LPT allocation post variation
		€	€
Local authorities requiring equalisation			
Kerry County Council	+5%	704,097	14,480,857
Laois County Council	+10%	492,822	9,051,699
Limerick City & County Council	+7.5%	1,176,448	18,730,912
Longford County Council	+5%	105,588	9,012,236
Tipperary County Council	+10%	1,182,910	27,134,513
Waterford City and County Council	+2.5%	232,545	18,911,516
Wexford County Council	+10%	1,218,517	14,766,033
Total		5,112,927	
Local authorities in surplus			
Dún Laoghaire-Rathdown County Council	-15%	-7,773,682	33,685,955
Dublin City Council	-15%	-11,968,437	51,863,225
Fingal County Council	-10%	-3,822,079	26,754,556
South Dublin County Council	-15%	-4,726,401	20,481,072
Total		-28,290,599	

Source: Department of Housing, Planning and Local Government

Annex 11B

Figure 11B.1 Central government transfers to local authorities, by expenditure programme, 2013 to 2018^a

Expenditure Category	2013 €m	2014 €m	2015 €m	2016 €m	2017 €m	2018 €m
Housing and regeneration^b						
Social housing provision	529	536	614	759	1,133	1,704
Affordable housing, etc. ^c	43	39	3	2	3	—
Infrastructure funding ^c	—	—	—	—	—	7
Other housing supports	1	5	114	92	79	215
Regeneration	—	—	50	60	78	86
	573	580	781	913	1,293	2,012
Transport investment						
National roads improvement	232	228	236	200	239	315
Regional and local roads improvement ^b	399	357	337	394	368	461
Public transport (capital payments)	57	51	54	45	30	36
	688	636	627	639	637	812
Environmental initiatives						
Water and sanitary services	293	42	102	98	98	102
Flood relief works	10	21	44	34	28	31
Waste management	9	5	3	18	17	25
Recycling	8	2	—	—	—	—
Other environmental measures	12	13	18	3	7	13
	332	83	167	153	150	171
Other services						
Higher education grants	70	39	11	2	—	—
Employment schemes	8	8	37	38	81	84
Swimming pools	6	—	1	4	6	1
Fire and emergency services	5	7	6	9	12	13
Library service	4	2	2	2	7	7
Sports grants, playgrounds and cultural projects	2	10	9	28	13	22
Heritage services (architectural heritage)	1	5	1	1	2	1
Miscellaneous funding	34	53	45	99	48	108
	130	124	112	183	169	236
General purpose grants	642	282	—	—	—	—
LPT allocations — general purpose/discretionary ^b	—	—	306	310	393	395
Remuneration-related payments (LGF) — general purpose/discretionary	—	—	—	25	20	60
Total funding provided to local authorities	2,365	1,705	1,993	2,223	2,662	3,686

Source: The Office of Public Works; Department of Housing, Planning and Local Government; Department of Education and Skills; Department of Transport, Tourism and Sport; Department of Culture, Heritage, and the Gaeltacht; Department of Health; Department of Children and Youth Affairs; Department of Justice and Equality; Department of Agriculture, Food and the Marine; Department of Employment Affairs and Social Protection; Department of Communications, Climate Action and Environment; Department of Defence; Department of Business, Enterprise and Innovation; Department of Rural and Community Development; Local Government Fund and Environment Fund financial statements (2018 unaudited).

Notes: a Adjustments have been made to some previously reported amounts to reflect amounts not previously included and reclassifications.
b The total LPT allocation from the Local Government Fund in 2018 was €504.1 million, allocated as follows: housing €92.3 million; roads €16.5 million; general purpose/discretionary €395.3 million.
c From 2018, expenditure incurred under the Affordable Housing/Shared Ownership Subsidy is included under 'Other Housing Supports'. In 2017, expenditure amounting to €1.6 million relating to Infrastructure Funding was included in 'Other Housing Supports'.

