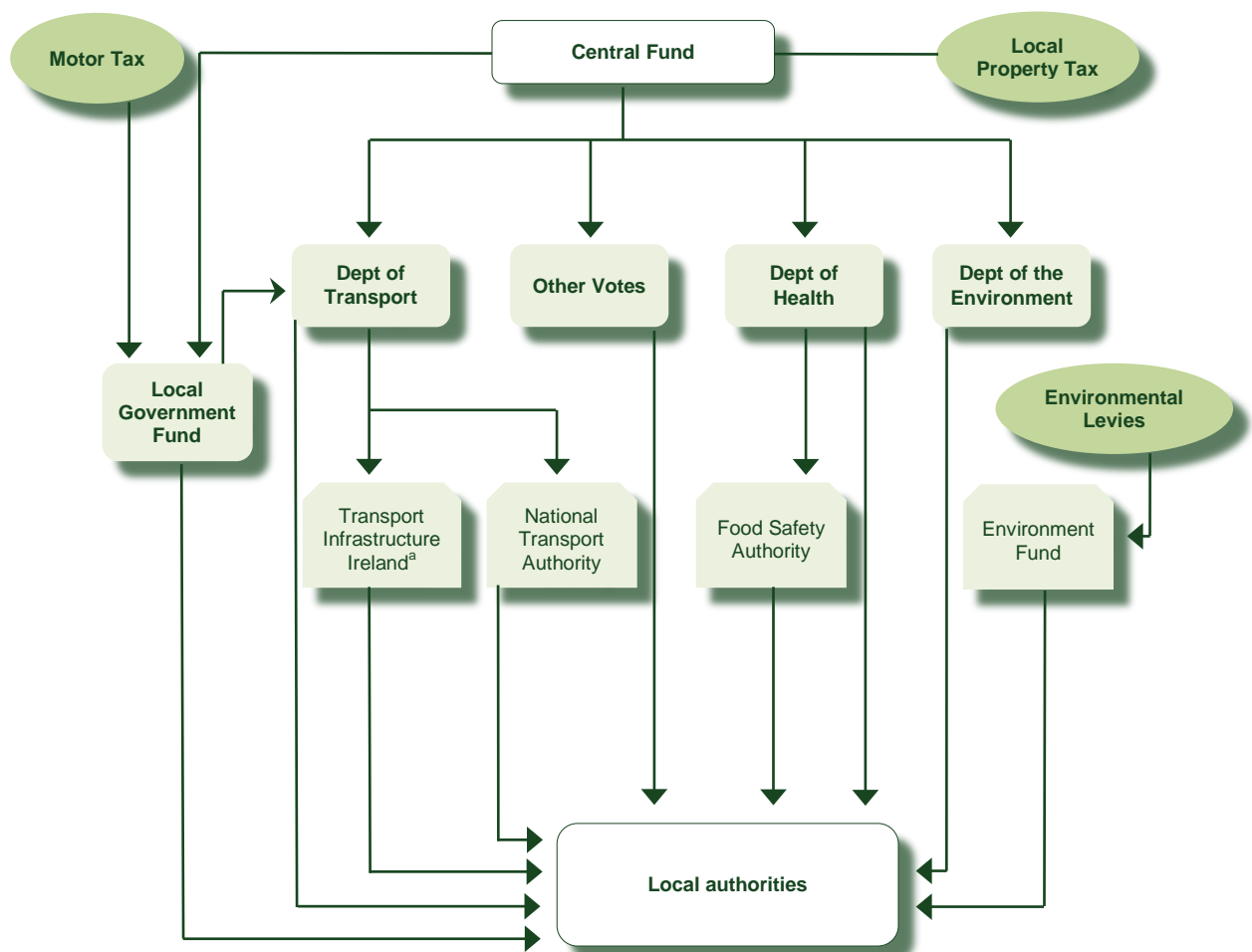


## 4 Central Government Funding of Local Authorities

- 4.1 Local authorities receive a substantial part of their annual funding from a range of central government departments and agencies, as indicated in Figure 4.1. 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 4.1 Flow of central government funding to local authorities in 2015



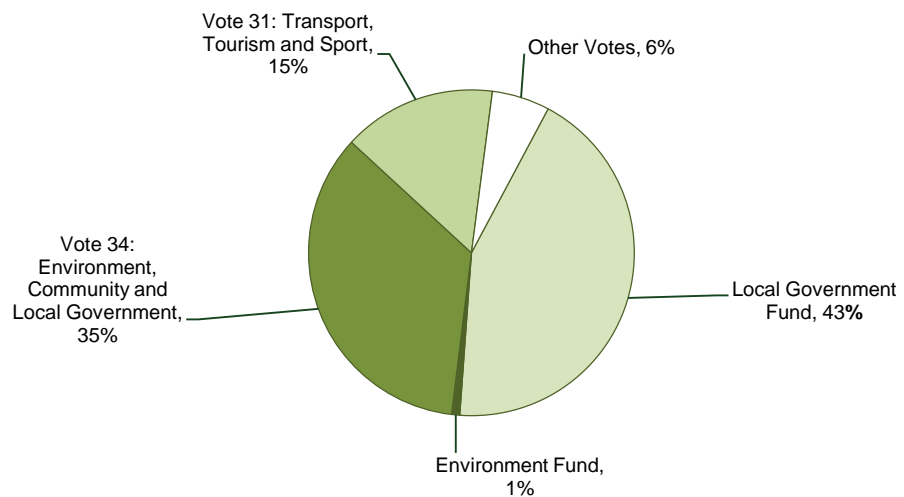
Source: Office of the Comptroller and Auditor General

Note: a Transport Infrastructure Ireland was established in August 2015 through a merger of the National Roads Authority and the Railway Procurement Agency.

## Central Government transfers

- 4.2 In 2015, funding to local authorities from central government sources totalled €1.99 billion which represents an increase of 16% on 2014.<sup>1</sup> Some 56%<sup>4</sup> of this total originated as Exchequer funding. The balance was provided through the Local Government Fund and the Environment Fund (see Figure 4.2) both of which are administered by the Department of the Environment, Community and Local Government (the Department).<sup>2</sup>

**Figure 4.2 Sources of central government financing for local authorities, 2015**



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

### Local Government Fund

- 4.3 In 2015, the Local Government Fund was mainly financed by the proceeds of motor tax (€1.1 billion), local property tax (LPT) receipts (€469 million) and a contribution of €241 million from the Exchequer, via the Vote for Environment, Community and Local Government.<sup>3</sup> An amount of €481 million (2014: €520 million) was paid to the Exchequer from the Local Government Fund at the request of the Minister for Finance under Section 6 of the Local Government Act 1998 as amended by Section 44 of the Environment (Miscellaneous Provisions) Act, 2015.

- 4.4 In 2015, Irish Water received €399 million from the Local Government Fund in respect of the cost of water related services previously provided by local authorities. The Department provided local authorities with grants totalling €15 million from the Local Government Fund in 2015 in respect of the cost of certain water services capital loans held by local authorities that did not transfer to Irish Water.

### Environment Fund

- 4.5 The Environment Fund is used 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 Environment 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.

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

2 In July 2016, the name of the Department was changed to the Department of Housing, Planning, Community and Local Government.

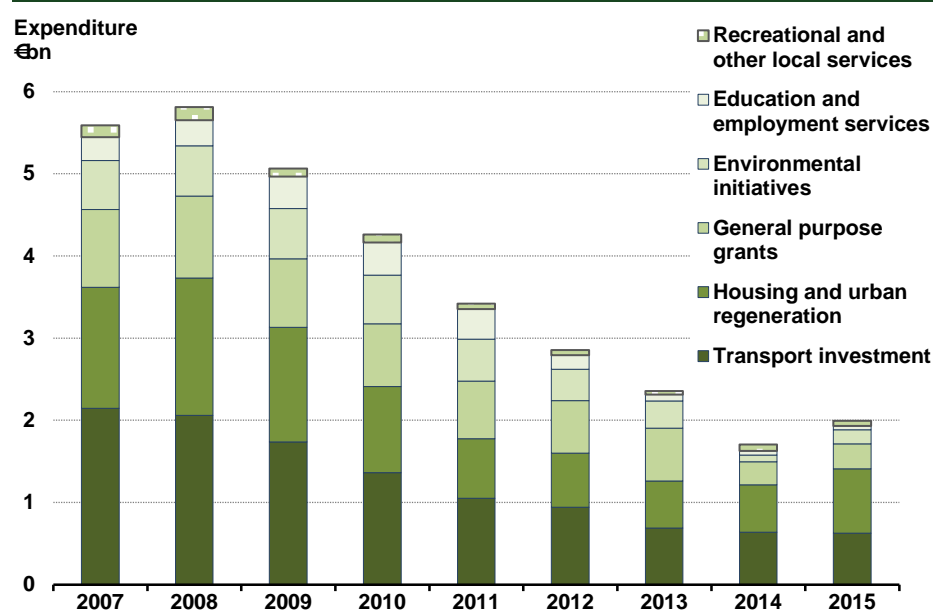
3 Local Property Tax is administered by the Revenue Commissioners. LPT receipts are paid into the Central Fund initially and then paid over to the Local Government Fund.

4 **Correction:** The original published figure was incorrectly stated as 76%. The figure now shown is correct.

## Application of central government funding

- 4.6** 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 six broad programme categories. Figure 4.3 presents a breakdown of the transfers to local authorities for 2007 to 2015 showing the programmes being supported (a detailed breakdown is at Annex A).
- 4.7** In 2015, around 70% of the total provision from central government to local authorities was accounted for by two categories. These were housing and urban regeneration programmes (39%), and transport (31%).

**Figure 4.3 Central government transfers to local authorities, by expenditure programme, 2007 to 2015**



Source: Annex A

### Local Property Tax allocations to local authorities

- 4.8** Up to 2014, the Local Government Fund provided funding to local authorities mainly 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.
- 4.9** In September 2014, the Government decided that LPT allocations to local authorities for 2015 would be allocated on the following basis
- 80% of receipts in a local authority area are retained locally
  - the remaining 20% is re-distributed to provide top-up funding to certain local authorities that have lower property tax bases, ensuring that LPT allocations would be at least equal to 2014 general purpose grant funding level
  - the allocation will take into account any decisions taken by elected members of local authorities to vary LPT rates in the local authority area in accordance with the Finance (Local Property Tax) Act 2012.

- 4.10** In analysing the impact of the LPT funding allocation, local authorities were classified between the 12 authorities in a surplus funding position when compared to their 2014 general purpose grant allocations (mainly large urban centres and commuter belt counties) and the remaining 19 authorities who required additional funding to bring them up to their previous funding level (authorities requiring equalisation), see Figure 4.4.

**Figure 4.4 Allocation of LPT to local authorities for 2015**

	Classification of local authorities		All
	Authorities in a surplus position	Authorities requiring equalisation	
	€m	€m	
Local retention (80%) <sup>a</sup>	282	118	400
Equalisation funding (20%) <sup>b</sup>	–	102	102
Reduction for decreases in LPT rate	(43)	(1)	(44)
<b>LPT allocations for 2015</b>	<b>239</b>	<b>219</b>	<b>458</b>
<b>General purpose grant 2014</b>	<b>62</b>	<b>220</b>	<b>282</b>

Source: Department of the Environment, Community and Local Government

Notes: a The allocations were determined based on the latest projections of LPT income in 2015 at that time of €500 million (pre-variation). LPT of €469 million (post-variation) was collected and remitted to the Local Government Fund in 2015.

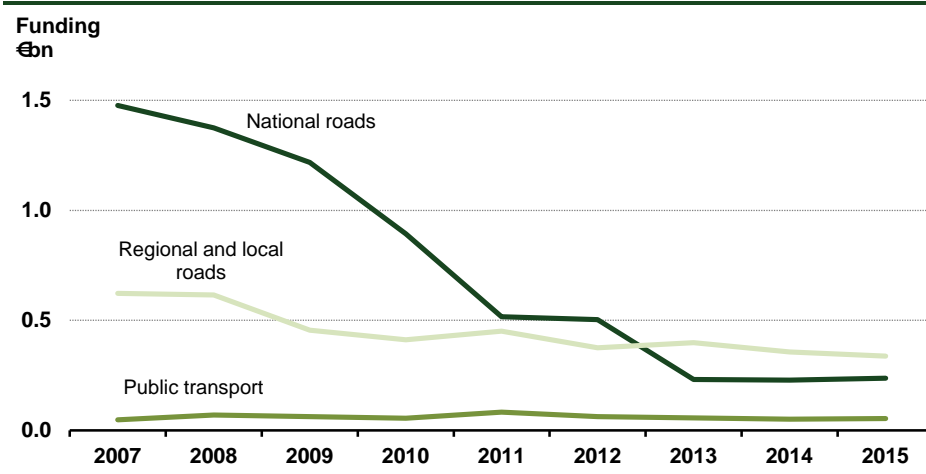
b The 20% of LPT not retained locally yields an equalisation fund of €100 million which represents a shortfall of €2 million to equalise the position for all local authorities.

- 4.11** Local authorities have discretion to vary the LPT rates in their area of operation by up to 15% in accordance with the 2012 Act. For 2015, six local authorities decided to decrease the LPT by the maximum 15% at a cost of €35.4 million. Another eight local authorities reduced the LPT by between 1.5% and 10%, at a cost of €8.2 million. No local authority opted to increase the LPT rate in 2015.
- 4.12** For the 12 authorities in a surplus funding position, the Government decided that the surplus should be applied as follows
- a portion available for the authority's discretionary purposes (this was to equal 20% of the total expected LPT income in the relevant local authority area (before any decision to vary rates) or, in the case where the surplus will be less than 20%, the full amount)
  - the remainder, if any, to fund some local services in the housing and roads areas for which it was due to receive central government funding.
- 4.13** In the case of the 12 authorities in a surplus funding position, the amount of LPT funding provided (€239 million) was €177 million more than the 2014 general purpose funding. Those authorities were directed to apply the funding as follows
- €131 million for housing services
  - €22 million for road services
  - €86 million for general/discretionary purposes.

### **Transport investment**

- 4.14** 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.
- 4.15** The Department of Transport, Tourism and Sport receives an allocation for the upkeep of regional and local roads from the Local Government Fund. It provides funding to local authorities using Transport Infrastructure Ireland's payment system.
- 4.16** 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.
- 4.17** Figure 4.5 shows the trend in the level of funding from central government sources provided to local authorities in respect of the key transport areas.

**Figure 4.5 Funding to local authorities for transport infrastructure, 2007 to 2015**

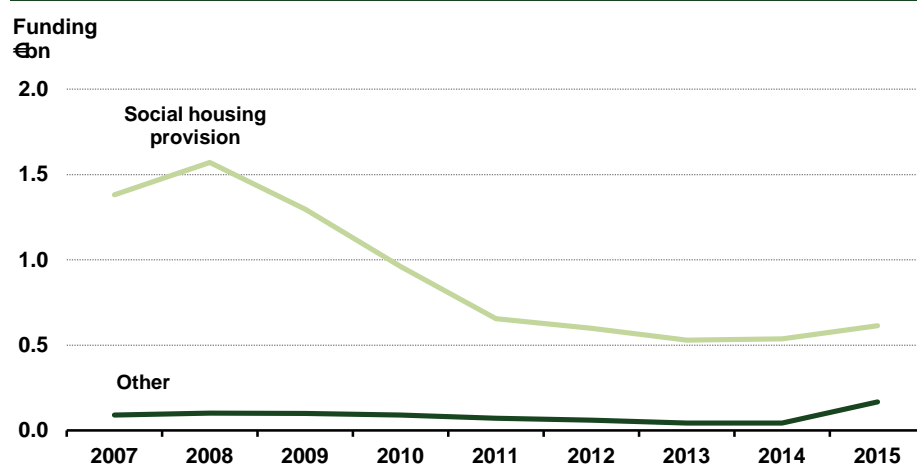


Source: Annex A

### **Housing and urban regeneration**

- 4.18** The Department provides the bulk of the funding for housing and urban regeneration directly to local authorities with a number of local authorities (currently ten) required to self-fund housing services, from surplus LPT receipts, to a monetary value notified to the authority by the Department. The funding is used by the local authorities to support the provision of social housing including through the local authority build and acquisitions programme, regeneration and remedial work, returning empty units to productive use, provision of traveller accommodation, voluntary and cooperative housing, the Rental Accommodation Scheme, Social Housing Current Expenditure Programme, Housing Assistance Payment, housing adaptation grants, and accommodation for homeless people. Figure 4.6 indicates the trend in the level of funding for housing provision.

**Figure 4.6 Funding to local authorities for investment in housing and urban regeneration, 2007 to 2015**

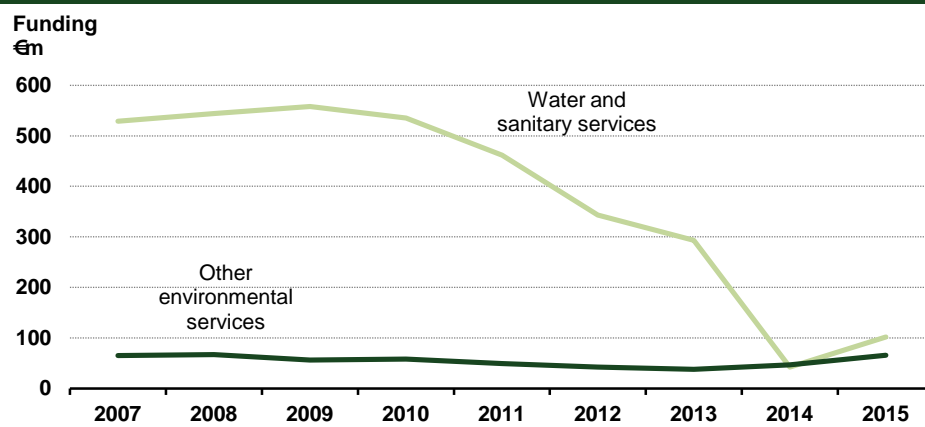


Source: Annex A

### *Environmental initiatives*

- 4.19** Figure 4.7 shows the trend in the level of funding from central government sources provided to local authorities in respect of environmental initiatives. Funding for water and sanitary services investment projects decreased significantly from 2014 due to the transfer of these functions from local authorities to Irish Water.

**Figure 4.7 Funding to local authorities for environmental initiatives, 2007 to 2015**



Source: Annex A

- 4.20** Funding for environmental initiatives in 2015 include funds for flood relief works provided by the Office of Public Works. The Local Government Fund provided funding to local authorities for storm damage repairs after a series of major storms which caused flooding at the end of 2015.

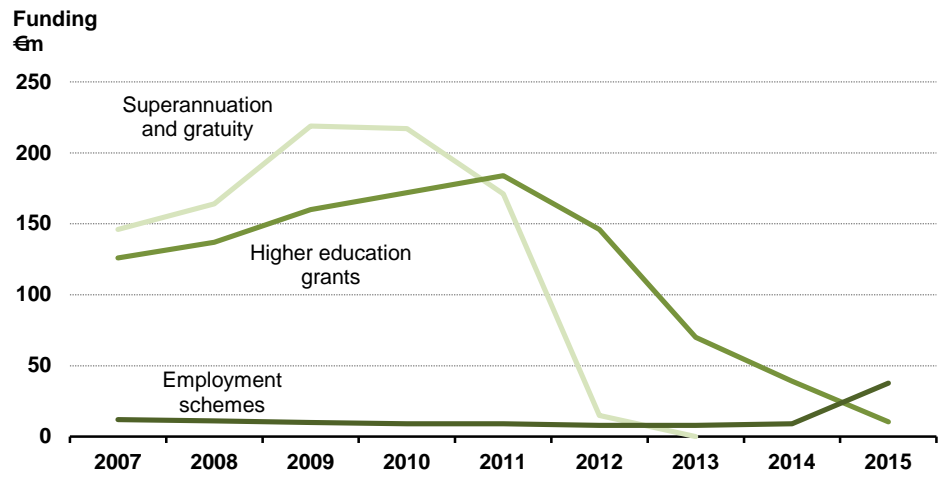
### *Education and employment services*

- 4.21** In 2015, the Department of Jobs, Enterprise and Innovation (DJEI) began to provide funding to local authorities to cover the costs associated with providing local enterprise development supports to the micro-enterprise sector via the Local Enterprise Offices (LEOs).

- 4.22** In 2014, legislation provided for the establishment of the LEOs; the dissolution of the County Enterprise Boards (CEBs) and the transfer of their functions to Enterprise Ireland (EI); and for the performance of those functions by the LEOs on behalf of EI.<sup>1</sup> The responsibility for policy and funding remains with DJEI. The objective is that the LEOs will become first stop shops providing support and services to start, grow and develop micro and small businesses in each local area. It is envisaged that the LEOs will be the channel through which all information in relation to State supports for micro and small businesses can be accessed.
- 4.23** EI, through its newly formed Micro and Small Business division, provides a range of supports to the LEOs including strategic, administrative, technical and financial support. Financial support includes administering the distribution of the DJEI funding to each local authority in accordance with agreed procedures.
- 4.24** The LEOs provide a wide range of services to local entrepreneurs and businesses including direct financial supports to eligible micro businesses and advisory services on a range of issues such as local property solutions, local authority regulations, planning, accessibility, environment and procurement. The LEOs also provide mentoring for entrepreneurs and businesses and training on areas such as starting and managing a business.
- 4.25** The Department of Social Protection reimburses local authorities for expenditure incurred on certain community employment and jobs initiative projects.
- 4.26** In the past (as shown in Figure 4.8), the Department of Education and Skills reimbursed local authorities for significant expenditure they incurred in relation to
- payment of student grants
  - payment of pensions to retired employees of vocational education committees and institutes of technology.
- 4.27** Under revised arrangements
- all new applications for student grants must be submitted to Student Universal Support Ireland (SUSI)
  - pensions payments are, since 2013, made by the PMG Pension Section of the Department of Finance. The pension costs are a charge on the Education and Skills vote.

<sup>1</sup> The County Enterprise Boards (Dissolution) Act 2014.

**Figure 4.8 Funding to local authorities for education and employment services, 2007 to 2015**

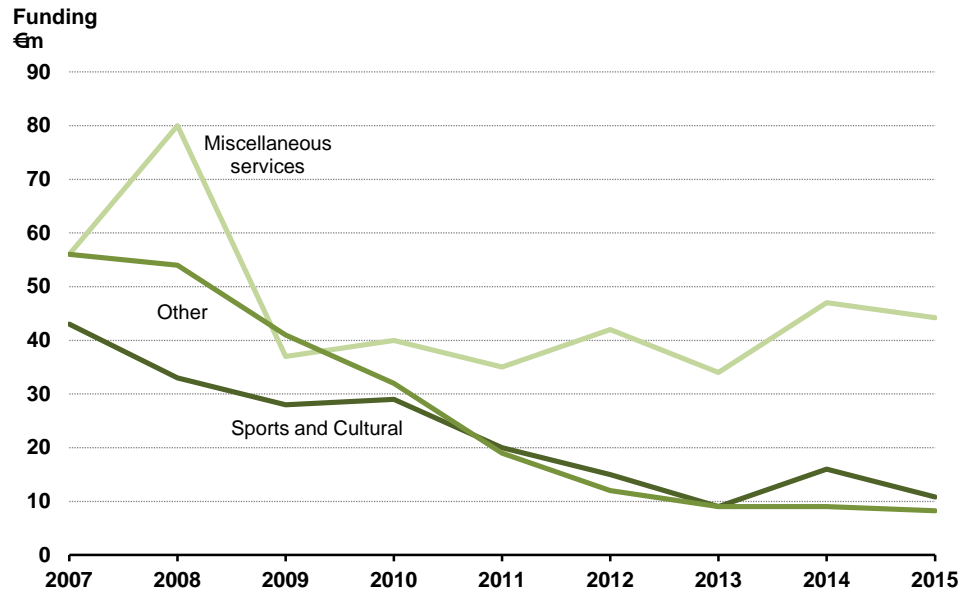


Source: Annex A

**Recreation and other local services**

4.28 Central government bodies also fund local authorities to assist in providing services such as sports and cultural projects, fire and emergency services, heritage services and library and archive services. Figure 4.9 shows the trend in the level of funding in respect of such services.

**Figure 4.9 Funding to local authorities for recreation and other local services, 2007 to 2015**



Source: Annex A

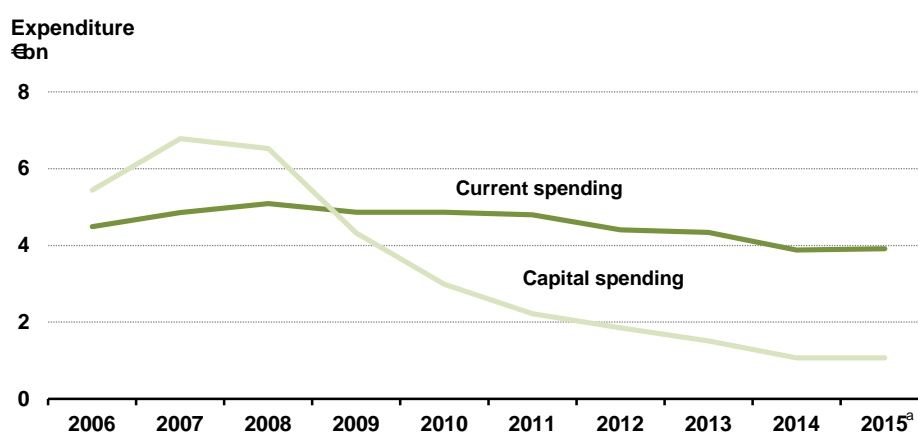
Note: Other category includes fire and emergency services, library service and disability services.



## Trends in local authority expenditure, 2006 to 2015

- 4.29** Aggregate expenditure by local authorities in 2014 (the last year for which full audited information is available) was €5 billion.<sup>1</sup> This comprised around €1.1 billion in capital expenditure, and around €3.9 billion in current expenditure (see Figure 4.10). Estimated expenditure for 2015 is expected to be unchanged on 2014 levels.<sup>2</sup>
- 4.30** As shown in Figure 4.10, capital expenditure by local authorities has been declining year on year since reaching its peak level of €6.8 billion in 2007. In 2014 capital expenditure decreased by 29% from the previous year, while local authority current expenditure has also reduced in recent years.

**Figure 4.10 Local authority expenditure by type, 2006 to 2015**



Source: Department of the Environment, Community and Local Government

Note: a Figures for 2015 are estimates. For all earlier years, audited figures are used.

## Central oversight of local authorities

- 4.31** 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

- 4.32** The financial statements of each local authority are audited by the Local Government Audit Service (LGAS). 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 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.
- 4.33** The LGAS also carries out value for money audits of local authority operations. The results of those audits are reported to the Minister.

<sup>1</sup> Includes expenditure by the 26 county councils, three city councils and two city and county councils.

<sup>2</sup> Collation of local authority expenditure outturns for 2015 had not been finalised by the Department of the Environment, Community and Local Government at the time of this report.

- 4.34** An 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 2016 and includes the results of the audits of the 2014 financial statements.<sup>1</sup> 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

- 4.35** The National Oversight and Audit Commission (the Commission) was established in July 2014.<sup>2</sup> The Commission has a wide range of functions focused on the scrutiny of local government performance, including their financial performance.
- 4.36** The Commission's annual report for 2015 sets out its strategy and reports on its activities for 2015.<sup>3</sup> The Commission has stated in its strategy that it will independently scrutinise local authority performance by means of thematic reports and, where warranted, oral hearings, on matters within its remit. Its key outputs will be published reports which will also be submitted to relevant Oireachtas Committees. It intends to monitor the outcome of its work in terms of the implementation of its recommendations.

As at June 2016, the Commission has published eight reports

- Local Authority Corporate Plans 2015 - 2019
- Performance Indicators in Local Authorities 2014
- Local Authority Tenants Satisfaction Survey
- Public Spending Code Local Authority Quality Assurance Report 2014
- Local Government Efficiency Review Reforms
- Local Government Shared Services Projects
- Local Authority Rates Collection 2013 - 2014
- Financial Performance of Local Authorities 2013 – 2015: Deficits, Audit Opinion and Financial Statements.

<sup>1</sup> Local Government Audit Service, Overview of the Work of the Local Government Auditors, March 2016.

<sup>2</sup> The Local Government Reform Act 2014 provided for the Commission which was formally established by Statutory Instrument 297 of 2014.

<sup>3</sup> National Oversight and Audit Commission Annual Report 2015 (April 2016).

- 4.37** The Commission's current workload includes projects on
- maintenance and management of local authority housing stock
  - local authority performance of their statutory functions in relation to the private rented sector
  - performance indicators in local authorities in 2015.

- 4.38** The Commission's work is funded by the Local Government Fund. Expenditure in 2015 was €114,000 (2014: €47,000) and mainly comprised member fees. Its allocation for 2016 is €200,000. The Commission secretariat comprised two staff (2014: three staff) provided by the Department. The cost of these staff, which is met from the Department's vote was €115,000 (2014: €88,000).

### **Conclusions**

- 4.39** Central government funding to local authorities presents a highly complex picture, with transfers coming from a number of departments and for a wide variety of purposes. Some streams of funding are delivered directly from funding departments to local authorities, while others are routed through departmental agencies.
- 4.40** Transfers of funding from central government sources to local authorities in 2015 totalled just under €2 billion. This compares with transfers of €5.8 billion in 2008. A substantial part of the fall in funding levels has occurred as a result of the transfer of responsibilities from local authorities to other agencies.

### Annex A Central government transfers to local authorities, by expenditure programme, 2007 to 2015

Expenditure Category	2007	2008	2009	2010	2011	2012	2013	2014	2015
	€m	€m	€m	€m	€m	€m	€m	€m	€m
<b>Transport investment</b>									
National roads improvement	1,476	1,374	1,218	893	516	503	232	228	236
Regional and local roads improvement	622	616	455	412	451	376	399	357	337
Public transport (capital payments)	48	70	63	56	83	62	57	51	54
	<b>2,146</b>	<b>2,060</b>	<b>1,736</b>	<b>1,361</b>	<b>1,050</b>	<b>941</b>	<b>688</b>	<b>636</b>	<b>627</b>
<b>Housing and urban regeneration</b>									
Social housing provision	1,382	1,571	1,297	961	655	598	529	536	614
Affordable housing, etc.	64	89	94	84	68	58	43	39	3
Other housing supports	6	7	4	6	4	3	1	5	114
Urban regeneration	20	5	1	–	–	–	–	–	50
	<b>1,472</b>	<b>1,672</b>	<b>1,396</b>	<b>1,051</b>	<b>727</b>	<b>659</b>	<b>573</b>	<b>580</b>	<b>781</b>
<b>Environmental initiatives</b>									
Water and sanitary services	529	544	558	535	462	343	293	42	102
Flood relief works	14	3	5	17	8	22	10	27	43
Waste management	28	27	8	11	11	5	9	5	3
Recycling	12	22	14	14	12	4	8	2	–
Other environmental measures	11	15	29	16	18	11	11	13	20
	<b>594</b>	<b>611</b>	<b>614</b>	<b>593</b>	<b>511</b>	<b>385</b>	<b>331</b>	<b>89</b>	<b>168</b>
<b>Education and employment services</b>									
Higher education grants	126	137	160	172	184	146	70	39	11
Superannuation and gratuity costs	146	164	219	217	171	15	–	–	–
Employment schemes	12	11	10	9	9	8	8	8	36
	<b>284</b>	<b>312</b>	<b>389</b>	<b>398</b>	<b>364</b>	<b>169</b>	<b>78</b>	<b>47</b>	<b>47</b>
<b>Recreation and other local services</b>									
Swimming pools	28	20	11	3	10	8	5	–	1
Fire and emergency services	24	24	20	19	12	6	5	7	6
Library service	17	15	9	6	7	6	4	2	2
Sports grants, playgrounds and cultural projects	8	5	11	21	9	6	3	11	9
Heritage services (architectural heritage)	7	8	6	5	1	1	1	5	1
Disability services	15	15	12	7	–	–	–	–	–
Miscellaneous capital services	24	40	14	18	11	16	11	9	14
Miscellaneous services <sup>a</sup>	32	40	23	22	24	26	23	38	32
	<b>155</b>	<b>167</b>	<b>106</b>	<b>101</b>	<b>74</b>	<b>69</b>	<b>53</b>	<b>72</b>	<b>65</b>
General purpose grants	948	999	833	763	700	638	642	281	–
LPT allocations - general purpose/discretionary <sup>b</sup>	–	–	–	–	–	–	–	–	306
<b>Total funding provided to local authorities</b>	<b>5,599</b>	<b>5,821</b>	<b>5,074</b>	<b>4,267</b>	<b>3,426</b>	<b>2,861</b>	<b>2,365</b>	<b>1,705</b>	<b>1,994</b>

Source: The Office of Public Works; Department of the Environment, Community and Local Government; Department of Education and Skills; Department of Transport, Tourism and Sport; Department of Arts, 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 Social Protection; Department of Communications, Energy and Natural Resources; Department of Defence; Department of Jobs, Enterprise and Innovation; Local Government Fund and Environment Fund financial statements (2015 unaudited).

Note: a Adjustments were made in 2014 to previously reported pre-2014 amounts to reflect amounts not previously included.  
b The total LPT allocation from the Local Government Fund in 2015 was €459 million, this was allocated as follows; Housing €131 million; Roads €22 million; General purpose/discretionary €306 million.