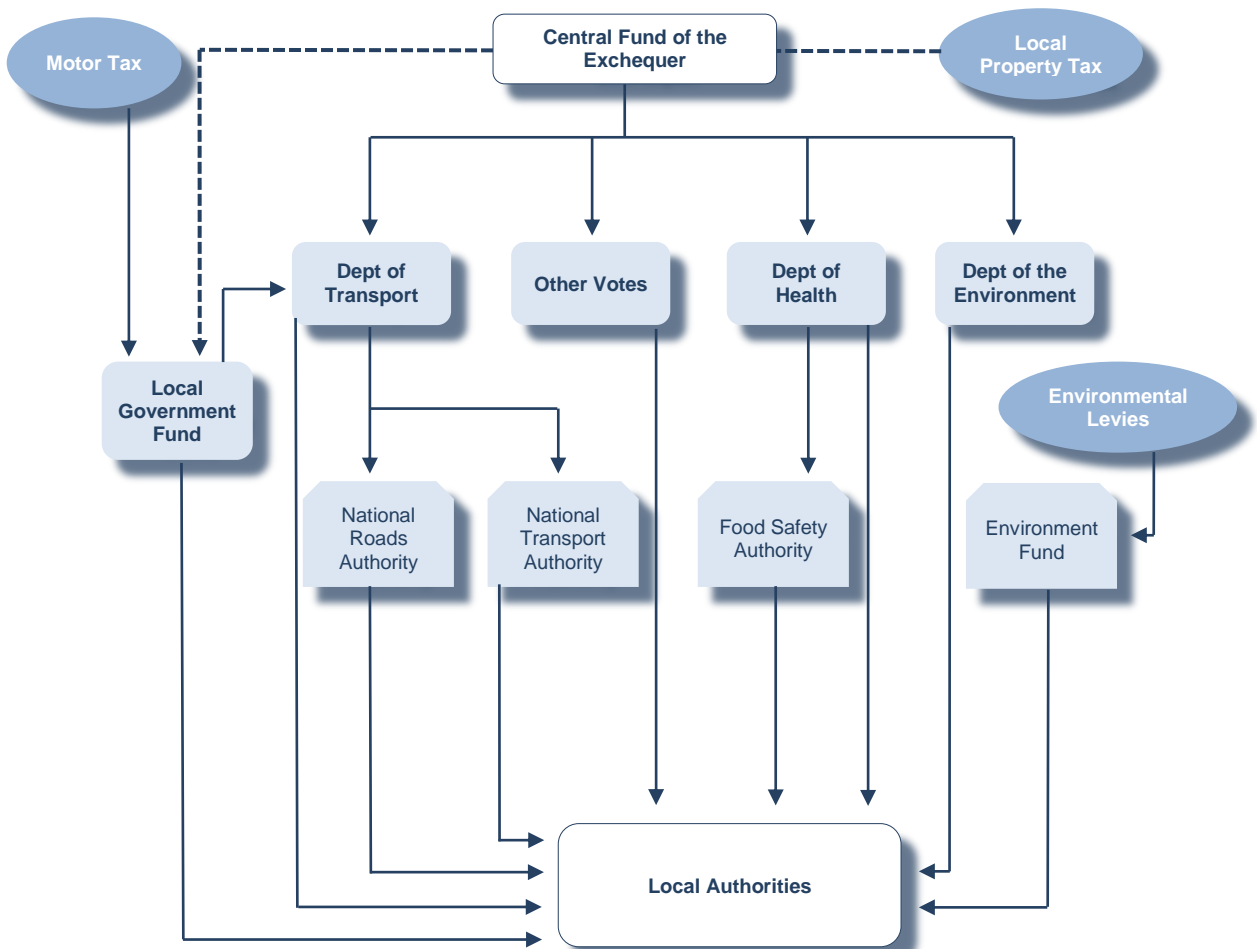


10 Central Government Funding of Local Authorities

10.1 Local authorities receive a substantial part of their annual funding from a range of central government departments and agencies, as indicated in Figure 10.1. 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 10.1 Overview of flow of central government funding to local authorities

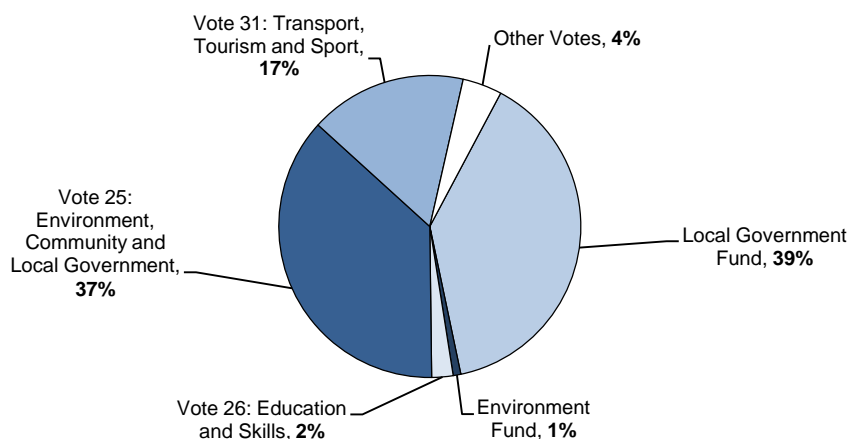


Source: Office of the Comptroller and Auditor General

Central Government Transfers in 2014

- 10.2** In 2014, funding to local authorities from central government sources totalled €1.7 billion, which represents a decrease of 28% on 2013.¹ 60% of this total originated as Exchequer funding. The balance was provided through the Local Government Fund and the Environment Fund (see Figure 10.2) both of which are administered by the Department of the Environment, Community and Local Government (the Department).

Figure 10.2 Sources of central government financing for local authorities, 2014



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

- 10.3** In 2014, the Local Government Fund was mainly financed by the €1.2 billion proceeds of motor tax and local property tax (LPT) receipts of €491 million. The LPT, which became payable from July 2013, is administered and collected by the Revenue Commissioners. LPT receipts are paid into the Central Fund. From 2014, the Minister for Finance is required to pay into the Local Government Fund an amount equivalent to the LPT paid into the Central Fund.²
- 10.4** The Local Government Fund provides funding to local authorities mainly for their day to day activities ('general purpose' grants) and for the upkeep of regional and local roads.
- 10.5** Town councils and borough councils were dissolved in 2014 following the enactment of the Local Government Reform Act 2014. In 2014, general purpose grant allocations from the Local Government Fund are calculated on a city and county basis, whereas separate town council allocations were made in previous years.
- 10.6** Up to 2014, general purpose grants included an element of funding for recurrent water services expenditure. In 2014, Irish Water received €439 million from the Local Government Fund in respect of the cost of water related services previously provided by local authorities.³ Water services capital loans held by local authorities did not transfer to Irish Water. The Department provided local authorities with grants totalling €47 million from the Local Government Fund in 2014 in respect of the cost of those loans.

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

² Section 157 of the Finance (Local Property Tax) Act 2012. From July 2013, any outstanding household charge was converted into an LPT charge and the Revenue Commissioners assumed responsibility for its collection.

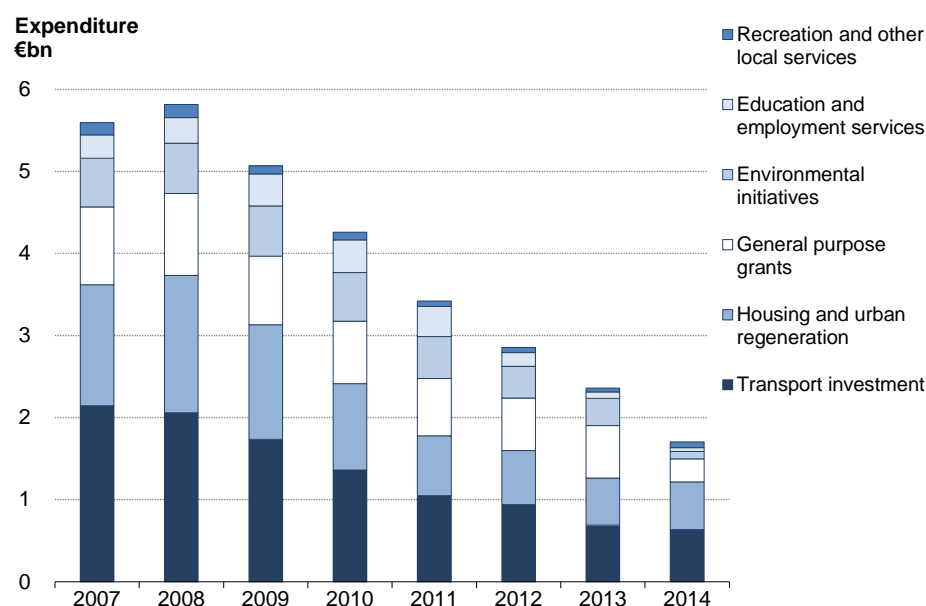
³ Details of all central government funding of Irish Water are set out in Chapter 11.

- 10.7** 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 proceeds of the plastic bag levy, which is paid by consumers and collected from retailers by the Revenue Commissioners, are paid into the Fund. Receipts from the landfill levy are also paid into the Fund. Disbursements from the Fund are intended to assist projects that aim to protect or enhance the environment.

Application of Central Government Funding

- 10.8** Most of the funding sourced from central government and provided to local authorities must be used for specific local authority services. These can be grouped into six broad programme categories. Figure 10.3 presents a breakdown of the transfers to local authorities for 2007 to 2014 showing the programmes being supported (a detailed breakdown is at Annex A).
- 10.9** In 2014, 87% of the total funding provision from central government to local authorities was accounted for by three categories. Those were transport (37%), housing and urban regeneration programmes (34%) and general purpose grants (16%).

Figure 10.3 Central government transfers to local authorities, by expenditure programme, 2007 to 2014



Source: See Annex A

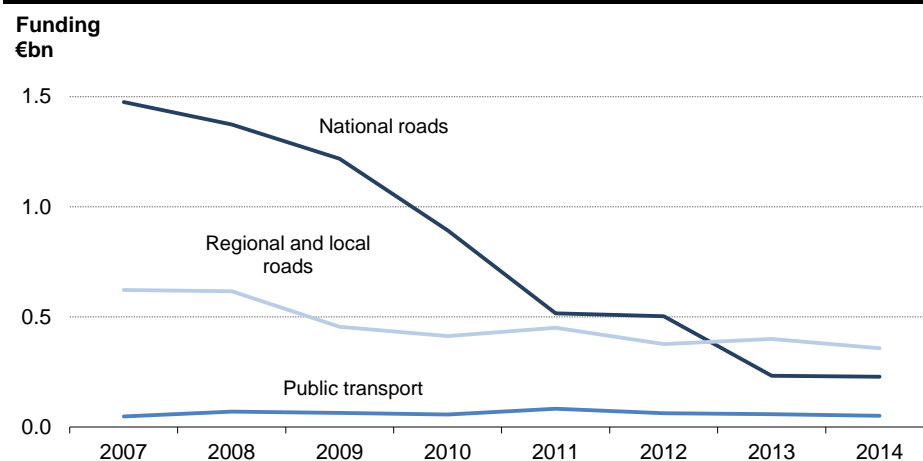
Transport Investment

- 10.10** Improvement and maintenance of national roads is the responsibility of the National Roads Authority, operating under the aegis of the Department of Transport, Tourism and Sport. The National Roads Authority normally uses local authorities as its agents to deliver the projects, and channels expenditure through them.
- 10.11** 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 the National Roads Authority's payment system.

10.12 The National Transport Authority, also operating under the aegis of the Department of Transport, Tourism and Sport, funds local authorities for improvements in the public transport system. Funding objectives include increased accessibility for older people, improved traffic flows, more routes for cyclists and pedestrians and better access for buses and taxis.

10.13 Figure 10.4 shows the trend in the level of funding from central government sources provided to local authorities in respect of the key transport areas.

Figure 10.4 Funding to local authorities for transport infrastructure, 2007 to 2014

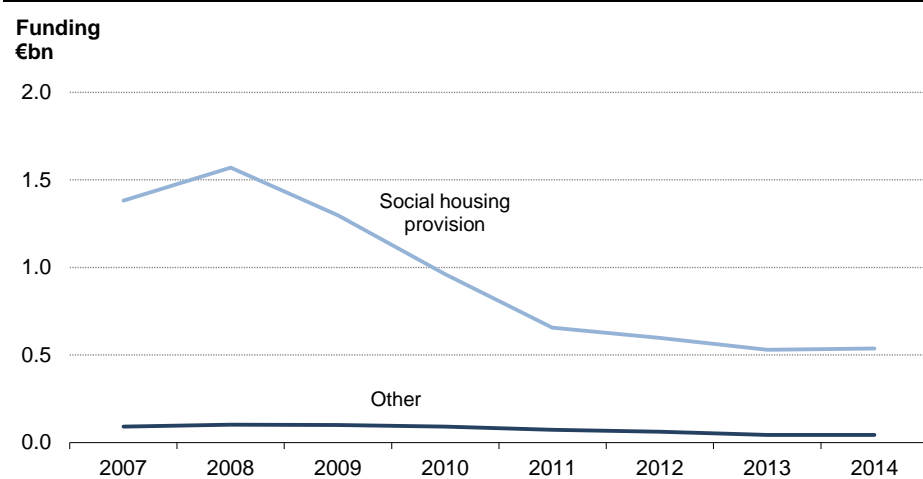


Source: See Annex A

Housing and Urban Regeneration

10.14 The bulk of funding for housing and urban regeneration is provided directly to local authorities by the Department from voted funds. The funding is used by local authorities for the provision of social housing including regeneration and remedial work, traveller accommodation, voluntary and cooperative housing, the Rental Accommodation Scheme, housing adaptation grants, and accommodation for homeless people. Figure 10.5 indicates the trend in the level of funding for housing provision.

Figure 10.5 Funding to local authorities for investment in housing and urban regeneration, 2007 to 2014

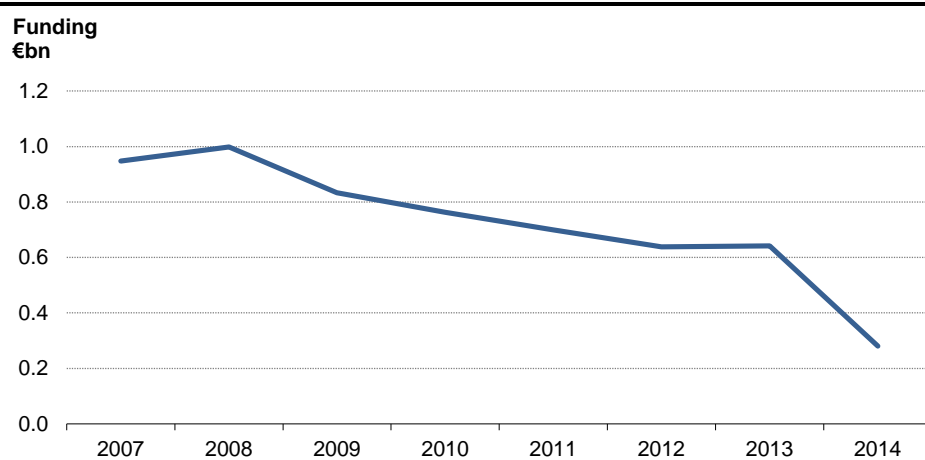


Source: See Annex A

General Purpose Grants

- 10.15** Funding is provided to local authorities from the Local Government Fund to assist them bridge the gap between their other income sources and the cost of the services they provide, including their own administration costs. Figure 10.6 shows the trend in the level of funding in respect of general purposes grants.
- 10.16** In 2014, the level of general purpose grants paid to local authorities decreased significantly as a result of the transfer of water service functions to Irish Water. In 2015, general purpose grant payments to local authorities have been discontinued and have been replaced by local property tax allocations.

Figure 10.6 Total general purpose grants to local authorities, 2007 to 2014

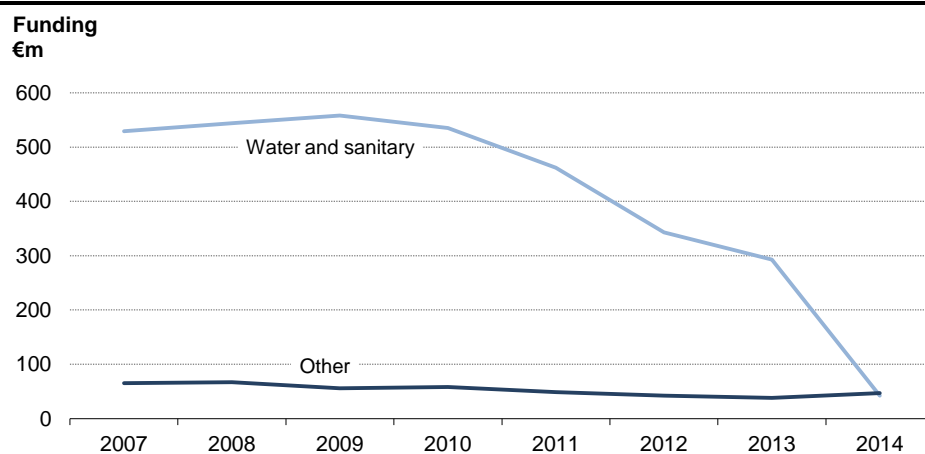


Source: See Annex A

Environmental Initiatives

- 10.17** Figure 10.7 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 in 2014 due to the transfer of these functions from local authorities to Irish Water.

Figure 10.7 Funding to local authorities for environmental initiatives, 2007 to 2014



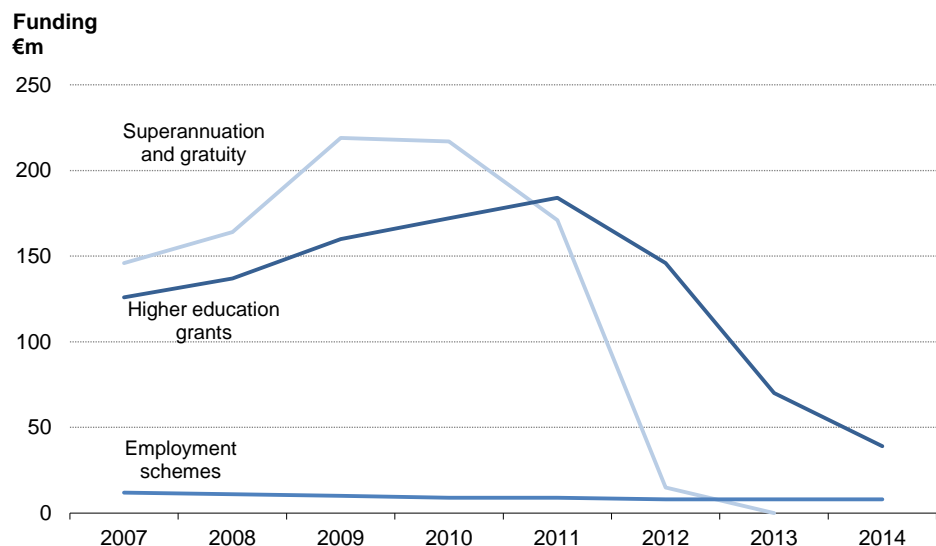
Source: See Annex A

- 10.18** Funding for environmental initiatives in 2014 includes funds for flood relief works provided by the Office of Public Works and the Department of Agriculture, Food and the Marine.

Education and Employment Services

- 10.19** Prior to 2012, higher education grants were awarded by either the relevant vocational education committee (VEC) or local authority. The Department of Education and Skills reimbursed the cost of grants awarded by local authorities. With effect from the academic year 2012/2013, all new students must submit applications for support under the student grants scheme to a national grant awarding authority (Student Universal Support Ireland). As a result, the amount of funding provided to local authorities for higher education grants has fallen significantly (see Figure 10.8). In time, this line of funding to local authorities will disappear.
- 10.20** The Department of Education and Skills also reimbursed local authorities in the past in respect of superannuation benefits and gratuity costs for retired teaching and non-teaching staff of VECs and institutes of technology, who are members of the Vocational Teachers' Superannuation Scheme or the Education Sector Superannuation Scheme respectively. From the end of 2012, responsibility for these superannuation and gratuity payments transferred from local authorities to the PMG Pensions Section in the Department of Finance. The pension costs are borne by the Education and Skills vote.
- 10.21** The Department of Social Protection reimburses local authorities for expenditure incurred on certain community employment and jobs initiative projects.

Figure 10.8 Funding to local authorities for education and employment services, 2007 to 2014

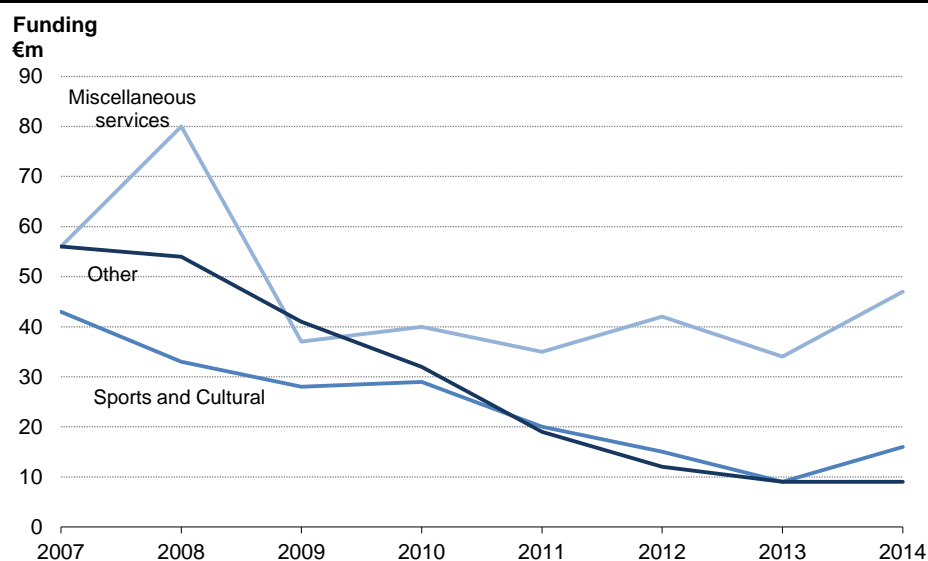


Source: See Annex A

Recreation and Other Local Services

- 10.22** 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 10.9 shows the trend in the level of funding in respect of such services.

Figure 10.9 Funding to local authorities for recreation and other local services, 2007 to 2014



Source: See Annex A

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

Trends in Local Authority Expenditure, 2006 to 2014

- 10.23** Aggregate expenditure by local authorities in 2013 (the last year for which full audited information is available) was €5.8 billion.¹ This comprised around €1.5 billion in capital expenditure, and around €4.3 billion in current expenditure (see Figure 10.10). Estimated expenditure for 2014 is €5.3 billion – €1.1 billion capital and €4.2 billion current.²

1 Includes expenditure by the 29 county councils, five city councils, five borough councils and 75 town councils.

2 Collation of local authority expenditure outturns for 2014 had not been finalised by the Department of the Environment, Community and Local Government at the time of this report.

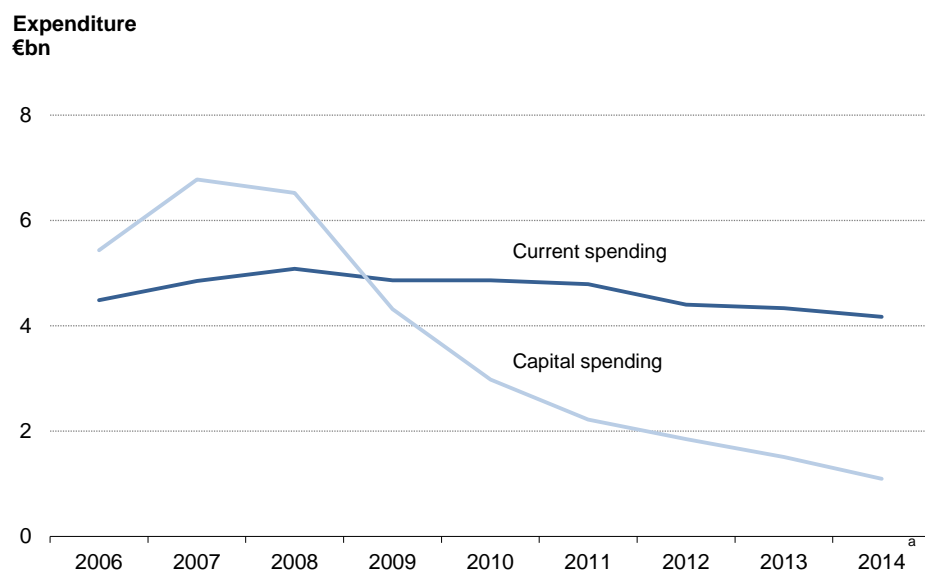
3 Pension-related deductions from staff salaries retained by the local authorities account for a further 2% and replace an equivalent amount of grant funding.

4 The remaining funding (6%) derives from contributions and charges between local authorities.

- 10.24** Local authority capital spending is spending that results in the creation or acquisition of assets that have a use beyond the year in which they are provided e.g. road construction, building or purchase of houses, creation of local amenities, etc. Local authority capital programmes are financed largely by State grants from various sources, with some funding from borrowings, development levies, own internal resources and property sales.
- 10.25** Current expenditure (sometimes referred to as revenue expenditure) covers the day-to-day running of local authorities, including staff salaries, housing maintenance and pensions. Current expenditure is funded from three main sources. In 2013, these included Exchequer and Local Government Fund grants (about 33% of the total),³ local authority rates (about 33%) and charges for goods and services such as commercial water charges, housing rents and parking charges (about 26%).⁴ The contribution to current expenditure from the different income sources varies between authorities.

- 10.26** As shown in Figure 10.10, capital expenditure by local authorities has been declining year on year since reaching its peak level of €6.8 billion in 2007. Capital expenditure decreased by 18% in 2013, while local authority current expenditure was marginally down.

Figure 10.10 Local authority expenditure by type, 2006 to 2014



Source: Department of the Environment, Community and Local Government

Note: a Figures for 2014 are estimates. For all earlier years, audited figures are used.

Local Authority Audit and Oversight Arrangements

- 10.27** The Local Government Act 2001 requires each local authority to prepare annual financial statements in accordance with the accounting code of practice issued by the Minister for Environment, Community and Local Government (the Minister).

Disclosure of Funding Sources

- 10.28** The financial statements of local authorities provide an analysis of income from grants and subsidies in an appendix. In relation to grants from the Department of the Environment, Community and Local Government, an analysis of the grant income by category is provided. However, grants from other departments and agencies are only analysed by category in aggregate – amounts provided by each department or agency are not disclosed.

10.29 Recent revisions to public financial procedures require that grant-giving departments and agencies make it a condition of funding that grant-receiving bodies report in their financial statements¹

- the name of the department or agency providing the funding
- the name of the grant programme
- the amount and term of the grant and the amount accounted for in the current financial statements (if less than the entire amount received)
- the amount of any capital grant and the reporting policies for current and future instalments
- details of any restrictions on the grant.

10.30 It is primarily a matter for grant-giving departments and agencies to ensure that those in receipt of grants make the required disclosures in their annual financial statements.

10.31 A working group is currently reviewing the additional reporting requirements arising from the revised framework for the management and accountability for grants from Exchequer funds as set out in circular 13/2014. The working group comprises representatives from the Department, the Local Government Audit Service (LGAS) and some heads of finance from local authorities.

Local Government Audit Service

10.32 The financial statements of each local authority are audited by the 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 has indicated that sector wide issues identified in audit reports are followed up and that it engages with a local authority in the event it requires information on a particular issue.

10.33 The LGAS also carries out value for money audits of local authority operations. The results of those audits are reported to the Minister.

¹ See Department of Public Expenditure and Reform circular 13 of 2014. Chapter 5 provides further detail on the provisions of this circular.

10.34 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 2015 and includes the results of the audits of the 2013 financial statements.¹ 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. The report notes the following general issues in relation to the 2013 audits.

- **Financial position at year end** – a number of local authorities had significant debit balances, including Sligo County Council (€21.7 million) and Donegal County Council (€17.8 million).
- **Income collection** – there were cases of deteriorating collection performance.
- **Internal audit** – instances where the internal audit function was under-resourced, which has serious implications for the effectiveness of audit committees.
- **Capital balances** – balances where a source of funding has yet to be identified totalled €412 million at the end of 2013. Future sources of funding identified in responses to auditors' reports in respect of these balances included development levies, transfers from revenue account, sales of related assets and recoupments from the Department.
- **Capital projects** – issues in relation to contractor claims for additional costs; project delays; outstanding loans; and adverse balance for unsold affordable housing units.
- **Development contributions** – the split between long-term and short-term debtors; the likelihood of some developments progressing and the need for regular inspections; the need for regular review of debtor balances and the adequacy of bad debt provisions.
- **Procurement** – need to update guidelines, need to expand or improve procurement units, instances of non-compliance with guidelines and identification of areas requiring particular attention such as procurement of legal services.
- **Fixed assets** – incomplete fixed assets registers; land and properties not registered.
- **Local authority companies** – need to improve governance arrangements, accumulated losses (including €14 million for Kilkenny County Council) and unavailability of audited financial statements.
- **Loans payable** – interest rolled up on loans for land purchases, including Cork City Council (€37 million), Dublin City Council (€33 million) and Wicklow County Council (€25 million).
- **Delays** – delays in the submission of financial statements for audit in the case of some local authorities. For the 2013 year of account, 12 of the 32 were submitted by the date specified in the accounting code of practice (31 March 2014).

¹ Local Government Audit Service, *Overview of the Work of the Local Government Auditors*, March 2015.

Local Authority Audit Committees

- 10.35** Section 59 of the Local Government Reform Act 2014 requires each local authority to establish an audit committee. The functions of the audit committee include reviewing the respective local authority's financial management, internal audit, risk management and value for money. It also considers the LGAS report and assesses actions taken in response to that report. The audit committee is required to consider the audit report as soon as practical following its receipt. The auditor who conducted the audit is required to attend that meeting. The committee is then required to report formally to the council on its findings. Guidance for local authority audit committees indicates that in the report, the committee should identify matters where it considers actions or improvements are needed, how management has responded to any issues arising, and make recommendations as to the steps to be taken.¹

National Oversight and Audit Commission

- 10.36** The National Oversight and Audit Commission (the Commission) was established in July 2014.² The Commission has a wide range of functions which are focused on the scrutiny of local government performance, including their financial performance.
- 10.37** 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. It will focus on the wide range of service delivery systems in local authorities and regional assemblies. Its key outputs will be published reports which will also be presented to relevant Oireachtas Committees. It intends to monitor the outcome of its work in terms of the implementation of its recommendations.
- 10.38** The Commission's first annual report sets out its strategy and reports on its activities to date.³ Its initial work included
- Reviewing the performance indicators used to report on local authority activity – it has developed a revised list of indicators for use in reporting on 2014 activity and as a basis for 2015. It continues to work on developing more qualitative and outcome-focused indicators, informed by the various thematic reviews it will undertake.
 - A thematic review of housing – the review will focus on four areas. Reviews of maintenance and management of local authority housing, and local authorities' inspections of private rented housing are to be carried out in 2015. A review of social housing assessment and allocation is to commence in 2016. A review of delivery of housing supply is expected to take a number of years to complete.
 - A local authority customer awareness survey – the first phase of the survey was completed in 2014 and the results will be used to determine the scale and details of national surveys, representative of each local authority, and to assist in designing the sample framework.

¹ Guidance for Audit Committees in Local Authorities, Department of the Environment, Community and Local Government, June 2014.

² The establishment of the Commission was provided for in the Local Government Reform Act 2014. The Commission was formally established by Statutory Instrument 297 of 2014.

³ National Oversight and Audit Commission Annual Report 2014

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

Conclusions

- 10.40** Central government funding to local authorities presents a highly complex picture, with transfers coming from a number of departments and for a variety of purposes. Some streams of funding are delivered directly from funding departments to local authorities, while others are routed through departmental agencies.
- 10.41** Transfers of funding from central government sources to local authorities in 2014 totalled around €1.7 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.
- 10.42** Significant new arrangements for oversight of local authorities have been implemented in 2014, supplementing the existing LGAS. It is too early to determine the impact of those arrangements on the accountability for and transparency of local government financing.

Annex A Central government transfers to local authorities, by expenditure programme, 2007 to 2014

Expenditure Category	2007	2008	2009	2010	2011	2012	2013	2014
	€m	€m	€m	€m	€m	€m	€m	€m
Transport investment								
National roads improvement	1,476	1,374	1,218	893	516	503	232	228
Regional and local roads improvement	622	616	455	412	451	376	399	357
Public transport (capital payments)	48	70	63	56	83	62	57	51
	2,146	2,060	1,736	1,361	1,050	941	688	636
Housing and urban regeneration								
Social housing provision	1,382	1,571	1,297	961	655	598	529	536
Affordable housing, etc.	64	89	94	84	68	58	43	39
Other housing supports	6	7	4	6	4	3	1	5
Urban regeneration	20	5	1	–	–	–	–	–
	1,472	1,672	1,396	1,051	727	659	573	580
Environmental initiatives								
Water and sanitary services	529	544	558	535	462	343	293	42
Flood relief works	14	3	5	17	8	22	10	27
Waste management	28	27	8	11	11	5	9	5
Recycling	12	22	14	14	12	4	8	2
Other environmental measures	11	15	29	16	18	11	11	13
	594	611	614	593	511	385	331	89
Education and employment services								
Higher education grants	126	137	160	172	184	146	70	39
Superannuation and gratuity costs	146	164	219	217	171	15	-	-
Employment schemes	12	11	10	9	9	8	8	8
	284	312	389	398	364	169	78	47
Recreation and other local services								
Swimming pools	28	20	11	3	10	8	5	–
Fire and emergency services	24	24	20	19	12	6	5	7
Library services	17	15	9	6	7	6	4	2
Sports grants, playgrounds and cultural projects	8	5	11	21	9	6	3	11
Heritage services (architectural heritage)	7	8	6	5	1	1	1	5
Disability services	15	15	12	7	–	–	–	–
Miscellaneous capital services	24	40	14	18	11	16	11	9
Miscellaneous services ^a	32	40	23	22	24	26	23	38
	155	167	106	101	74	69	52	72
General purpose grants	948	999	833	763	700	638	642	281
Total funding provided to local authorities	5,599	5,821	5,074	4,267	3,426	2,861	2,364	1,705

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 Defence; Health Service Executive; Local Government Fund and Environment Fund financial statements (2014 audits not yet completed).

Note: a Adjustments have been made to the previously reported pre-2014 amounts to reflect amounts not previously included.

