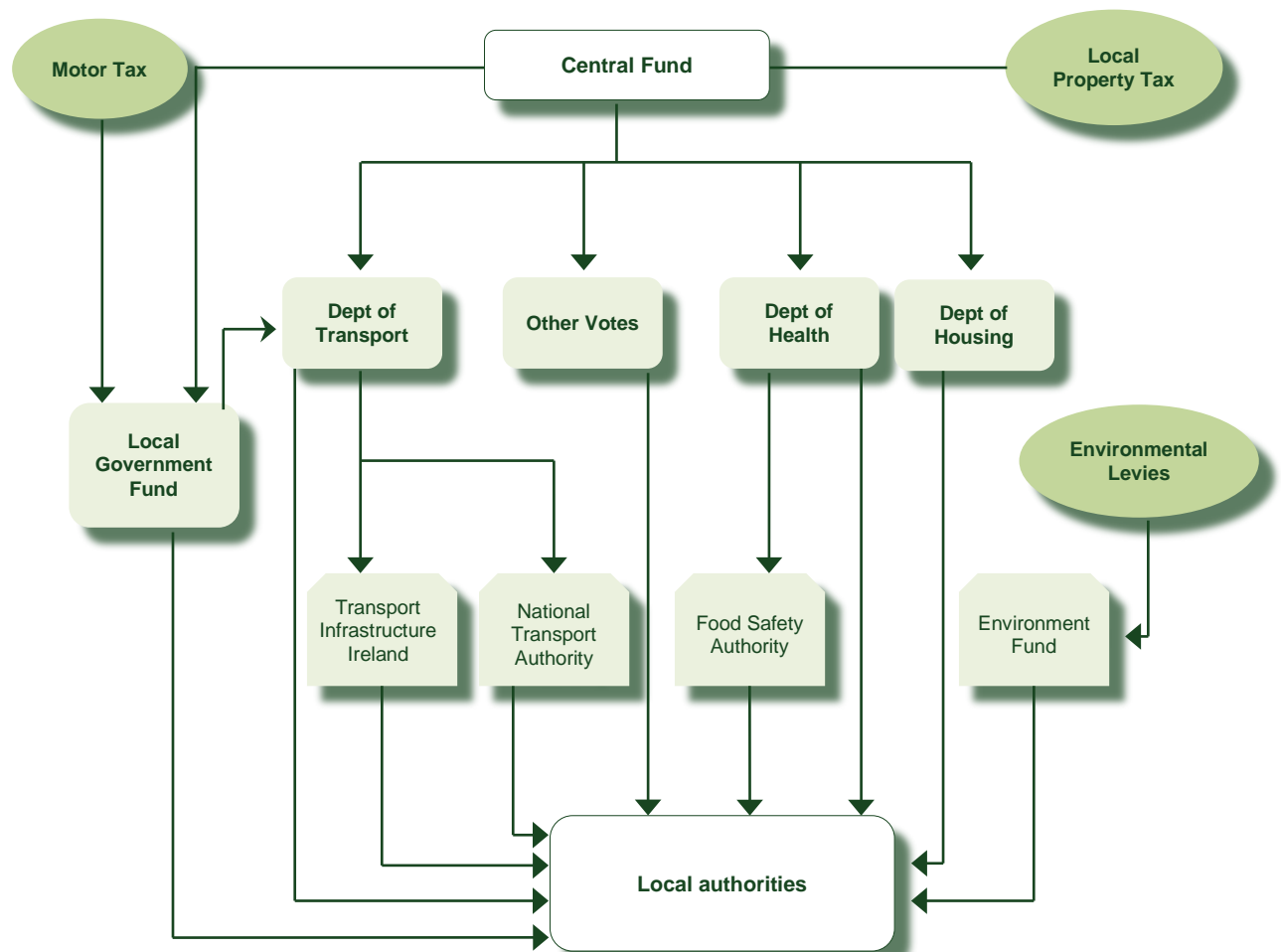


## 8 Central Government Funding of Local Authorities

8.1 Local authorities receive a substantial part of their annual funding from a range of central government departments and agencies (see Figure 8.1). 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 8.1 Flow of central government funding to local authorities in 2016

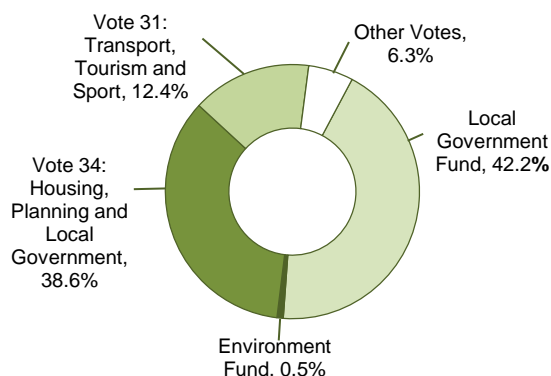


Source: Office of the Comptroller and Auditor General

## Central government transfers

- 8.2** In 2016, funding to local authorities from central government sources totalled €2.22 billion — an increase of 12% on the €1.99 billion in 2015.<sup>1</sup> About 57% of this total originated as Exchequer funding. The balance was provided through the Local Government Fund and the Environment Fund (see Figure 8.2).

**Figure 8.2 Sources of central government financing for local authorities, 2016**



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

- 8.3** The Local Government Fund is administered by the Department of Housing, Planning and Local Government (the Department). In 2016, the Fund was financed mainly by the proceeds of motor tax (€1 billion), local property tax (LPT) receipts (€463.4 million) and a contribution of €396.5 million from the Exchequer, via the Vote for Housing, Planning, Community and Local Government.<sup>2</sup>
- 8.4** The Environment Fund<sup>3</sup> 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 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.

### Local Property Tax allocations to local authorities

- 8.5** 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.
- 8.6** In September 2014, the Government decided that LPT allocations to local authorities from 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 levels
  - the allocation takes into account 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 (2012 Act).

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

<sup>2</sup> 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.

<sup>3</sup> The Environment Fund is administered by the Department of Communications, Climate Action and Environment.

- 8.7** 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 i.e. authorities requiring equalisation (see Figure 8.3).

**Figure 8.3 Allocation of LPT to local authorities for 2016**

	Classification of local authorities		2016	2015
	In a surplus position	Requiring equalisation	€m	€m
	€m	€m	€m	€m
Local retention (80%) <sup>a</sup>	266	112	378	400
Equalisation funding				
- 20% of LPT	—	95	95	100
- Exchequer contribution <sup>b</sup>	2	14	16	2
Reduction for local cuts in LPT rate	(35)	(1)	(36)	(44)
<b>LPT allocations for 2016</b>	<b>233</b>	<b>220</b>	<b>453</b>	<b>458</b>
<b>General purpose grant 2014</b>	<b>62</b>	<b>220</b>	<b>282</b>	<b>282</b>

Source: Department of Housing, Planning and Local Government

Notes: a The 2016 allocations were based on Revenue's declared net liabilities for 2015 with adjustment to take account of the variation process.

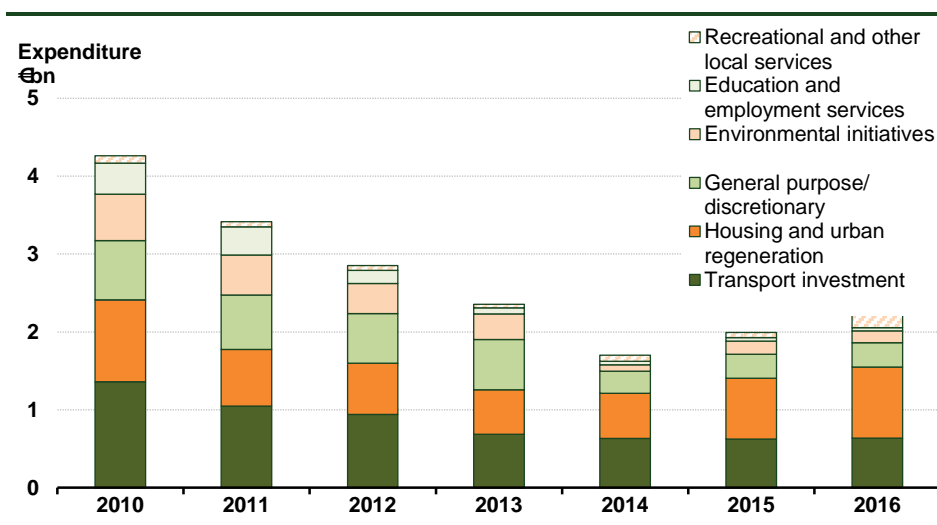
b The Exchequer contributed €2 million compensatory funding in 2016, to ensure no authority in a surplus position was worse off in their discretionary grant than in 2015, and €14 million to authorities requiring equalisation funding.

- 8.8** 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 2016, five local authorities decided to decrease the LPT by the maximum 15% at a cost of €30.9 million. Another six local authorities reduced the LPT by between 1.5% and 10%, at a cost of €5.1 million. No local authority opted to increase the LPT rate in 2016.
- 8.9** For the 12 authorities in a surplus funding position, the Government decided that a portion of the surplus 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.
- 8.10** In the case of the 12 authorities in a surplus funding position, the amount of LPT funding provided in 2016 (€233.1 million) was €171.2 million more than the 2014 general purpose funding. Those authorities were directed to apply the additional funding as follows
- €121 million for housing services
  - €22 million for road services
  - €90 million for local authority discretionary use.

## Application of central government funding

- 8.11** 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 8.4 presents a breakdown of the transfers to local authorities for 2010 to 2016 showing the programmes being supported (a detailed breakdown is at Annex 8A).
- 8.12** In 2016, around 70% of the total provision from central government to local authorities was accounted for by two categories — housing and urban regeneration programmes (41%), and transport (29%).

**Figure 8.4 Central government transfers to local authorities, by expenditure programme, 2010 to 2016**



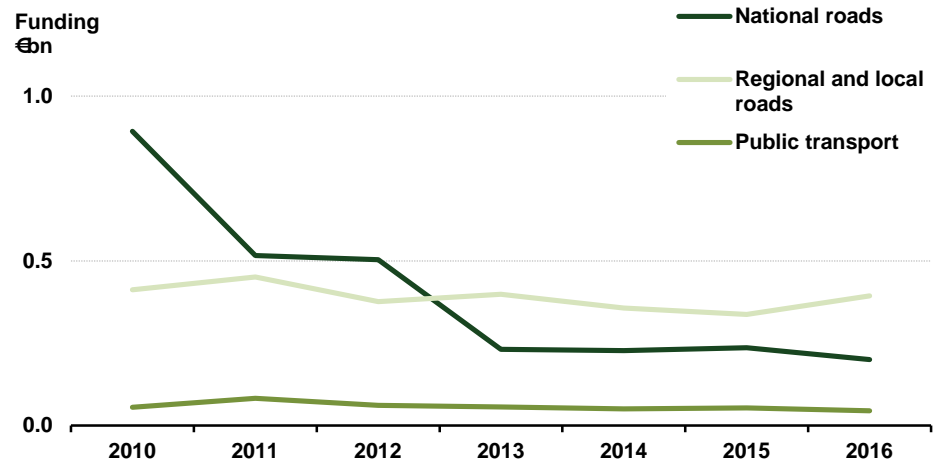
Source: Annex 8A

### Transport investment

- 8.13** 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.
- 8.14** 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.
- 8.15** 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.

8.16 Figure 8.5 shows the trend in the level of funding from central government sources provided to local authorities in respect of the key transport areas.

**Figure 8.5 Funding to local authorities for transport infrastructure, 2010 to 2016**

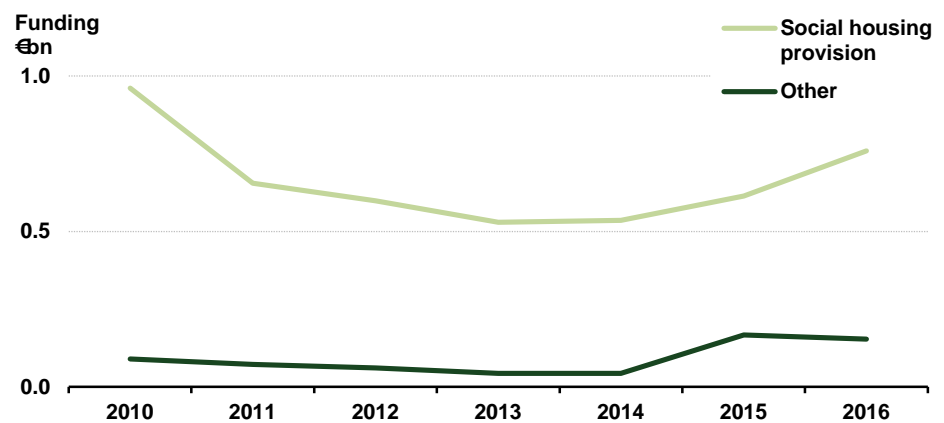


Source: Annex 8A

**Housing and urban regeneration**

8.17 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 fund housing services from their LPT receipts, to a 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 8.6 indicates the trend in the level of funding for housing provision.

**Figure 8.6 Funding to local authorities for investment in housing and urban regeneration, 2010 to 2016**

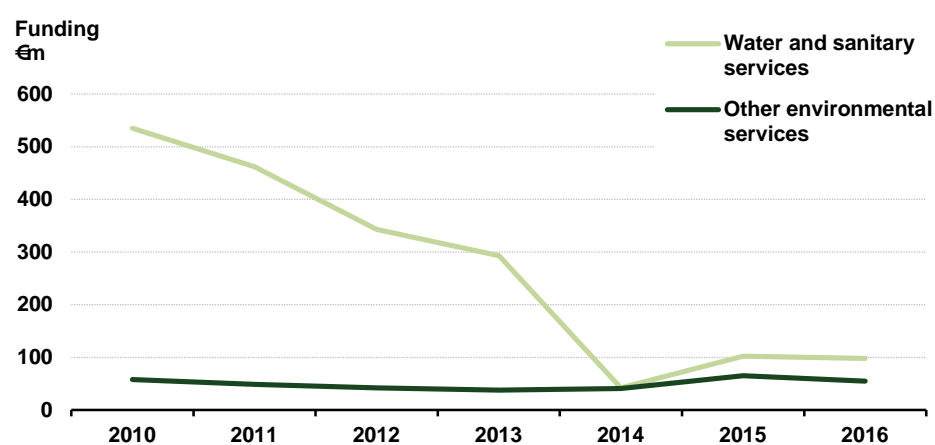


Source: Annex 8A

### ***Environmental initiatives***

- 8.18** Figure 8.7 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.
- 8.19** Funding for environmental initiatives in 2016 includes funds for flood relief works provided by the Office of Public Works. The Local Government Fund provided funding to local authorities for costs associated with the clean-up after a series of major storms which caused flooding at the end of 2015 and beginning of 2016.

**Figure 8.7 Funding to local authorities for environmental initiatives, 2010 to 2016**



Source: Annex 8A

### ***Education and employment services***

- 8.20** In 2015, the Department of Jobs, Enterprise and Innovation (DJEI) 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).
- 8.21** EI 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.
- 8.22** 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.
- 8.23** The Department of Communications, Climate Action and Environment also provides funding to the LEOs through EI in respect of the Department's Trading Online Voucher Scheme which supports small businesses to trade online.
- 8.24** The Department of Social Protection reimburses local authorities for expenditure incurred on certain community employment and jobs initiative projects.

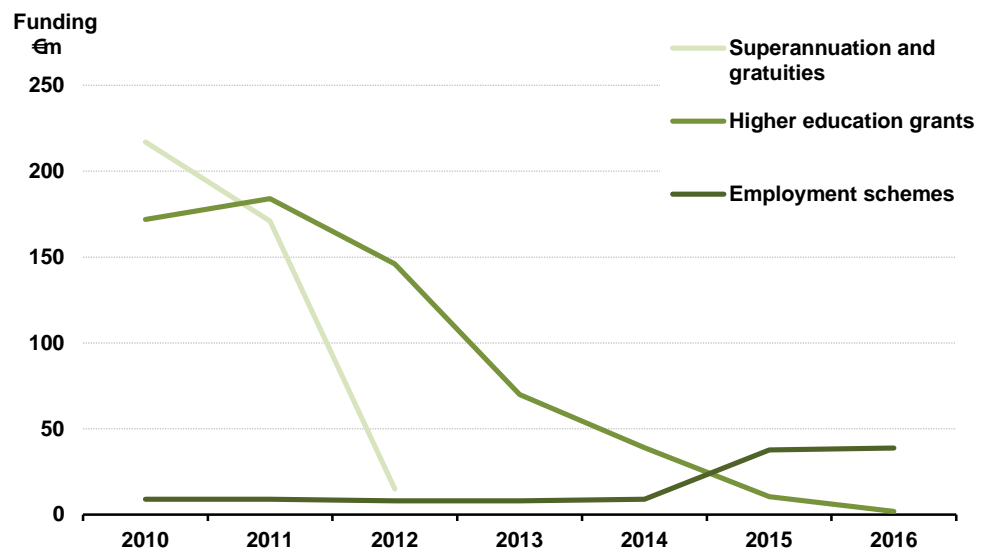
**8.25** In the past (as shown in Figure 8.8), the Department of Education and Skills reimbursed local authorities for significant expenditure they incurred in relation to

- payment of student grants
- payment of pensions to retired employees of (former) vocational education committees and of institutes of technology.

**8.26** Under revised arrangements

- since 2012, Student Universal Support Ireland (SUSI – part of City of Dublin Education and Training Board) has been paying student grants for students first enrolling in third level colleges
- pensions payments for retired employees of vocational education committees and institutes of technology are now paid for directly from the Education and Skills Vote.

**Figure 8.8 Funding to local authorities for education and employment services, 2010 to 2016**

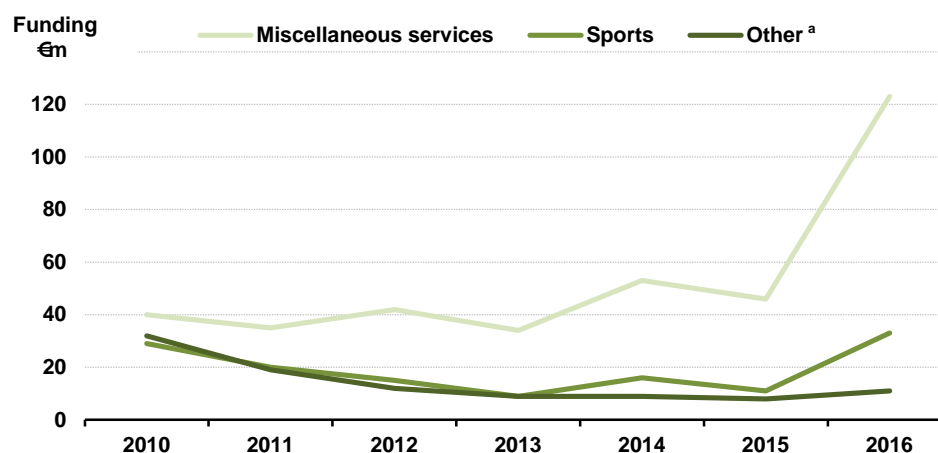


Source: Annex 8A

### Recreation and other local services

**8.27** 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 8.9 shows the trend in the level of funding in respect of such services. The funding for miscellaneous services in 2016 includes one-off funding from the Local Government Fund in respect of the Lansdowne Road Agreement (€25.3 million) and compensation to local authorities for the global valuation of utilities (€16.6 million).

**Figure 8.9 Funding to local authorities for recreation and other local services, 2010 to 2016**



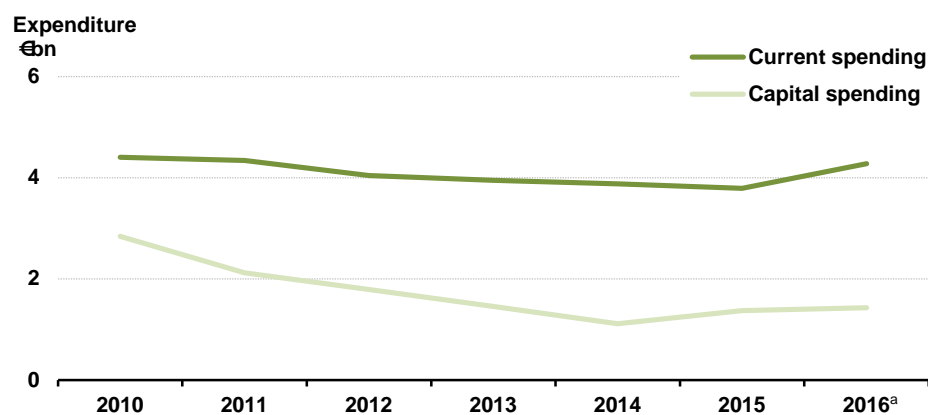
Source: Annex 8A

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

### Trends in local authority expenditure, 2010 to 2016

**8.28** Aggregate expenditure by local authorities in 2015 (the last year for which full audited information is available) was €5.1 billion.<sup>1</sup> This comprised around €1.3 billion in capital expenditure, and around €3.8 billion in current expenditure (see Figure 8.10). Estimated expenditure for 2016 is expected to be €5.7 billion.<sup>2</sup>

**Figure 8.10 Local authority expenditure by type, 2010 to 2016**



Source: Department of Housing, Planning and Local Government

Note: a Figures for 2016 are estimates. For all earlier years, audited figures are used.

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 2016 had not been finalised by the Department of Housing, Planning, and Local Government at the time of this report.

## Central oversight of Local Authorities

- 8.29** 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*

- 8.30** 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 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.
- 8.31** The LGAS also carries out value for money audits of local authority operations. The results of those audits are reported to the Minister.
- 8.32** 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 2017 and includes the results of the audits of the 2015 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

- 8.33** 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.
- 8.34** The Commission's annual report for 2016 sets out its strategy and reports on its activities for the year.<sup>3</sup> The Commission scrutinises local authority performance by means of thematic reports and, where warranted, oral hearings, on matters within its remit. Its key outputs are its published reports (see Figure 8.11) which are submitted to relevant Oireachtas Committees. It monitors the outcome of its work in terms of the implementation of its recommendations.

<sup>1</sup> Local Government Audit Service, *Overview of the Work of the Local Government Auditors*, March 2017.

<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 2016* (April 2017).

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**Figure 8.11 Reports of the National Oversight and Audit commission, 2014 – June 2017**


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As at June 2017, the Commission has published eleven 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
- Performance Indicators in Local Authorities 2015
- Public Spending Code Local Authority Quality Assurance Report 2015
- Private Rented Sector Review
- A Review of the Maintenance and Management of Local Authority Housing

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Source: National Oversight and Audit Commission

**8.35** The Commission's current workload includes projects on

- local authority customer engagement
- performance of local authority audit committees
- local authority internal audit function.

**8.36** The Commission's work is funded by the Local Government Fund. Expenditure in 2016 was €83,846 and mainly comprised member fees. The Commission secretariat comprised two staff provided by the Department. The cost of these staff, which is met from the Department's vote, was €1 10,000.

## Conclusions

**8.37** Central government funding to local authorities presents a highly complex picture, 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.

**8.38** Transfers of funding from central government sources to local authorities in 2016 totalled just over €2.2 billion. This compares with transfers of €4.3 billion in 2010. 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 and the reduction in capital expenditure by local authorities.

## Annex 8A

Figure 8A.1 Central government transfers to local authorities, by expenditure programme, 2010 to 2016<sup>a</sup>

Expenditure Category	2010	2011	2012	2013	2014	2015	2016
	€m	€m	€m	€m	€m	€m	€m
<b>Transport investment</b>							
National roads improvement	893	516	503	232	228	236	200
Regional and local roads improvement <sup>b</sup>	412	451	376	399	357	337	394
Public transport (capital payments)	56	83	64	57	51	54	45
	<b>1,361</b>	<b>1,050</b>	<b>943</b>	<b>688</b>	<b>636</b>	<b>627</b>	<b>639</b>
<b>Housing and urban regeneration</b>							
Social housing provision <sup>b</sup>	961	655	598	529	536	614	759
Affordable housing, etc.	84	68	58	43	39	3	2
Other housing supports	6	4	3	1	5	114	92
Urban regeneration	—	—	—	—	—	50	60
	<b>1,051</b>	<b>727</b>	<b>659</b>	<b>573</b>	<b>580</b>	<b>781</b>	<b>913</b>
<b>Environmental initiatives</b>							
Water and sanitary services	535	462	343	293	42	102	98
Flood relief works	17	8	22	10	21	44	34
Waste management	11	11	5	9	5	3	18
Recycling	14	12	4	8	2	—	—
Other environmental measures	16	18	11	12	13	18	3
	<b>593</b>	<b>511</b>	<b>385</b>	<b>332</b>	<b>83</b>	<b>167</b>	<b>153</b>
<b>Education and employment services</b>							
Higher education grants	172	184	146	70	39	11	2
Superannuation and gratuity costs	217	171	15	—	—	—	0
Employment schemes	9	9	8	8	8	37	39
	<b>398</b>	<b>364</b>	<b>169</b>	<b>78</b>	<b>47</b>	<b>48</b>	<b>41</b>
<b>Recreation and other local services</b>							
Swimming pools	3	10	8	5	—	1	4
Fire and emergency services	19	12	6	5	7	6	9
Library service	6	7	6	4	2	2	2
Sports grants, playgrounds and cultural projects	21	9	6	3	11	9	28
Heritage services (architectural heritage)	5	1	1	1	5	1	1
Disability services	7	—	—	—	—	—	—
Miscellaneous capital services	18	11	16	11	9	14	24
Miscellaneous services <sup>c</sup>	22	24	26	23	44	32	99
	<b>101</b>	<b>74</b>	<b>69</b>	<b>52</b>	<b>78</b>	<b>65</b>	<b>167</b>
General purpose grants	763	700	638	642	281	—	—
LPT allocations - general purpose/discretionary <sup>b</sup>	—	—	—	—	—	306	310
<b>Total funding provided to local authorities</b>	<b>4,267</b>	<b>3,426</b>	<b>2,863</b>	<b>2,365</b>	<b>1,705</b>	<b>1,994</b>	<b>2,223</b>

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 Arts, Heritage, Regional, Rural and Gaeltacht Affairs; 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, Climate Action and Environment; Department of Defence; Department of Jobs, Enterprise and Innovation; Local Government Fund and Environment Fund financial statements (2016 unaudited).

Notes: a Adjustments have been made to some previously reported amounts to reflect amounts not previously included and reclassification.

b The total LPT allocation from the Local Government Fund in 2016 was €453.2 million, allocated as follows; housing €121.1 million; roads €21.6 million; general purpose/discretionary €310.5 million.

c The miscellaneous services figure for 2016 includes one-off payments from the Local Government Fund in respect of the Lansdowne Road Agreement (€25.3 million) and compensation for the global valuation of utilities (€16.6 million).

