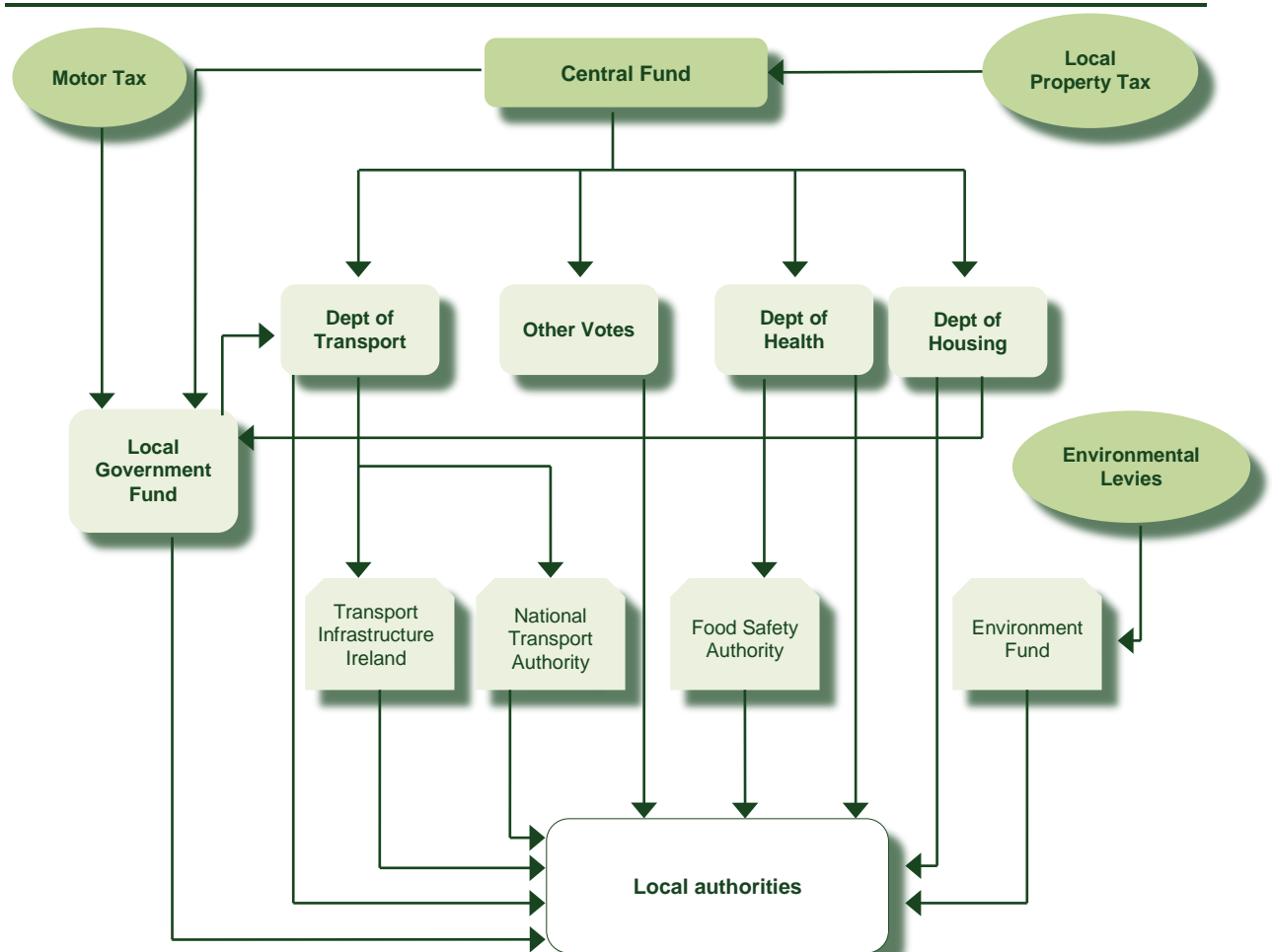


4 Central government funding of local authorities

- 4.1 Local authorities receive a substantial part of their annual funding from a range of central government departments and agencies (see 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 2017^a



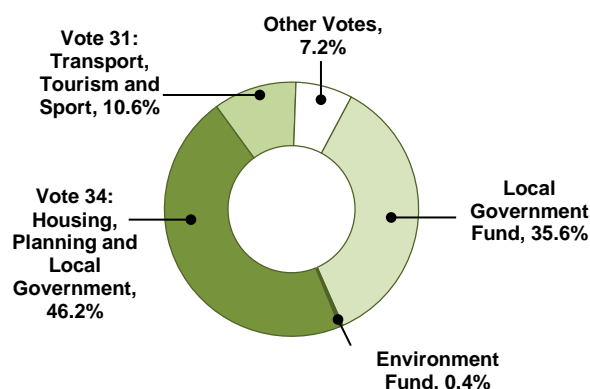
Source: Office of the Comptroller and Auditor General

Note: a From 1 January 2018, local property tax receipts are paid directly into the Local Government Fund and motor tax receipts are paid into the Central Fund (see Annex 4A).

Central government transfers

- 4.2 In 2017, funding to local authorities from central government sources totalled €2.66 billion — an increase of 19.8% on the €2.22 billion in 2016.¹ About 64% of this total originated as Exchequer funding. The balance was provided through the Local Government Fund and the Environment Fund (see Figure 4.2).

Figure 4.2 Sources of central government financing for local authorities, 2017



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

- 4.3 The Local Government Fund is administered by the Department of Housing, Planning and Local Government (the Department). In 2017, the Fund was financed mainly by the proceeds of motor tax (€1 billion), local property tax (LPT) receipts (€476 million) and a contribution of €365 million from the Exchequer, via the Vote for Housing, Planning, and Local Government.²
- 4.4 The Environment Fund³ 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

- 4.5 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.
- 4.6 In accordance with Government decisions, annual LPT allocations are calculated on the following basis
- 80% of LPT is retained in the area where the tax is raised.
 - The remaining 20% is used to help fund other local authorities that do not have a sufficient LPT base to meet their funding requirements. In doing so, every local authority receives a minimum amount of funding from the local retention of LPT, known as the baseline.

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. LPT receipts are paid into the Central Fund initially and then paid over to the Local Government Fund.

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

- The 2017 baseline of €356 million is linked, for the most part, to 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). Effectively, the LPT allocation now replaces both of these previous sources of funding.
- The final LPT 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).

4.7 In analysing the impact of the LPT funding allocation, local authorities were classified between the 10 authorities in a surplus funding position when compared to their 2017 baseline and the remaining 21 authorities who require additional funding to bring them up to this minimum baseline funding level i.e. authorities requiring funding 'equalisation' (see Figure 4.3).

Figure 4.3 Allocation of LPT to local authorities for 2017

	Local authorities		2017	2016
	in a surplus position	requiring equalisation		
	€m	€m	€m	€m
Local retention (80%) ^a	252	134	386	378
Equalisation funding				
- LPT redistribution (20%)	—	97	97	95
- Exchequer contribution ^b	—	44	44	16
Adjustment for local rate variations	(30)	4	(26)	(36)
LPT allocations for 2017	222	279	501	453
Of which				
- self-funding of housing/roads services	108	—	108	143
- for authority's own general use ^c	114	279	393	310

Source: Department of Housing, Planning and Local Government

- Notes:
- Local retention before adjustments for 2017 local variation decisions are taken into account. The 2017 allocations were based on Revenue's declared net liabilities for 2016 with adjustment to take account of the variation process.
 - The Exchequer contributed €16 million compensatory funding in 2016 and €44 million in 2017 to meet the shortfall between LPT allocations and the estimated yield.
 - In 2017, an upward adjustment of €74 million was made to the LPT baseline, to include an amount equivalent to the amount of PRD which was retained by local authorities in 2014. From 2017, local authorities no longer retain PRD locally.

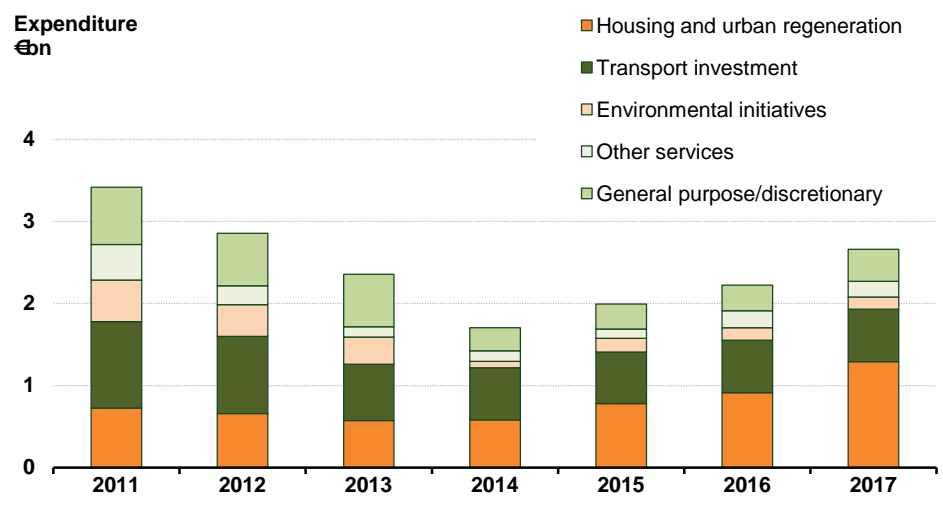
4.8 Local authorities have discretion to vary the LPT rates in their area of operation by up to 15% in accordance with the 2012 Act. For 2017, five local authorities decided to decrease the LPT rate, four by the maximum 15% and one by 3%, at a cost of €30.1 million. Three local authorities increased the LPT rate, two by 10% and one by 5%, raising an additional €3.6 million. The net effect of local variation of the rate in 2017 was a reduction in LPT receipts of €26.5 million.

4.9 For the 10 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.

Application of central government funding

- 4.10 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 4.4 presents a breakdown of the transfers to local authorities for 2011 to 2017 showing the programmes being supported (a detailed breakdown is at Annex 4B).
- 4.11 In 2017, around 72% of the total provision from central government to local authorities was accounted for by two categories — housing and urban regeneration programmes (48%), and transport (24%).

Figure 4.4 Central government transfers to local authorities, by expenditure programme, 2011 to 2017

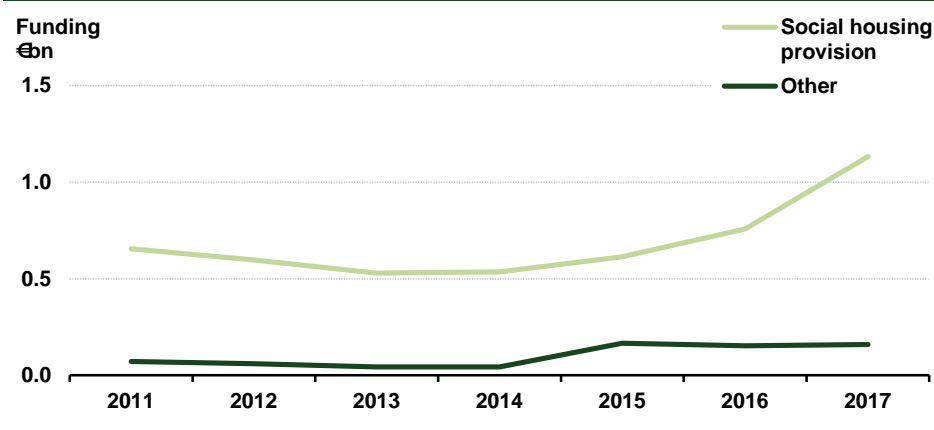


Source: Annex 4B

Housing and urban regeneration

- 4.12** The Department provides the bulk of the funding for housing and urban regeneration directly to local authorities with a number of local authorities (currently nine) 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.¹ Figure 4.5 indicates the trend in the level of funding for housing provision.

Figure 4.5 Funding to local authorities for investment in housing and urban regeneration, 2011 to 2017



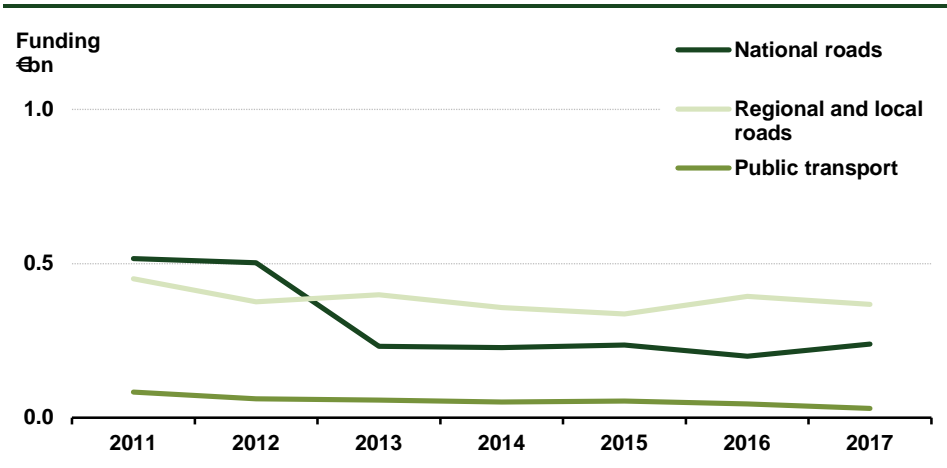
¹ Chapter 10 of this report provides an overview of the funds provided from central government for social housing supports and, information on the funding and oversight of approved housing bodies.

Source: Annex 4B

Transport investment

- 4.13 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.
- 4.14 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.
- 4.15 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.
- 4.16 Figure 4.6 shows the trend in the level of funding from central government sources provided to local authorities in respect of the key transport areas.

Figure 4.6 Funding to local authorities for transport infrastructure, 2011 to 2017

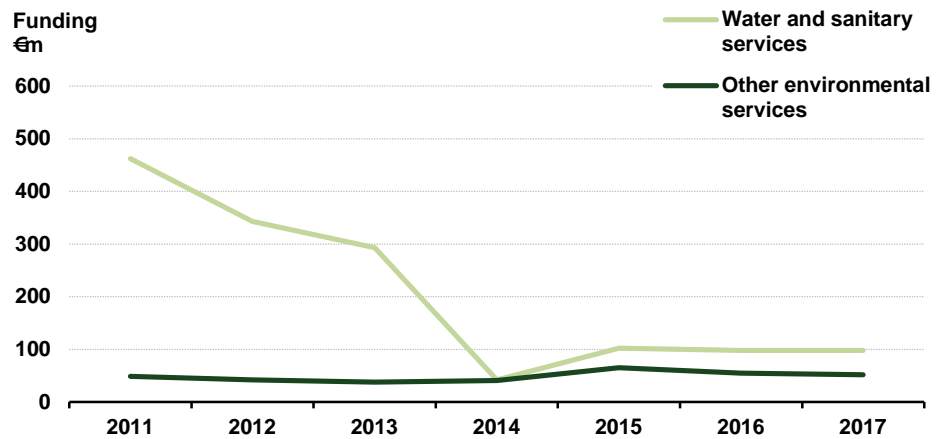


Source: Annex 4B

Environmental initiatives

- 4.17 Figure 4.7 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.
- 4.18 Funding for environmental initiatives in 2017 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 during 2017.

Figure 4.7 Funding to local authorities for environmental initiatives, 2011 to 2017

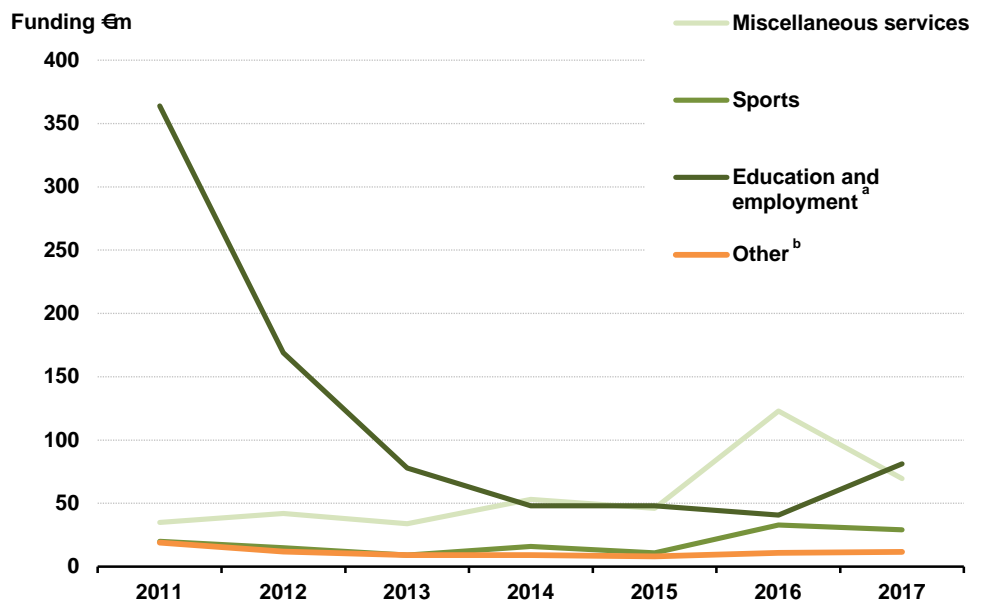


Source: Annex 4B

Other services

- 4.19 Central government bodies also fund local authorities to assist in providing services such as education, employment, sports and cultural projects, fire and emergency services, heritage services and library and archive services.
- 4.20 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).
- 4.21 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.
- 4.22 The Department of Social Protection reimburses local authorities for expenditure incurred on certain community employment and jobs initiative projects.
- 4.23 Figure 4.8 shows the trend in the level of funding in respect of such services.

Figure 4.8 Funding to local authorities for other services, 2011 to 2017



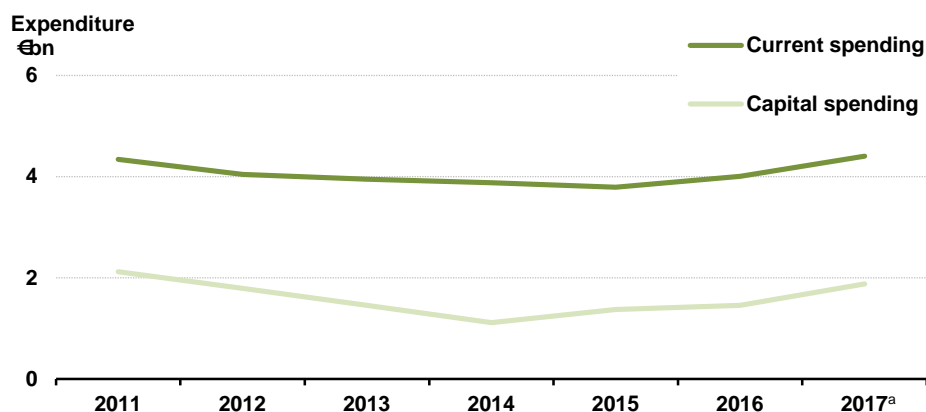
Source: Annex 4B

- Notes:
- a Education and employment category includes superannuation and gratuities, higher education grants and employment schemes.
 - b Other category includes fire and emergency services, library service and disability services.

Trends in local authority expenditure, 2011 to 2017

- 4.24** Aggregate expenditure by local authorities in 2016 (the last year for which full audited information is available) was €5.4 billion.¹ This comprised around €1.4 billion in capital expenditure, and around €4.0 billion in current expenditure (see Figure 4.9). Estimated expenditure for 2017 is expected to be €6.3 billion.²

Figure 4.9 Local authority expenditure by type, 2011 to 2017



Source: Department of Housing, Planning and Local Government

Note: a Figures for 2017 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 2017 had not been finalised by the Department of Housing, Planning, and Local Government at the time of this report.

Central oversight of Local Authorities

- 4.25** 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

- 4.26** 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.
- 4.27** The LGAS also carries out value for money audits of local authority operations. The results of those audits are reported to the Minister.
- 4.28** 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 2018 and includes the results of the audits of the 2016 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.

National Oversight and Audit Commission

- 4.29** The National Oversight and Audit Commission (the Commission) was established in July 2014.² The Commission has a wide range of functions focused on the scrutiny of local government performance, including their financial performance.
- 4.30** The Commission's annual report for 2017 sets out its strategy and reports on its activities.³ The Commission scrutinises local authority performance by means of thematic reports and, where warranted, oral hearings, on matters within its remit. It monitors the outcome of its work in terms of the implementation of its recommendations.
- 4.31** The Commission's current workload includes projects on
- local authority customer engagement
 - performance of local authority audit committees
 - local authority internal audit function.
- 4.32** The Commission's work is funded by the Local Government Fund. Expenditure in 2017 was €125,000 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 €143,000.

¹ Local Government Audit Service, *Overview of the Work of the Local Government Audit Service*, March 2018.

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

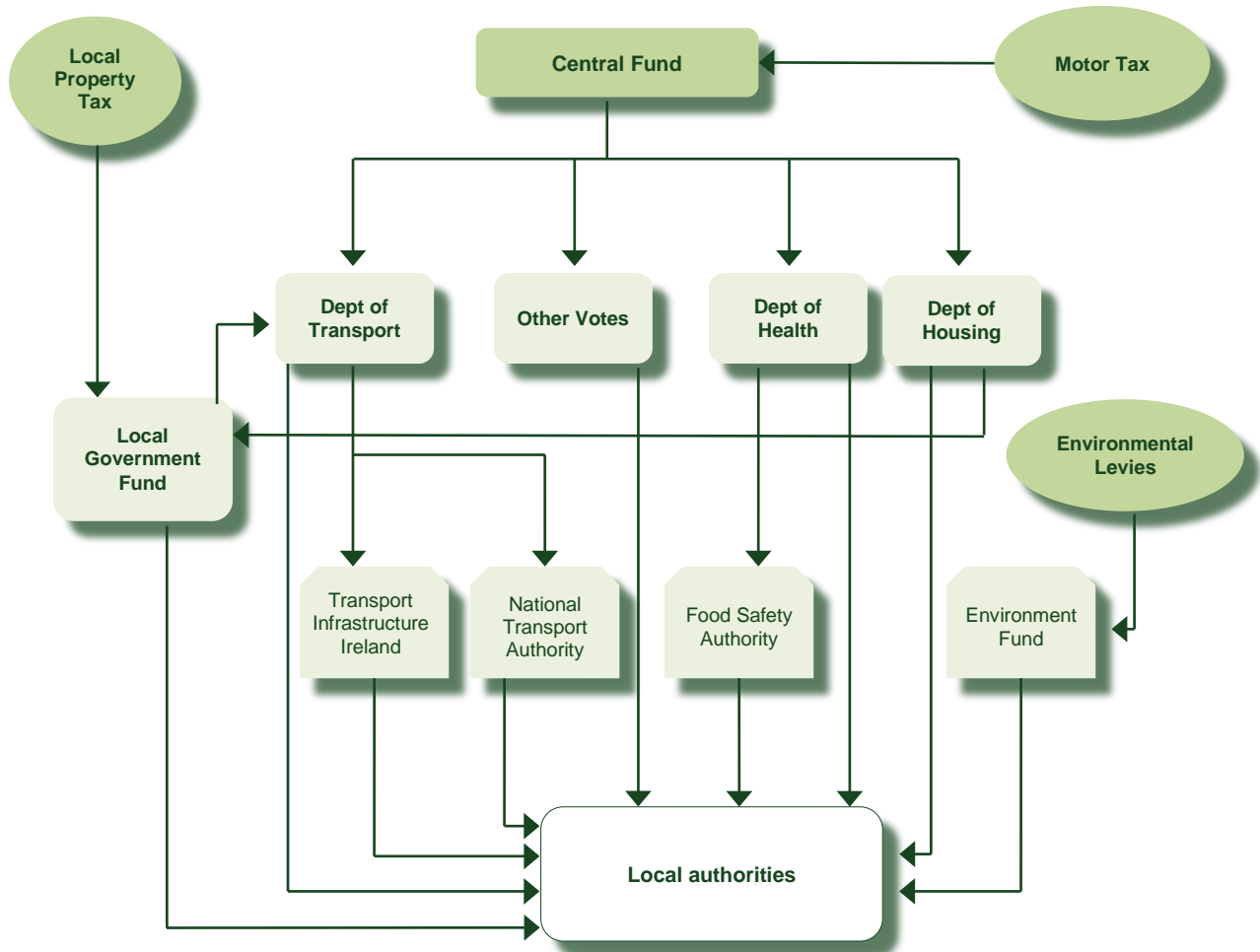
³ *National Oversight and Audit Commission Annual Report 2017* (March 2018).

Conclusions

- 4.33** 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.
- 4.34** Transfers of funding from central government sources to local authorities in 2017 totalled just over €2.6 billion. This represents a cumulative increase of 56% 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 4A

Figure 4A.1 Flow of central government funding to local authorities in 2018



Source: Office of the Comptroller and Auditor General

Annex 4B

Figure 4B.1 Central government transfers to local authorities, by expenditure programme, 2011 to 2017^a

Expenditure Category	2011	2012	2013	2014	2015	2016	2017
	€m	€m	€m	€m	€m	€m	€m
Housing and urban regeneration							
Social housing provision ^b	655	598	529	536	614	759	1,133
Affordable housing, etc.	68	58	43	39	3	2	3
Other housing supports	4	3	1	5	114	92	79
Urban regeneration	—	—	—	—	50	60	78
	727	659	573	580	781	913	1,293
Transport investment							
National roads improvement	516	503	232	228	236	200	239
Regional and local roads improvement ^b	451	376	399	357	337	394	368
Public transport (capital payments)	83	62	57	51	54	45	30
	1,050	941	688	636	627	639	637
Environmental services							
Water and sanitary services	462	343	293	42	102	98	98
Flood relief works	8	22	10	21	44	34	28
Waste management	11	5	9	5	3	18	17
Recycling	12	4	8	2	—	—	—
Other environmental measures	18	11	12	13	18	3	7
	511	385	332	83	167	153	150
Other services							
Higher education grants	184	146	70	39	11	2	—
Superannuation and gratuity costs	171	15	—	—	—	—	—
Employment schemes	9	8	8	8	37	38	81
Swimming pools	10	8	6	—	1	4	13
Fire and emergency services	12	6	5	7	6	9	12
Library service	7	6	4	2	2	2	—
Sports grants, playgrounds and cultural projects	10	9	2	10	9	28	13
Heritage services (architectural heritage)	1	1	1	5	1	1	2
Miscellaneous capital services	11	16	11	9	14	24	22
Miscellaneous services ^c	24	26	23	44	31	100	46
	439	241	130	124	112	208	189
General purpose grants	700	638	642	282	—	—	—
LPT allocations - general purpose/discretionary ^b	—	—	—	—	306	310	393
Total funding provided to local authorities	3,427	2,864	2,365	1,705	1,993	2,223	2,662

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 (2017 unaudited).

- Notes:
- Adjustments have been made to some previously reported amounts to reflect amounts not previously included and reclassification.
 - The total LPT allocation from the Local Government Fund in 2017 was €500.8 million, allocated as follows; housing €91.7 million; roads €16.4 million; general purpose/discretionary €392.7 million.
 - The miscellaneous services figure for 2017 includes €20.3 million (2016: €25.3 million) from the Local Government Fund in respect of the Lansdowne Road Agreement.

