

## **Joint Oireachtas Committee on Housing, Planning and Local Government**

**9 November 2017**

### **Local Government Finance - An Examination of the Funding Model**

I welcome the opportunity to discuss the funding of local government with the Committee today. The current system of local government comprises 31 local authorities, which vary significantly from one another in terms of size, population, public service demand, infrastructure and income sources. Local authorities have responsibility for delivering a wide range of services at local level, including housing, planning, roads, maintenance and cleaning of streets, street lighting, environmental protection, fire and emergency services and the provision of recreational amenities and community infrastructure. They also make a significant contribution in delivering the State's capital and infrastructure requirements across these areas as well as playing a key role in supporting economic development and enterprise at local level, a function that was put on a statutory footing in 2014.

The funding system that applies to local authorities is a complex one, as authorities derive their income from a variety of sources including commercial rates, charges for goods and services and funding from Central Government. In 2015, the most recent year for which audited figures are available, goods and services represented 32% of local authority income, commercial rates accounted for 37%, grants and subsidies for 22% and Local Property Tax allocations 9%. Income from goods and services includes car parking fees, recreation and amenity activities, planning fees, housing rents and fire service charges.

Audited figures for 2015 indicate that total expenditure was €5.27 billion. Revenue (current) expenditure represents €3.96 billion of this amount, with €1.31 billion in capital expenditure. Notably, 2015 saw the first annual increase in revenue and capital expenditure for a number of years. Capital expenditure has increased from a low of €1.1 billion in 2014, to €1.3 billion in 2015 and to an estimated €1.5bn in 2016, €1.9bn in 2017 and €2.3bn forecast for 2018, which is partially attributable to the increase in activity to deliver the priorities in Rebuilding Ireland.

#### **Commercial Rates**

Commercial rates form an important source of funding for local authorities. In 2017, budgeted rates income amounts to €1.475bn which accounts for 35% of total budgeted 2017 income of €4.26bn.

Local authorities levy rates on all relevant property, as defined by the Valuation Acts 2001-2015. The Acts also provide that certain properties are not liable for commercial rates. These categories of property are set out in Schedule 4 of the Acts and include, for example, hospitals, farm buildings and community sports facilities. The rates paid on a property are based on two factors: the valuation determined by the independent Commissioner of Valuation and the Annual Rate on Valuation (ARV) determined by the local authority at the annual budget meeting.

The legislative basis for commercial rates is spread over a significant number of enactments, some of which date back to the 19<sup>th</sup> century. Many of the provisions are outdated and not suitable for business trends in the modern era. In this regard, the Government has approved the drafting of a Bill to modernise the legislative basis for rates. The Department will be attending the meeting of the Joint Oireachtas Committee later in November to discuss these proposals specifically.

### **Grants and Subsidies**

Central Government funding of local authorities is through from a number of Departments and Offices, for a variety of purposes. Some streams of funding are delivered directly from funding departments to local authorities, while others are routed through state agencies.

Most of the funding from Central Government to local authorities must be used for specified services. These can be grouped into six broad programme categories: recreational, education, environment, housing, transport and discretionary.

### **Local Property Tax**

Local Property Tax (LPT) is an annually recurring tax applying to most residential properties in Ireland and is currently linked to the market value of the property in 2013. LPT is collected by the Revenue Commissioners and the funds are ultimately redistributed to the 31 local authorities in accordance with Government policies on funding allocations.

LPT is a significant source of funding for local authorities in Ireland. It supplements income from other sources, having been introduced to provide an alternative, stable and sustainable funding base for the local government sector. The role of local authorities in deciding the local adjustment factor annually is an important connection between revenue raising and expenditure decisions at local level.

Currently, 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 property tax base to meet their funding requirements. Every local authority currently receives a minimum amount

of funding from the local retention of LPT that is known as the baseline. Some local authorities with large property bases receive additional LPT income as compared to their baseline. The Government has decided that those local authorities will use this funding in two ways, with a portion available for their own use and the remainder, if any, to fund some Housing and Roads services.

The elected members of a local authority decide annually whether to vary the rate of LPT in their local area. The rate can be varied up or down by a maximum of 15%. If a local authority decides to reduce the local LPT rate, the authority forgoes that amount from its LPT allocation. However, if an authority decides to increase the LPT rate above the basic rate, it receives the full amount of the increased yield collected. The total LPT allocation to local authorities for 2017 is €501m. This includes a subvention from the exchequer in the amount of €44m.

I thank the committee for its time. I am happy to answer any questions or address any issues that members may have.