



The Local Government Fund and Vote 34 in the Revised Estimates for Public Services PBO Note 23 of 2018

Introduction

This Note is the second in a short series addressing technical issues in respect of specific Votes as set out in the *Revised Estimates for Public Services* (the REV). This Note briefly sets out how the Local Government Fund (LGF) interacts with Vote 34 (Housing, Planning and Local Government) within the REV. It should therefore be read in conjunction with the REV.

The LGF is a special fund which was established in 1999 under the [Local Government Act 1998](#).¹ The LGF is managed by the Department of Housing, Planning and Local Government (DHPLG) and is one of the sources of central government funding for Local Authorities.² Most funding from central government for local authorities must be used for specified services which can be categorised into five broad programme categories.³ The administrative costs of managing the LGF are part of the overall administrative expenses of Vote 34.⁴

The structure of Vote 34 in the REV

Vote 34 is structured in three parts. Part I(a) sets out the net Voted allocation to be approved by the Dáil; any unspent capital allocation brought forward from the previous year is stated under Part I(b).

Part II sets out the Gross Voted allocation across five programmes (A-E), the projected Appropriations-in-Aid (A-in-A), and the Net Voted allocation. It also provides detail in respect of pay, pensions (and

¹ Department of Housing, Planning and Local Government, [‘Local Government Finance’](#) (2016).

² For more details on Central Government funding of the Local Authorities see Figures 4.1 and 4.2 Comptroller and Auditor General, [Report on the Accounts of the Public Services 2017](#) (September 2018) pp.33-34.

³ Those categories are Housing and urban regeneration, Transport investment, Environmental initiatives, Other services, and General purpose/discretionary. Source: Comptroller and Auditor General, [Accounts of the Public Services 2017](#) (September 2018) p.36.

⁴ Department of Housing, Planning and Local Government, [Local Government Fund Account 2017](#) (2018) p.3.

corresponding staff numbers) and the functional split of the administrative budget.

Part III sets out individual programme expenditure detailed by subhead. It also separately provides the high level metrics and context and impact indicators associated with each Programme.⁵ Part III concludes with details of the Vote’s Appropriations-in-Aid and finally the ‘Estimate of Income and Expenditure of the Local Government Fund’.

Of the five programmes in Vote 34 set out in REV2018, two (A. Housing; and B. Water Services) represent 93% of the Vote’s Gross allocation. Programme C (Local Government) represents 4% of the Vote’s Gross Allocation.

Within Programme C, subhead C.3 sets out the Exchequer contribution to the Local Government Fund. This Programme has a gross allocation of €146 million in 2018 of which subhead C.3 alone composes approx. €125 million (85%). **Programme C therefore now largely exists solely to provide funding to the LGF.** The LGF has no impact upon the Gross or Net Voted allocation of Vote 34 beyond its role in receiving income that is part of the Voted allocation of Programme C.

Income and Expenditure of the LGF

The LGF previously comprised two bank accounts (Receipts account and Payables account) and an Investment account.⁶ As a result of the [Water Services Act 2017](#) the LGF now retains only the Investment account, into which payments of LPT revenue from the Revenue Commissioners are lodged on a daily basis. **The LGF may run either a surplus or a deficit in-year;** these surpluses or deficits either contribute to, or are funded from, the *Investment Account*. In 2016 the LGF had a deficit at year end of approximately €15.9 million which reduced reserves held in the Investment account. By year end 2017 the

⁵ Neither Programme B nor C have key high level metrics associated with them.

⁶ Department of Housing, Planning and Local Government, [Local Government Fund Account 2017](#) (2018), p.3.

LGF had a surplus of approximately €29.4 million with reserves held in the Investment account growing to approximately €95 million as a result.

The [Revised Estimates for Public Services 2018](#) sets out **LGF income** of €594.8 million comprised of €470 million Local Property Tax (LPT)⁷ and €124.8 million of Voted funding (Subhead C.3 of Vote 34).

The Voted allocation paid to the LGF decreased from €365.3 million in 2017 to €124.8 million in 2018 (-65.8%). In 2018 this amounts to 21% of the LGF's projected receipts (€594.8 million) and 20.1% of its projected expenditure in 2018 (€620.7 million).

LGF expenditure in 2018 is therefore expected to be greater than receipts; the balance required will be funded from the surplus in the LGF Investment account. In 2018, the LGF has three lines of expenditure totalling €620.7 million. These are:

- LPT Allocation €504.1 million (81.2%) – discussed further in the next section of this Note;
- Other Miscellaneous Schemes €69.6 million (11.2%);⁸ and
- Local Authority (LA) Rates Payments €47 million (7.6%).

Box 1 - Local Authority (LA) Rates Payments

In line with section 12 of the [Water Services Act 2014](#), public water services property is not currently liable for commercial rates. Prior to this date, rates were charged by LAs and Irish Water consequently paid almost €47 million in 2014. The subsequent loss of this income has been made good by the LGF (i.e. effectively from subhead C.3 of Vote 34).

Section 61 of the [Water Services Act 2017](#) provides that water infrastructure is liable for commercial rates; however, this section will not be commenced prior to the completion of a global valuation of Irish Water assets. It is anticipated that this will be completed and that Irish Water will be subject to rates from 1 January 2020.

Source: Communication from DHPLG (31 October 2018).

⁷ For more information on Local Property Tax see PBO, [Local Property Tax: Issues to be considered with the revaluation of the base](#) (2018) p.10.

⁸ Miscellaneous schemes in 2018 are 21% below 2017 levels. This is largely a consequence of the transfer of payments in relation to group water schemes to Programme B (Subhead B.4 Rural

Local Authorities' Budget and the LGF

In 2018, Local Authorities are budgeted to have current income of €4,674 million, of which:⁹

- €1,511 million (32%) in Commercial Rates;
- €1,452 million (31%) is by way of Government Grants/Subsidies;
- €1,316 million (28%) from Goods/Services; and
- €395 million (9%) in Local Property Tax.

The LGF's expenditure in 2018 (€620.7 million) amounts to 13.3% of LA income (€4,674 million). This means that the portion of that income which is sourced from the LGF (originally consisting of Voted expenditure from subhead C.3 of Vote 34) is €124.8 million, which represents 2.7% of LA income in 2018.

LGF expenditure on LPT Allocation does not align with the LPT revenue stated by LAs. This is because the income from the LGF is used for two purposes as illustrated in Table 1; self-funding of housing/roads services; and for LAs' own general use.

Table 1: LPT Allocation in LA Budgets 2016-18

	2016	2017	2018
LPT Expenditure as set out in the LGF	453	501	504
LA Budget for Self-funding of housing/roads services	143	108	109
LA Budget for the authority's own general use	310	393	395

Source: PBO based on Comptroller and Auditor General, *Accounts of the Public Services 2017* (September 2018) p.35; and Department of Housing, Planning and Local Government, [Local Authority Budgets 2018](#) (2018) p.5

The LPT revenue stated by Local Authorities in their Budget documentation is the allocation in respect of the Authority's own general use.

Water Programme). In 2018 Miscellaneous Schemes is primarily composed of 'Pay and Pension' costs and 'Local Government innovation and Reform' (see notes 6 and 18 in Department of Housing, Planning and Local Government, *Local Government Fund Account 2017* (2018)). The Notes to the *Local Government Fund Account 2017* set out the other elements of Miscellaneous Schemes. Source: Communication from DHPLG (9th November 2018).

⁹ Department of Housing, Planning and Local Government, [Local Authority Budgets 2018](#) (2018) p.5.

Structural Reforms of the LGF

The Exchequer contribution to the LGF is the Voted allocation set out in subhead C.3 of Vote 34 in the REV; Exchequer funds comprise a decreasing portion of the LGF's income while the quantum of the LGF itself overall is also decreasing.

Following the [Water Services Act 2017](#) there were significant structural changes to the REV which had implications for the LGF. These are set out below:¹⁰

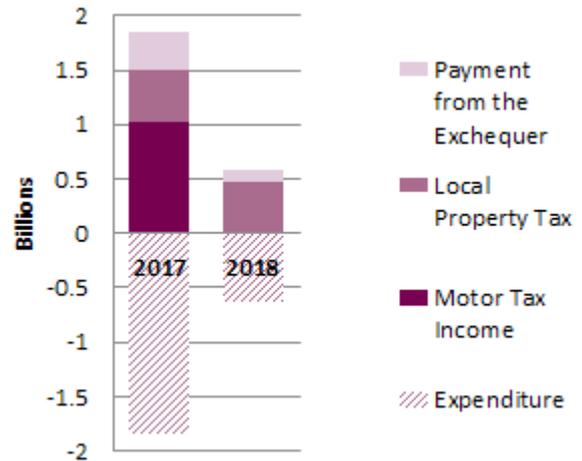
- Funding of Irish Water (from a number of sources) for domestic water services is consolidated under Vote 34 from 2018 on;
- Direct payment of LPT from the Revenue Commissioners to the LGF;
- Payment to the Exchequer, rather than the LGF, of all motor tax receipts;
- A consequent cessation of an LGF payment, funded by motor tax, to the Department of Tourism, Transport and Sport (Vote 31);¹¹ and
- Cessation of payments from the LGF in respect of Road and Public Service Infrastructure and for the Driver Licence and Vehicle Computer Services Division.

These changes, as illustrated in Figure 1, had the effect of reducing the LGF's income from €1,828.3 million to €594.8 million (-67%). Expenditure under the LGF reduced from €1,837.8 million to €620.7 million (-66%).

¹⁰ Government of Ireland, [Revised Estimates for Public Services 2018](#) (2017)

¹¹ The net voted allocation of Vote 31 increased, in part, to compensate for the loss of this Appropriation-in-Aid.

Figure 1 – Structure of the LGF 2017 vs 2018



Source: PBO based on the [Revised Estimates for Public Services 2018](#) (2017); and Department of Housing, Planning and Local Government, [Local Government Fund Account 2017](#) (2018)

The attendant complex series of reforms are illustrated by the PBO in [Post-Budget 2018 Commentary for the Committee on Budgetary Oversight](#) (2017, pp.18-19).

Conclusion

Following the enactment of the [Water Services Act 2017](#) there were significant structural changes to both income and expenditure of the LGF which have resulted in a loss of two thirds of its quantum. It is now primarily a means of routing LPT collected by the Revenue Commissioners to the Local Authorities.

The Exchequer contribution (from Vote 34) to the LGF was approx. €125 million in 2018; €47 million of which compensates Local Authorities for loss of revenue arising from a statutory exemption granted to Irish Water. This exemption is planned to cease in 2020 thereby further reducing the LGF funding allocated from Vote 34. The fiscal significance of Programme C in Vote 34 has decreased significantly in 2018 and is set to further decrease in 2020.

Finally, in the context that (1) there are no key high level metrics associated with Programme C; and that (2) 85% of its allocation is paid to the Local Authorities via the LGF it is not possible to assess the performance of this Programme based on the REV.¹²

¹² Oversight of local authority expenditure takes place through the [Local Government Audit Service](#) and the [National Oversight and Audit Commission](#).



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