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Cluster: Performance Management

Theme: Public-Sector Innovation and Reform

Further Reading:

Turley, Gerard and Stephen McNena, An Analysis of Local Public Finances and the 2014 Local Government Reforms, *The Economic and Social Review*, 47 (2), 2016

Turley, Gerard and Stephen McNena, Financing Local Government in the Twenty-First Century: Local Government Revenues in European Union Member States, 2000-2014, *The Routledge Handbook of International Local Government*, Routledge, 2018

Turley, Gerard and Stephen McNena, Local Government Funding in Ireland: Contemporary Issues and Future Challenges, *Administration*, 67 (4), 2019

www.localauthorityfinances.com

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Local Government Funding in Ireland

Traditionally, local governments fund recurring expenditures from three broad sources, namely user fees and charges, local taxes and grants or transfers. Although reform of local government funding is a never-ending process, since the 2008 financial crisis Ireland has witnessed an unusually large number of changes in the funding of Irish local councils. These are a new local property tax (LPT), commercial rates harmonisation and revaluations, abolition of general purpose grants and a new equalisation fund to finance designated transfers for the purposes of reducing fiscal disparities between local authorities. Together, these have resulted in a reduction in the vertical and horizontal fiscal imbalances in the Irish local government system.

Research Findings

This research investigates changes in the revenue sources of Irish local authorities. The coverage and analysis is over time (pre and post the Local Government Reform Act 2014), across local councils and a comparison with other local governments and municipalities in EU member states. The balance between own-source revenues and central government grants has significantly changed, from 55/45 in 2006 to 2018 where the own-source share was close to 70 per cent, reflecting greater fiscal autonomy and accountability in the local government system. Compared with local governments in other EU countries, Irish local authorities are less dependent on central government grants and more reliant on user fees and charges. As for the LPT, while, on a positive note, there is a very high compliance rate and more local councils are using their rate-setting powers vis-à-vis the local adjustment factor of +/- 15%, the yield of €500m is low (less than one per cent, and dwindling, of total tax revenue). Many local councils are also critical of many of the LPT features i.e. not an additional source of local revenue as it replaced general purpose grants (which peaked at €1bn, in 2008), and less discretionary income than the headline amount because of the 20% pooled into the equalisation fund and for those councils in surplus, the self-funding requirement. In respect of fiscal equalisation, while it is a positive development to have identifiable and designated equalisation transfers, the equalisation pool is small (less than €150m annually). It is funded from councils with large revenue bases (a type of Robin Hood-horizontal equalisation as opposed to vertical equalisation). The allocation model and choice of funding baseline are also less than ideal, considering international best practice is for a formula-based model using, where appropriate, quantifiable and objective estimates of tax capacity and expenditure needs and costs.

Future Policy Recommendations

The current tax burden between business and non-business taxes, where commercial rates and the LPT account for about 30% and 8% of revenue income respectively, needs to be re-examined with a view to reducing the tax burden on businesses and SMEs, in particular. Likewise, in the light of any future revaluations of residential properties for the purposes of the LPT, the current LPT/equalisation model needs to be improved, with reform options including the separation of the LPT and the equalisation fund so as to allow local authorities retain 100% of the LPT yield derived from their area, a larger but more transparent equalisation fund financed from central government, and equalisation transfers based on current and measurable indicators of revenue-raising ability and/or expenditure needs.