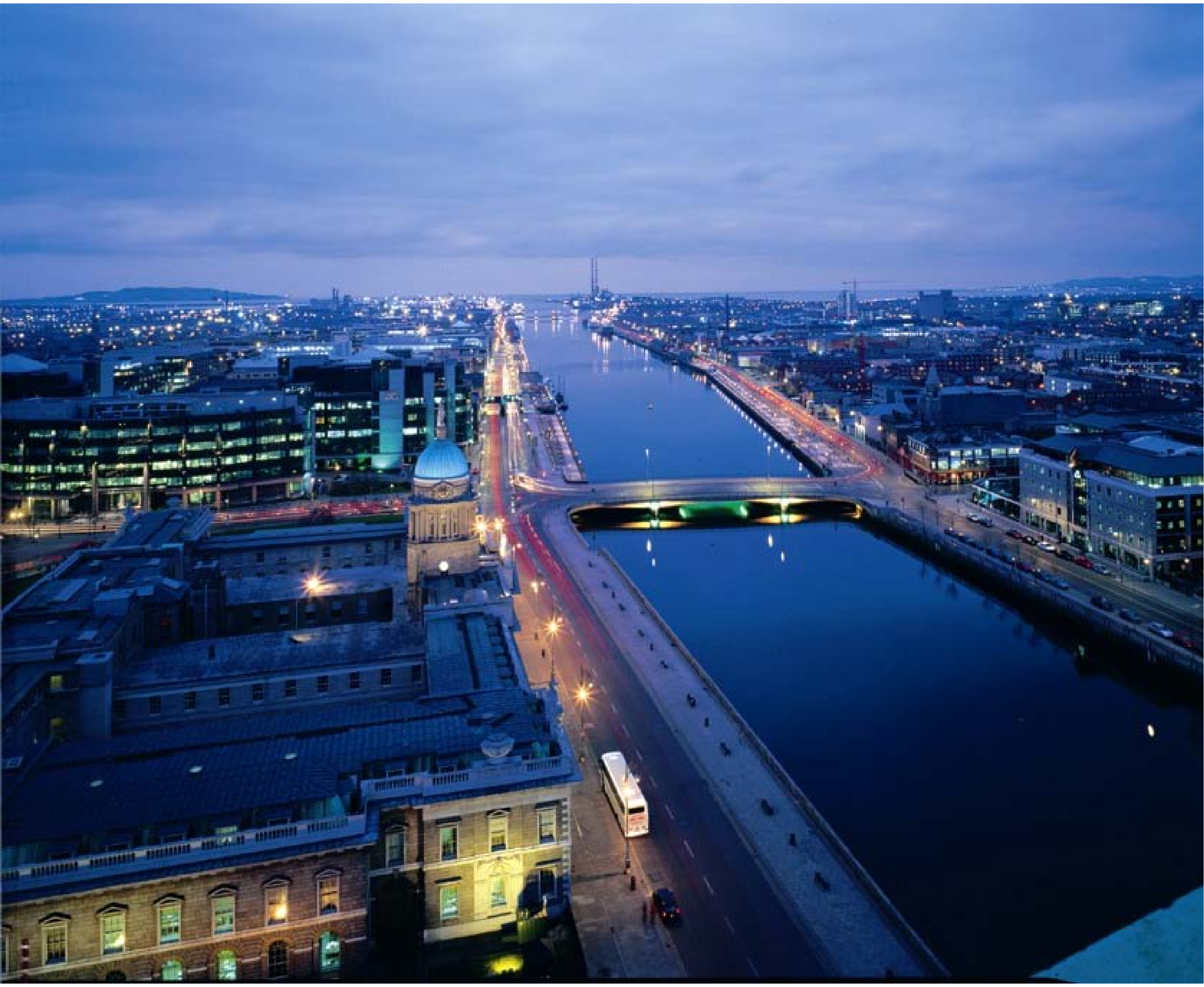
Submission to the Commission on Taxation on the funding of Local Government



From the Finance Strategic Policy Committee,
Dublin City Council

Contents

1. Details of Submission

This submission is made by the Finance Strategic Policy Committee of Dublin City Council, acting on behalf of the City Council and with the assistance of Grant Thornton Consulting.

The Committee would be pleased to meet with the Commission to expand on its proposals.

For further details in relation to Dublin City Council's proposals, please contact:

Councillor Michael Donnelly
Chairperson Finance Strategic Policy Committee
Dublin City Council
City Hall
Dublin 2

Tel: (01) 2222811
E-mail: cllr_michael.Donnelly@dublincity.ie
or
Kathy Quinn
Head of Finance
Dublin City Council
Civic Offices
Wood Quay
Dublin 8.

Tel: (01) 2222102
E-mail: kathy.quinn@dublincity.ie

2 Introduction

The Commission on Taxation was established on 14 February, 2008 to review the structure, efficiency and appropriateness of the Irish taxation system. In setting up the Commission, the then Tánaiste, Brian Cowen, TD, indicated that its work would help establish the framework within which tax policy would be set for the next decade at least, and that it was important that it take a strategic, considered and balanced perspective that recognised the evolving challenges ahead.

The work of the Commission is being conducted in the context of the commitments on economic competitiveness and on taxation contained in the Programme for Government:

- to keep the overall tax burden low and implement further changes to enhance the rewards of work while increasing the fairness of the tax system,
- to ensure that our regulatory framework remains flexible, proportionate, and up to date, to introduce measures to further lower carbon emissions and
- to phase in on a revenue neutral basis appropriate fiscal measures including a carbon levy over the lifetime of the Government, and the guarantee that the 12.5% corporation tax rate will remain.

“Having regard to the commitments on economic competitiveness and on taxation contained in the Programme for Government, in particular, the commitments

- To keep the overall tax burden low and implement further changes to enhance the rewards of work while increasing the fairness of the tax system,
- To ensure that our regulatory framework remains flexible, proportionate and up to date,
- To introduce measures to further lower carbon emissions and to phase in on a revenue neutral basis appropriate fiscal measures including a carbon levy over the lifetime of the Government, and
- The guarantee that the 12.5% rate of corporation tax will remain,

The Commission is invited, in the context of maintaining an equitable incidence of taxation and a strong economy, to consider the structure of the taxation system and specifically to:

- Consider how best the tax system can support economic activity and promote increased employment and prosperity while providing the resources necessary to meet the cost of public services and other Government outlays in the medium and longer term;
- Consider how best the tax system can encourage long term savings
- Meet the needs of retirement;
- Examine the balance achieved between taxes collected on income, capital and spending;
- Review all tax expenditures with a view to assessing the economic and social benefits they deliver and to recommend the discontinuation of those that are unjustifiable on cost/benefit grounds;
- Consider options for the future financing of local government, and
- Investigate fiscal measures to protect and enhance the environment including the introduction of a carbon tax.

As the introduction of a carbon tax requires a completely new tax charge and structure, the Commission is asked to commence work in this area immediately. The Commission is requested to report on the results of its examination and consideration and to make such recommendations as, and when, it thinks fit to the Minister for Finance but not later than 30 September 2009".

3. Executive Summary

The demands on Local Government have increased substantially in recent years. Factors driving increases in demand are largely a result of substantial infrastructure expenditure made by the State. However, while National Development Plans provide the relevant capital expenditure, the day-to-day operating needs are met by local authorities. It is clear that NDP driven demands, allied to increased customer and consumer demands for more and better services and living environment, will all combine to drive expenditure needs further.

The levels of centrally provided funding have not kept pace with local authority expenditure and so Councils have been forced to rely on higher levels of user charges and commercial rates. Local authorities now recognise that business is becoming particularly sensitive to rates of user charge increases.

There has been little or no movement in respect of many of the key recommendations of the Indecon Report. Recommendations in respect of the provision of local services and local facilities funded by local taxes have been ignored. The promotion of recovery of the full economic costs of providing services has been acted on only in respect of local authorities and their dealings with the users. The State does not yet pay local authorities in full for services, such as the provision of water to households, where central Government policy is that households shall not be liable to pay for the service.

It is the view of Dublin City Council that the basic principles for a system for financing local government should be as follows:

> There should be a strong linkage between local spending decisions and locally raised taxation, which would serve to strengthen the democratic process, enhance accountability on the part of local representatives, and provide a stronger input from citizens in general to local government.
>
> The local government funding system should provide adequate finances to enable the reasonable demands of the citizens, business and visitors to be met within an environment of local responsibility and local accountability.
>
> User charges and local taxation should be linked to the services and the facilities provided by the local authority and this link should be transparent to all.

The national taxation system should reflect that through their contribution to the cultural, social, leisure and general wellbeing of the citizen, local authorities make substantial contributions to the economy in general, and therefore they should benefit from the product of a strong economy, namely various forms of taxation.

The system of funding local government should promote efficiency, not only on the part of the user and also on the part of the provider of the services, while generating sufficient revenue to meet the costs of the provision of those services.

Specific recommendations made by Dublin City Council for the consideration of the Commission on Taxation are that:

1. **There should be a system of tax sharing between central and local government**, **as the current system of financing of local government makes no recognition of Dublin City's contribution to the economic development of the region or the country in general**.

2. **There should be local control over taxes and user charges that are generated locally**.

3. **The current system of local government funding, and the national system of taxation, fails to recognise that local government is a very substantial provider of social services. We recommend that a National Waiver Scheme should be established that not only funds the waivers but ensures that the nature of these services and waivers is recognised.**

4. **Where it is Government policy that local authorities should not charge for the provision of water to households, the State should accept and bear the full economic cost of providing those water services to households.**

5. **The current system of exemption for public properties from commercial rates evaluation, such as Government departments situated in Dublin city, should be changed, and a transfer payment from central Government to local authorities in respect of public buildings should be made**.

6. **A system of funding through local taxation which entirely at the discretion of the local authority and which could raise relatively modest amounts in the context of local government expenditure as a whole could provide a substantial amount of discretionary funding which could have significant impact on the social, cultural, living and leisure environment within the city**.

7. **We propose that specific consideration regarding central funding should be provided to emergency services that are currently provided by local authorities.**

4. Trends in Local Government Expenditure

Table 3.1 shows that Local Government expenditure increased by 84% from €2.4 billion in 2000 to €4.5 billion in 2006. This period, 2000-2006, coincided with the National Development Plan 2000-2006 (NDP) which provided a major impetus to local authority expenditure needs over that period.

Table 3.1- Trends in Local Government Current expenditure 2000-2006 - €million

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**€ Change 2000- 2006**	**%Change 2000-2006**
Housing and Building	380.5	462.3	516.3	474.9	490.21	517.1	637.0	256.5	67.5%
Road Transportation and Safety	769.5	870.5	917.3	931.7	1,003.04	1,050.1	1,116.8	347.3	45.1%
Water Supply and Sewerage	271	307.3	346.1	381.5	442.19	479.9	637.8	366.8	135%
Development Incentives and Controls	107.6	134	154.7	167.8	199.47	210.1	234.8	127.2	118%
Environmental Protection	399.8	480.7	565.5	597.5	654.85	711.1	896.7	496.9	124.2%
Recreation and Amenities	205.5	234..8	252.1	262.4	286.03	311.7	364.6	159.1	77.4%
Agriculture, Education, Health and Welfare	135.7	149.9	172.1	194.8	244.44	262.8	275.4	139.7	103%
Miscellaneous Services	134.7	173.7	211.6	224.0	234.23	240.8	263.4	128.7	95.5%
Totals	**2,404.3**	**2813.2**	**3,135.7**	**3,234.6**	**3,554.45**	**3783.6**	**4,426.3**	**2,022**	**84%**

The table shows that the key drivers of local government expenditure in 2000-2006 have been Housing and Building, Road Transportation and Safety, Water Supply and Sewerage and Environmental Protection.

Housing and Building expenditure: Expenditure in this area has increased by 67% from a base of €380.5 million in 2000 to €637 million in 2006. This increase is a result of more local authority housing being built to respond to the demands for more affordable housing, coupled with additional loans provision under various schemes to promote home ownership, such as the Shared Ownership Schemes. In August 2005 the Government established the Affordable Homes Partnership which aimed to accelerate the supply of affordable homes in the Greater Dublin area. The Partnership also aimed to commence in the region of 17,000 social housing units between 2006 and 2008 nationally. Substantial provisions have been made for public investment in housing under the NDP 2007-2013, therefore this programme group should witness continued expansion.

Road Transportation and Safety: Expenditure in this area increased by 45.1% from €769.5 million in 2000 to €1,116.8 million in 2006. This increased expenditure is attributed mostly to the need for investment in national and non-national roads and it has been facilitated by the high level of buoyancy in motor tax receipts, driven in turn by the growth in the national vehicle fleet. The funding of €618 million announced recently by the Minister for Transport for 2008 for the non-national road network is the highest level of funding yet made available. . The National Development Plan 2000-2006 invested heavily in roads which had a strong impact on the level of expenditure and further substantial investment is expected in the period of the 2007-2013 NDP.

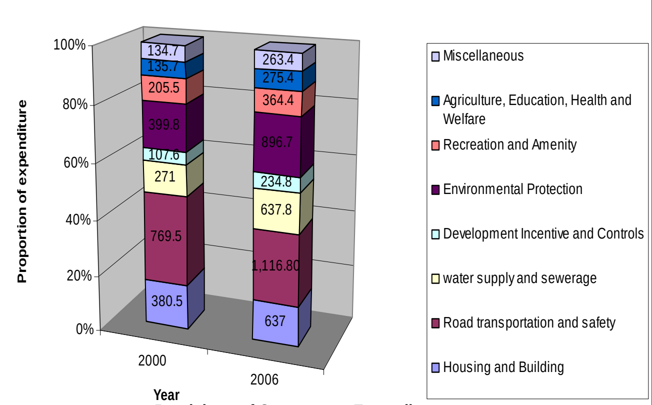
Water supply and sewerage: In percentage terms, this programme group has been a major driver of increased Local Government expenditure over 2000 to 2006, increasing by 135% from €271 million in 2000 to €366.8 million in 2006. The reason for the growth in expenditure has been the installation of major water treatment and waste water treatment plants around the country. In many cases, such plants had not existed previously. While the State, under the NDP, provided much of the relevant capital, the operation of these plants has either been carried out by local authorities or carried out by private finance consortia under contract to local authorities. As in other areas, further investment is planned for the period 2007-2013 and so this programme group will show continued increases in expenditure.

Environmental protection: The increase in local government expenditure in the area of environmental protection over the period 2000 to 2006 is, in percentage terms, the second highest factor in increased expenditure. This growth in expenditure reflects the substantial changes in waste collection and disposal that occurred over the 2000 to 2006 period. There have been substantial developments in waste management infrastructure, in waste recovery and disposal operations and the imposition of higher standards in specific areas such as landfill.

The four programme groups referred to above accounted for over 70% of the increased expenditure of local authorities over the 2006-2006 period.

The levels of Local Government expenditure in 2000 and 2006 are compared in figure 3.1 following.

Figure 3.1- A comparison of Local Government Expenditure in 2000 and 2006.



Breakdown of Government Expenditure

Key Points:

1. Demands of Local Government have increased substantially in recent years;
2. The factors driving increases in demand are largely a result of substantial infrastructure expenditure made by the State. However, while National Development Plans provide the relevant capital expenditure, the day-to-day operating needs are met by local authorities.
3. It is clear that NDP driven demands, allied to increased customer and consumer demands for more and better services and living environment, will all combine to drive expenditure needs further.

5. Trends in Local Government Funding

Table 4.1 following has been taken from the Department of the Environment, Heritage and Local Government website and shows the funding of local authorities over the period 2000 -2006.

Table 4.1- Local Government funding

Year	2000	2001	2002	2003	2004	2005	2006
Expenditure	2,404.3	2,813.22	3,135.74	3,234.48	3,554.45	3,783.58	4,426.30
Financed by							
Government grants/ subsidies	646.28	768.20	866.38	851.07	891.45	953.84	992.30
LGF General Fund	539.69	485.34	592.76	623.48	752.32	816.63	877.40
User charges	689.08	806.23	928.25	1093.2	1,167.85	1,185.17	1,418.60
Commercial rates	587.41	663.84	751.24	840.64	944.27	1,052.10	1,145.80
County Demand	2.15	2.83	1.92	-0.76	-0.21	-2.98	-0.10
Total receipts	2,464.61	2,726.44	3,140.55	3,407.63	3,755.68	4,004.77	4,434.00

The key trend is the share of each of these sources of funding and how they have developed over the years. Table 4.2 following shows that the share provided by Government grants and the Local Government Fund have fallen from a combined total of 49% in 2000 to 42% in 2006, with the reduction being made up by commercial rates and user charges.

Table 4.2- Local Government funding by source

	2000	2006
Government Grants and subsidies	27%	22%
LGF General Fund	22%	20%
User Charges	29%	32%
Commercial rates	24%	26%

The increase in commercial rates has been 95% over the period 2000-2006. This increase has arisen from two sources, rates buoyancy and increases in the Annual Rate on Valuation. Data published by the DoEHLG shows that the Net Effective Valuation of rating authorities in Ireland rose by 44% over 2000-2006. From this it can be deduced that the Annual Rate on Valuation increase has been just over 35% over that period - an annual average in excess of 5%.

The increase in revenue generated by User Charges has increased substantially in 2006 and has arisen from a greater pressure on local authorities to achieve full cost recovery on services provided to the non-domestic sectors.

Table 4.3 shows the increase in water charges on a cubic metre basis that has occurred in Dublin and Cork in recent years. There is also a standing charge for water meters of between €100 and €200. In essence, the installation of meters across a wide range of commercial premises in recent years appears to have led to substantial increases in water charges.

Table 4.3- Commercial water charges per cubic metre. *

	Dublin	Cork
2004	€1.26	* *
2005	€1.33	€1.75
2006	€1.40	€1.84
2007	€1.47	€1.95

We can see from Table 4.3 above that the consumption charge on commercial water use has been increasing in almost all cases since 2004. The effect of these increases on business and industry is to raise their operating costs.

The policy direction from government departments with respect to these services is that the government provides local authorities with the money to pay for the domestic sector's use of water but that the commercial sector's use of water must be fully recovered.

Table 4.4 following provides a breakdown of the components of local government funding and their relative percentages of the total amount for both 2000 and 2006. In this table, the Central Government grants are funded by the Exchequer or other Government Departments (such as the provision of higher education grants that are disbursed by local authorities).

The Local Government Fund is made up mainly of motor tax receipts from the commercial and domestic sectors as well as an Exchequer contribution. In table 5, the Exchequer contribution to the LGF is included in the Central Government Grants. The charges for services are paid for by both the commercial and domestic sectors while commercial rates are paid solely by the commercial sector.

Table 4.4- Local government funding broken down by source

	2000		2006	
	€mn	%	€mn	%
Central Government grants	688.7	28%	999.7	23%
Motor Tax receipts	496.7	20%	870.0	20%
User Charges	689.1	28%	1,418.6	32%
Commercial Rates	587.4	24%	1,145.8	26%
Other	2.2	--	-0.1	--
Total	**2464.6**	**100**	**4,434.0**	**100**

The User Charges element of local government funding has increased from €689.1 million in 2000 to €1,418 million in 2006. Not only has the absolute size of charges increased, but its share of local government funding has increased from 28% to 32% over this period. While these charges are applied to both the commercial sector and households, the anecdotal evidence available from local authorities is that much of the increase is due to higher rates of cost recovery from commercial users. The key item of domestic user charges are rents for local authority dwellings, not true service charges.

The commercial rates element of the funding applies solely to the commercial sector. Table 4.5 shows that between 2000 and 2006 the revenue derived from commercial rates has more than doubled from €587.4 million in 2000 to €1,145.8 million in 2006. The commercial rates share of the local Government funding also increased from 24% of the total to 26%.

As noted previously, this increase arose from a combination of buoyancy and annual increases in excess of 5% on average in the Rate on Valuation.

Thus we can see that of the Local Government funding outlined in Table 4.4, there is an increasing dependence on the User Charges and Commercial Rates as a source of income. The Motor Tax contribution has remained constant; and this is unlikely to change with the changes in motor tax rates planned for mid-2008.

The dependence of local authorities on the commercial sector for both rates and user charge revenues, is gaining increasing recognition and in particular there is a trend amongst local authorities of late to recognise the sensitivity of their annual rates charge. Limerick City Council reduced its rate on valuation in 2007 while Limerick County Council maintained theirs at a constant rate for 2008.

However, recent media reports attribute the Minister for Transport with wanting local authorities to increase their "own resources" funding for non national roads from 20% to 30% of the road grants they receive. This implies an additional contribution of €80 million per annum at current expenditure levels. This would be drawn from the only true discretionary source of local government funding, namely commercial rates, if it is to occur.

Key Points:

1. Although much of the increased demands on Local Government have been brought about by centrally determined expenditure on infrastructure; the operating costs have been largely left to local authorities;
2. The levels of centrally provided funding have not kept pace with local authority expenditure and so Councils have been forced to rely on higher levels of user charges and commercial rates;
3. Local authorities now recognise that business is becoming particularly sensitive to rates of user charge increases.

6. Developments since the Indecon Report

Indecon Economic Consultants completed its report on local government financing in Ireland in October 2005. In the report they made several recommendations for the future which we outline below to examine the extent to which progress is being made in these areas.

SUMMARY OF MAIN RECOMMENDATIONS ON FUNDING OF LOCAL AUTHORITIES	
	Funding Recommendations
1.	***Recommendation*** We recommend a significant increase in the level of resources available to local authorities over the period to 2010. Our estimates suggest that, based on current policies, there will be a requirement by 2010 for additional expenditure <u>in nominal terms</u> of the order of €1,000 to €2,000 million per annum compared to 2004 expenditures, if levels of service provision are to be maintained. When existing sources of revenue are taken into account this equates to an estimated funding gap of between €415 to €1,500m. ***Observation:*** In respect of this recommendation, we believe that given the local government expenditure of €4,426 million for 2006, over €870 million more than in 2004, and coupled with the substantial level of investment in infrastructure development proposed in the 2007-2013 National Development Plan, Indecon's estimate of between €1 and €2 billion for additional funding requirements by 2010, may be quite insufficient and that a provisional increase of €3 billion would be more realistic.
2.	***Recommendation*** We recommend a significant change in the system of local government financing, with a move towards more locally-based sources of funding. While this will assist in meeting the additional resources required over the period to 2010, the principal reasons why this change is essential relate to the need to improve accountability and flexibility in decision making, to facilitate an acceleration of efficiency measures and to ensure a radical realignment between the cost of providing services and the demand for such services.

	Observation: While there has been a shift from Government grants to local charges and commercial rates, many of the sources of local funding such as planning fees are controlled centrally, and local discretion is very limited.
3.	***Recommendation*** We recommend that changes in the system of local government should be directed at increasing the share of local authority expenditure that is funded locally. The two key elements of this should comprise an increase in local charges and the introduction of selected targeted local taxation. ***Observation:*** There has been an increase in the amount of locally funded expenditure – funded by user charges and commercial rates. No local taxation sources have been introduced.
4.	***Recommendation*** We recommend that local authorities should charge the full economic costs of providing services on behalf of central government. ***Observation:*** There has been a drive towards charging the full economic cost of providing a range of services. However, certain services, such as water provision to domestic users, is not fully funded by central sources, and some services such as planning control are not permitted to charge the level of fee required to achieve full cost recovery.
5.	***Recommendation*** We recommend an increase in certain charges where less than full economic costs apply, but would caution against an overestimation of the significance of these changes as a source of increased revenues. ***Observation:*** The metering of non-domestic premises has been implemented. There is no intention of introducing metering to the domestic sector, which will make it difficult for the government to separate the domestic and commercial usage of water services if it is not measured.
6.	***Recommendation*** We recommend the extension of water charges on an equitable basis. In particular, we recommend the introduction of water charges on non-principal private residences and water metering on all commercial properties.

	Observation: There has been no move towards the implementation of metering to any domestic residences.
7.	***Recommendation*** We recommend the introduction of mechanisms to secure a contribution to local authorities' general funding requirements from non-principal private residences and from commercial buildings not currently covered by commercial rates. There are a number of options that could assist in achieving this objective, including the extension of rates to such properties or an element of locally determined stamp duties. ***Observation:*** There has been no development with respect to this recommendation.
	Expenditure Recommendations
8.	***Recommendation*** We recommend that the proposed restructuring of the methods of funding local government should be used as a platform to accelerate efficiency improvements in local authority expenditure programmes. ***Observation:*** The efficiency programme outlined in Minister Brain Cowan's budget in 2007 is taking effect but does not appear to be linked to any funding structures or to promoting efficiency in the provision, or indeed the consumption, of local government services.
9.	***Recommendation*** We recommend a radical change in the incentives facing users of local authority services to improve efficiencies and reduce the costs of local authority services. This includes a wide range of measures (for example, incentives to local authority tenants to minimise maintenance costs, the charging of services to reduce excess demand, and differential pricing to direct users to lower cost delivery mechanisms). ***Observation:*** In our view, charges based on levels of consumption are the most realistic means of promoting efficiency in the use of services provided by local authorities. This was demonstrated by the introduction of a pay-by-weight basis for charging for the collection of waste in the Dublin region. Presentation rates for bins reduced from over 90% to close to 50% on average, enabling the local authorities to redesign collection routes and develop more efficient collection systems.

10.	***Recommendation*** We recommend a continuation and acceleration of the use of alternative delivery mechanisms to secure the most cost efficient delivery of local authority services. In particular, we believe there is potential for increased cost-effective contracting of services and the shared provision of services between local authorities. .***Observation:*** There have been strong moves towards increasing cooperation between the local authorities in the Dublin, far more than in other areas of the country, and this as contributed to substantial operating efficiencies in the region.
11.	***Recommendation*** We recommend that where local authority services are contracted to private sector local monopolies, that an appropriate regulatory framework is established to protect consumer interests and to prevent monopoly rents being generated (i.e. excessive profits). ***Observation:*** This recommendation is being pursued where appropriate in Dublin.
12.	***Recommendation*** We recommend that the provision of local authority services should be delivered on the most cost effective geographic basis, which due to economies of scale, may not in many cases be aligned with current local authority structures. This will require the provision of services either on a shared basis or by tendering services on a national or regional basis. ***Observation:*** This is very much the approach taken in the greater Dublin area.
13.	***Recommendation*** We recommend the introduction of significant structural and information changes to facilitate local authority managers and policymakers to implement on-going efficiency improvements. These include changes in, and standardisation of, information on local authority expenditures; changes in legislation to permit councils to appoint outside experienced specialists to audit committees; the establishment by all local authorities of audit committees focussed on securing on-going efficiency; and the enhancement of the Department's audit role in promoting value for money or the extension of the Comptroller and Auditor General functions to local authorities. ***Observation:*** Dublin City has set up audit and review committees that continually examine ongoing efficiency and ensure proper governance.

14.	***Recommendation*** We recommend that the functions of local authorities and other agencies be subject to on-going assessment to ensure that costs are minimised and that the appropriate functions are undertaken by local authorities. Specifically we believe there may be merit in reviewing current responsibility for the Disabled Persons Grant scheme and for consideration of the merits of transferring water services to a regional or a national agency. ***Observation:*** Dublin City Council is continually monitoring its operating costs to ensure that costs are minimised and that the appropriate functions are undertaken by it.

Source: Indecon Review of Local Government Financing, 2005.

Key Points:

4. There has been little or no movement in respect of many of the key recommendations of the Indecon Report;
5. Recommendations in respect of the provision of local services and local facilities funded by local taxes have been ignored;
6. The promotion of recovery of the full economic costs of providing services has been acted on only in respect of local authorities and their dealings with the users. The State does not yet pay local authorities in full for services, such as the provision of water to households, where central Government policy is that households shall not be liable to pay for the service.

7. Dublin City Council Proposals

Dublin City Council is the largest local authority in Ireland in budgetary terms: it is the largest city in Ireland; it has the largest population of any local authority in Ireland, and it has the highest level of economic activity of any local authority. Current expenditure on the part of the City over the past five years has been as follows

€ million	2003 Outturn	2008 Budget
Housing and Building	167.4	237.1
Road Transportation and Safety	92.1	109.8
Water Supply and Sewerage	72.7	130.0
Development Incentives and Controls	22.6	28.0
Environmental Protection	183.5	247.4
Recreation and Amenities	51.6	86.4
Agriculture, Education, Health and Welfare	31.5	56.5
Miscellaneous Services	15.1	19.4
Totals	**636.6**	**914.5**

The City's current expenditure has being growing at a rate of 7.5% per annum over the past five years. While the City has carried out many expenditure reviews and cost containment programmes, it is particularly susceptible to increases in pay inflation, given its high level of pay relative to overall expenditure. Pension costs are also increasing rapidly, and these are funded from current expenditure.

Meanwhile, recent and current national development plans continue to provide substantial increases in demand for services, particularly in the key investment areas of housing; roads; water services and waste management infrastructure. At the same time, the population of Dublin is seeking higher levels of services and facilities, such as [public amenities and parks, and, in general, a better living, social and working environment.

This demand for a better living and social environment requires substantial capital expenditure in the part of the City. Capital expenditure on the part of the City Council is budgeted at €910 million for 2008.

Funding for the current expenditure of Dublin City Council is as follows:

%	2003	2008
Government Grants	24.1%	23.3%
User Charges	36.1%	37.4%
Commercial Rates	30.4%	31.0%
Other	9.4%	8.3%
Total	**100%**	**100%**

The "other" funding is inter-authority payments made by other councils to the City Council in respect of shared infrastructure such as the Ringsend waste water treatment plant.

In comparison with the other city councils in Ireland, the commercial rates income as a percentage of total expenditure in recent years in Dublin City has tended to be marginally lower than the other cities. Since 2000, the dependency of individual cities on commercial rates income has been as follows:

- Limerick City: 34% - 35%
- Cork City: 31% - 35%
- Dublin City: 29% - 32%
- Waterford City: 28% - 34%
- Galway City: 25% - 31%

However, the key point is that cities have a much greater dependency on commercial rates than counties (the average for all city and county councils is that rates account for 26% of expenditure).

Adjusting for the effect of the expiring rates remissions that were introduced in the 1900s to promote investment in Ireland, the underlying rates base of Dublin City grew at an average rate of 3.7 % per annum over the 2002 to 2006 period. However, this was driven to a substantial extent by major infrastructural investment (which are owned by Councils or other public bodies), and the underlying rate base grew by just 1.2 % when these infrastructure elements are removed. This has been driven in turn by key expanding sectors of the economy, particularly personal services; hotels and restaurants and office developments.

However, in a slowing economy – i.e. one where growth rates will not those of the "Celtic Tiger" period, the buoyancy in the rates base is expected to fall. Projections of the rates base show that on the basis of annual average GNP growth of 4 per cent in future years, the long term rates base growth rate is expected to be of the order of 1.1 per cent.

At 37.4%, Dublin City also has a very high dependency on user charges – the average for all local authorities is 32%. User charges for local authority services can be very sensitive to the economy in general, and a slowing economy can lead to difficulties in collecting moneys due. Many services provided by the City Council such as housing and leisure facilities are priced to reflect the social content of the services, and not as profit generating enterprises.

Government grants account for 23.3% of the City's current income – including the Local Government Fund (LGF) – and this equates to close to half the level provided from government grants to local authorities in general. In particular, the City's allocation under the Local Government Fund is, in relative terms, half that of local authorities in general. In total, Dublin City collects approximately 15% of the motor tax collected in the State, but receives just over 10% of the LGF. In effect, the Fund is a resource distribution mechanism, whereby moneys collected by the City Council are redistributed across the State.

In summary, over 75% of Dublin City's current expenditure needs are met by user charges, including charges on other local authorities, and commercial rates, whereas the national average dependency on these sources of funding is 58%

It was noted previously that capital expenditure on the part of the City Council is budgeted at €910 million for 2008. Government grants account for just 1/3rd of this expenditure, the rest being funded from the City's "own resources" or bank borrowings.

The Government tax revenues are not expected to be as buoyant in future years as in the past, given the current slowdown, and allowing for reasonable growth in an on-going basis in future years.

In broad terms, pressure on all current sources of funding will intensify, at a time when demands for services are growing.

Dublin City has considered how its future needs might be accommodated through atypical financing arrangements. The City had developed a model for new housing developments through Public Private Partnerships, however recent events have demonstrated that once market conditions change beyond a certain point, the engagement of the private sector partner becomes more difficult. These events further demonstrate that a change is needed to the current system for local government funding, and these suggestions are laid out as follows.

Principles for funding of local government

In respect of the financing of local government in particular, and the overall taxation system in general, it is the view of Dublin City Council that the basic principles for a system for financing local government should be as follows:

- **There should be a strong linkage between local spending decisions and locally raised taxation, which would serve to strengthen the democratic process, enhance accountability on the part of local representatives, and provide a stronger input from citizens in general to local government.** This is a well recognised principle internationally. While primary responsibility for health care and education is vested in central government, many services to the population such as social housing provision; water and waste water services; roads construction and maintenance; planning control; waste management services; fire and ambulance services; cultural, social, leisure and library facilities, are provided by local government. The current system of funding does not recognise the extent to which "field services" are provided locally, and in practice many of these local services are constrained by central control on funding or on the levels of charges.

- **The local government funding system should provide adequate finances to enable the reasonable demands of the citizens, business and visitors to be met within an environment of local responsibility and local accountability**. Under the current system of funding, decisions on the provision of social or other facilities and infrastructure are made centrally, and the willingness of the population to pay for local developments, or indeed not to pay for or develop them, is not tested in reality.

- **User charges and local taxation should be linked to the services and the facilities provided by the local authority and this link should be transparent to all.** User charges should be based on services provided and charges should reflect the levels of use of the service. Local taxes should be based on local need and local development and the concept of linking tax revenues with the delivery of facilities must e clear. However, without a system of local taxation, such links are impossible.

- **The national taxation system should reflect that through their contribution to the cultural, social, leisure and general wellbeing of the citizen, local authorities make substantial contributions to the economy in general, and therefore they should benefit from the product of a strong economy, namely various forms of taxation.** A healthy environment and leisure, sporting and exercise facilities promote well being, and contributes to reduced lost time in enterprise; reduced demand on health services and prolonged working life. This generates additional benefits to the economy.

- **The system of funding local government should promote efficiency, not only on the part of the user and also on the part of the provider of the services, while generating sufficient revenue to meet the costs of the provision of those services**.

Recommendations for funding of local government

Specific recommendations made for the consideration of the Commission on Taxation are that:

1. **There should be a system of tax sharing between central and local government**, whereby local government would receive a share of VAT, income taxes or property taxes such as stamp duty. Systems of tax sharing are evident in many countries of central Europe, e.g. Austria; Germany; Switzerland; Denmark and Spain; and a basic principle of tax sharing is that the overall contribution of local authorise to national economic development is recognised by providing them with a share in one of the benefits of a strong economy, namely tax revenues. Tax sharing arrangements in existence include personal income tax; corporation tax and VAT.

For example, expenditure by Dublin City Council from its own resources aimed at improving the living, social and leisure environment of its citizens leads in turn to improved health, improved personal fitness, which in turn leads to fewer working days being lost to illness, fewer demands on the health service by people who are unwell and longer working lives on the part of many of the citizens. Evidence of this is the fact that the City provides for 2/3rds of its capital budget from its own resources or bank borrowings, which are in turn repaid from user charges or rates income.

In the case of Dublin City, a share of national tax income would recognise that the City in particular and the Dublin region in general are key drivers of the national economy, and according to recent estimates, Dublin generates some 70% of national tax revenues – yet the City receives less Government support than other local authorities, and receives no recognition for its role as a key economic driver of the nation..

In summary, the current system of financing of local government makes no recognition of Dublin City's contribution to the economic development of the region or the country in general.

2. **There should be local control over taxes and user charges that are generated locally**. At present, for example, motor tax rates charged by local authorities are determined by central government. Planning fees charged by local authorities are controlled by the Minister of the Environment, Heritage and Local Government. The current structure of the needs and resources allocation model used to dispense the local government fund means that any increase in commercial rates by a local authority that exceeds the national norm is in effect clawed back by the state through reductions in the future allocation of funding from the fund. In effect, what are nominally local systems of charges and taxes are in effect controlled to a very substantial extent by central government.

3. **The current system of local government funding, and the national system of taxation, fails to recognise that local government is a very substantial provider of social services.**

   For example, in the case of housing rents, the HSE will fund tenants in the order of €40 per week to assist with rent payments. In cases of need, the City Council foregoes the balance of the rent due, thus, in effect, providing an unrecognised social payment. Other items such as charges to swimming pools and leisure facilities (which are fixed at a "no profit2 level) and free admission to many cultural facilities reflect the City Council's social mandate, which aims to provide the services to all its citizens and to do so without a profit motive. Other schemes, such as the Waiver Scheme from waste management charges for households on low income illustrate clearly the social nature of the services being provided by the City Council. Where such services or waivers are provided by local authorities and were the local authorities themselves bear the full cost of such waivers.

   We recommend that a National Waiver Scheme should be established that not only funds the waivers but ensures that the nature of these services and waivers is recognised.

4. In the case of particular services, and particularly in the case of domestic water services, **where it is Government policy that local authorities should not charge for the provision of water to households, the State should accept and bear the full economic cost of providing those water services to households.**

   This funding by the State should be based on the actual costs incurred by councils such as Dublin City Council in providing these services, and not based on a notional figure as at present. It is inequitable, that a local authority should bear the cost of policies determined at central government level, particularly in cases where Councils had implemented charging systems in line with prior Government policy. This proposal is not a suggestion that water charges should return, but that the Government should be responsible for the full costs of its own policies.

5. Further to point 4 above, **the current system of exemption for public properties from commercial rates evaluation, such as Government departments situated in Dublin city, should be changed, and a transfer payment from central Government to local authorities in respect of public buildings should be made**.

   By not making a contribution in a similar manner as other commercial enterprises, Government departments and their staff benefit from the range of services provided by the City Council, without the owner of the commercial premises, in this case the Government, providing any of the funding to the staff or facilities with which those services are provided. In a similar vain, exemptions from rates for other types of premises, such as schools should be provided by the relevant government department, in this case the Department of Education, in such a manner as to reflect the services provided by the local authority.

   In previous times, up to the early 1980s, the derogation from commercial rates for Government buildings was recognised by the payment of a "bounty in lieu" to local authorities. This recognised the services provided by Councils and the need for those services to be funded. However, the recessionary times of the 1980s brought about an abrogation on the part of the State in respect of its responsibilities in this regard, and it would be timely, given the process of decentralisation, if such a payment was reintroduced.

6. It should be recognised by the commission of taxation, that amongst local authorities in general the salaries and wages of staff account for a significant portion of expenditure typically of the order of 40% or so. Many of the services provided by the local authority such as maintenance of local authority dwellings also have to be provided for on an annual basis, and, as a result, the amount of money available to local authorities for any form of discretionary spending is very limited indeed. In that context, **a system of funding through local taxation which entirely at the discretion of the local authority and which could raise relatively modest amounts in the context of local government expenditure as a whole could provide a substantial amount of discretionary funding which could have significant impact on the social, cultural, living and leisure environment within the city**.

   Such taxes as might be considered, could be area specific, to promote works or facilities ion a particular area; or be sector specific and recognise that proposed services could be of significant to a specific sector within the business community.

Modest charges in respect of recycling initiatives or visitors to the City could provide substantial amounts of discretionary funding for the development of facilities within the City; improving the overall living environment and supporting the provision of services to make the City more attractive to tourists and visitors.

A selective environment tax, for example, could provide revenues that would enhance the City's environment such as through the provision of increased street cleaning services and improvements to the visual landscape. Instances of such environmental taxes are taxes on cans, glass bottles or cartons.

7. Finally, we propose that specific consideration regarding central funding should be provided to emergency services that are currently provided by local authorities. These include the fire services and the ambulance service and given the constraints facing many local authorities with regard to funding of their activities, and the need to ensure ongoing adequate funding of these services, we recommend that specific consideration should be given to the provision of emergency services by local authorities as a matter or urgency.