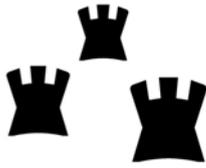


# **Submission to the Commission on Taxation on the funding of Local Government**



**From Dublin City Manager,  
John Tierney**



# Dublin City Council

Comhairle Cathrach Bhaile Átha Cliath

## Submission to the Commission on Taxation

John Tierney, Dublin City Manager

### Overview

This review of Local Government Funding by the Commission on Taxation occurs at a time of rising service demand and expectations around the quality and range of Local Government services. Funding sources have remained broadly unchanged and are inadequate to meet the increased cost of greater and more improved service provision. The work of the Commission is welcomed. Consideration of the findings of previous local government reviews and the present local government financial environment, demonstrates that a number of key issues, identified over time continue to be still relevant today. These key issues are:

- The linkage between locally raised taxation and spending decisions, strengthening the democratic process and enhancing accountability,
- The preference to move away from funding options, which are dominated by Central Government decision-making,
- The identification of three options for locally raised taxes i) local sales tax, ii) local income tax and iii) local property tax,
- The preference of a local property tax as the most feasible locally raised tax,
- The adoption of a national waiver scheme, administered locally to accommodate those with low-income levels owning high value properties in relation to a local property tax and also in relation to user charges,
- The appropriateness of making charges for services, where the cost of collection is not onerous,
- The making of a Charge for environmental services as key to influencing sustainable environmental behaviour and supporting the polluter pays principle while reflecting the high costs of environmental service provision,
- The requirement to assess local need and meet that need with adequate resources, through an equalisation process.

### Introduction

In recent times, expenditure has increased in actual and real terms. Much of the additional available resources have met obligations through nationally agreed pay increases and general levels of inflation. Dublin City Council has continuously provided new services and brought forward new initiatives. The quality and range of service provision is a dynamic, which is explored and expanded to ensure that the best service possible is delivered to Dublin.

Dublin City Council is implementing a vision for Dublin based on being a creative sustainable City with a highly defined sense of place and a rich quality of life. I see Dublin's future being

based on a consolidated holistic approach, examining City life across six core themes, driving the successful City – Economic, Social, Urban Form, Movement, Environment and Culture.

Dublin is Ireland's International Gateway. We aspire to and set our ambition with reference to world-class cities. To do this we benchmark our services and facilities against exacting standards. Dublin City has established an International Affairs and Research Unit to adopt a global view and provide research capacity. Dublin City Council is acutely aware that to some of our users, service provision may not be as direct and seamless as they might wish. The City aims to reduce fragmentation of service provision thereby increasing the service experience of users.

Our Capital City faces challenges, notwithstanding great advancement and success in recent times. Retaining competitiveness and reducing congestion are a key focus for Dublin City Council. Competitiveness is intrinsically linked with innovation and in partnership with the University sector and business interests, a Creative Dublin Alliance is being established. The objective of the alliance is to promote innovation, to develop applied research capacity and an adaptive approach to emerging business demands.

## ***Dublin, the Capital City***

Dublin City is unique among local authorities in Ireland in terms of its scale, economic activity, cultural life, entertainment choices and tourist attractions. Dublin City does not have a parallel authority in the State to act as a comparator. The social mix, co-existence of both extreme wealth and poverty, and population diversity are more apparent in Dublin than elsewhere.

Looking to the long term, Dublin City will develop and grow to its potential if a sustainable approach is taken to the provision of adequate, focused resources. The growth of the Dublin economy is a driver for national economic growth i.e. national economic development is a function of Dublin economic development. Key to achieving greater national economic growth and wealth and therefore rural economic growth and wealth, is to ensure the continued development of Dublin. The City is a national asset, availed of by the national population through workers, students, tourists, those accessing health, cultural, or recreational facilities.

The Tourism industry is a major contributor to the Dublin and Irish economy. Dublin has steadily increased in popularity with tourists and has benefited from a trend towards urban tourism. It is estimated that six million tourists now visit Dublin, staying on average for four nights. Dublin City Council supports the tourism industry through extensive public domain management (street cleaning, public lighting, street furniture, street floral displays), the provision of the Hugh Lane Gallery, Dublin City Libraries, Parks and open spaces, and other facilities.

Dublin City presents among its residential population extremes of personal wealth, social class, employment levels, educational attainment and crime rate. The economic growth of recent years has had the effect of raising the average profile of Dubliners across many indicators. There are dangers in making assessment of local need based on an average Dublin profile, as pockets of deprivation and poverty exist which are significantly dispersed from the mean. For subgroups of Dubliners, real deprivation levels have not been improved upon. If these areas are not targeted with appropriate resources, then a risk exists that intergenerational issues will be created, with the myriad of related social problems.

### ***Recommendation 1: Review of allocation of resources to Dublin City from Local Government Fund***

*The allocation of funding through the national equalisation process, currently administered through the Local Government Fund must be revised to fully reflect the needs of Dublin City in terms of its place as Capital city, National Tourist centre and the level of urban deprivation.*

## ***Role of Dublin City Council in achieving public health and social outcomes***

Across Dublin City there has been a marked improvement in the quality of the City environment in recent years. Dublin City Council and Local Government in general, is a key driver in facilitating economic growth. However the influence of Dublin City Council and Local Government goes beyond economic measures. The public health benefits from a robust, vibrant, active and stable community are many. Community participation, engaging in local interests and expectations around the future and the future of their children, are indicators of a healthier and stable community. This is enhanced where an area is resourced appropriately.

Dublin City Council operates many services and initiatives which contribute to this social stability through the operation of facilities for a market segment of the population that is not served by the private market. Examples are swimming pools, leisure centres, libraries, Art Galleries. The Passport for Leisure Initiative is an example of how Dublin City Council has focused on a distinct group i.e. the over 55s and ensured accessibility for this group to recreational and leisure facilities operated by the Council. In raising the quality of life in Dublin and the State as a whole, Dublin City Council and Local Government must be recognised as a critical means of influencing social outcomes.

### ***Recommendation 2: Review of priority of Local Government funding in achieving improvements in levels of public health and social outcomes***

*Dublin City Council and Local Government generally must be recognised as key drivers in influencing and shaping communities and the broad social environment. The funding of Local Government should increase in priority to reflect the capacity of the sector to positively influence social and public health outcomes.*

## ***Shaping services to emerging demands***

Going forward, aside from meeting general pay and non-pay inflation demands, service related cost pressures are considerable and pose a funding problem. The quality and range of services, which citizens demand and expect in Dublin City, has increased sharply and will continue to do so. It is part of the business model of the City to continuously review how services are provided and to consider alternative service delivery options including efficiencies through contract and procurement arrangements. This work will continue to make cost savings.

The role of Dublin City Council in service provision is not only at an operational level. An essential element of the role expected of Dublin City Council is to shape and form a framework for services across a broad canvas. An example of this expectation relates to housing where Dublin City Council are engaged not only in affordable and social housing issues but are engaged in housing for all tenures. Dublin City Council recently adopted revised standards for apartment living aimed at influencing change. This strategic, influencing role is critical in building an environment conducive to change.

Dublin City is on a different scale with other local authorities in Ireland. In its internal market, the management of Dublin City Council operates support functions in the most cost effective manner while promoting effective local management. Services such as Finance, Human Resources and IT are provided on a mixed basis of devolved operational functions, while retaining core expertise and professional advice in the central department. We are a large employer, providing services through 6,500 staff. The provision of services is reviewed against other cost models, including the private sector.

Many services provided by Dublin City have a regional aspect (such as Water, Drainage and Fire) whereby all the Dublin Local Authorities cooperate to ensure that the services are provided seamlessly across functional boundaries and at lowest effective cost. This collaboration is evident in the regular meeting of the Managers of each of the Dublin authorities to ensure that these collaborative arrangements are operating as intended.

A regional dimension to the Greater Dublin Area is now accepted as being a key platform on which to coordinate and implement policies that can work locally and at regional level. Collaboration on the Greater Dublin Authority and Regional Planning Guidelines indicate that a significant role exists in coordinating development and services at regional level.

These roles – strategic, influencing and regional bring additional costs.

**Recommendation 3: The strategic, influencing and regional roles of Dublin City Council must be recognised and resourced.**

*Strategic engagement, influencing and input to regional development and service provision are necessary aspects of Dublin City Council role in not only providing services but also shaping services. There are costs to these roles, which must be resourced.*

### **Dublin City Services for Tourism**

Dublin City is a national product insofar as it attracts both tourists and workers alike to experience all the City has to offer and in doing so fuels economic activity. The quality of the public domain in respect of cleanliness and accessibility greatly influence the tourist experience. Real improvements have been made in the quality and appearance of the public domain in recent years. These improvements have an associated cost, which is increasing continuously, reflecting the cost pressures facing environmental services of water, drainage and waste. Infrastructural services such as water and drainage must meet an increasing demand for service within a fixed capacity, which triggers network capacity and peak / off peak supply issues.

In terms of maintaining the attractiveness of the Dublin as a commercial, residential and cultural centre, the City must look to maintain existing and add new facilities and points of interest. In particular the vibrant cultural identity of Dublin requires investment in order to strengthen the City social environment, which is closely associated with long-term development. Dublin City Council prioritises cultural, recreational and amenity development as a key platform on which to build the social environment. The extent of the City's commitment in this regard is demonstrated by way of continued investment funded through the City's own resources in the Hugh Lane Gallery, the development of the Ambassador building as a literary focal point for the City Centre as the City's flagship library, the work of the Events Unit in creating street animation and activity that contribute to the attractiveness of Dublin.

**Recommendation 4: A source of funding is required to develop the Cultural, recreational and amenity facilities of Dublin City to a standard expected of the capital city.**

*The development of a cultural, recreational and amenity programme of services and events is under funded. Dublin City Council needs the funding flexibility to resource a reasonable Cultural programme warranted by the capital city.*

*Recommendation 5: Introduction of a Hotel Bed Tax*

*To meet the specific funding demands associated with the provision and servicing of the City environment, which directly benefits the tourism industry, a hotel bed tax should be introduced. Revenues raised from this new funding source could be ring fenced, for example, to improve the public realm.*

## **Current Income Sources**

Dublin City Council manages many funding streams including commercial rates, government grants and charges for services. The existing mix of income streams vary in terms of buoyancy, effectiveness, cost of administration etc. There is limited local discretion in relation to the determination of income levels. With respect to some charges, the political context is stronger than for others, which influences how the charge can be administered.

Upon review of the existing base of valued properties, it is not equitable that a significant element is valued but not rateable. In particular the exemption from rates in relation to property occupied by Government agencies and property occupied by Educational Institutions is costly to Dublin City Council in terms of rates revenues lost, despite the full range of local authority services being provided at these sites. Consideration should be given to making all property rateable.

*Recommendation 6: Revisions are required to the existing commercial rates system.*

*Rating exemptions should be removed.*

## **Future Funding**

Future potential funding sources of Dublin City Council can be categorised broadly as:

1. Charges for services
2. Environmental charges
3. Service specific grants from Government
4. A general charge raised locally, broad based, which would provide funding flexibility and link expenditure decision to taxation levels.

All of the above funding sources must be balanced against a consideration of ability to pay. This issue should be determined nationally, to achieve greater consistency. The Department of Social Welfare funds current waivers operating in respect to other State organisations such as the Electricity Supply Board. This arrangement should extend to key services supplied by Dublin City and other local authorities, services such as domestic refuse and potentially any future charge for domestic water and domestic property tax.

*Recommendation 7: A national waiver scheme should be introduced.*

*The Department of Social Welfare should recoup the cost of lost revenues through the application of a nationally agreed waiver scheme.*

## **Locally raised Taxation**

Notwithstanding the efficiencies of the existing commercial rates system, its narrow base and exclusion of all other users of local authority services but businesses, is too narrow to be effective. This causes a funding imbalance, in that Dublin City and other local authorities are not funded for general services (i.e. for services where a specific user charge cannot be applied) by all users. Indeed the current funding arrangements undermine efforts by Dublin City and other local authorities to apply principles of demand management as the core user group have no direct impact from movements in cost and price.

Dublin City notes that previous reviews of local government finance have identified three potential taxes, raised locally, broadly based across society which link expenditure decisions to taxation levels and provide funding flexibility. These options are:

- Local Income Tax
- Local Sales Tax
- Local Property Tax

There should be a direct linkage between levels of local expenditure set and levels of local taxation charge for accountability to decision making to be effective. The introduction of a locally based charge would strengthen the local democratic process and increase it's relevance to local citizens.

**Recommendation 8: Introduction of a locally based tax**

*I recommend the introduction of a locally based tax, which will include all users of local authority services and provide local discretion and autonomy in setting service and taxation levels.*

## **Full Economic Cost**

Dublin City Council provides services for which the full economic cost should be charged to the user (in the context of the application of a national waiver scheme as mentioned). Examples of such services include the processing of planning applications. The existing income from planning fees does not match the cost of the resources required to assess and evaluate planning applications. Going forward, services such as this should be charged on a full economic cost basis.

**Recommendation 9: Charges at full economic cost**

*I recommend that charges be based on full economic cost in conjunction with a national waiver scheme, where appropriate.*

## **Environmental Services**

Dublin City Council provides certain services which impact on the demand and utilisation of environmental resources. Examples of these services are refuse and water. Dublin City Council and local authorities in general are key players in influencing national behaviour in moving towards sustainable environmental resource usage. The polluter pays principle is accepted as being a mechanism of associating cost with demand patterns, in educating service users regarding the cost associated with their demand patterns and subsequently influencing reduced resource usage in the long term.

It is a key principle that Dublin City Council should make charges at full economic cost for environmental services (in the context of the application of a national waiver scheme as mentioned).

The cost profile of environmental services has increased sharply in recent years. The resource allocation required by these services is now a multiple of their cost in previous times. More than any other service type provided by Dublin City, it is imperative that cost and price implications are understood by consumers of environmental services. Much has been achieved in relation to waste production, recycling and re-use and this success is expected to continue in the coming years with the prospect of further reduced waste production and therefore waste disposal levels.

However, in the absence of a user charge, consumption of water remains high. It is not sustainable to provide this service at current consumption levels.

Going forward, demand patterns for water will reduce only if mechanisms are put in place, which cause users to reflect on usage patterns. User charges as a tool to influence environmental resource usage has been effective in relation to waste. If sustainable approaches to water usage are to be developed, then user charges should be introduced as one means of influencing demand patterns and lowering aggregate consumption to levels which can be sustained in the long term.

**Recommendation 9: Charge for environmental services**

*I recommend that charges for environmental services be applied, as a tool to influence resource usage and lower user demand patterns to a level, which is environmentally sustainable. Environmental charges apply in relation to waste but not water. A charge should be applied to all water users to manage the demand and usage of this environmental resource.*

## **Grants**

Grants from Central Government in relation to services for which an objective is national uniformity in terms of investment, design, standard, quality etc, should continue to be made to Dublin City Council. Such services include non-national roads. Grants should meet the full costs of services, which they relate to.

**Recommendation 10: Central Government Grants to meet full costs of services**

*I recommend that Central Government Grants should meet the full costs of service which they relate to.*

## **Capital Funding**

Dublin City Council operates an ambitious capital programme. For some years now the scale of the capital works has exceeded the cost of day-to-day operational services. Notwithstanding the works underway, there are significant programmes which await funding, specifically with regard to roads, leisure and urban regeneration. Housing services have an allocated capital envelope which is by far exceeded by the value of potential projects required to improve housing conditions across the City. There has been much focus in recent times on the introduction in 2004 of Development Contribution Schemes. It should be noted that for Dublin City Council, in 2007 Development Contributions accounted for just 6.6% of total capital expenditure. Additional capital funding is required to meet the backlog of viable works programmes.

**Recommendation 11: Capital Funding for necessary capital projects.**

*I recommend that additional capital funding be provided for necessary capital projects.*

## ***Conclusion***

There is a major need for a review of local government financing and while the existing system has strengths, with improvements having been made in recent times, there remains key issues, which must now be addressed. I look forward to the continued debate on this issue and most importantly to the outcomes, which will influence the success and strength of local government into the future.

Yours sincerely,

John Tierney  
City Manager

## **Summary of Recommendations**

### **Recommendation 1: Review of allocation of resources to Dublin City from Local Government Fund**

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### **Recommendation 3: The regional role of Dublin City Council must be recognised and resourced.**

*Regional coordination of development and services provides a platform for efficient service planning and resource allocation. There are costs to this new role, which must be resourced*

### **Recommendation 4: A source of funding is required to develop the Cultural, recreational and amenity facilities of Dublin City to a standard expected of the capital city.**

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