

# **Indecon Review of Local Government Financing**

**Report Commissioned by the Minister for  
the Environment, Heritage and Local  
Government**

**Prepared by**

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# Contents

Page

<b>Executive Summary</b>	<b>i</b>
<b>1 Introduction and Terms of Reference</b>	<b>1</b>
1.1 Introduction	1
1.2 Terms of Reference	1
1.3 Structure of Report	2
1.4 Acknowledgements	3
<b>2 Overview of Local Government Finance in Ireland</b>	<b>4</b>
2.1 Introduction	4
2.2 Local Government Finance	4
2.3 Local Authorities' Expenditures and Functions	7
2.4 Trends in Revenue and Funding Sources	18
2.5 Conclusions	22
<b>3 Review of Previous Studies of Local Government Financing in Ireland</b>	<b>25</b>
3.1 Introduction	25
3.2 Financing of Local Government in Ireland (1996)	25
3.3 The Financing of Local Authorities - National Economic and Social Council (1985)	28
3.4 The Commission on Taxation – Special Features Report (May 1985)	30
3.5 Conclusions	33
<b>4 International Review</b>	<b>35</b>
4.1 Introduction	35
4.2 Overview of Local Government in Europe	35
4.3 Conclusions	41
<b>5 Review of Local Government Funding in Selected Countries</b>	<b>42</b>

---

<b>Contents</b>	<i>Page</i>
5.1 Introduction	42
5.2 Italy	42
5.3 Germany	44
5.4 New Zealand	46
5.5 Australia	49
5.6 Canada	53
5.7 UK	56
5.8 Conclusions	62
<b>6 Projecting Expenditures and Revenues</b>	<b>63</b>
6.1 Introduction	63
6.2 Review of Existing Projections - 2004-2006	65
6.3 Indecon Approach to Projections	69
6.4 Conclusions	81
<b>7 Detailed Projections</b>	<b>82</b>
7.1 Introduction	82
7.2 Housing and Building	82
7.3 Road Transportation and Safety	102
7.4 Water Supply and Sewerage	104
7.5 Development Incentives and Controls	113
7.6 Environment Protection	116
7.7 Recreation and Amenities	121
7.8 Agriculture, Education, Health and Welfare	122
7.9 Miscellaneous Services	122
7.10 Summary of Conclusions	124
7.11 Projections by Class of Local Authority	130
7.12 Conclusion	132
<b>8 Potential for Expenditure Efficiencies</b>	<b>134</b>
8.1 Introduction	134

---

<b>Contents</b>	<i>Page</i>
8.2 Assessment Framework	134
8.3 Programme Issues	143
8.4 Road Transportation and Safety	148
8.5 Water Supply and Sewerage	150
8.6 Development Incentives and Controls	153
8.7 Environmental Protection	156
8.8 Recreation and Amenity	159
8.9 Agriculture, Education, Health and Welfare	161
8.10 Miscellaneous Services	161
8.11 Conclusions on Potential Expenditure Efficiencies	165
<b>9 Revenue Options</b>	<b>167</b>
9.1 Introduction	167
9.2 Principles of Local Government Financing	167
9.3 Review of the Current Funding System	171
9.4 Impact of Different Revenue Options	174
9.5 Specific Revenue Options	175
9.6 Local Corporate or Business Taxes	188
9.7 Other Taxation Initiatives	189
9.8 Conclusions on Funding Options	189
<b>10 Recommendations</b>	<b>191</b>
<b>Annex 1 Details of Consultation Programme</b>	<b>212</b>
<b>Annex 2 List of Submissions Received</b>	<b>213</b>
<b>Annex 3 References</b>	<b>215</b>
<b>Annex 4 Bibliography</b>	<b>219</b>
<b>Annex 5 Details on Refuse Collection</b>	<b>261</b>

---

<b>Contents</b>	<i>Page</i>
<b>Annex 6 Expenditure Trends at Programme Group Level</b>	<b>263</b>
<b>Annex 7 Expenditure Trends at Sub-Programme Group Level</b>	<b>269</b>
<b>Annex 8 Miscellaneous Tables</b>	<b>293</b>
<b>Annex 9 Additional Details on Water Projections</b>	<b>294</b>
<b>Annex 10 Impact of Funding System on Local Authorities</b>	<b>301</b>
<b>Annex 11 Elasticity Estimates - Residential Water Services</b>	<b>310</b>
<b>Annex 12 Elasticity Estimates - Residential Waste Services</b>	<b>314</b>

---

## Tables & Figures

Page

Table 2.1: Local Authority Expenditures by Area of Expenditure – 2004 – € Million	9
Table 2.2: Expenditure by Group Type and Local Authority Type – 2004	10
Table 2.3: Trends in Local Government Current Expenditure- 1996-2004 - € Million	11
Table 2.4: Trends in Local Government Pay and Employment Numbers - 1996-2002	15
Table 2.5: Trends in Nominal Local Authority Expenditure per Capita and per Household – 1996-2004	18
Table 2.6: Sources of Funding for Functional Areas – 2002	20
Table 2.7: Trends in Current Revenue Sources - 1996-2004	22
Table 3.1: Recommendations of Commission on Taxation	32
Table 4.1: Selected Data for Selected Countries-2004	36
Table 4.2: Taxes by Local Government as a % of GDP - 1995-2002	38
Table 4.3: Taxes by Level of Government as a % of Total Taxation- 1995-2002	39
Table 5.1: Finance of Local Government – Italy - Million Lire	44
Table 5.2: Distribution of Spending for Different Levels of Government – Germany - 1998	45
Table 5.3: Vertical Fiscal Imbalance - Australia - 1999-2000	51
Table 5.4: Government Revenue (excluding grants) as a percentage of GNP	54
Table 5.5: Government expenditure (excluding grants) as a percentage of GNP	55
Table 5.6: Local Authority Responsibilities for Services in England	58
Table 6.1: Summary of Different Projection Approaches	64
Table 6.2: Expenditures Projections for 2004-2006	66
Table 6.3: Receipts Projections for 2004-2006, €m	67
Table 6.4: Estimated Gap After Adjusting for Motor Tax and Commercial Rates, €m	67
Table 6.5: Expenditure Projections for Dublin City Council Area, €m	68
Table 6.6: Projections for Revenue and Prospective Funding Gap Dublin City Council Area, €m	69
Table 6.7: Projections for Selected Economic and Demographic Indicators	71
Table 6.8: Results from Econometric Analysis	72
Table 6.9: Top-Down Projection - Scenario One-	75
Table 6.10: Top-Down Projection – Scenario Two- Population Trends	76

---

## Tables & Figures

Page

Table 6.11: Top-Down Projection - Scenario Three – Population and Price Trends	77
Table 6.12: Top-Down Projection - Scenario Four – Population Trends and Pay Rates	79
Table 6.13: Top-Down Projection - Scenario Five – Population, Price and Non-Pay	80
Table 7.1: Housing and Building – Current Expenditure and Receipts 2004 - € Million	83
Table 7.2: Local Authority Housing Stock Projections - 2004-2010 – Number of Housing Units	87
Table 7.3: Projected Local Authority Housing Maintenance Costs - 2004-2010 - € Million	88
Table 7.4: Summary of Selected Costs and Revenues for Projections for Local Authority Sub-Programme of Programme One 2004-2010 - € million	89
Table 7.5: Shared Ownership and Affordable Housing Schemes Projected Outputs (Units)	91
Table 7.6: Planned Voluntary Housing Measure Output (Units)	92
Table 7.7: Summary of Funding Gap 2004-2010	92
Table 7.8: Projections for Assistance to Persons Improving Houses - 2004 – 2010	94
Table 7.9: Projections for Administration Expenditure – 2004 – 2010	95
Table 7.10 Summary of Gap to be Funded by Local Authority's Own Resources and Local Government Fund - €millions	95
Table 7.11: Projected Housing Stock Increases for Selected Local Authorities	97
Table 7.12: Local Authority Main Programme and Voluntary Housing Programmes	98
Table 7.13: Projected Additional Costs 2004-2010	99
Table 7.14: Summary of Costs for Projections for Principal Housing Components 2004-2010- €m	99
Table 7.15: Projected Increases in Essential Repairs Grant under Action Plans for Selection of Local Authorities- €m	100
Table 7.16: Projected Increases in Disabled Persons Grant under Action Plans for Selection of Local Authorities- €m	101
Table 7.17: Projections for Assistance to Persons Improving Houses - 2004 – 2010 €m	101
Table 7.18 Summary of Gap to be Funded by Local Authority's Own Resources and Local Government Fund- €m	102

---

## Tables & Figures

Page

Table 7.19: Road Transportation and Safety - Expenditure and Receipts 2004 - € Million	103
Table 7.20 Summary of Gap to be Funded by Local Authority's Own Resources and Local Government Fund- €m	104
Table 7.21: Water Supply and Sewerage - Expenditure and Receipts 2004 - € Million	105
Table 7.22: Selected trends in Capital Investment €m	106
Table 7.23: Projected Costs of Water and Sewerage Services by Local Authorities - € million	109
Table 7.24: Projected Operational Costs of Water and Sewerage Services by Local Authorities - € million	110
Table 7.25: Projections on Water Expenditures - €m	111
Table 7.26 Summary of Gap to be Funded by Local Authority's Own Resources and Local Government Fund - €m	112
Table 7.27: Development Incentives and Controls - Expenditure and Receipts 2004 - € Million	114
Table 7.28 Summary of Gap to be Funded by Local Authority's Own Resources and Local Government Fund	115
Table 7.29: Environment Protection - Expenditure and Receipts 2004 - € Million	116
Table 7.30: Projections for Waste Disposal Expenditures 2004-2010 - €m	118
Table 7.31: Projections for Waste Disposal Related Revenues 2004-2010 - €m	119
Table 7.32 Summary of Gap to be Funded by Local Authority's Own Resources and Local Government Fund - €m	120
Table 7.33: Recreation and Amenities - Expenditure and Receipts 2004 - € Million	121
Table 7.34: Agriculture, Education, Health and Welfare - Expenditure and Receipts 2004 - € Million	122
Table 7.35: Miscellaneous Services - Expenditure and Receipts 2004 - € Million	123
Table 7.36: Micro-based Expenditure Projections for 2004-2010 - € million	125
Table 7.37 Summary of Different Expenditure Scenarios Prepared by Indecon - €m	126
Table 7.38: Revenue Projections for 2004-2010 €m	127
Table 7.39: Number of Passenger Cars per 1,000 of Population in EU-15 Member States - 1990-2002	129
Table 7.40: Indicative Estimates of the Likely Funding Gap - € Million	130
Table 7.41: Expenditure Projection by Class - € M	132



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## Tables & Figures

Page

Table 7.42: Expenditure Projection by Class Assuming a Constant Share of GNP €m	132
Table 8.1: Local Authorities by Size – Population and Households	140
Table 8.2: Waste Charges (€ Per Tonne)	143
Table 8.3: Expenditure and Receipts Per Functional Area 2004 – Housing	144
Table 8.4: Expenditure on Housing Repair and Maintenance for Selected Local Authorities – 2002 - €	145
Table 8.5: Local Authority Housing Expenditures % of Total 2004	146
Table 8.6: Expenditure on Rent Collection Costs for Selected Local Authorities - 2002	147
Table 8.7: Expenditure and Receipts Per Functional Area – Road Safety and Transportation - 2004	149
Table 8.8: Road Upkeep – Breakdown of Expenditures - % - 2004	150
Table 8.9: Expenditure and Receipts Per Area – Water Supply and Sewerage – 2004 - €m	151
Table 8.10: Breakdown of Public Water Supply Expenditures by Type of Delivery Mechanism - 2004	151
Table 8.11: Expenditure and Receipts Per Functional Area – Development Incentives and Controls - 2004	154
Table 8.12: Income and Expenditure per Planning Application for Selected Local Authorities – 2004	155
Table 8.13: Expenditure and Receipts Per Functional Area – Environmental Protection – 2004	157
Table 8.14: Breakdown of Waste Disposal Expenditure - % of Total - 2004	158
Table 8.15: Breakdown of Fire Protection and Pollution Control Expenditures in 2004 - % of Total	159
Table 8.16: Expenditure and Receipts Per Functional Area in 2004 – Recreation and Amenity	160
Table 8.17: Breakdown of Expenditure on Parks, Open Spaces, Recreation Amenities - % of Total - 2004	160
Table 8.18: Expenditure and Receipts Per Functional Area – 2004 - Agriculture, Education and Health/Welfare	161
Table 8.19: Expenditure and Receipts Per Functional Area – Miscellaneous - 2004 - € Million	162
Table 8.20: Breakdown of Expenditure on Financial Management/Billing Collection of Income – 2004 - % of Total	163
Table 9.1: Sources of LA Funding by Functional Area - 2003	172
Table 9.2: Sources of Funding by Selected Local Authority - 2003	173

---

## Tables & Figures

Page

Table 9.3: Examples of Funding Options Considered	176
Table 9.4: Selected Principles of Charging	179
Table 9.5: Income and Expenditure per Planning Application for Selected Local Authorities – 2003	180
Table 9.6: Sources of Funding for Functional Areas – 2003	181
Table 9.7: Housing Rental Income for Selected Local Authorities – 2002	182
Table 9.8: Water Charges (€ Per 1,000 Gallons)	184
Table 9.9: Rates (Rate of Valuation Multiplier)	188
Table A5.1: Domestic Refuse Charges – 2004	261
Table A6.1: Local Authority Expenditure – Housing and Building – 1996 to 2004 – Euro, Millions	263
Table A6.2: Local Authority Expenditure – Road Transportation and Safety – 1996 to 2004 – Euro, Millions	264
Table A6.3: Local Authority Expenditure – Water Supply and Sewerage – 1996 to 2004 – Euro, Millions	264
Table A6.4: Local Authority Expenditure – Development Incentives and Controls – 1996 to 2004 – Euro, Millions	265
Table A6.5: Local Authority Expenditure – Environmental Protection – 1996 to 2004 – Euro, Millions	266
Table A6.6: Local Authority Expenditure – Recreation and Amenities – 1996 to 2004 – Euro, Millions	267
Table A6.7: Local Authority Expenditure – Agriculture, Education, Health and Welfare – 1996 to 2004 – Euro, Millions	267
Table A6.8: Local Authority Expenditure – Miscellaneous Services – 1996 to 2004 – Euro, Millions	268
Table A7.1: Details on Local Authority Housing Expenditure: 1996-2001 - € Million	269
Table A7.2: Details on Assistance to Persons Housing Themselves: 1996-2001 - Euro, Millions	270
Table A7.3: Details on Assistance to Persons Improving Houses Expenditure: 1996-2001 - Euro, Millions	270
Table A7.4: Details on Administration and Miscellaneous Expenditure: 1996-2001 - Euro, Millions	271
Table A7.5: Details on Road Upkeep: 1996-2001 - Euro, Millions	272
Table A7.6: Details on Road Improvement: 1996-2001 - Euro, Millions	273
Table A7.7: Details on Road Traffic: 1996-2001 - Euro, Millions	273
Table A7.8: Administration and Miscellaneous: 1996-2001 - Euro, Millions	274

---

## Tables & Figures

Page

Table A7.9: Details on Public/Sewage Schemes: 1996-2001 - Euro, Millions	275
Table A7.10: Details on Private Installation: 1996-2001 - Euro, Millions	276
Table A7.11: Details on Administration and Miscellaneous: 1996-2001 - Euro, Millions	276
Table A7.12: Details on Land Use Planning: 1996-2001 - Euro, Millions	277
Table A7.13: Details on Industrial Development: 1996-2001 - Euro, Millions	277
Table A7.14: Details on Other Development and Promotion: 1996-2001 - Euro, Millions	278
Table A7.15: Details on Representational Functions: 1996-2001 - Euro, Millions	278
Table A7.16: Details on Promotion of Interest of the Local Community: 1996-2001 - Euro, Millions	279
Table A7.17: Details on Twinning of Local Authority Errors: 1996-2001 - Euro, Millions	279
Table A7.18: Details on Administration and Miscellaneous: 1996-2001 - Euro, Millions	279
Table A7.19: Details on Waste Disposal: 1996-2001 - Euro, Millions	280
Table A7.20: Details on Burial Grounds: 1996-2001 - Euro, Millions	280
Table A7.21: Details on Safety of Structures and Places: 1996-2001 - Euro, Millions	281
Table A7.22: Details on Fire Protection: 1996-2001 - Euro, Millions	281
Table A7.23: Details on Pollution Control: 1996-2001 - Euro, Millions	282
Table A7.24: Details on Administration and Miscellaneous: 1996-2001 - Euro, Millions	282
Table A7.25: Details on Swimming Pools: 1996-2001 - Euro, Millions	283
Table A7.26: Details on Libraries: 1996-2001 - Euro, Millions	283
Table A7.27: Details on Parks, Open Spaces, Recreation Centres: 1996-2001 - Euro, Millions	284
Table A7.28: Details on Other Recreational Amenities: 1996-2001 - Euro, Millions	285
Table A7.29: Details on Administration and Miscellaneous: 1996-2001 - Euro, Millions	285
Table A7.30: Details on Agriculture: 1996-2001 - Euro, Millions	286
Table A7.31: Details on Education: 1996-2001 - Euro, Millions	286
Table A7.32: Details on Health/Welfare: 1996-2001 - Euro, Millions	287
Table A7.33: Details on Administration and Miscellaneous: 1996-2001 - Euro, Millions	287

---

## Tables & Figures

Page

Table A7.34: Details on Land Acquisition and Development: 1996-2001 – Euro, Millions	288
Table A7.35: Details on Plant and Materials: 1996-2001 – Euro, Millions	288
Table A7.36: Details on Financial Management: 1996-2001 – Euro, Millions	289
Table A7.37: Details on Elections: 1996-2001 – Euro, Millions	289
Table A7.38: Details on Administration of Justice/ Consumer Protection: 1996-2001 – Euro, Millions	290
Table A7.39: Details on Property Damage: 1996-2001 – Euro, Millions	290
Table A7.40: Details on Markets/Fairs/ Abattoirs: 1996-2001 – Euro, Millions	291
Table A7.41: Details on Administration and Miscellaneous: 1996-2001 – Euro, Millions	292
Table A8.1: Total Employment – Management/Clerical/Administrative 1996 – 2001	293
Table A8.2: Total Employment – Professional/Technical 1996 – 2001	293
Table A8.3: Total Employment – Other – 1996 – 2001	293
Table A10.4: Projected Costs of Water Services by Local Authorities – € Million	294
Table A10.5: Water Services Investment Programme 2004 – 2006 – Galway € Million	295
Table A10.6: Projected Costs of Water Services by Local Authorities – € Million	295
Table A10.7: Water Services Investment Programme 2004 – 2006 – Donegal – € Million	296
Table A10.8: Projected Costs of Water Services by Local Authorities – € Million	297
Table A10.9: Water Services Investment Programme 2004 – 2006 – Fingal € Million	297
Table A10.10: Projected Costs of Water Services by Local Authorities – € Million	298
Table A10.11: Water Services Investment Programme 2004 – 2006 – Cork County	298
Table A10.12: Projected Costs of Water Services by Local Authorities – € Million	299
Table A10.13: Water Services Investment Programme 2004 – 2006 – Kildare – € Million	300
Table A10.14: Transfers from Central Government to County Councils	302
Table A10.15: Transfers from Central Government to City Councils – €	303
Table A10.16: Transfers from Central Government to County Councils	304

---

## Tables & Figures

Page

Table A10.17: General Purposes Allocations per Household per Local Authority - €	305
Table A10.18: Specific Grants per Household per Local Authority - €	306
Table A10.19: Charges per Household per Local Authority - €	307
Table A10.20: Expenditure per Household per Local Authority- Euro	308
Table A10.21: Expenditure on Recreation and Amenities 2002	309
Table A10.22: Elasticity Estimates of Various Studies	312
Table A10.23: Elasticity Estimates of Other Studies	313
Figure 2.1: Percentage Changes in Current Expenditure 1996-2004 at Programme Level	12
Figure 2.2: Percentage Changes in Miscellaneous Expenditures by Area of Expenditure - 1996-2004	13
Figure 2.3: Selected Areas of Above Average Growth in Current Expenditure at Sub-Programme Level - 1996-2004	14
Figure 2.4: Whole Time Equivalentents for Specific Grades 1996-2001	16
Figure 2.5: Trends in Local Authorities' Current Expenditure Relative to National Income and Total Current Government Expenditure - 1996-2004 - % of GNP	17
Figure 2.6: Sources of Funding for Local Government Current Expenditure - 2004	19
Figure 2.7: Percentage Increases in Funding Sources by Area - 1996-2004	21
Figure 4.1: Changes in Local Taxes as a % of Total Taxation - 1995 to 2002	40
Figure 5.1: English Local Authorities	57
Figure 5.2: Distribution of Local Authority Spending, England 2001-02	59
Figure 5.3: Local Authority Gross Income by Source, England 2001-02	60
Figure 6.1: Top-Down Projection - Scenario One	75
Figure 6.2: Top-Down Projection - Scenario Two- Population Trends	76
Figure 6.3: Top-Down Projection - Scenario Three - Population and Price Trends	78
Figure 6.4: Top-Down Projection - Scenario Four - Population Trends and Pay Rates	79
Figure 6.5: Top-Down Projection - Scenario Five - Population, Price and Non-Pay	81
Figure 7.1: Housing Priority 2000-2006 Investment (€ million)	85
Figure 7.2: NDP Targets for New Houses Provision	86

---

## Tables & Figures

Page

Figure 7.3: Details on Local Authority Housing Expenditure 2003	87
Figure 7.4: Details on Assistance to Persons Housing Themselves -2003	90
Figure 7.5: Details on Assistance to Persons Improving Houses-2003	93
Figure 7.6: Details on Miscellaneous Expenditure	94
Figure 7.7: Details of Expenditure on Public Water-2003	107
Figure 7.8: Details of Expenditure on Public Sewerage-2003	108
Figure 7.9: Assumed Percentage Increase in Costs for Each Period	117
Figure 7.10: Assumed Percentage Increase in Revenues for Each Period	118
Figure 7.11: Trends in Number of Private Licensed Vehicles and Motor Tax Receipts	128
Figure 7.12: Expenditure Shares by Class of Local Authority-2004	131
Figure 8.1: Indecon's Expenditure Review Model	135
Figure 8.2: Unit Cost of Water and Wastewater Services Against Number of Connections 2002	153
Figure 8.3: Unit Cost of Processing a Planning Application Against Number of Applications	156
Figure 8.4: Unit Cost of Rent Collection Against Number of LA Dwellings	164
Figure 9.1: Sources of Funding for Local Government Current Expenditure - 2004	171
Figure 9.2: Income Distribution by Decile - € - 1999-2000	174
Figure 9.3: Sources of Income by Income Decile - 1999-2000	175

# **Executive Summary**

## **Introduction**

This report represents an independent review of local government financing in Ireland, focussing on local authority current expenditure. The report was commissioned by the Minister for the Environment, Heritage and Local Government and was completed by Indecon International Economic Consultants.

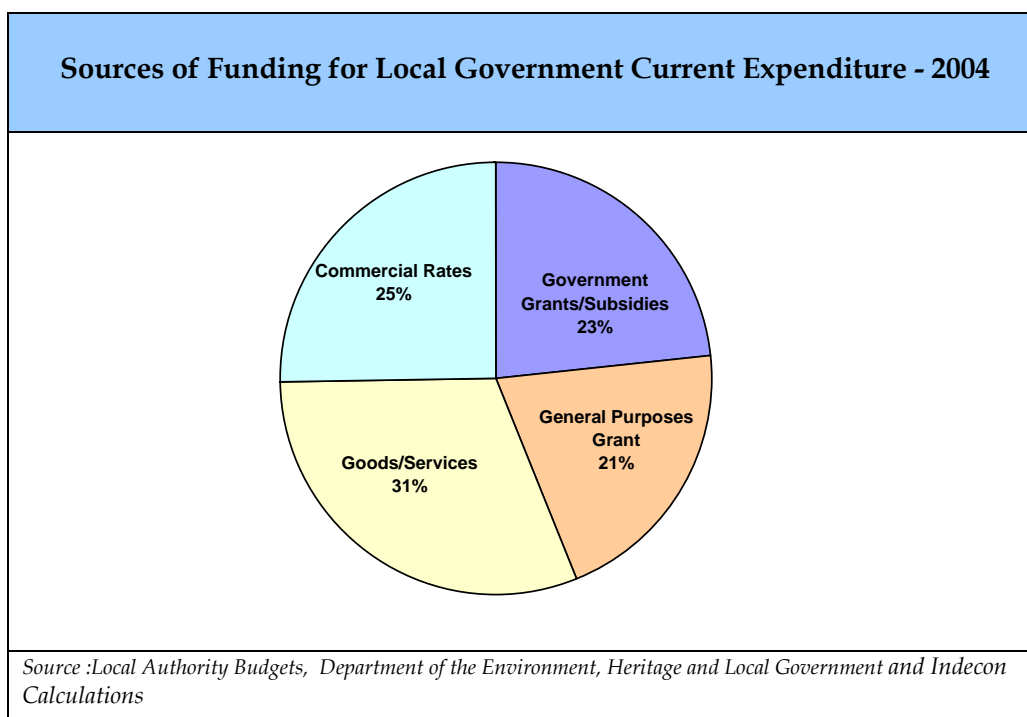
## **The Importance and Approach to the Financing of Local Government**

Local government has a critical impact on the provision of numerous essential services required by individuals and businesses, and on the quality of life of the community. An important economic rationale for the provision of local government services concerns the provision of public goods of a local nature. Given agreement on which government functions are to be allocated to which level of government, a key question for public policy is how to provide adequate sources of finance to enable local government to carry out its functions efficiently and effectively. One approach is to assign revenue generation powers to local government commensurate with expenditure responsibilities. This is called the principle of fiscal equivalence. When locally raised finance is adequate to meet local expenditure responsibilities there is said to be 'vertical fiscal balance'.

An important issue associated with vertical fiscal balance arises where services to local residents are paid for by individuals outside the local authority areas through a transfer from central government resources. Centrally based funding can lead to a misalignment between the costs and benefits for services and lead to inefficiencies. However, a benefit of central transfers is as a means of addressing the problem of horizontal fiscal imbalance between local authorities. Horizontal fiscal balance is concerned with ensuring equity between local authorities having regard to needs and resources. These issues are important in considering how local government should be funded and have fundamental implications for accountability and for ensuring an alignment between the demand for services and the cost of providing these services.

## **Local Government in Ireland: Structure and Recent Trends**

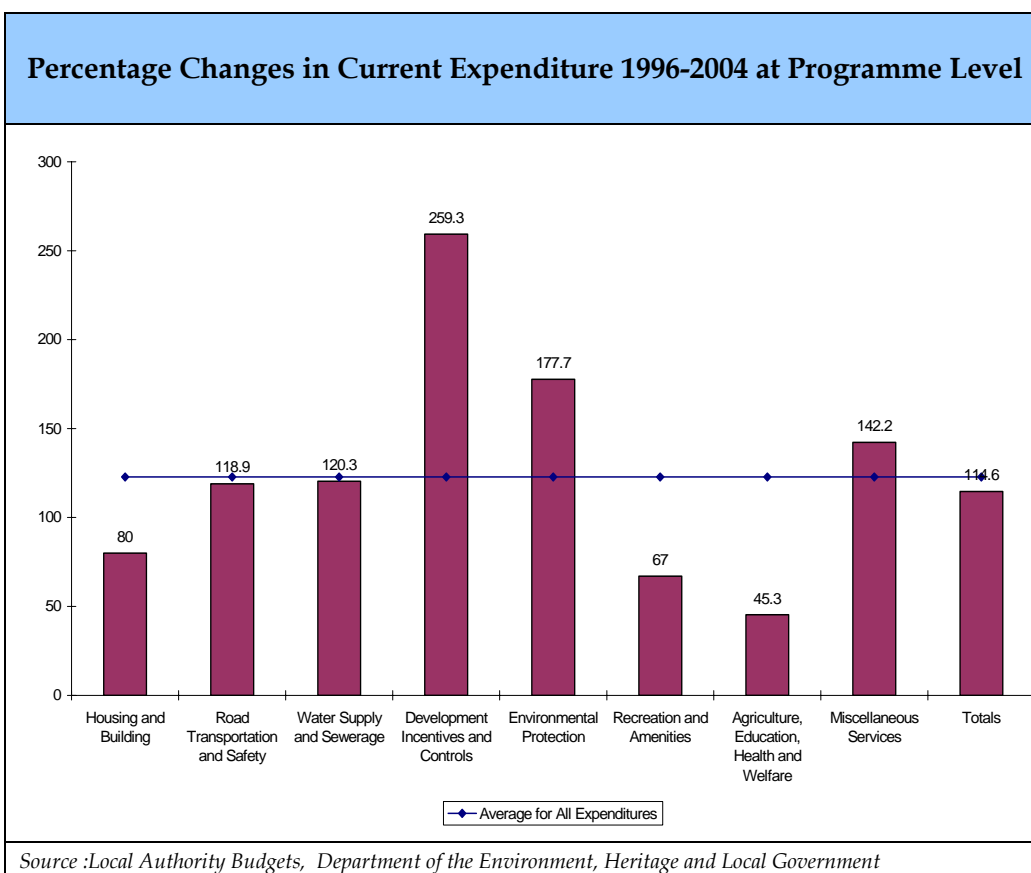
Local government in Ireland is currently characterised by vertical imbalance, with a high degree of centralisation in funding provision. Local government is funded through a combination of commercial rates, charges for goods and services, and transfers from central government. Within transfers from central government there are grants for specific activities and a general transfer from the Local Government Fund. Charging for goods and services in 2004 now accounts for the highest share of funding, at 31%, followed by Government grants/subsidies at 23%. Commercial rates account for 25% while the general purposes grant from the Local Government Fund provides 21%. Importantly, only 56% of funding is locally based. The funding system is characterised as 'vertically imbalanced', with high levels of local expenditures being funded from general taxation.



Local authorities in Ireland undertake a range of important functions. Based on data for 2004<sup>1</sup>, and recalling that the focus of this review is on current expenditure, the figures indicate that road transportation and safety constitutes the most significant area, accounting for 27.6% of all expenditures. The next area is environmental protection (19.2% of expenditures), followed by housing and building (14.9%), and water supply and sewerage (12.5%). Total current expenditure increased by 114.6% over the period 1996-2004, with increases evident across all key programmes. This follows a period of significant retrenchment in local authority spending reflecting the difficult public finance position in Ireland in the 1980s. The increases in expenditure over the period 1996-2004 also reflects the demands of a fast growing economy, a rising population and the implications of supporting a large scale national development infrastructure investment plan. Significant areas of expenditure growth included environmental protection (+177.7%), road transportation and safety (+118.9%), and water supply and sewerage (+120.3%). All other main areas have also experienced increases. Local government expenditures as a percentage of GNP, changed fell from 3% in 1996 to 2.6% in 2000, before increasing to 3.1% of GNP in 2004.

<sup>1</sup> Throughout this section we utilise budgeted expenditure data up to 2004. For the analysis of Programme expenditure, this includes expenditures on some services that are actually provided by other local authorities.





The three key drivers of increases in spend have been increases in local authority staff levels, increases in pay rates, and increases in expenditures on services provision. Employment increased by 23.3% over the period 1996-2001 and pay rates increased in nominal terms by 44.7% compared to a 54% increase in pay rates in the manufacturing sector over the period.

We also considered how each of the areas of local government expenditure is funded. It is instructive to note the changes over time in the importance of different funding sources. Over the period 1996 to 2004, growth in transfers from central government has out-paced growth in local authorities' own resources. In 1996, prior to the establishment of the Local Government Fund and the funding from motor tax receipts, government transfers amounted to €674.8 million. In 2004 this was equal to €1,586 million, an increase of 121.1% over the period. In contrast, the increase in revenue raised from goods and charges was 111.9% while for commercial rates the increase was 111% over this period.

## Recent Reviews of Local Government Funding

The most recent review of local government financing in Ireland was undertaken in 1996 for the Department of the Environment, Heritage and Local Government. The report noted that Ireland had a “highly centralised system of financing of local government”. The Report examined the system of funding that existed in the mid-1980s, and its efficiency and effectiveness against a number of criteria. Some of the criticisms made in relation to local authority funding included the following:

- ❑ Limited discretion for local authorities;
- ❑ Insufficient revenue buoyancy; and
- ❑ Inequitable funding system.

On the appropriate mix between local and central funding, the 1996 review noted that previous reports suggested that substantial levels of local funding should be available to local authorities. Our analysis has shown that in percentage terms central government expenditure in the period since 1996 has increased as a share of local government expenditure thus further increasing the degree of central funding.

In terms of funding options, the 1996 Report concluded that “the commercial rates base should be extended to include all bed and breakfast accommodations and non-residential agricultural buildings”. It also stated that “there is scope to raise additional revenues from local authority charges”. In addition, it suggested the introduction of a property tax as the most feasible option for raising additional funding.

In 1985, the National Economic and Social Council (NESC) prepared a report entitled “The Financing of Local Authorities”. The report was also critical of the funding system. It noted that:

- ❑ the current system had a local tax base which has no electoral franchise;
- ❑ local authorities levy local charges in a way which is perceived as taxation (i.e. it raises revenues which exceed the actual cost of services provided); and
- ❑ the “bulk” of the revenue is supplied by central government.

The NESC report examined a number of options for changing the funding of local government and concluded that a local property tax would improve local accountability, would be administratively feasible and would widen the national tax base. The report concluded that a local property tax should be supported by a system of grants from central government. This was because an element of the local government activities constitutes national-level services (e.g. national roads). In addition, it was felt that transfers from central government would be required to achieve its equalisation role.

The Commission on Taxation also reviewed local government financing in 1985. It highlighted the importance of classifying the services provided by local authorities as either local or national. It argued that “the case for devolving administration of these services to local authorities is based on considerations of efficiency and of giving people greater access to services, thus allowing easier contact with local representatives and officials”. The Commission defined local services as those which are optional insofar as the “locality has wide discretion over what is done and the manner in which it is done” and where there is scope for local “initiative” and “variety”.

The Commission argued that such local services should be financed primarily from local taxation, and that central government support should be provided to account for local differences in either needs or resources. In terms of key recommendations, the Commission on Taxation stated that “should it be decided that a system of local taxation is desirable, a local property tax should be introduced on all residential, industrial and commercial property (excluding land)”.

### **Key Points from International Experience**

Experience from other countries provides insights to some of the questions of relevance to the debate on local government financing in Ireland. Across the OECD countries, there are varying models of local government. In most countries, local government has responsibility for planning and infrastructure provision. This is similar to the position in Ireland. However, local government in a number of OECD countries also has responsibility for public spending in areas such as education, health and social transfers, which are central government functions in Ireland.

The international review demonstrates that local authorities in Europe vary significantly in size. While Ireland has a large number of local authorities per capita compared to the UK, our position is not unusual in an EU context, and many countries have a greater number of local authorities per capita. In relation to the extent of fiscal discretion or autonomy of local government, most countries rely on a significant amount of transfers from the centre, but not to the extent evidenced in Ireland. Recent evidence also suggests that support for fiscal autonomy is growing as policy makers attempt to improve accountability and incentives for efficiency. Ireland has a more centralised funding system than some other EU countries and that local sources of funding account for a relatively low share of local government revenue.

The detailed review of countries undertaken in this review also highlighted the link between local accountability and the ability of local authorities to generate funding.

### **Projections of Future Expenditures and Revenues**

As part of this review, we have estimated the future funding requirements of local authorities in the period to 2010. This has taken account of existing and emerging demands, but we accept that any estimates of future requirements will, in part, reflect the preferences of local communities and, in part, the willingness of local or national taxpayers to fund different levels of services. This inevitably cannot be captured within revenue and expenditure projections. This calls for a multi-faceted approach, which sets out a number of scenarios based on a realistic assessment of policy developments, and exogenous demand and cost factors. To this end, we examined existing projections, various econometric approaches, and approaches based on trends in demand and cost factors. These approaches produced a number of different scenarios, all of which indicate that the current expenditure requirements of local authorities are likely to increase further in the period 2010. A summary of estimated expenditure requirements and projections for revenue is presented in the table overleaf, which assumes local authority expenditures increase in line with GNP. Depending on the assumptions used, a range of scenarios as to the gap between projected income and expenditure arise and, depending on expenditure assumptions, these range from €415m to €1,500m. The estimated funding gap is also based on our assumptions for developments in existing revenue sources some of which (such as

commercial rates) we believe will not grow as fast as in recent years. Some local authorities consulted believe that expenditures significantly in excess of GNP growth will be needed while other estimates show somewhat lower levels of spend.

<b>Status Quo Projected Expenditure and Revenue €m<sup>2</sup></b>			
	<b>2004</b>	<b>2006</b>	<b>2010</b>
Expenditure	3,616	4,260.0	5,846.0
Commercial Rates	907.6	966.9	1,097.5
Local Government Fund (General Purpose Grants)	747	796	903
Central Government Grants/ Charges <sup>3</sup>	1,963.7	2,080.80	2,331.57
<b>Funding Gap</b>	<b>-</b>	<b>416.3</b>	<b>1,513.9</b>
<i>Source: Department of the Environment, Heritage and Local Government, Local Authorities Budget 2004 and Indecon analysis</i>			

In all cases, significant increases in nominal expenditure requirements are projected. Even assuming continuing growth in charges and increases in commercial rates, motor taxation, and increases in government subsidies in line with inflation, the figures suggest a growing funding gap. These estimates are in nominal terms and the funding gap will need to be addressed by a combination of efficiencies, increases in charges, commercial rates, or motor taxation, new sources of local revenues or increases in exchequer funds, or a reduction in services.

## RECOMMENDATIONS

A key contextual issue in terms of drafting recommendations is the European Charter of Local Self-government. This “recognises the vital contribution of local self-government to democracy, democratic stability, effective administration close to the citizens, the decentralisation of power aimed at rationalizing the decision making process and to giving citizens the opportunity to participate in public life”. It sees local authorities as key agents in a “democratic society as democratically constituted bodies enjoying and exercising wide ranging responsibilities and able to regulate and manage a substantial share of public affairs under their own responsibility and, which is of the utmost importance, doing so in the interest of the local population”. The Charter provides for a number of principles which must be respected by the Member States.

<sup>2</sup> A detailed discussion of the assumptions underpinning these projections is set out in chapter 7.

<sup>3</sup> This income of €1,963.7 million is made up of €1,125.3 million in charges for goods and services and €838.4 million in specific government grants. There is also a small gap between expenditure at €3,616 million at 2004 and revenues at €3,618.3 million reflecting balances.

In framing our recommendations we also take account of the borrowing constraints imposed on members of Economic and Monetary Union by the terms of the Stability and Growth Pact. Ireland has been within the General Government Balance and General Government Debt limits set out in the Pact in recent years. We recognise the potential impact that local government can have on these criteria and support the need for appropriate expenditure borrowing control as part of control of the entire general government sector within the context of the Stability and Growth Pact. This should have regard to the requirement on local government to provide necessary infrastructure and services to the economy.

Based on our detailed analysis, we have developed a number of key recommendations covering both funding and expenditure aspects. Over time our recommendations have the potential to raise much needed finance for local government and we believe also lead to cost savings that can be used for further service improvements. This will assist local authorities to meet on-going expenditure needs.

We recognise that a planned timescale will be needed to implement a number of our recommendations. For example, reforms in the area of service delivery may require the re-location of staff involving local negotiation within the context of social partnership. Recommendations in respect of charging raise issues around acceptability and phasing that need to be addressed. In addition, we recognise that the local government system will require additional funding in the short-term to deal with non-discretionary expenditure increases as outlined in chapters 6 and 7. This points to the need for on-going Exchequer funding and, where feasible, increases in locally based funding within the context of the existing system.

In the table overleaf we summarise our main recommendations and each of these are discussed in the subsequent paragraphs.

<b>SUMMARY OF MAIN RECOMMENDATIONS ON FUNDING OF LOCAL AUTHORITIES</b>	
<b>Funding Recommendations</b>	
1.	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.
2.	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.
3.	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.
4.	We recommend that local authorities should charge the full economic costs of providing services on behalf of central government.
5.	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.
6.	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.
7.	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.
<b>Expenditure Recommendations</b>	
8.	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.
9.	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).
10.	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.
11.	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).
12.	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.

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13.	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.
14.	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.

### **RECOMMENDATION NO. 1: INCREASE IN LEVEL OF RESOURCES AVAILABLE TO LOCAL AUTHORITIES**

**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 resources in nominal terms 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.**

Our analysis suggests that the expenditure requirements to meet current and emerging demands of local authorities will require current expenditure in nominal terms to increase from around €3,616 million in 2004 to between €4,700 and €5,800 million by 2010. While future estimates of funding requirements will need to take account of local demands and the costs of providing services, it is clear that increases in the level of nominal resources will be needed, unless there is a reduction in service levels. We recommend that plans are implemented to ensure that these requirements are taken account of in considering specific funding and expenditure options.

### **RECOMMENDATION NO. 2: MOVE TOWARDS MORE LOCALLY BASED FUNDING**

**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.**

Our recommendation for a significant change in the current system of local government financing is not dependent on any assumptions regarding the precise level of additional resources needed. The need for a change is related to the more fundamental issue of the deficiencies in accountability and flexibility present within the current system. Of equal or greater importance is the need to facilitate an acceleration of efficiency measures, and we believe the full potential in this area cannot be achieved within existing funding systems.

Specifically, there is a need to ensure a radical realignment between the cost of providing services and the demand for such services. The disconnection between demand and costs is one of the most remarkable features of many local authority services, and represents a powerful rationale for a move towards more locally-based funding.

**RECOMMENDATION NO. 3: INCREASING THE SHARE OF LOCAL AUTHORITY EXPENDITURE THAT IS FUNDED LOCALLY. KEY ELEMENTS: LOCAL CHARGES AND SELECTED LOCAL TAXATION**

**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.**

Our assessment of potential funding options takes account of the following principles:

- ❑ Administrative simplicity and efficiency;
- ❑ Local accountability, decision making and flexibility;
- ❑ Equity, including ability to pay and the breadth of the revenue base;
- ❑ Equalisation;
- ❑ The polluter and user pays principle; and
- ❑ Compatibility with national economic and social policies, in particular, national taxation strategies.

Based on our analysis, we also believe that, in evaluating funding options, a high priority should be given to facilitating an improvement in efficiency and the provision of correct incentives for users. The two main areas where reform of the current funding of system is needed relates to charging policy and the introduction of selected targeted local taxation. This will require the introduction of new charges or more effective charging in cases where charging may already apply. Charging can bring many benefits such as efficiency, transparency and consistency with the polluter pays principle. Acceptability is an issue with the introduction of new charges to fund services that were previously subsidised or provided at zero price. However, there is greater acceptability of charging where there is a clear link between the level of payment and consumption. There are equity issues concerning persons on lower incomes, but we believe that appropriate targeting, waiver schemes or other initiatives can address these concerns.

In relation to the introduction of selected local taxation, our analysis does not support the provision of widespread taxation powers for local authorities in areas such as local sales taxes, local income taxes or local corporation taxation. We believe that some of these proposals are not feasible, while others would damage national competitiveness.



We believe, however, that there are clear advantages in the introduction of selected targeted funding sources by securing a greater contribution from non-principal private residences and from certain commercial buildings that are exempt from rates at present. We believe that leadership will be required to facilitate such a move. The specific design of charging mechanisms and the phasing of implementation will be important.

There is also a requirement to ensure the efficient collection of taxation. Motor taxation is a key element in the funding of local government having contributed some €747m to the Local Government Fund in 2004. Clearly, any evasion of motor taxation results in a reduction in the amount of funding available to the Fund and it is accordingly important that evasion is tackled in a determined fashion at all levels and by all the relevant authorities. There is an obvious role for An Garda Síochána in this. We support moves to examine the motor tax code with a view to establishing a new system based around the concept of continuous registration which was introduced in Great Britain and Northern Ireland in 2004. We believe that this warrants examination in the Irish context.

As in the case of Recommendation 2 above, we note the resistance to certain local charges and we believe that leadership will be required to facilitate such a move. Again, the specific design of charging mechanisms and the phasing of implementation would be an important element.

#### **RECOMMENDATION NO. 4: FULL ECONOMIC COSTING OF GOVERNMENT SERVICES**

**We recommend that local authorities should charge the full economic costs of providing services on behalf of central government.**

Local authorities currently act as the service provider for a wide range of central government services. These should be charged at full economic costs to enable central government to identify the costs of service delivery and, where appropriate, to consider alternative delivery mechanisms. This is consistent with a previous government decision on this matter which stated that "One of the central problems which has contributed to the decline in local authority finances over the years has been the conferral of additional functions on local authorities without complementary resources to carry them out. The Minister seeks the approval of Government to the principle requiring that the allocation to local authorities of any additional or expanded functions coming within the ambit of other Government Departments must be matched by the necessary resources."

It should be noted that services in this context do not include devolved services such as waste collection and water service which are assigned by legislation to local authorities. Instead, it refers to areas such as higher education grants where local authorities are acting as an agent for Central Government in providing the service locally.

## RECOMMENDATION NO. 5: INCREASE IN CURRENT CHARGES

**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.**

Local authorities currently charge for a range of services and we would be against charging above economic costs for these services. There are, however, a number of areas where current charges are below full economic costs and where there is no reason for such under-pricing. The charging of services below economic cost inevitably results in excess demand, which uses resources that could otherwise be more effectively targeted on key community needs.

An example where an increase in current charges would be appropriate relates to fees for selected planning services. Central government currently places a cap on the charges that can be levied and we recommend that this cap should be removed. A wide range of services provided by planners, including pre-planning consultations, should be charged at full economic cost. Planning fees should not, however, be a source of taxation for local authorities, and there is also a need to ensure public access to planning decisions via the internet or other means. In addition, establishing the cost of an efficiently run planning service may warrant further review perhaps from the Local Government Audit Service.

We also believe that reforms in this area need to be combined with means of encouraging greater efficiencies in the system. Given that users of planning services must go to the planning authority for the area in which their land is situated, there is limited opportunity for applicants to shop around. We therefore believe that regulations on the setting of planning fees should require planning authorities to ensure that fees are not set in excess of costs.

Other areas where increases in charges may be appropriate relate to fire services, and where domestic residences are insured or where commercial premises are involved there should be full economic costing of such services. Similar issues apply to charges for the use of landfill sites and other local authority services.

Another area, which over time represents a potential source of increased revenues, relates to local authority housing rents. Deciding on the optimal level of local authority rents given local market trends and the need for an appropriate social subsidy is difficult. The research undertaken for this review suggests marked differences in rents across local authorities. Some of these may reflect differing market conditions. For example, rents in Dublin city are the highest among the local authorities reviewed. However, across the board differences in rents may not necessarily reflect local housing market conditions or explicit decisions in respect of the current level of social subsidy. A recent report by the National Economic and Social Council (NESC) indicated that local authority housing rents in Ireland receive a larger subsidy than public housing in other European countries. We also recognise that ability to pay and the differential rent scheme has elsewhere been highlighted as an important tool in improving social inclusion. This is an issue that should be examined as part of the on-going review of housing policy arising from the preparation of the Social and Affordable Housing Plans 2004-2008. It is important, however, that any adjustments are phased in and are reviewed on an annual basis.

Our proposal is designed to ensure that the full economic cost of infrastructure and local authority services serving such residences should be charged to the property owners.

Indecon believes that, in a situation where local authorities are increasingly moving towards economic charging for service provision, or where there is movement towards contracting out of service provision, there is a need for a system where inability to pay would not deprive the less well-off in society of key services. Accordingly, we believe that this should be addressed by the social welfare system and/or by a waiver system.

Changes to charging policies will not on their own, however, be sufficient to meet the funding requirements of local authorities and will not be sufficient to address key issues of accountability and the alignment between local demand for service improvement and the willingness of local communities to fund such services. We therefore believe there are strong grounds for the introduction of selected new charges and targeted sources of local taxation. These, however, need to be efficient, simple and consistent with national economic policies and reflect the realities of political constraints. We therefore believe there are arguments for confining such initiatives to one or two targeted areas, which are discussed later.

Indecon, however, believe that charges above the economic cost of providing services should not be levied for services. The existing level of charges imposed on non-domestic users of water services, for example, which is required to be on the basis of full recovery of costs, has become an issue among non-domestic customers in some areas and would correctly become a much bigger issue if charges above the cost of the services were levied.

#### **RECOMMENDATION NO. 6: EXTENSION OF WATER CHARGES ON AN EQUITABLE BASIS**

**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 the introduction of water metering on all commercial properties.**

Local authorities have been increasing the range of services that are subject to charging. Nevertheless, we believe that there are areas where charges should be introduced or extended. The most significant single area relates to water charges. At present domestic consumers do not pay for any water services regardless of their income or usage of such services. We recognise the resistance to the universal introduction of water charges even though we accept that, on economic and environmental grounds, such a policy has strong merits. However, we do not believe that the introduction of charging for all consumers is feasible in the short term and would recommend a targeted approach that is more realistic.

In particular, we recommend the introduction of water charges on non-principal private residences to be paid by the property owners. Tax residents in Ireland are required to identify one property as their principal private residence and non-principal private residences relates to ownership of all other non-commercial properties. There is an increasing number of non-principal private residences and we do not believe that owners of these premises should benefit from exemptions which have an Exchequer cost. The owners of such properties are obliged to pay service charges for the management of buildings, for on-going maintenance and other charges and there is no reason why such buildings should be exempt from an appropriate water charge. Initially this could be levied on a flat fee basis but over time we believe that metering could be considered. We also recommend that water metering be introduced on all commercial properties. The water pricing policy framework already requires the metering of all non-domestic users of water services

by 2006. Local authorities are also required to identify all non-domestic users by that date and are in the process of implementing these aspects of the framework.

We believe that this recommendation is consistent with the water pricing policy framework insofar as it applies to non-domestic users, where the existing framework requires full cost recovery in line with the polluter pays principle. The existing framework however does not permit local authorities to impose any charge for water services provided to households for domestic use.

The current position is that there is a charge for such services in respect of any part of a building used for the provision, for the purposes of a reward, with a view to profit or otherwise in the course of business, of accommodation other than accommodation provided in a private residence unless the person uses the accommodation as his or her principal place of residence. Thus, the owner of accommodation let on a short-term basis, such as for holiday breaks, is liable for water charges. However where accommodation is leased on a longer-term basis, as in the case of typical investment properties on the private rental market for use as a residence, such accommodation is not subject to such a charge. In the case of the category of 'non-principal private residence', a second or subsequent residence used by a person for holiday or weekend breaks or for any other purpose is not currently subject to water charges and this does not make sense on equity, economic or environmental criteria.

#### **RECOMMENDATION NO. 7: CONTRIBUTION FROM NON PRINCIPAL PRIVATE RESIDENCES AND COMMERCIAL BUILDINGS**

**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 achieve this objective including the extension of rates to such properties or an element of locally determined stamp duties.**

A contribution to local authorities' services, such as local roads, libraries, parks and other services should be secured from owners of investment properties and all other residential properties that are not principal private residences. It would apply to second houses (or third or fourth homes) for individuals where their principal residence is outside of Ireland as well as to holiday homes and investment properties.

On the assessment criteria, we believe that this scores very highly in terms of accountability, efficiency and equity. At present, owners of such properties currently benefit from services provided locally which are funded from general taxation. Ensuring that these property owners make a contribution to these services is accordingly an equitable measure.

It is also efficient as it ensures that such property owners pay the economic cost of owning premises including external environmental costs, thus ensuring that prices accurately reflect their cost to society. This could moderate demand in certain areas and improve housing affordability for first-time buyers in areas where they have been pushed out of the local market by investors. This would be consistent with the Government's current social and affordable housing policy.

By changing the relative cost of second homes this measure would over time also release resources in this sector that could be used to provide housing for first-time buyers or those renting. The second home holiday market is accounting for a significant amount of building activity and given the supply constraints in the market

this had led to an increase in building costs and prices in all segments of the market. This has particularly affected first time buyers and the rental market.

Accordingly, we believe that this measure could increase supply in those parts of the market contributing to an easing of price pressures.

We accept, however, that securing a contribution for local services in investment properties represents an additional cost which must be considered in the context of the overall costs faced by investors in the market. However, it is appropriate that such investors pay a contribution towards local authority services. Overall, we believe that due to the impact of holiday homes securing a contribution for non principal private residents will not damage housing affordability but that the introduction of measures in this area need to be carefully designed and should reflect wider housing market issues.

Accordingly, we recommend the introduction of mechanisms to secure a contribution to local authorities funding from non-principal private residences. There are a number of options that could assist in achieving this objective of gaining a greater contribution from these sources, including the extension of rates to such properties. This could be achieved by the application of rates to such properties or alternatively through an element of locally determined stamp duties. Any changes to locally determined stamp duties would require adjustments to national levels. One local authority has suggested to us that the extension of rates to rented and other non-principal private residences could be structured to exempt rented accommodation for family units and this adjustment may merit consideration.

Our proposal is designed to ensure that the full economic cost of infrastructure and local authority services serving such residences should be charged to the property owners.

We also recommend a contribution to local authorities' funding from commercial buildings not currently covered by commercial rates, including Government buildings.

#### **RECOMMENDATION 8: FUNDING CHANGES TO ACCELERATE EFFICIENCY IMPROVEMENTS**

**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.**

Achieving efficiency in the provision of a wide range of diverse and labour intensive service provision is a major challenge, and we are aware that achieving significant savings in the short run will be difficult. We also recognise that local authority Managers and Heads of Finance have achieved efficiencies in a number of areas (including road maintenance, housing maintenance, waste disposal etc.) and are focused on pursuing on-going improvements. We believe, however, that over time measures can be taken to facilitate local authorities to accelerate efficiency, particularly if this is combined with reforms in the methods of funding local authorities. In considering potential efficiency gains, it is important to realise the constraint implied by an over-dependence on central funding and that regardless of the wisdom and energy of central government officials, there is on-going difficulty in central government attempting to monitor and promote efficiency in local government.

The problem is ultimately bound up with decisions about the balance of local and centrally provided finance. As long as central government provides a significant share of the finance, it will understandably continue to seek a central planning and control function. But information asymmetry will severely impair its ability to carry out such a role. The long-term solution lies in increasing the proportion of local finance for local government and delegating part of the performance management issue to local electorates.

Given the funding requirements of local government, the potential for efficiencies to contribute in some way to the projected funding gap must be rigorously explored in addition to identifying new sources of revenue. In many cases maximising efficiencies may result in the need to reallocate staff or budget lines to other programmes rather than reductions in expenditures. We accept that there are on-going initiatives by Councils, Managers, Heads of Finance and others as well as by the Department of the Environment, Heritage and Local Government and the Department of Finance to maximise efficiencies. However, there needs to be an on-going programme to accelerate efficiency savings, which is given high priority and which is facilitated by changes in the methods of funding.

In examining the programme expenditures, we have highlighted the misalignment between costs and benefits at a local level due to the centralised funding system. We believe that more effective charging and additional local funding sources would assist in addressing this issue.

#### **RECOMMENDATION 9: RADICAL CHANGE IN INCENTIVES FACING USERS**

**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. A wide range of measures is needed to ensure that costs are reflected in user decisions.**

There is a need for a radical change in incentives facing users to provide efficiency. One example relates to the incentives facing local authority tenants to minimise maintenance costs. Expenditures on housing maintenance and repair are significant. There is scope to minimise these costs if users face appropriate incentives. In particular, we would support new initiatives to tenants who minimise the on-going costs of repair and maintenance. One potential option is to provide tenants with a discount of a certain percentage a year if maintenance costs are zero or set below a certain level. This is not to suggest that differentials in maintenance costs are primarily due to inappropriate incentive signals, as it is influenced by varying stock ages, the extent of remedial works and planned maintenance. Appropriate incentives should, however, be part of policy, but this needs to be carefully planned.

Another example is the need to implement differential pricing to direct users to lower cost delivery mechanisms through, for example, utilising the Internet rather than direct meetings to check planning information. The use of differential pricing and other measures to alter the pattern of usage between alternative distribution channels and different type of services has been extensively used in the private sector but despite its potential has not been widely used in local authorities.

Another example is to ensure that the pricing mechanism provides the correct incentives to users to reduce excess demand. For example, domestic users face zero costs for all water consumption and there is no incentive on users to minimise use of wastage. The same issue applies to many local authority services and was addressed

in our revenue recommendations. We would emphasise, however, that any new measures in this area would need to be carefully planned and accompanied by a clear communication strategy at local level.

#### **RECOMMENDATION 10: ALTERNATIVE DELIVERY MECHANISMS**

**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.**

The need for local authorities to facilitate or finance certain services does not necessarily justify direct provision by local authorities. Traditionally, Governments at local level have financed and directly provided a range of services but in recent years there has been a move towards more cost effective service delivery options. There is a need to continue and to accelerate the use of alternative delivery mechanisms.

We understand that on the general question of contracting and direct provision, it may not always come down to a simple choice between the two. For some services, it may be important for a local authority to maintain some direct labour capacity for responding to emergencies, for example, even if the greater part of the service in question is contracted out.

While it is of course not the case that private sector supply is always more competitive, the variance in the degree of contracting between local authorities may in part reflect historical factors rather than a rigorous assessment of the most cost efficient option. There is also a need for an intensification of initiatives to share services between local authorities where appropriate.

An example relates to maintenance of local authority housing, which should be provided on the basis of the most efficient mechanism and on-going and rigorous benchmarking of this is required. In other areas such as street cleaning and ownership and management of landfills, there may be scope for moving to different delivery mechanisms. For street cleaning, a contracted out model has provided cost savings where it has been implemented. This is based on a detailed review of a case study in one local authority, the international evidence and discussions with local authorities. There may be scope for further extension of this across local authorities. The introduction of full economic charging in the area of landfill offers scope for further policy changes. Local government has responsibility for meeting the costs of maintaining old landfills and this is a role that we believe they should continue to perform. In respect of new landfills, there is a role for private sector provision as there is no obvious reason why local authorities should necessarily be involved in the management of landfills although tight environmental regulation is essential. The main policy issues relate to charging and regulation to ensure that environmental and health regulations are met. We believe that local authorities should focus primarily on the planning and regulation of landfills, and we doubt whether ownership is necessarily a core function for local authorities. Of course, where a private sector operator becomes dominant in an area there may also be a need for price regulation.

Many recreation and amenities are merit goods where there is a clear rationale for local government involvement. Also, the services are of a clear local nature where local preferences are a key factor in delivery. However, local authority services such as swimming pools, recreation centres and art galleries/museums are in many cases best delivered on a contracted out basis. We believe that there may be further scope

for extending these approaches on a case-by-case basis. There may also be opportunities for increased joint venture activities with the private sector.

Another example relates to financial management and the collection of local authority revenues. An analysis of income collection activities shows a very heavy dependence on direct provision and very little sharing of activities with other local authorities and little use of outside contract provision. We very much doubt that collection of income is always appropriately organised on a local authority structure basis or that the skills to undertake these activities always most efficiently reside with local authorities. We also believe that many of these activities are subject to significant economies of scale, and that alternative delivery mechanisms are needed. It should also be noted that this recommendation in part reflects some existing moves in this direction. We are aware that contracting out has industrial relations implications which would need to be carefully considered.

#### **RECOMMENDATION 11: REGULATION OF PRIVATE MONOPOLIES**

**We recommend that where local authority services are contracted to private sector local monopolies, an appropriate regulatory framework be established to protect consumer interests and to prevent monopoly rents being generated (i.e. excessive profits)**

In assessing the activities of local authorities it is important to identify whether there is a financing, delivery or regulatory role for government. There may be cases where central or local authorities' role or that of a separate agency, should focus on service regulation rather than more traditional financing or delivery role. The issue of appropriate regulation is particularly relevant in areas where local authorities have withdrawn from service provision and where private suppliers are now filling the gap. This is a particular issue in the market for refuse collection, where a number of different delivery mechanisms are now in operation. These include direct provision by local authorities, contracting out/franchising out, and where local authorities have exited totally from provision and the service is now provided by a private operator. It is this latter case where appropriate price and quality regulation is required to ensure that service standards are maintained and that consumers are not paying excessive prices. These developments, pose questions for regulatory authorities and the optimal manner in which local authorities should withdraw or contract out services. Waste management is an example of one area where regulation is needed. In the cases where a competitive tendering process for a franchise arrangement is implemented additional regulation may not be necessary.

#### **RECOMMENDATION 12: PROVISION OF COST EFFECTIVE GEOGRAPHIC SERVICE PROVISION**

**We recommend that the provision of local authority services should be delivered on the most cost effective geographic basis which, due to the presence of economies of scale, may not in many cases be aligned with 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.**

There are a large number of local authorities in Ireland and while this could result in some increase in administrative costs a much more fundamental issue is the impact of



economies of scale of service provision. This is primarily a question of information and economies of scale. The local authority structures have a potential benefit of closely matching provision of local public goods to local preferences. Such efficiencies can be secured by decentralising decision-making about local public goods to local government units that are approximate in size to the benefit areas of the local public goods they provide. However, unless new approaches are implemented this may prevent gains from economies of scale. For services where there is scope for local initiative and variety and where the level and quality of services differs between areas, the benefits of local delivery may have significant advantage but the unit cost implications can be critical. It is therefore essential that if we are to retain a large number of local authorities, economies of scale issues are identified and the scope for efficiency gains by local authorities sharing services or, more radically, transferring responsibility for a service to a regional or national provider (subject to existing legislation), are investigated.

An example relates to planning services. It is well established that land use and development and planning is a public good activity where there are significant externalities. It is also accepted that there is a local aspect to planning, as decisions need to reflect local preferences and choices as well as national objectives. This is a central responsibility for local government where there are clear benefits in ensuring that decisions that affect communities are taken locally. While accepting the local nature of these activities, there may be scope to share some of the administration costs between local authorities.

Another example relates to revenue and rent collection costs. Rent collection costs within local authorities are high relative to rental income and we believe are subject to significant economies of scale. The costs involved are high and different payment options and procedures need to be explored. This could involve contracting out this function on a regional or national basis and there is a need for mechanisms to be put in place to secure economies of scale in revenue collection.

Similar issues apply to other service areas such as water, although Indecon notes that there are currently no plans for a national body to provide water services. We also recognise that there are already examples of some local authorities combining to jointly provide water services on a regional basis, most notably in the Dublin area where Dublin City Council provides water supply for other authorities in the area. Similar arrangements apply between Limerick City Council and Limerick and Clare County Councils. The Water Services Bill currently before the Dáil includes provision for water services to be provided jointly by 2 or more local authorities for their functional areas or one authority providing such services for one or more neighbouring authorities. We understand that there is also provision in the Bill requiring each major local authority to make a water services strategic plan for its functional area. This also enables 2 or more authorities to jointly make such a plan for their functional areas. In addition, where a local authority is undertaking a number of smaller water services schemes within its functional area, it is the policy of the Department of the Environment, Heritage and Local Government to require the authority to bundle such schemes for tendering purposes so that a single contract for these bundled schemes may achieve maximum economies of scale.

In general, we believe that, the delivery of, in contrast to responsibilities for, local authority services should only be organised on a local authority basis where this coincides with the most economic geographic service delivery option. As in the case of Recommendation 10 above, it should also be noted that this recommendation in part reflects some existing moves in this direction.

### RECOMMENDATION 13: STRUCTURAL AND INFORMATION CHANGES

**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 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 comptroller and auditor general functions to local authorities.**

Local authorities need clearer incentives and improved information to secure additional efficiencies. This could involve the roll out of multi-annual budgeting with provision to ensure that under-spends in any year can be carried forward. Savings could be ring-financed and be used to fund on-going service improvements. We understand that this happens to some extent at present in areas such as housing and roads. However, we believe that there is a need for a greater focus on this and that these reforms should be implemented alongside attempts to identify a culture at all levels of local government of giving a high priority to achieving cost efficiencies.

There is a need to review the standardisation and presentation of data on local authority expenditures. As part of this Review we have examined in detail the available information on expenditure. We recognise that there are difficulties in collecting and collating data at the centre based on returns from a large number of bodies. There are a number of data sources that provide very valuable information, but there is a need to implement changes to assist policy makers at local and central government in achieving their policy objectives and in securing expenditure efficiencies. This, at a minimum, would include details on the costs of services by delivery mechanisms and by local authority. Information on the costs of delivering services would provide the necessary benchmarking information to help in deciding on the most cost effective delivery option. We understand that a costing system is being developed. We would recommend that this be introduced as a priority.

The current system includes detailed expenditure data on a programme basis, but there is a lack of detail on expenditure broken into, for example, pay and non-pay. We believe that changes could be made to provide a more detailed breakdown of the types of expenditure incurred. A useful model is the information provided in the annual Estimates Volume for Central Government expenditure.

We are also concerned about the fact that not all local authorities have audit committees. Professionally resourced audit committees focused on identifying potential efficiency savings could provide a valuable support to managers and elected representatives. In addition, we are concerned that current legislation prevents the appointment of outside specialists to local authority audit committees.

The local government Director of Audit is undertaking valuable work in identifying on-going value for money issues. We have reviewed the value for money reports and had detailed discussions with a number of local authority officials about the work being undertaken. There is general agreement that this work is valuable in ensuring value for money but that it should be intensified. We believe that the merits of expanding this role or extending the function of the Comptroller and Auditor General in to the area of local authority expenditures should be examined.

#### **RECOMMENDATION 14: ASSESSMENT OF APPROPRIATE FUNCTIONS**

**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 only appropriate functions are undertaken by local authorities.**

There is a need to ensure that the functions placed on local authorities are appropriate and that local authority provision minimises costs.

One example where the functions of local authority merit consideration relates to water services. Unlike other services provided by local authorities, we do not believe that water services are necessarily a local service. Given the various directives in respect of water quality, and consumers' expectations, the product being delivered is increasingly standardised: there is not much scope for local discretion or variety. At present, there are a large number of bodies involved in this service, which may be leading to higher costs and a failure to maximise economies of scale suggesting the need for regional or national provision or provision of water services on a shared basis. Indecon accepts that, in the case of water services, this point has been recognised, and attempts to address this in terms of cooperation between local authorities, joint provision and strategic planning are being pursued. Accordingly, we support the provision of water services on a shared basis with other local authorities.

Another example of an area that requires review relates to the Disabled Persons Grant Scheme, which assists with house adaptations for disabled persons and is subject to an assessment of need by Occupational Therapists. We believe there is merit in reviewing which body has responsibility for this scheme.

Another potential area for review of the functions of local authorities relates to economic and social development. This involves providing supports at a local level and the delivery of a range of initiatives financed through central Exchequer resources and their own resources. In parallel with local government structures there are a large number of local development bodies. These include County/City Development Boards, County/City Enterprise Boards, ADM Partnership, Community Groups and Leader groups. These agencies provide a range of supports and are designed to focus on promoting social and economic developments in their areas.

It is notable that Ireland adopted an approach in the early 1990s with the support of the EU that saw the local development sector operate outside the local government system. In addition, the year 2000 saw the creation of the broadly representative and local government led County/City Development Boards (CDBs). The local development sector is represented on the CDBs. The Boards' role is to co-ordinate all publicly funded services at local level and to bring greater integration of the local government and local development systems. The CDBs have made some progress on this objective. Indecon understands that the CDBs are currently engaged in a review of their strategies for the economic, social and cultural development of their areas. The main focus of this review process is to identify a limited number of key priorities and integrative actions to be delivered on by their member agencies over the next three years. The CDBs are a collegiate approach at local level to tackling better service integration across the State agencies and local development bodies. To succeed they need the active participation and support of their member agencies. Critically they require the backing of Government Departments and State agencies. In this context the Ministers for the Environment, Heritage and Local Government,

Community, Rural and Gaeltacht Affairs and Justice, Equality and Law Reform have been, inter alia, jointly working together to promote the co-ordinating role of the CDBs as part of the current review of community and local development schemes. This work is also being supported by the Department of Education and Science and the Office of Social Inclusion.

We believe that it is highly desirable that the local development and local government sectors co-ordinate and integrate their activities to ensure maximum efficiencies, and a more effective and accountable delivery of local services to communities. The CDBs were established to, inter alia, bring about such an approach. It is essential that the CDBs proactively work towards achieving this objective and that Government Departments and relevant agencies support them in this. The joint initiative by the Ministers for the Environment, Heritage and Local Government, Community, Rural and Gaeltacht Affairs and Justice, Equality and Law Reform in utilising the CDBs to improve service delivery under community and local development programmes is illustrative in this context. We believe that the CDBs should accelerate their efforts in the process of integration of local government and local development services.

The key point, however, is that there is a need for an on-going assessment of the appropriate functions for local authorities, which may result in adjustments to secure efficiencies.

## **CONCLUSIONS**

This report has highlighted the importance of local government and the need for significantly increased resources over the period to 2010 to fund existing and emerging demands. Our analysis also emphasised the critical need to accelerate efficiency measures to ensure resources are being directed to improving much needed local authority services. The evidence also indicated fundamental concerns over the absence of local accountability for much of the funding requirements and a worrying misalignment between the demands for local authority services and the costs of providing these services. All of these issues have been highlighted in previous reports over the past two decades and unless decisions are now taken, ongoing concerns over value for money, adequacy of service provision, and local accountability and flexibility will remain unaddressed.

In relation to funding requirements, there are no simple solutions and increasing existing charges will not be sufficient in the absence of a widening in the range of services covered (particularly in relation to water services) and the securing of a local contribution to general local authority funding. We regard reform of the funding system as being essential to accelerate efficiencies within local authorities. Changes are also needed to information and structural incentives to secure efficiency gains. Fundamental changes over time are needed to delivery mechanisms and, in particular, to the geographic location of service provision for services where economies of scale exist.

There is an understandable and widespread frustration among local authorities in relation to the absence of reforms in funding local government systems, despite the unanimous call for reforms in all major previous reviews. We accept, however, that some previous solutions to the evident deficiencies in local government funding may have given insufficient attention to what is feasible. It is critical that policymakers recognise that without reform, the existing system will fail to deliver the necessary improvements in efficiency and accountability.

Implementation of the recommendations in this report will provide a move towards the type of incentives that will enable local authorities to more effectively fulfil their important role in Irish economic and social life. Implementation of these recommendations represents one of the most important challenges facing Irish policymakers.

### **Acknowledgements**

The consultancy team would like to acknowledge the invaluable assistance provided by members of the Steering Committee. The committee included Geraldine Tallon, Assistant Secretary General, Department of the Environment, Heritage & Local Government (Chair), Miriam Brennan, Managing Director Creative Labs, Ireland, Micheal Finnegan, Micheal Finnegan Associates, Aidan Brady, Chief Executive Citigroup in Ireland, John Cullen, Director General, Institute of Public Administration, Aidan Dunning, Assistant Secretary General, Department of Finance, John Fitzgerald, City Manager, Dublin City Council, John Fitzgerald, Principal Officer, Department of the Environment, Heritage & Local Government and Ciaran Conroy, Secretary to the Committee. Particular thanks are also due to Colin Hunt and Donal O'Donoghue, former Galway County Manager and Meath County Manager. We would like to acknowledge the invaluable assistance provided by officials in the Department of the Environment, Heritage and Local Government and the Department of Finance and all those officials in the local government sector who provided assistance. A detailed consultation programme was undertaken as part of the Review and would like to thank all those they gave their time. Finally, we received a large number of submissions and are grateful to the individuals and organisations that made submissions. These include key business and community groups. A list of submissions and participants in the consultation programme is presented in Annexes 1 and 2.

Finally, we would like to acknowledge the exceptional co-operation of local authorities and their representative organisations who provided detailed information, inputs and views to the consultancy team.

The usual disclaimer applies however, and the independent views and analysis in this report are the sole responsibility of Indecon.



# 1 Introduction and Terms of Reference

## 1.1 Introduction

This report represents an independent review of the funding of local government in Ireland. The report was commissioned by the Minister for the Environment, Heritage and Local Government and was completed by Indecon International Economic Consultants.

## 1.2 Terms of Reference

The Terms of Reference for this review are to:

1. Having regard to existing and emerging demands, both statutory and non-statutory, on local authorities, estimate the future funding requirements of local authorities in the period to 2010. In this context, the likely expenditure and income requirements of local authorities should be projected. Projections over three year (to 2006) and seven year (to 2010) horizons in respect of the local government sector as a whole and in respect of different classes of local authorities (county councils, city councils, borough councils and town councils) should be provided. Such projections should be set out on a programme group basis (i.e. the basis on which local authority accounts are prepared) and should indicate the main expense elements making up the projections and the programme areas where an above average rate of expenditure increase is likely to arise and contrast the projections with the trends over the period since 1996.
2. In the light of the analysis at 1 above, review the existing system of funding and all elements of spending encompassed by the programme groups referred to at 1 above and assess alternatives and options in relation to both income and expenditure focussing, inter alia, on their potential to ensure a sustainable funding system for local authorities over the medium to long term while taking account of Ireland's obligations under the Stability and Growth Pact, the European Charter of Local Self Government and the fact that local government has constitutional recognition and having regard to their potential to accord to a desirable degree with:
  - ❑ Local accountability, decision making and flexibility;
  - ❑ Equity, including ability to pay and the breadth of the revenue base;
  - ❑ The polluter and user pays principle;
  - ❑ Administrative simplicity and efficiency;
  - ❑ Compatibility with national economic and social policies, in particular national taxation strategies; and
  - ❑ Equalisation.

3. Examine and identify potential improvements in service delivery arrangements by the local government system, including arrangements between authorities and between authorities and other local development bodies, having regard to considerations of economy, administrative and financial efficiency and effectiveness.
4. Having regard to the examination at 2 and 3 above, consider the potential for rationalisation of expenditure and propose options for revised arrangements for the funding of local authorities and carry out an in depth examination of these funding options, including a detailed consideration of implementation requirements and strategies. Make recommendations as to the funding approaches most favoured.
5. In arriving at the options and recommendations at 3 and 4 above, the consultants will:
  - Review previous studies on the funding of local government in Ireland and, as appropriate, consider the extent of change in economic, legislative and financial circumstances since publication of these studies and also have regard to any appropriate experience in other relevant countries;
  - Consult with/consider the views of such local authority and other interests as will be agreed with the Steering Group.

This review focuses on the current rather than the capital financing of local government, and addresses capital funding issues only to the extent of their impact on current financing.

### **1.3 Structure of Report**

The structure of this report is as follows: Chapter 2 presents an overview of local government finance in Ireland. Chapter 3 examines previous reviews and identifies the key conclusions and recommendations that are relevant for this Study. Chapters 4 and 5 review the system of local government financing internationally. Chapter 4 examines data for the EU and OECD countries and places Ireland in a comparative setting. Chapter 5 reviews in detail the structure of local government in Italy, Germany, Australia, New Zealand, Canada and England/UK. Chapter 6 presents a number of scenarios for expenditure projections. Chapter 7 examines trends in expenditures and receipts in detail and provides projections of local government expenditure to 2006 and 2010 at a programme and sub-programme level. Chapter 8 examines expenditures in detail and presents the Report's conclusion and recommendations in respect of expenditure issues. Chapter 9 addresses funding issues and the Report's recommendations on future funding options. Chapter 10 sets out overall conclusions and recommendations.



## 1.4 Acknowledgements

The consultancy team would like to acknowledge the invaluable assistance provided by members of the Steering Committee. The committee included Geraldine Tallon, Assistant Secretary General, Department of the Environment, Heritage & Local Government (Chair), Miriam Brennan, Managing Director Creative Labs, Ireland, Micheal Finnegan, Micheal Finnegan Associates, Aidan Brady, Chief Executive Citigroup in Ireland, John Cullen, Director General, Institute of Public Administration, Aidan Dunning, Assistant Secretary General, Department of Finance, John Fitzgerald, City Manager, Dublin City Council, John Fitzgerald, Principal Officer, Department of the Environment, Heritage & Local Government and Ciaran Conroy, Secretary to Committee. Particular thanks are also due to Colin Hunt and Donal O'Donoghue, former Galway County Manager and Meath County Manager. We would like to acknowledge the invaluable assistance provided by officials in the Department of the Environment, Heritage and Local Government and the Department of Finance and all those officials in the local government sector who provided assistance. A detailed consultation programme was undertaken as part of the Review and we would like to thank all those they gave their time. Finally, we received a large number of submissions and are grateful to the individuals and organisations that made submissions. These include key business and community groups. A list of submissions and participants in the consultation programme is presented in Annexes 1 and 2.

Finally, we would like to acknowledge the exceptional co-operation of local authorities and their representative organisations who provided detailed information, inputs and views to the consultancy team.

The usual disclaimer applies however, and the independent views and analysis in this report are the sole responsibility of Indecon.



## 2 Overview of Local Government Finance in Ireland

### 2.1 Introduction

In this chapter we present a brief overview of local government in Ireland. This examines the trends in expenditure and revenue, and details the structure and funding of local government. As a precursor to this analysis we begin by presenting a brief account of some of the key themes of local government finance.

### 2.2 Local Government Finance

The economic case for local government is usually made on the grounds of market failure. It is argued that Government involvement in the market system may be required in achieving macroeconomic stabilisation objectives, in distributing income and wealth more equitably or in allocating resources efficiently (Musgrave (1959), p. 5). Of these three areas for government action, the first two usually fall within the remit of central government, although local government is seen to have a role in resource allocation.

A key task for local government relates to the provision of public goods (Samuelson (1954)). While public goods that apply to the entire nation, such as national defence, are seen as the concern of central government, local public goods such as streets and parks, and fire services benefit areas of limited geographical spread, and it is argued that these services should be provided by local government.

Hence, the basis for the role of local government rests on whether it is worthwhile having a decentralised system of local government, or whether provision can better be organised by central government. The following decentralisation criterion provides a powerful basis for choosing provision through local government (Oates (1972)):

“For a public good - the consumption of which is defined over geographical subsets of the total population [and for which there are no cost advantages to central provision] - it will always be more efficient (or at least as efficient) for local government to provide the [locally preferred] levels of output for their respective jurisdictions than for central government to provide any specified and uniform level of output across all jurisdictions” (Oates (1972), p. 35).

This criterion points to a key efficiency issue, namely that of closely matching the provision of local public goods to local preferences. Such efficiencies can be secured by decentralising decision-making concerning local public goods to local government units that approximate in size to the benefit areas of those goods that they provide. The following is of note in this respect:

“[A] particular public service should be provided by the lowest level of government that encompasses the benefits and costs of its provision. The basic idea is that for matters of “local” interest, it is better to allow local government to tailor outputs to local circumstances (local preferences and costs), rather than provide more uniform levels of services across all jurisdictions. There are, in short, gains in economic welfare from fiscal decentralisation for such goods – in the vernacular, this is the claim that ‘one size doesn’t fit all’” (Oates (2001)).

In practice, benefit areas for different local public goods do not fit together neatly and drawing boundaries for jurisdictions involves compromise, unless the relatively unusual option of a multiplicity of single purpose authorities is chosen (Tullock (1969)).

Thus, one view identifies the primary role of local government as being that of ensuring a close match between local preferences and local provision. From this point-of-view, small units are advantageous as they allow greater variety and a closer fit to preferences. One objection to this approach is that small units may prevent gains through economies of scale. Such disadvantages may be obviated or reduced where provision is feasible through private contractors (Ostrom et al. (1961), Tullock (1969)), or through the sharing of services between local authorities.

Another key component of the economics of local government is the view that, under certain assumptions, efficient provision of local government services would arise spontaneously in a system where residents “voted with their feet” by migrating to the local authority which provided goods and services which most closely matched their preferences (Tiebout (1956)).

Given agreement on the expenditure assignment problem surrounding which functions are to be allocated to the appropriate level of local government, the question then arises of how to provide adequate sources of finance to enable the structure of government to carry out these functions. One approach is to assign taxation powers to central and local governments commensurate with expenditure responsibilities and to aim for a close correspondence between benefit area, tax area and electoral area. This is the principle of fiscal equivalence (Olson (1969)). This approach finds support in the following argument:

“Multi-tiered governments in principle work best when taxes and the benefits of public spending are as closely related as possible when, that is, the citizen-voter-consumers residing in a particular political jurisdiction both pay for what they get from the public sector and get what they pay for” (Bird (1999b)).

When locally raised finance is adequate to meet local expenditure responsibilities, there is said to be a state of “vertical fiscal balance.” Most countries, including Ireland, operate with vertical imbalance, with a significant level of grant funding from central to local government (Ahmad and Craig (1997)).

An important issue associated with vertical fiscal imbalance concerns the situation in which services to local residents are paid for by non-residents through a central government grant (Weingast et al (1981)). When there are high levels of grant from central government, as in Ireland, there is a misalignment between demand for the provision of services and the funding for such services. In such circumstances, in-built incentives exist for local authorities to seek higher transfers from central government. This inevitably has implications for perceived budget constraints and incentives for efficiency. It can be shown that decentralisation of taxation powers to local government can be an effective means of hardening local budget constraints.

A major objective of grant funding is to provide sufficient resources to local authorities to meet their expenditure responsibilities, particularly if local authorities do not have access to progressive sources of finance, either because such sources of finance such as income tax are subject to economies of scale in collection, or because such services are reserved by central government solely as central government taxes. How to determine the requested level of resources in the absence of a link with local funding remains a fundamental problem.

A second objective of central grants is to act as a corrective to expenditure externalities between local and national residents. Thus, if local spending also provides benefits to national residents, the latter will be less than optimal. To address this, governments have often introduced matching grants in aid of the spending that carries the externalities.

A third objective of grant funding is to provide a means to address the problem of horizontal fiscal imbalance between local governments. Horizontal fiscal balance concerns the question of the distribution of fiscal capacities and needs across local governments. A local government with low fiscal capacity and high needs will need to make a strong fiscal effort to meet its needs. Conversely a local government with high fiscal capacity and low needs will only need to make a weak fiscal effort to meet its needs. Grants are often designed to equalise for such differences in needs and fiscal capacity. In Ireland, the Local Government Fund attempts to perform this task.

## 2.3 Local Authorities' Expenditures and Functions

Debates on local government in Ireland address many of the items discussed in the previous sub-section. These centre on distinctions between national and local services, and the extent of vertical fiscal balance. In this sub-section we review the current structure of local government in Ireland.

### *Unitary structure*

Local government in Ireland is comprised of 29 county councils and 5 city councils. These are the primary units of local government and undertake the maximum allowable range of functions within the local government system. There are an additional 80 councils, 5 of which are titled borough councils while the remainder are town councils. These undertake a reduced range of services.

### *Functional areas*

Local authorities in Ireland undertake a variety of functions and perform a number of different roles vis-à-vis central government. In some cases local authorities act as an agent of central government providing national services that are funded by central government. National road transportation and safety is an example. In addition, local government provides services having regard to local circumstances within an overall policy framework, which can be designed by central government. These are services that may vary at a local level reflecting the preferences of the local electorate.

The main functional areas for local authorities in Ireland are as follows:

- ❑ Housing and Building;
- ❑ Road Transportation and Safety;
- ❑ Water Supply and Sewerage;
- ❑ Development Incentives and Controls;
- ❑ Environmental Protection;
- ❑ Recreation and Amenities; and
- ❑ Agriculture, Education, Health and Welfare.

In the area of **housing and building**, local authorities are responsible for the management and provision of local authority housing, providing assistance to persons housing themselves or improving their housing and the enforcement of certain housing controls and standards. This involves managing the local authority housing stock, and a number of housing schemes, and meeting the housing needs of people in their area.

The second expenditure area is **roads transportation and safety** where local authorities are responsible for road upkeep and improvement, public lighting

and traffic management issues. They are also responsible for road safety education, and the taxation of vehicles and licenses.

The next function involves the provision of **public water supply and treatment schemes**. This involves major public works projects and assistance towards the provision in existing dwellings of piped water supply and/or sewerage facilities.

Local authorities also have a role in relation to **Development Incentives and Controls**. This involves physical planning policy, control of new development and building, and the promotion of industrial and other development.

**Waste collection/disposal of waste related services** is also a key function. Within this general area of environmental policy local authorities also have responsibility for a range of other services including safety of places and structures, burial grounds, fire protection and pollution control.

The next area is **Recreation and Amenity**, where local authorities have responsibility for swimming pools, libraries, parks, open spaces, recreation centres, art galleries, museums, conservation and improvement of amenities. There is also a contribution to Agriculture, Welfare, Health and Education activities, including services of a social and educational nature.

Finally, there are a range of **Miscellaneous Services**. These include financial management and rate collection, elections, courthouses, coroners and inquests, and consumer protection measures.

In subsequent chapters these activities are considered in some detail when we examine the main drivers of recent growth in expenditures, and in preparing projections for future expenditures. However, it is clear that local authorities in Ireland undertake a diverse set of functions ranging from the provision of public housing initiatives, transport and planning to the provision of basic local amenities such as local parks. Nevertheless, local government in Ireland has a narrower remit than many other countries. In Ireland large areas of Government expenditures such as health, education and social services are delivered by central government through a network that does not include local government. In many other European countries local government would undertake these services. The role of local authorities in Ireland has, however, expanded in recent years, particularly in relation to community development programmes.

Table 2.1 below presents a summary description of the scale of expenditure undertaken by local authorities. Based on data for 2004<sup>4</sup>, and recalling that the focus of this review is on current expenditure, the figures indicate that road transportation and safety constitutes the most significant area, accounting for 27.6% of all expenditures. The next most important area is environmental protection (19.2% of expenditures), followed by housing and building (14.9%), and water supply and sewerage (12.5%).

<b>Table 2.1: Local Authority Expenditures by Area of Expenditure - 2004 - € Million</b>		
<b>Area of Expenditure</b>	<b>2004</b>	<b>As a % of Total</b>
Housing and Building	538.6	14.9%
Road Transportation and Safety	998.1	27.6%
Water Supply and Sewerage	450.6	12.5%
Development Incentives and Controls	193.3	5.3%
Environmental Protection	695.2	19.2%
Recreation and Amenities	304.6	8.4%
Agriculture, Education, Health and Welfare	214.1	5.9%
Miscellaneous Services	221.6	6.1%
Total Expenditure	3616	100.0%
<i>Source: Indecon analysis of Local Authority Budget 2004, Department of the Environment, Heritage and Local Government</i>		

There have been significant increases in expenditures in most of the programme areas above since the mid-1990s. This has been driven by an increase in the demand for various services due to demographic changes such as population growth and growth in the number of households. The demand for services such as, for example, refuse collection is strongly correlated with increases in the number of households. Other factors are also important. For example, the very strong demand for housing and house price inflation has increased the demands on local authority housing and on social and affordable housing initiatives. With expanding housing waiting lists, local authorities are investing significant sums to address growing local needs.

<sup>4</sup> Throughout this section we utilise budgeted expenditure data up to 2004. This includes expenditures on some services that are actually provided by other local authorities. These inter-authority expenditures are included in the above total.



More generally, local authorities are maintaining an expanding public infrastructure. Investment in roads and in water and sewerage services has increased rapidly through the 1990s. This higher stock of public infrastructure has had a knock-on impact for local authority maintenance costs. There has also been an increase in expenditure arising from an expansion of responsibilities, higher service requirements caused by EU directives and changes in public expectations.

The significant increases in expenditure, evident since 1996, must also be seen in the context of the cutbacks in services experienced during the 1980s in response to severe fiscal problems. This resulted in an element of 'catch-up' during the 1990s as previously curtailed services expanded as funding pressures improved. This process coincided with notable reforms of the local government structure. Changes were made to the system of financing, but crucially from an expenditure perspective, there were initiatives such as the "Better Local Government" reforms. This led to management restructuring and a variety of reforms that have tended to add to expenditure demands.

It is also important to note the differences in expenditure according to the functions undertaken by the various types of local authorities. The table below outlines the importance of different functions in expenditure terms by local authority. For example, for county councils, reflecting their lower population density and extensive road network, road transportation and safety, at 35% of total expenditure, is their most important area. In contrast, in the city councils, housing and building accounts for the largest share of expenditure. This reflects the rapid demand for housing in the faster growing city areas and the costs of maintaining a growing local authority housing stock.

**Table 2.2: Expenditure by Group Type and Local Authority Type - 2004**

Area of Expenditure	County Councils	City Councils	Borough Councils	Town Councils	Miscell.	Total
Housing and Building	12%	29%	21%	14%	13%	17%
Road Transportation and Safety	35%	16%	16%	20%	0%	29%
Water Supply and Sewerage	12%	9%	16%	20%	0%	12%
Development Incentives and Controls	5%	4%	6%	5%	48%	5%
Environmental Protection	17%	22%	18%	19%	3%	19%
Recreation and Amenity	7%	10%	9%	12%	32%	8%
Agriculture, Education, Health and Welfare	6%	6%	3%	1%	4%	6%
Miscellaneous	6%	4%	12%	9%	0%	6%
Total	100%	100%	100%	100%	100%	100%

*Source :Local Authority Budgets, Department of the Environment, Heritage and Local Government*

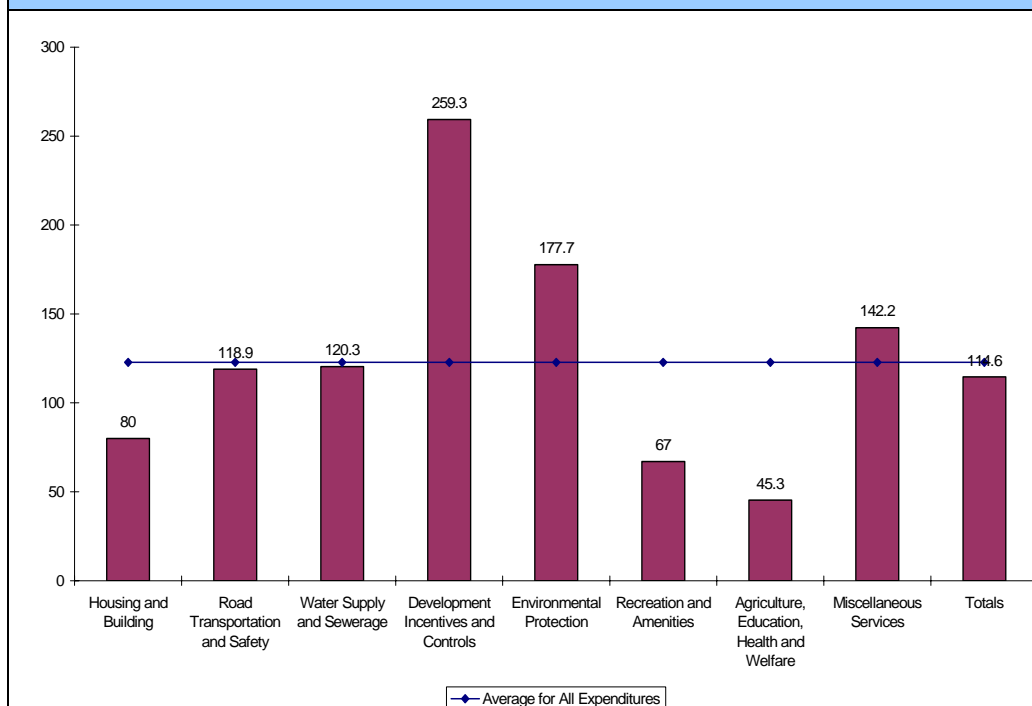
Table 2.3 below provides greater detail in relation to expenditures over the period 1996-2004. Total current expenditure increased by 114.6%, with all areas contributing to this growth. It is notable that inflation for this period, as measured by the national accounts consumption deflator, was 38%. This implies that expenditure grew in real terms by 55.5%.

<b>Table 2.3: Trends in Local Government Current Expenditure- 1996-2004 - € Million</b>										
	1996	1997	1998	1999	2000	2001	2002	2003	2004	% Chg. - 1996- 2004
Housing and Building	299.3	305.8	316.3	343.3	356.0	420.0	502.2	568.6	538.6	80.0
Road Transportation and Safety	455.9	493.1	544.3	624.3	719.3	806.3	921.0	983.5	998.1	118.9
Water Supply and Sewerage	204.5	211.2	231.9	257.8	288.2	325.5	370.5	424.4	450.6	120.3
Development Incentives and Controls	53.8	61.5	68.2	80.8	104.2	133.9	154.1	168.0	193.3	259.3
Environmental Protection	250.3	272.7	308.3	354.6	424.4	519.3	619.3	716.4	695.2	177.7
Recreation and Amenities	182.4	190.6	194.9	202.7	218.1	250.4	276.2	282.5	304.6	67.0
Agriculture, Education, Health and Welfare	147.3	146.2	144.5	147.9	151.9	161.1	181.1	194.1	214.1	45.3
Miscellaneous Services	91.5	94.6	104.4	127.8	122.1	143.0	173.2	205.8	221.6	142.2
<b>Totals</b>	<b>1,685</b>	<b>1,776</b>	<b>1,913</b>	<b>2,139</b>	<b>2,384</b>	<b>2,759</b>	<b>3,197</b>	<b>3,543</b>	<b>3,616</b>	<b>114.6</b>

*Source :Local Authority Budgets, Department of the Environment, Heritage and Local Government*

Significant areas of expenditure growth included environmental protection (+177.7%), road transportation and safety (+118.9%), and water supply and sewerage (+120.3%). All other areas experienced an increase as highlighted in Figure 2.1 overleaf. Expenditure programmes recording above average increases over the period include environmental protection, water supply and sewerage, development incentives and control and miscellaneous services.

**Figure 2.1: Percentage Changes in Current Expenditure 1996-2004 at Programme Level**

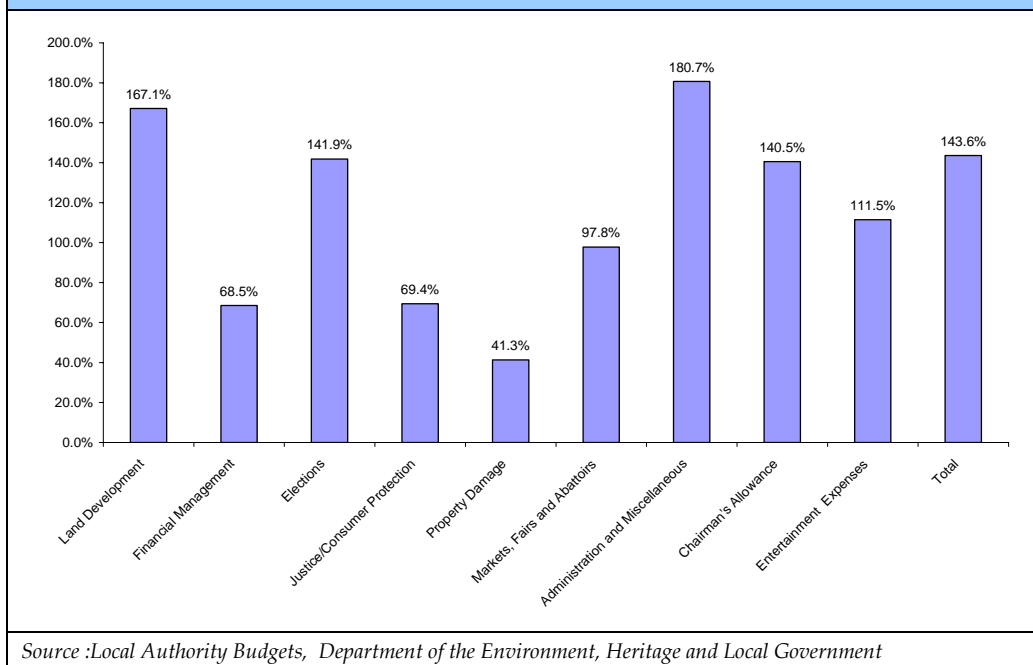


Source: Local Authority Budgets, Department of the Environment, Heritage and Local Government

There is a miscellaneous category that includes expenditure totalling over €220 million and which has increased by 142.2% between 1996 and 2004 as indicated in the table. These include expenditures on items such as Land Development and Acquisition, Financial Management, Elections, Justice Administration/Consumer Protection, Property Damage Markets, Fairs and Abattoirs, Chairman's Allowance, Entertainment Expenses, and an additional category called Administration and Miscellaneous<sup>5</sup>. A breakdown of the percentage increases in these areas is set out in Figure 2.2 overleaf.

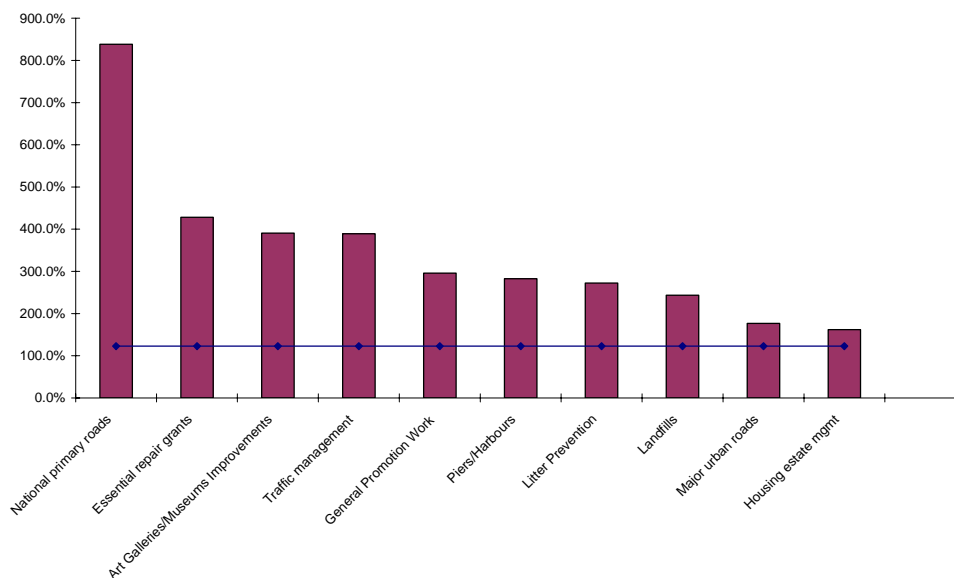
<sup>5</sup> Expenditure in this area increased by 180.7% over the period. Unfortunately a breakdown of this expenditure is not available.

**Figure 2.2: Percentage Changes in Miscellaneous Expenditures by Area of Expenditure - 1996-2004**



More details on the trends in expenditure at sub-programme level are included in Annex 6 and Annex 1. Figure 2.3 identifies selected areas at sub-programme level where growth in expenditures since 1996 have been well above average. Areas that fall into this category include, *inter alia*, national primary roads, essential repair grants, art galleries/museums improvements, traffic management, general promotion work and the operation of landfills.

**Figure 2.3: Selected Areas of Above Average Growth in Current Expenditure at Sub-Programme Level - 1996-2004**



Source :Local Authority Budgets, Department of the Environment, Heritage and Local Government

In addition, there is expenditure by local bodies outside of the local government structure on community development. This includes a number of social development areas funded through bodies such as Partnership companies and Leader groups. In the context of discussions on expenditure issues in Chapter 8 of this report, the role of these bodies vis-à-vis the local government structure is considered.

Overall, current local government expenditure grew by 114.6% between 1996 and 2004. Within this total, it is useful to distinguish between pay and non-pay developments. These are set out in Table 2.4 overleaf and indicate that non-pay grew at a faster rate than pay expenditure over the period 1996-2002 for which data are available. We also provide a breakdown of pay into numbers, as measured by full-time equivalents, and pay rates. This analysis indicates that the numbers employed in local government increased by 23.3% between 1996 and 2002, while pay rates increased by 44.7%. The increase in rates includes the impact of changes in basic pay terms, special pay arrangements and grade drift. For comparative purposes, it is interesting to note that manufacturing pay rates in Ireland increased by 54% over the same period.

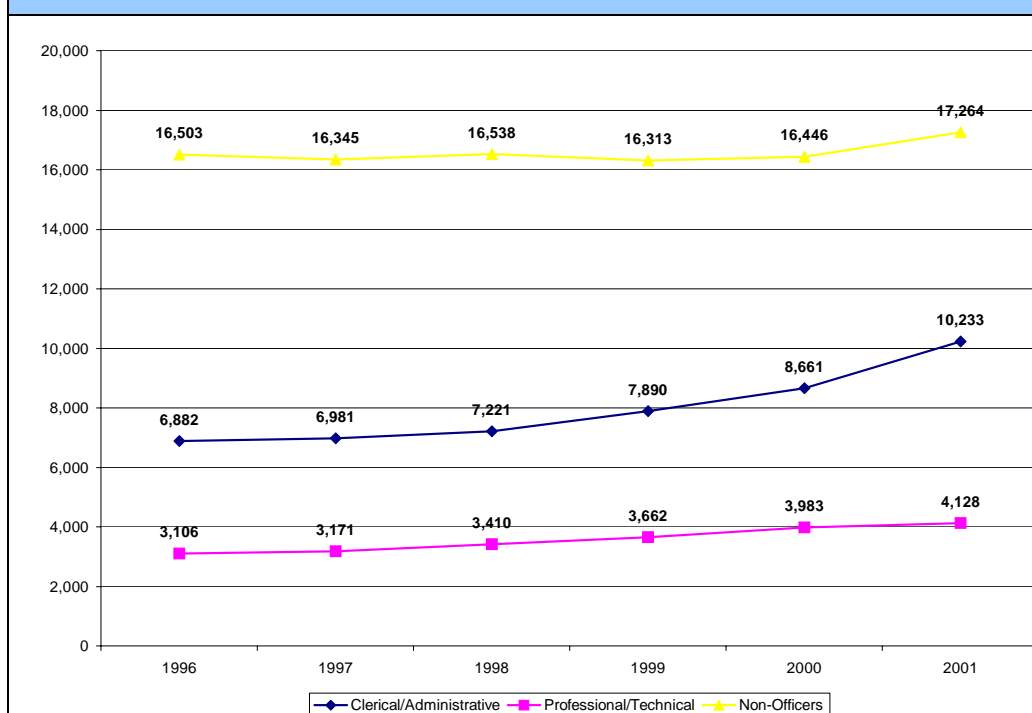
<b>Table 2.4: Trends in Local Government Pay and Employment Numbers - 1996-2002</b>								
	1996	1997	1998	1999	2000	2001	2002	% Chg. - 1996-2002
Total Exp. - € Million	1,612.9	1,793.2	1,943.3	2,150.4	2,298.2	2,665.1	3,099.2	92.2
Pay - € Million	696.2	769.4	809.9	836.7	1,078.6	1,109.5	1,242.3	78.4
Non-Pay - € Million	916.7	1,023.8	1,133.4	1,313.7	1,219.6	1,555.6	1,856.9	102.6
<i>Pay as a % of Total</i>	43.2%	42.9%	41.7%	38.9%	46.9%	41.6%	40.1%	
<i>Non-pay as a % of Total</i>	56.8%	57.1%	58.3%	61.1%	53.1%	58.4%	59.9%	
Employment Numbers	29,915	29,980	30,655	31,063	32,103	34,616	34,300	14.7%
Employment FTE	26,492	26,497	27,169	27,865	29,090	31,624	31,624	23.3%
Index - FTE Employment	100.0	100.0	102.6	105.2	109.8	119.4	123.3	23.3%
Index - Pay Bill	100.0	110.5	116.3	120.2	154.9	159.4	178.4	78.4%
Index - Pay Rates	100.0	110.5	113.4	114.3	141.1	133.5	144.7	44.7%
<i>Source: Department of the Environment, Heritage and Local Government</i>								

Data are also available in relation to the nature of employment increases at grade level. The data indicate that there has been a significant increase in management/clerical/administrative staff of 48.7% between 1996 and 2002 on a whole-time equivalent basis. There was also an increase in the number of professional/technical employees of 32.9% over this period. The number of other employees increased by a more modest 4.6% between 1996 and 2002 (see Figure 2.4 overleaf).

The analysis above suggests that while overall full-time equivalent staff numbers grew by less than 20%, a much faster increase occurred in the number of management/clerical/administrative posts and in the number of professional/technical positions. While this is likely to reflect the increasing demands on local authority service provision, the scale of increases in management/administrative/clerical employment is somewhat surprising

given the potential efficiency that has been achieved by investment in information technology in other sectors over the period. We accept that in the local government sector classification of management/clerical/administrative grades is a broad generic term which includes many staff on front line services (for example, in housing departments). The increase in management/clerical/administrative staff also includes additional numbers recruited as a consequence of legislation.

**Figure 2.4: Whole Time Equivalents for Specific Grades 1996-2001**



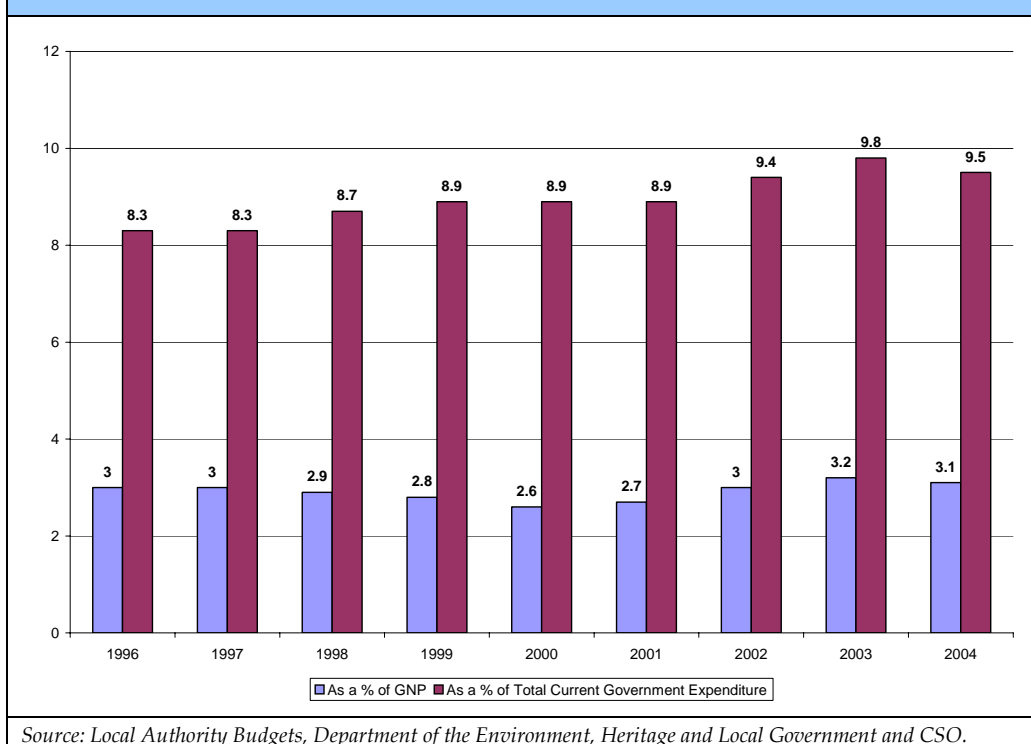
Source: Department of the Environment, Heritage and Local Government

### 2.3.1 Local Government Expenditure Relative to National Income

It is also instructive to consider the trends in local government expenditures in relation to national income. This provides a measure of the extent to which local government is resourced as a share of national income compared with private consumption or other public consumption or investment. Gross National Product (GNP) constitutes the most appropriate measure, as it represents resources available to the residents of Ireland, as opposed to GDP, which represents total output produced. Using this measure, local government expenditures fell as a percentage of available income, from 3.0%

in 1996 to 2.6% in 2000, although it has increased to 3.1% of GNP in 2004. It is important to note, however, that over this period, overall government expenditure has fallen as a percentage of national income. If one expresses local expenditures as a percentage of total current government expenditure, local government expenditure has increased from 8.3% in 1996 to 9.5% in 2004. These features are illustrated graphically in Figure 2.5 overleaf.

**Figure 2.5: Trends in Local Authorities' Current Expenditure Relative to National Income and Total Current Government Expenditure - 1996-2004 - % of GNP**



It is also useful to compare the trends in local authority expenditure relative to the number of households and the general population. Data for the period 1996-2004, presented in Table 2.5 overleaf, indicate substantial increases over the period. Measured in terms of expenditure per capita there was an increase of 115.2% between 1996 and 2004, based on the 2002 Census of Population estimate.<sup>6</sup> Reflecting the larger increase in the number of households, expenditure per household grew by a lower rate of 102.8% over the period.

<sup>6</sup> Census 2002 data are the best available measure of population. Estimates show a marginal increase since 2002 but this would not impact significantly on the analysis.



<b>Table 2.5: Trends in Nominal Local Authority Expenditure per Capita and per Household - 1996-2004</b>			
	<b>1996</b>	<b>2004</b>	<b>% Change - 1996-2004</b>
	€	€	
Expenditure per capita	445	958	115.2
Expenditure per household	1436	2913	102.8

*Source: Local Authority Budgets, Department of the Environment, Heritage and Local Government and CSO.*

## 2.4 Trends in Revenue and Funding Sources

### *Background and sources of funding*

Local government in Ireland is funded by a combination of central and local sources of funding, including local business taxation, charges for goods and services, and transfers from central government. Within transfers from central government there are grants for specific activities and a general purpose grant from the Local Government Fund. Specific grants are also provided where local government is undertaking tasks on behalf of central government, and local authorities have limited discretion over this expenditure. One example is in relation to housing, where local government administers various programmes on behalf of central government, which are funded almost entirely centrally. As discussed in Chapter 8, distinguishing between national and local services is an important issue.

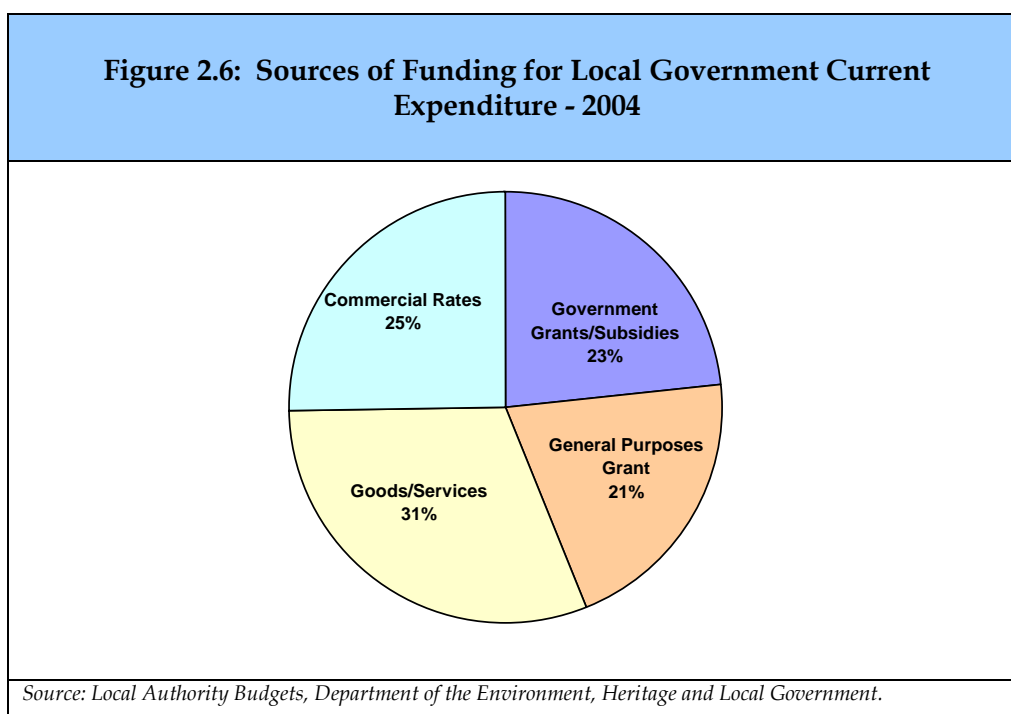
The Local Government Fund is a key source of funding which is financed by an exchequer contribution and the proceeds from motor taxation. It attempts to provide higher allocations to local authorities where estimated needs are greater than estimated resources. A detailed model called the Needs and Resources Model undertakes this task based on returns from local authorities. The effectiveness of this equalisation process is an on-going challenge.

Local authorities charge for a number of services they provide. These include charges to business for the provision of water services and charges to domestic users for domestic refuse recollection. An important trend in recent years has been an extension of charges to areas that were previously funded by general taxation. Local authorities have discretion over the level of charges in some areas but not others. The Minister for the Environment, Heritage and Local Government and central government have responsibility for deciding the services that can be charged and in some cases the level of charges which are permitted. For example, a local authority cannot unilaterally impose water charges on domestic users and certain recurring charges are set centrally.

In addition, motor taxation is a key element in the funding of local government having contributed some €747m to the Local Government Fund in 2004.

Finally, since the abolition of domestic rates, commercial rates remain a central source of local authorities' own resources.

Figure 2.6 below depicts the funding of local authorities for 2004 by funding source. Charging for goods and services now accounts for the highest share of funding at 31%, followed by Government grants/subsidies at 23%. Commercial rates account for 25%, while the general purpose grant provides 21% of funding. Importantly, only 54% of funding is locally based which is below the norm of most countries in the European Union and the wider OECD area.



The funding system can thus be characterised as a very centralised approach and would be classified as 'vertically imbalanced', with high levels of local expenditures being funded from general taxation. This has implications for the principle of accountability, as responsibility for spending does not reside with those that have responsibility for generating the required funding. The extent of this vertical imbalance also depends on the types of services that are funded from the centre. The implications of this for accommodating and for ensuring an alignment of incentives between the demands for, and the costs of financing service provisions are, in our judgement, of critical importance. Achieving the maximum incentives for efficiency is extremely difficult under the current structure of local government financing in Ireland.

A further noteworthy feature of the system of local government in Ireland is that there is no form of local domestic taxation. Businesses pay commercial rates but households pay for local government only through charges for selected specific services or through taxation to the central Exchequer. In this regard, Ireland is in a unique position internationally given the absence of domestic forms of taxation such as property, income or sales taxes.

It is worth considering how each of the areas of local government expenditure is funded. This provides an indication as to where local government has discretion, where it is performing functions on behalf of central government and the extent of 'vertical imbalance'. Table 2.6 below describes the percentage of expenditure in each area that is funded from either specific grants or subsidies, and charges.

Specific grants or subsidies and charges are the two areas of receipts that are earmarked for specific activities, and in housing and building 78.1% of the expenditure is funded from either charging or through direct grants from central government. Charges include local authority rents that cover maintenance of the local authority housing stock. Government grants include payments in respect of the Essential Repairs Grant and Disabled Persons Grant. Accordingly, the local authorities are funding housing activities primarily through charging of users or through the receipt of central grants.

<b>Table 2.6: Sources of Funding for Functional Areas - 2002</b>			
	<b>Specific Government Grants/Subsidies as a % of Total</b>	<b>Goods and Services as a % of Total</b>	<b>Grants and Charges Combined as a % of Total</b>
Housing and Building	23.2%	54.9%	78.1%
Road Transport and Safety	54.7%	12.9%	67.6%
Water Supply and Sewerage	3.3%	35.5%	38.8%
Development Incentives and Controls	6.3%	34.0%	40.2%
Environmental Protection	1.0%	37.5%	38.5%
Recreation and Amenity	8.4%	12.9%	21.3%
Agriculture, Education, Health and Welfare	84.8%	1.6%	86.4%
Miscellaneous Services	8.6%	38.6%	47.2%
Grand Total	27.3%	28.5%	55.8%

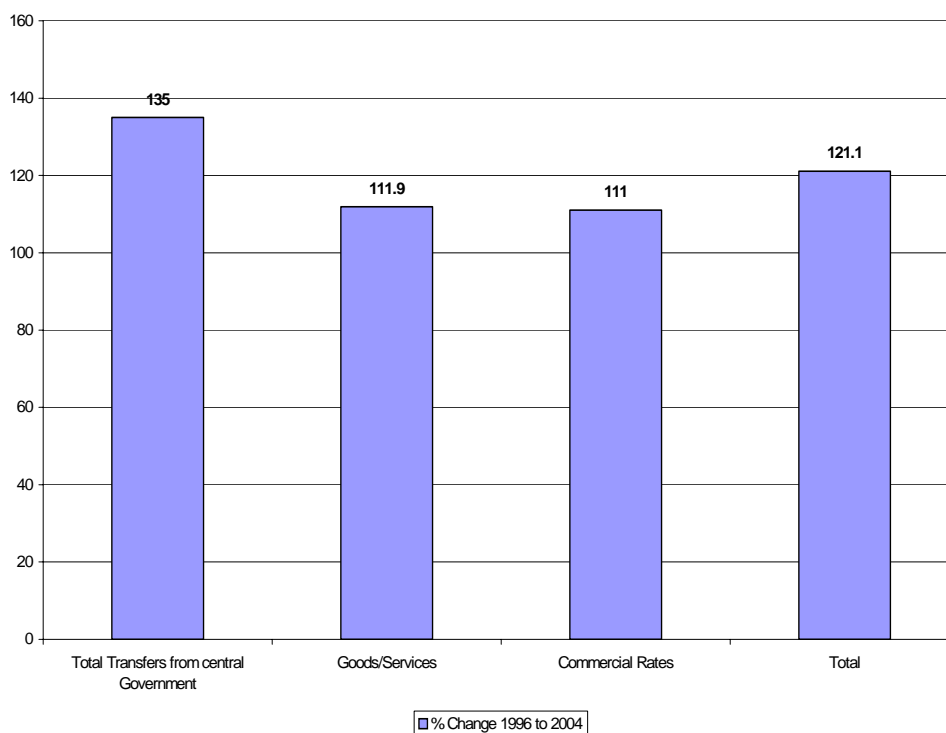
*Source: Returns of Local Taxation, Department of the Environment, Heritage and Local Government.*

Road transport and safety is another interesting example where the majority of expenditures are funded through exchequer grants. These include grants for the maintenance of the primary road network provided by NRA where the local authority is undertaking roads maintenance on behalf of this central roads authority.

Hence, the funding of local authorities' responsibilities depends on the type of activity and whether they are acting in an agency role for central government. This has implications for the consideration of the extent of vertical imbalance highlighted earlier. More specifically, it can be seen that local sources of revenue account for a higher percentage of expenditure in areas over which local authorities have more discretion.

It is useful to examine changes in the importance of different funding sources. Over the period 1996 to 2004 (see Figure 2.7), the growth in transfers from central government has out-paced the growth recorded in local authorities' own resources. In 1996, prior to the establishment of the Local Government Fund and the funding from motor tax receipts, government transfers amounted to €674.8 million. In 2004 this was equal to €1,586 million, an increase of 121.1% over the period. In contrast, the increase in revenue raised from goods and charges was 111.9% while for commercial rates the increase was 111% over this period.

**Figure 2.7: Percentage Increases in Funding Sources by Area - 1996-2004**



Source: Local Authority Budgets, Department of the Environment, Heritage and Local Government.

An analysis of revenue sources (presented in Table 2.7 below) highlights the shift in local government funding from own resources to central government since the mid 1990s. This has coincided with the decision to allocate motor tax receipts to local authorities.

**Table 2.7: Trends in Current Revenue Sources - 1996-2004**

	1996	2004	% Chg - 1996-2004
Government Grants/Subsidies	674.8	838.4	24.2
General Purposes Grant	-	747.4	-
Total Central Government Transfers	674.8	1,586	135.0
Local Charging for Goods/Services	530.9	1,125	111.9
Commercial Rates	429.9	907.5	111
	<b>1,635.5</b>	<b>3,616.3</b>	<b>121.1</b>

*Source: Local Authority Budgets, Department of the Environment, Heritage and Local Government.*

## 2.5 Conclusions

The economic case for local government is usually made on the grounds of market failure and the provision of public goods of a local nature. The argument for local government rests on whether it is worthwhile having a decentralised system of local government, or whether provision can better be organised by central government or by market provision. A key component of the economics of local government is the view that, under certain assumptions, efficient provision of local government services would arise in a system where residents 'voted with their feet', by migrating to the local authority which provided goods and services that most closely matched their preferences.

Given agreement on the expenditure assignment problem of which functions are to be allocated to which level of government, the question then arises of providing adequate sources of finance to enable the structure of government to effectively carry out these functions. One approach is to assign taxation powers to central and local governments commensurate with expenditure responsibilities and to aim to achieve a close correspondence between benefit area, tax area and electoral area. This is called the principle of fiscal equivalence. When locally raised finance is adequate to meet local expenditure responsibilities, there is said to be a state of 'vertical fiscal balance'.

An important issue associated with vertical fiscal imbalance arises where services to local residents are paid for by non-residents through a central transfer. Centrally based funding can lead to a misalignment between the costs and demand for services, and lead to inefficiencies. However, a key

benefit of centrally based funding is to act as a means of addressing the problem of horizontal fiscal imbalance between local governments. Horizontal fiscal balance concerns the question of the distribution of fiscal capacities and needs across local governments.

Local government in Ireland is undoubtedly currently characterised by vertical imbalance and there is a high degree of centralisation in funding provision. Local government is funded by a combination of local taxation, charges for goods and services, and transfers from central government. Within transfers from central government there are grants for specific activities and a general transfer from the Local Government Fund.

We have examined the funding of local authorities by funding source, based on figures for 2004. Charging for goods and services now accounts for the highest share of funding, at 31%, followed by Government grants/subsidies, at 25%. Commercial rates account for 23% while the general purposes grant provides 21%. Importantly, only 54% of this funding is locally based. The funding system can thus be characterised as 'vertically imbalanced', with high levels of local expenditures being funded from general taxation. This has implications for the principle of accountability, as responsibility for spending the resources does not rest with those that have responsibility for raising the finance to fund it.

Local authorities undertake a range of functions. Based on data for 2004, and recalling that the focus of this review is on current expenditure, the figures indicate that road transportation and safety constitutes the most significant area, accounting for 27.6% of all expenditures. The next most important area is environmental protection (19.2% of expenditures), followed by housing and building (14.9%), and water supply and sewerage (12.5%).

For the purposes of this study we also reviewed expenditure trends over the period 1996 to 2004. Total current expenditure increased by 114.6%, with increases evident across all of the key programmes. Significant areas of expenditure growth included environmental protection (+177.7%), road transportation and safety (+118.9%), and water supply and sewerage (+120.3%).

Local government spending has increased faster than overall central government spending over the period 1996-2004. The three key areas of the increases in spend have been in local authority staff levels, in pay rates and in expenditures on service provision. The numbers employed increased by 23.3% over the period 1996-2002. Pay rates increased in nominal terms by 44.7%, compared with a 54% increase in pay rates in the manufacturing sector over this period.

We also considered how each of the areas of local government expenditure is funded. Two areas of receipts are earmarked for specific activities, namely specific grant and subsidies, and charges. For example, in respect of housing and building, 78.1% of the expenditure is funded either through charging or through direct grants from central government.

We also examined the changing importance of different funding sources. Over the period 1996 to 2004, growth in transfers from central government out-paced that of local authorities own resources. In 1996, prior to the establishment of the Local Government Fund and the funding from motor tax receipts, government transfers amounted to €674.8 million. In 2004 this was equal to €1,586 million, an increase of 121.1% over the period. In contrast, the increase in revenue raised from goods and charges was 111.9% while for commercial rates the increase was 111% over this period.





## **3 Review of Previous Studies of Local Government Financing in Ireland**

### **3.1 Introduction**

The funding and organisation of local government in Ireland has been the subject of a number of previous reviews. In this chapter we review the most recent studies. The objective of this chapter is to summarise the main conclusions from these reviews so as to provide a background to the evaluation of current policy options in subsequent chapters. Accordingly, the main focus is on the principal findings, conclusions and recommendations of these reports.

### **3.2 Financing of Local Government in Ireland (1996)**

The most recent review was undertaken in 1996 for the Department of the Environment, Heritage and Local Government by KPMG et al. The terms of reference of the study were to:

- ❑ Consider and quantify existing and potential future expenditure requirements and aspirations of local authorities;
- ❑ Identify rationalisation and improvement possibilities in respect of this expenditure;
- ❑ In the context of the identified expenditure requirements and aspirations, consider a comprehensive range of options for developing a fair, equitable and reasonable system of local government funding;
- ❑ Identify the funding options which would most likely yield positive results, but which require further examination;
- ❑ As part of the study, review previous reports and studies on the financing of local authorities in Ireland and examine local government financing in comparable countries with reference to recent trends in relation to expenditure and sources of income.

#### **3.2.1 Summary of Report's Conclusions**

A key conclusion of the study was the right of central government to concern itself with the level of local authority spending and taxation. It concluded that local spending affected the overall burden of taxation in the economy with implications for competitiveness, employment and overall national economic and employment policy.

The report noted that Ireland had a “highly centralised system of financing of local government”. It stated that although local government has been increasingly financed by local sources, the current system was widely regarded as inflexible. This is particularly the case in respect of the limited discretion afforded to local authorities to determine local service levels and related expenditure levels. A related issue was the fact that “Ireland had tended to confine the financing of local government to very narrow bases of property taxes, central grants and charges for services”.

On the appropriate mix between local and central funding, it noted that previous reports suggested that substantial levels of local funding should be available to local authorities. However, the optimal mix was never determined and previous reports had not identified the optimal percentage of funding from either central or local government sources. It was noted regarding central funding that there is an “equalisation” role for central government to provide financing to local authorities that may have a narrow revenue base and greater expenditure needs than the average. In a contemporary context, the Needs and Resources Model seeks to achieve this task.

The Report examined the system of funding that existed in the mid-1980s and examined its efficiency and effectiveness against a number of criteria. The main advantages of the system were that it was “in existence, it works and is largely accepted”. Some of the criticisms of the system noted during the mid-1990s are still relevant in 2005. The main criticisms were:

- ❑ there is limited discretion for local authorities;
- ❑ there is insufficient revenue buoyancy;
- ❑ the funding system is inequitable;
- ❑ local authorities believe that funding is inadequate.

Within the context of this critique the report examined different funding options. At the outset it noted that “previous reviews have concluded that property taxes, determined locally, are the only viable means of local taxation”. Nevertheless, the report examined each of the main funding options in turn.

The first option examined related to the application of charges. It noted that charges are placed on a wide range of services and that they have clear advantages. However from a feasibility perspective, local acceptability of some charges was an issue.

Regarding a local property tax, in tandem with previous reviews, it noted its advantages. These included:

- ❑ Easy to administer;
- ❑ Potential to raise substantial revenues;
- ❑ Potential to be equitable.

However, the report noted the political issues in gaining acceptance for such a tax.

Regarding proposals for a local income tax, the report suggested that there were advantages of such a tax: it was directly linked to ability to pay, paid by income earners and could be collected at source. It could also have the capacity to raise significant resources for local authorities. In the context of the overall structure of the tax burden, a downside of a local income tax recognised in the report was that it would not widen the tax base. The often-quoted design and implementation issues were also raised.

In this context, the apportionment of some existing tax revenues to local authorities was another option considered. However, it was felt by the Review that this would retain a high degree of central control and would be analogous to a centralised grant system. Consequently, it would not allow for sufficient local discretion that the Review Group believed was necessary.

A local sales tax was also considered. It was seen to have notable disadvantages in that it could lead to a re-location of activity across county boundaries. There would also be design issues, particularly within the context of EU regulations on VAT.

Finally, the Report concluded that "the commercial rates base should be extended to include all bed and breakfast accommodations and non-residential agricultural buildings". It also stated that "there is scope to raise additional revenues from local authority charges".

The issue of effective service delivery was also examined as part of this 1996 study. In particular, the study assessed the view that contracting certain existing activities to private operators, or commercialising services, could bring significant gains. The report suggested that "there was a need to substantiate these views through research on the impact of such local actions".

In summing up the overall conclusions from this Review, the following is notable:

"If the proposed investment programmes do proceed, then either the existing sources of funding will have to provide the increased revenues needed or, alternatively, a revised structure involving different funding sources could be considered. For the existing sources to provide the funds needed, the increases required will be greater than the anticipated rate of inflation. Furthermore, further real increases in local government expenditure are anticipated after 2000. A weakness in the existing funding structure is the low level of buoyancy. Amending the existing structure, by replacing some sources of funding with a local income tax or local property tax, would provide some degree of buoyancy, without increasing the overall burden of taxation. This would allow for future needs to be met through a combination of a new local tax and relatively lower increases in the remaining existing funding sources".

### **3.3 The Financing of Local Authorities - National Economic and Social Council (1985)**

In May 1985, the National Economic and Social Council prepared a report entitled "The Financing of Local Authorities". The Report was highly critical of the existing funding system. In particular, it noted that "the present arrangements for financing local authorities owe much to past expediency but little to reason". Its criticisms echoed previous reviews and noted that:

- ❑ the current system had a local tax base which has no electoral franchise;
- ❑ local authorities levy local charges in a way which is perceived as taxation (i.e. it raises revenues which exceed that actual cost of services provided); and
- ❑ the "bulk" of the revenue is supplied by central government.

The Report posed the fundamental question, namely should discretion be restored to local authorities in determining their overall levels of expenditure, or should they lose that discretion?

In this debate, the NESC Report stressed that there were benefits with centralised or decentralised systems. It highlighted approaches where local authorities are funded from central government sources and do not have access to a local tax source. In this approach, local government funding would involve a series of specific grants for services of a national character that are delivered by local agents. Under the current system in Ireland, this is the practice across a number of programme areas. In addition, it was suggested that there would a general grant, analogous to the current Local Government Fund, which would fund other services.

The report identified the merits of local discretion over expenditure and funding. However, it pointed out that local discretion would require local authorities to have a local source of revenue sufficient to form a significant part of their resources. The merits of this arise from the fact that resources would be "raised from the electorate to whom they are electorally responsible".

The NESC report also examined a number of options for changing the funding of local government. Firstly, it explored options for raising revenue at the local level. The options examined included: a payroll tax, a poll tax, taxes on lotteries and gaming, and assigned revenue for central government. Specifically, it examined the following:

- ❑ a local sales tax;
- ❑ a local income tax; and
- ❑ a new form of property tax.

The type of local sales tax considered was one that would be set and raised locally. However, NESC noted it would be subject to European Community constraints, while there would be administrative difficulties given the current VAT and excise duty system. It also suggested that it failed the criterion of accountability. We assume that the Report was of the view that a local sales tax would not form a sufficient link between the beneficiaries of local services and those who pay for these services, and would not necessarily raise funds from the electorate to whom local authorities are responsible.

The report also examined a new local property tax. The tax reviewed had the following features:

- ❑ it would be levied on all land and buildings;
- ❑ it would include agricultural land;
- ❑ it would be based on the capital value of the land or building;
- ❑ the valuation would be decided by local valuers and/or a base index updated by purchase prices;
- ❑ it would be linked to “rebate system linked to income levels with a sliding scale”;
- ❑ it would be centrally determined and funded, but locally administered.

The Report concluded that such a local property tax would improve local accountability, would be administratively feasible and would widen the national tax base. This latter point was considered a major benefit in the mid-1980s, given the high rate of income taxation and the relatively weak contribution to the Exchequer from other tax heads. The Report concluded that a local property tax should be supported by a system of grants from central government. This was because an element of the local government activities equates with national-level services (e.g. national roads). In addition, it was felt that transfers from central government would be required to achieve its equalisation role.

### **3.4 The Commission on Taxation – Special Features Report (May 1985)**

The Commission on Taxation was established in the mid 1980s to review the operation of the tax system in Ireland. As part of its work, the Commission examined the system of local taxation. In this section we summarise its principal findings.

Firstly, the Commission considered the criteria for local taxes and suggested that the following tests should be met:

- ❑ the base must be capable of yielding adequate revenue in each local area;
- ❑ there must be the basis for independent local variation;
- ❑ the impact of variations in the rate of local taxation should be borne by the local electorate.

The Commission suggested that “the reintroduction of local taxation on the lines we recommend should not be used to increase the share of gross domestic product taken in taxation. To the extent that it increases the resources of local authorities, the amounts payable in grants from the central government should be reduced, thereby allowing a reduction in national taxation”.

In assessing funding issues, the Commission on Taxation highlighted the importance of classifying the services provided by local authorities as either local or national. It argued that “the case for devolving administration of these services to local authorities is based on considerations of efficiency and of giving people greater access to services, thus allowing easier contact with local representatives and officials”.

It defined local services as ones which are optional insofar as the “locality has wide discretion over what is done and the manner in which it is done”. These are services where there is scope for local “initiative” and “variety”. Moreover, decisions in respect of these services should remain with the representatives of the local community. It argued that such local services should be financed primarily from local taxation, and that central government support should focus on accounting for local differences in either needs and/or resources.

The Commission on Taxation Special Features Report (May 1985) summarised some of the key policy questions as follows:

“The additional costs arising from a system of local taxation are justified only if it is considered desirable to give local authorities real discretion to provide or not to provide services. If they were given the power to provide services but had no responsibility to raise the money to finance them, they would be under no pressure to weigh the costs and benefits of the services concerned. The price for

allowing local authorities discretion in providing services is to supply them with an adequate tax base capable of financing the exercise of this discretion”.

The Commission believed that the introduction of local taxes should satisfy the criteria of equity, efficiency and simplicity. It noted that “efficiency requires that local taxes can be levied at different rates in adjoining local areas without giving rise to serious distortions in trade”, and that the criterion of simplicity imposes particular constraints in the area of local taxation, as it would not be desirable to establish large and complex systems of tax administration at local level.

The recommendations issued by the Commission on Taxation in relation to local government financing are set out in Table 3.1.

<b>Table 3.1: Recommendations of Commission on Taxation</b>	
1.	Charges should be introduced only where they meet the following criteria: the charge is related to the services received; for example, the amount of water used and the cost of providing it and the costs of collection are economically justifiable.
2.	Central government grants to local authorities should be consolidated into a single local taxation support grant, which would be distributed to local authorities on a basis that takes account of differences in their needs and resources.
3.	Should it be decided that a system of local taxation is desirable, a local property tax should be introduced on all residential, industrial and commercial property (excluding land).
4.	Local property tax should be allowed as a credit against income tax liability where the property is used to generate income charged to national income tax.
5.	Companies which retain their rights to incentive reliefs under the old system should continue to have rates, or any form of property tax which may be introduced to replace rates, allowed only as a deduction in computing profits for tax purposes.
6.	Valuations for purposes of local property tax should be self-assessed. The values should be classified into broad bands and should remain valid for a period of five years. Administration and audit of valuations should be the responsibility of local authorities.
7.	Valuations for residential property should be open market capital values on a fee simple basis. Other property should be charged on annual rental values. A formula should be used to relate the two sets of values.
8.	If a local residential property tax is introduced on the lines we propose, there should be unrestricted allowance of real interest on mortgage debt for income tax purposes.
9.	Real property other than residential, commercial and industrial property should be excluded from the scope of the tax.
10.	Local property tax should be levied on the occupier of the property. Tax on empty properties should be charged on the owner.  Payment of property tax should be in a minimum of four instalments.
11.	A waiver scheme for persons on low incomes should be operated through the social welfare system.
12.	The introduction of a local property tax should not be used to increase the share of gross domestic product taken in taxation.
<i>Source: The Commission on Taxation Report – Special Features (May 1985)</i>	



### 3.5 Conclusions

In this chapter we review the most recent studies on the funding and organisation of local government in Ireland. The most recent review of local government financing was undertaken in 1996 for the Department of the Environment, Heritage and Local Government. The report noted that Ireland had a “highly centralised system of financing of local government”. It stated that although local government has been increasingly financed by local sources, the current system was widely regarded as inflexible. This was particularly the case in respect of the limited discretion afforded to local authorities to determine local service levels and related expenditure levels.

In relation to the appropriate mix between local and central funding, the 1996 review noted that previous reports suggested that substantial levels of local funding should be available to local authorities.

The Report examined the system of funding that existed in the mid-1980s, and also examined its efficiency and effectiveness against a number of criteria. Some of the criticisms made in relation to local authority funding included the following:

- ❑ there is limited discretion for local authorities;
- ❑ there is insufficient revenue buoyancy;
- ❑ the funding system is inequitable; and
- ❑ local authorities believe that funding is inadequate.

Within the context of this critique, the 1996 report examined different funding options. At the outset it noted that “previous reviews have concluded that property taxes, determined locally, are the only viable means of local taxation”. Nevertheless, the report examined each of the main funding options in turn.

The 1996 Report concluded that “the commercial rates base should be extended to include all bed and breakfast accommodations and non-residential agricultural buildings”. It also stated that “there is scope to raise additional revenues from local authority charges”. It suggested the introduction of a property tax as the most feasible option for raising additional funding.

The issue of effective service delivery was also examined in the 1996 review. The report assessed the view that contracting certain existing activities to private operators or commercialising services could bring significant gains. In this regard, the report suggested that “there was a need to substantiate these views through research on the impact of such local actions”.

In May 1985, the National Economic and Social Council (NESC) prepared a report entitled "The Financing of Local Authorities". The Report was highly critical of the funding system. It noted that the "arrangements for financing local authorities owe much to past expediency but little to reason". Its criticisms echoed previous reviews and noted that:

- ❑ the current system had a local tax base which has no electoral franchise;
- ❑ local authorities levy local charges in a way which is perceived as taxation (i.e. it raises revenues which exceed that actual cost of services provided); and
- ❑ the "bulk" of the revenue is supplied by central government.

The NESC report examined a number of options for changing the funding of local government. It concluded that a local property tax would improve local accountability, would be administratively feasible and would widen the national tax base. This latter point was considered a major benefit in the mid-1980s given the high rate of income taxation and the relatively weak contribution to the Exchequer from other tax heads. The NESC report concluded that a local property tax should be supported by a system of grants from central government. This was because an element of the local government activities constitutes national-level services (e.g. national roads). In addition, it was felt that transfers from central government would be required to achieve its equalisation role.

The Commission on Taxation – Special Features Report (1985) suggested that, in assessing funding issues, the importance of classifying the services provided by local authorities as either local or national was relevant. It argued that "the case for devolving administration of these services to local authorities is based on considerations of efficiency and of giving people greater access to services, thus allowing easier contact with local representatives and officials".

The Commission report defined local services as those that are optional insofar as the "locality has wide discretion over what is done and the manner in which it is done". These are services where there is scope for local "initiative" and "variety". Moreover, decisions in respect of these services should be left to the representatives of the local community. The Commission argued that such local services should be financed primarily from local taxation and that central government support should be focused on accounting for local differences in needs and/or resources.

The Commission issued a number of recommendations regarding charging. In respect of a property tax, it stated that "Should it be decided that a system of local taxation is desirable, a local property tax should be introduced on all residential, industrial and commercial property (excluding land)".

## **4 International Review**

### **4.1 Introduction**

Experience from other countries can provide some insights to some of the questions of relevance to the debate on local government financing in Ireland, although it is important to take account of specific features of local government in Ireland. Across the OECD countries there are varying models of local government. In most countries, local government has responsibility for planning and infrastructure provision. This is similar to the position in Ireland. However, local governments in a number of OECD countries also have responsibility for public spending in areas such as education, health and social transfers, which are central government functions in Ireland. The scale of other countries is also important in reflecting on the appropriate functions for Local Government.

### **4.2 Overview of Local Government in Europe**

The first point to highlight is that the size, functions and financing of local governments in Europe vary significantly. The Czech Republic and France have the smallest local authority units, which are responsible for an average population of 1,600. At the opposite extreme, the UK has the largest units of local authorities with an average population of 135,700, followed by Lithuania (60,500), Ireland (44,900), Portugal (36,000), Netherlands (32,200) and Sweden (30,700). The details are included in Table 4.1. Local elections are generally held every 4 years, although in Austria, Belgium, Cyprus Ireland, Italy and Luxembourg the intervals are longer with a maximum of five years (Dexia Editions (2004)). This suggests that while Ireland has a large number of local authorities per head of population compared to the UK, the position is not unusual in a EU context.

**Table 4.1: Selected Data for Selected Countries-2004**

	Average population per municipality
Austria	3,400
Belgium	17,400
Cyprus	1,800
Czech Republic	1,600
Denmark	19,700
Estonia	5,500
Finland	11,600
France	1,600
Germany	5,900
Greece	10,200
Hungary	3,200
Ireland	44,900
Italy	7,100
Latvia	4,300
Lithuania	60,500
Luxembourg	3,700
Malta	5,800
Netherlands	32,200
Poland	15,500
Portugal	36,000
Slovakia	1,900
Slovenia	10,300
Spain	4,900
Sweden	30,700
UK	135,700
<i>Source: Dexia Editions, 2004</i>	

An important issue in assessing local government financing is the extent of fiscal discretion or autonomy of local government. This is defined as the control local government has over their revenue base and is related to the issue of vertical fiscal balance (i.e. the extent to which local authorities depend on their resources on transfers from higher levels of government). Central to this discussion is the view of local government as an agent of central government or as an agent of choice for local communities. In an agency model local government implements policies decided centrally. In a choice model, local governments are a means for enabling local decisions, which accord with their preferences.

In addressing this issue we examined data on revenues per level of government for a selection of countries. Data are available on taxes as a percentage of income by level of government for the EU 25. This is based on the ESA95 national accounting framework, which classifies taxes according to the different units of Government, namely:

- ❑ central or federal or national government;
- ❑ regional government;
- ❑ local government;
- ❑ social security funds.

Data on tax revenues are described as ‘ultimately received’ tax revenues. This means that the percentages reported include the sectors own revenues plus revenues that are shared between different layers of government. In other words, it could include revenues collected centrally but which are re-distributed to sub-levels of government. Accordingly, while useful these data do not provide an indication of the level of discretion local government would have over their tax rates or base. It should also be highlighted that the data do not include grants, which are transferred between different layers of government.

Table 4.2 outlines taxes, as defined above, by local government over the period 1995-2002. These are expressed as a percentage of GDP<sup>7</sup>. In Ireland the share of local taxes amounted to an estimated 0.6% of GDP, which is at the lower end of the scale. In a number of countries, for example Denmark and Sweden, local government has access to a more significant share of resources. Overall the average for the EU countries is below these countries at an estimated 3.9% of GDP.

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<sup>7</sup> The usual caveat holds in respect of measures of national income for Ireland in that GNP is a better measure of available resources than GDP.

Table 4.2: Taxes by Local Government as a % of GDP - 1995-2002

	1995	1996	1997	1998	1999	2000	2001	2002
Belgium	2,1	2,2	2,3	2,2	2,2	1,9	2,1	2,2
Czech Rep.	4,9	4,3	4,3	4,3	4,0	4,1	3,8	4,4
Denmark	15,5	15,5	15,6	15,9	16,1	16,2	16,8	16,9
Germany	2,6	2,7	2,7	2,9	3,0	3,0	2,8	2,7
Estonia	-	-	-	-	-	-	-	4,6
Greece	0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,3
Spain	2,9	2,9	3,0	3,2	3,2	3,2	3,1	3,0
France	4,6	4,8	4,7	4,7	4,7	4,3	4,2	4,2
Ireland	0,9	0,8	0,8	0,7	0,7	0,6	0,6	0,6
Italy	3,2	3,5	3,5	5,8	5,4	6,2	6,4	6,3
Cyprus	-	-	-	0,5	0,5	0,4	0,5	0,4
Latvia	6,8	7,0	5,8	6,0	5,8	5,3	5,1	5,3
Lithuania	5,9	5,6	3,5	6,0	6,6	6,1	5,8	2,8
Luxembourg	2,7	2,8	2,5	2,5	2,3	2,3	2,3	2,6
Hungary	-	-	-	-	-	-	4,1	4,1
Malta	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Netherlands	1,3	1,4	1,4	1,4	1,4	1,4	1,4	1,5
Austria	5,1	5,3	5,3	5,2	5,2	5,1	5,2	4,9
Poland	3,4	3,7	4,3	4,6	4,1	3,6	3,9	4,0
Portugal	1,7	1,8	1,8	1,9	2,2	2,2	2,1	2,1
Slovenia	2,6	2,6	2,6	2,6	2,8	2,8	2,9	2,9
Slovakia	-	-	-	-	-	-	-	-
Finland	10,2	10,8	10,1	10,1	10,2	10,4	10,2	9,9
Sweden	14,5	15,7	15,5	15,5	15,5	15,3	15,9	16,2
United Kingdom	1,3	1,3	1,3	1,4	1,4	1,5	1,5	1,6
EU 25	3,6	3,7	3,7	4,0	4,0	4,0	4,0	3,9

Source: European Commission, Structures of the Taxation Systems in the European Union

Table 4.3 overleaf indicates the level of local taxation as a percentage of total revenue. This provides some measure of fiscal autonomy as measured in terms of taxes and charges raised locally. However, it may not provide a comprehensive guide to the extent of fiscal autonomy as central government may actually control, for example, the rate of local taxation.

**Table 4.3: Taxes by Level of Government as a % of Total Taxation- 1995-2002**

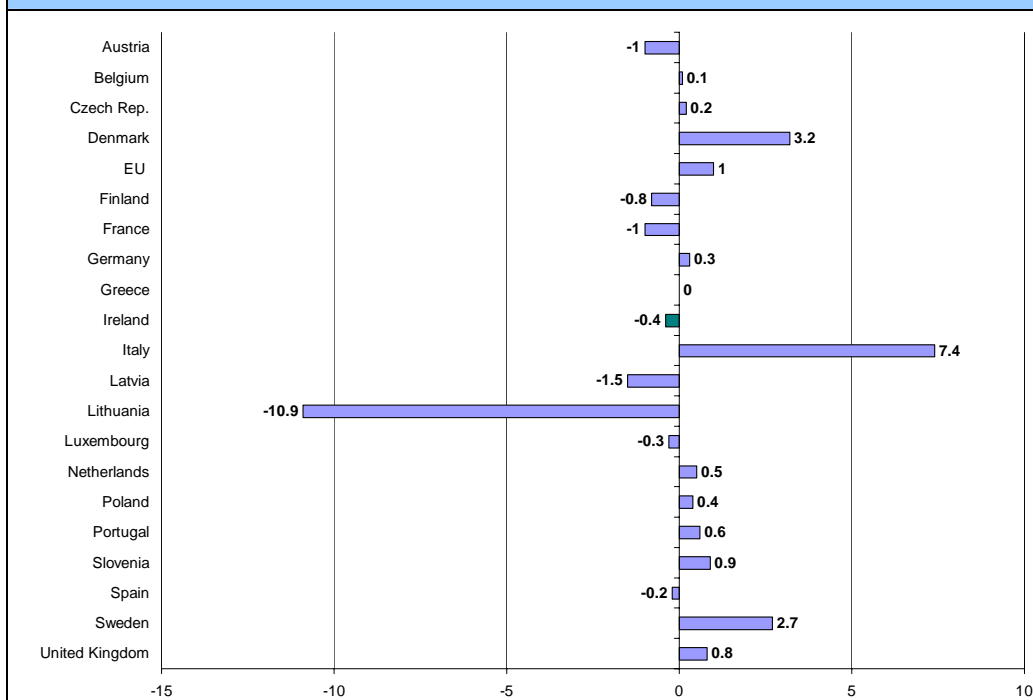
	1995	1996	1997	1998	1999	2000	2001	2002
Belgium	4,7	4,8	5,0	4,7	4,8	4,2	4,7	4,8
Czech Rep.	12,3	11,1	11,3	11,8	10,8	12,0	11,1	12,5
Denmark	31,4	31,1	31,3	31,8	31,3	32,7	33,7	34,5
Germany	6,4	6,5	6,6	7,0	7,1	7,0	6,8	6,7
Estonia	-	-	-	-	-	-	-	12,9
Greece	0,9	1,0	1,0	0,9	0,8	0,8	0,9	0,9
Spain	8,7	8,5	8,8	9,2	9,2	9,0	8,8	8,4
France	10,4	10,6	10,4	10,4	10,2	9,6	9,3	9,5
Ireland	2,6	2,5	2,4	2,2	2,1	2,0	2,1	2,3
Italy	7,8	8,2	7,9	13,3	12,5	14,4	14,9	15,2
Cyprus	-	-	-	1,8	1,6	1,4	1,5	1,3
Latvia	18,3	20,5	16,2	16,1	16,2	15,9	16,1	16,8
Lithuania	20,6	19,8	11,9	18,8	20,3	20,1	19,8	9,8
Luxembourg	6,4	6,6	6,1	6,2	5,7	5,7	5,7	6,1
Hungary	-	-	-	-	-	-	10,3	10,6
Malta	-	-	-	-	-	-	-	-
Netherlands	3,2	3,4	3,5	3,5	3,4	3,4	3,6	3,7
Austria	12,0	12,1	11,9	11,8	11,7	11,7	11,5	11,0
Poland	9,8	9,6	11,2	12,3	11,1	10,0	9,6	10,2
Portugal	5,2	5,2	5,2	5,6	6,0	5,0	5,8	5,8
Slovenia	6,3	6,6	6,7	6,6	7,1	7,2	7,3	7,2
Slovakia	-	-	-	-	-	-	-	-
Finland	22,3	22,8	21,7	21,8	21,7	21,6	22,1	21,4
Sweden	29,3	30,2	29,5	29,2	28,8	28,4	30,4	32,0
United Kingdom	3,7	3,8	3,8	3,8	3,9	3,9	4,1	4,4
EU 25	8,8	9,0	8,8	9,7	9,5	9,6	9,6	9,8

*Source: European Commission, Structures of the Taxation Systems in the European Union*

For Ireland the European Commission estimate that local taxes amounted to 2.3% of total taxes in 2002. This compares to an average of 9.8% for the EU-25 as a whole.

Changes over the period 1995 to 2002 suggest that there has been an increase in the importance of local taxes. Over the period, 12 of the countries for which data were available show an increase in the relative importance of such taxes whereas they were declining in the other 8 countries. For the EU, the share increased from 8.8% in 1995 to 9.8% in 2002 (see Figure 4.1).

**Figure 4.1: Changes in Local Taxes as a % of Total Taxation - 1995 to 2002**



Source: Indecon analysis.



### 4.3 Conclusions

Experience from other countries provides insights to some of the questions of relevance to the debate on local government financing in Ireland. Across the OECD countries there are different models of local government. In most countries, local government has responsibility for planning and infrastructure provision. This is similar to the position in Ireland. However, local government in a number of OECD countries also has responsibility for public spending in areas such as education, health and social transfers which are central government functions in Ireland.

The first issue to highlight is that local governments in Europe vary significantly in size. While Ireland has a large number of local authorities per capita compared to the UK our portion is not unusual in an EU context and many countries have a greater number of local authorities per capita.

The second issue we examined is the extent of fiscal discretion or autonomy of local government. This is defined as the control local government has over their revenue base and is related to the issue of vertical fiscal balance. We also examined the balance between central and local sources of funding. Generally, it seems that most countries rely on a significant amount of transfers from the centre and that this percentage has been increasing over time. This reflects attempts to support regional policy through horizontal fiscal equalisation but does place local authorities in a difficult position during a period of national austerity. However, recent evidence suggests that support for fiscal autonomy is growing as policy attempts to improve accountability and incentives for efficiency.

Ireland has a more centralised funding system than some other EU countries, and local sources of funding account for a relatively lower share of local government revenue. For example,

- Taxes by local government as a percentage of GDP were 0.6 in Ireland compared with an EU average of 3.9%;
- Local taxes amounted to 2.3% of all taxes compared to an average of 9.8% for the EU 25 as a whole.



## 5 Review of Local Government Funding in Selected Countries

### 5.1 Introduction

We now discuss in more detail the features of local government financing in a selection of countries. This can assist in placing Ireland's position in a comparative context and in identifying potential policy issues that should be considered. It was felt useful to review the different experiences of a number of EU and non-EU countries in terms of the financing of local authorities. In particular, our analysis covers the following countries: Italy, Germany, New Zealand, Australia, Canada, England and the UK.

### 5.2 Italy

Sub-central government in Italy consists of 20 regional governments, 103 provinces, and 8,100 municipalities. Five of the regions – Special Statute Regions (SSRs) have wider powers than the other fifteen, which are called Ordinary Statute Regions (OSRs). The SSRs are either large islands (Sicily and Sardinia) or areas close to the border. The OSRs have powers to spend on health, welfare, agriculture, tourism, the environment, housing and vocational training, and either exercise these powers directly or delegate them to local governments. Spending by regions is about 8% of GDP.

Municipal functions include local police, public hygiene, social welfare, court buildings, education, local streets, refuse collection, street cleaning, planning and zoning, urban transport, gas and electricity (Emiliani et al (1997)). Overall, total local government revenue, including that of the regions amounted to 14.2% of GDP (Franschini (2002)).

A key feature of sub-national government in Italy is the national split between the wealthier and more efficient centre-north of Italy and the south. There is debate about the equalisation formula and minimum standards, with wealthier regions keen to reduce equalisation payments (Raimondo (2002)).

The 1990s has seen an overall move towards decentralisation to sub-central government. At the start of the 90s OSRs received 95% of their finance from central government and had almost zero fiscal autonomy (Zanardi (2003)). There was a major decentralisation of funding to the regions in 1993 when health service payroll tax contributions and automobile taxes were allocated to the regions. In 1995 a share of petrol tax was assigned to the regions and the central grant reduced and in 1997 a tax on production called IRAP and personal income tax surcharge were implemented at the regional level. These changes were introduced to increase local autonomy.

In 1999 health fund transfers were abolished and the regions were allocated new shares of central taxes on VAT and income tax and were given the power to adjust the rates of these taxes in 2001. Equalisation was also reformed in 1999 to adjust VAT shares to estimated health needs. Finance raised from local tax increases was also released for the purposes of spending on any regional function. Together these reforms do much to remove the problem of soft budget constraints that had plagued Italian local finance.

In October 2001, the government enacted a major devolution reform, introducing a principle of subsidiarity and giving regions equal constitutional status with central government and devolving functions to them under shared competency, with the exception of defence, foreign policy, national police and setting national levels for social services (Arachi and Zanardi (2004), p. 351-2). The reform is to be implemented in a long process scheduled to last until 2013 (Bosi and Onofri (2003)). At the same time as introducing devolution, this legislation increases the extent of shared political responsibility for services between central and local government, particularly in education, and it is argued this may work against financial accountability (Bosi and Onofri (2003), Zanardi (2003)).

For the municipalities, which spend around 6% of GDP, local property taxes are the main source of finance – a change introduced in the early 1990s, matched by a reduction in central grant. Municipalities also began to receive a share in IRAP in 1997, compensating for the abolition of some other local taxes, and a municipal surcharge on personal income was introduced in 1998. Table 5.1 shows the main sources of finance for 1999.

Regional and local tax receipts are estimated at 19% of total tax revenues for 2002. The increased decentralisation of revenue for local governments has increased the variability of their funding with the economic cycle (Raimodo (2002)). In 1999 a “performance reserve” was put in place, which set aside a 4% and 6% reserve used to incentivise administrations to achieve various performance benchmarks and aimed at encouraging both competition and partnership between different levels of government. Regional administrations have set up reward sharing systems to encourage local authorities to contribute to the achievement of objective (Raimodo (2002)).

<b>Table 5.1: Finance of Local Government - Italy - Million Lire</b>		
	<b>1999 - Current Income</b>	<b>%</b>
Income from taxes	36,176	29.2
Sales of goods and services	10,902	8.8
Income from capital	5,315	4.3
Grants	34,020	27.5
Other forms of income	3,775	3.1
	<b>Capital account</b>	
Grants	17,636	14.3
Other forms of income	2,214	1.8
	<b>Other Receipts</b>	
Collection of credits	3,773	3.0
Other financial entries	9,906	8.0
<b>Total</b>	<b>123,717</b>	<b>100.0</b>
<i>Source: Frascini (2002)</i>		

### 5.3 Germany

The structure of modern Germany dates from 1949, with the constitution (basic law) placing primary powers with the *Länder* (states), although this tier has “experienced a continuous erosion of its original competencies in favour of the federal government” (Spahn and Föttinger (1997)). The 11 regions of the former West Germany were expanded to 16 under reunification with the East in 1990.

The broad division of expenditure responsibilities is as follows. The federal government has exclusive powers for foreign policy, defence, citizenship, immigration, currency and air transport and shared powers in criminal and civil law, and highways. The *Länder* have powers over culture, health, education, public security and regional development, and the Communes have responsibility for local public services, local health care delivery centres, school buildings, housing and roads.

Any functions not attributed in the basic law are attributed to the *Länder*. Provision of functions is strongly integrated across the levels of government. In 1995, the spending shares were 35% federal government, 38% *Länder* and 27% communes (CFI (2001)). Table 5.2 shows the distribution of spending responsibilities across levels of government.

<b>Table 5.2: Distribution of Spending for Different Levels of Government - Germany - 1998</b>					
	<b>Federal government</b>	<b>Social security</b>	<b>Länder</b>	<b>Communes</b>	<b>All</b>
Public security	10.2	-	60.9	29.0	100
Law enforcement	3.5	-	96.5	-	100
Schools and pre-schools	0.0	-	71.9	28.1	100
Universities	9.6	-	90.4	-	100
Other education	23.4	-	38.8	37.8	100
Research & development outside universities	69.7	-	28.3	2.0	100
Culture	3.4	-	48.2	48.5	100
Social security	18.9	71.0	4.3	5.7	100
Health, sports, recreation	15.3	-	38.5	46.2	100
Housing and area planning	7.5	-	25.1	67.4	100
Nutrition, agriculture	30.7	-	66.1	3.2	100
Energy, water, financial aid to enterprises	66.8	-	26.9	6.3	100
Transport, communication	44.0	-	28.0	28.0	100
<i>Source: Wurzel (2003)</i>					

The structure of provision of local services is based on a system where lower levels of government often carry out functions on behalf of higher levels. Decision-making on policies is often at the more centralised level and execution at the local level and there is a strong emphasis on revenue sharing. There is therefore a strong theme of intergovernmental integration – as an example health and education provision involves all three levels of government (CFI (2001)).

This overlapping of responsibilities also extends to taxation, where, although tax legislation is centralised, there is a high degree of revenue sharing. As well as this sharing of revenues there is a strong equalisation objective, with the constitution incorporating a principle of uniformity of living conditions throughout the nation, and as well as revenue sharing, there is a three-part system of horizontal equalisation (CFI (2001), Wurzel (2003)). Equalisation is basically driven by differences in revenue raising rather than differences in needs.

The *Länder* are represented in the federal government in the Bundesrat and this means that legislation affecting the *Länder* needs to be aimed at gaining their assent. This is one of the reasons that the system as a whole emphasises solidarity, co-operation and consensus and operates in a highly centralised way.

The system of overlapping expenditure responsibilities and the intermixed revenue and equalisation system has the effect of greatly reducing incentives for *Länder* and communes to raise local tax revenue or efficiency because the results of such changes are largely removed by equalisation. For the same reason, *Länder* are seen to put little effort into tax auditing, because little of the increased revenue remains with the body that collected it.

Although equalisation is a major part of the local finance system, it has not acted to reduce strong inequalities in living standards – notably the disparities between the original *Länder* of the west and the new *Länder* of the east. The main element of transfers to the new *Länder* is provided for under the re-unification *Solidarity Pact* and payments are equal to about 0.5% of GDP. The *Solidarity Pact* dates from 1995 and was due to expire at the end of 2004; however, a new *Solidarity Pact II* has been negotiated, and tied to progress reports on *Länder's* use of funds (Wurzel (2003)).

Recently, as a result of complaints and action in the Federal Constitutional Court by wealthier *Länder*, the system of equalisation has been modified to take effect from 2005 to provide more incentive towards tax collection. Further reform suggested by commentators would involve basing equalisation on estimated taxable capacity rather than actual revenues raised. There has also been criticism of “opaque” systems of co-financing for projects working against efficiency and accountability.

Local finance in Germany can be argued to focus on solidarity at the expense of subsidiarity. An objective of reform of the system would aim to place local governments more in a position leading to “more responsible decision making, thus balancing additional revenue with additional expenditure” (Zimmerman (1999)).

## 5.4 New Zealand

In New Zealand local government is independent of central government. The Local Government Act places an obligation on each local authority to be directly accountable through the annual budgeting process to its own community for the ways in which it will allocate resources. It also has steadily withdrawn from central government financial assistance and subsidies to local government. Currently local government funding is primarily locally sourced. The balance comprises mainly financial assistance from central government for land transport.

The councils comprises of regional and territorial (city and district) councils. There are 12 regional councils and 74 territorial councils including 16 city councils and 58 district councils.

Local government expenditure accounts for about 3.5% of GDP and has annual operating expenditure of \$3.3 billion and annual capital expenditure of \$800 million. It contributes approximately 35,000 jobs (as at June 97). It has assets worth \$36 billion.<sup>8</sup>

The regional councils manage environmental issues, resource management, public transport and regulations administered at the regional level. The functions of the territorial authorities are to provide local services such as water, rubbish collection and disposal, sewage treatment, parks, reserves, street lighting, roads, libraries, sports, leisure facilities, museums and art galleries and building control.

The regional and local councils are combined into one unitary organisation in the four parts of New Zealand: Gisborne, Marlborough, Tasman and Nelson City. These four authorities are known as "unitary authorities" because they have responsibilities of both territorial and regional councils -these are Nelson City Council, Tasman District Council, Marlborough District Council and Gisbourne District Council.

All district and city councils are controlled by elected bodies of Mayors and Councillors that are elected every three years. Regional Councils vote for their own chairperson.

### 5.4.1 Functions<sup>9</sup>

All councils are subject to planning and management disciplines under the law which include:

- ❑ Separating the setting of policy from operational functions;
- ❑ Preparing annual plans and budgets in consultation with their communities;
- ❑ Reporting annually on performance in relation to plans;
- ❑ Preparing long-term financial strategies including funding, borrowing management and investment policies;
- ❑ Adopting accrual accounting practices and valuing their assets;
- ❑ Competitive pricing procedures;
- ❑ Preparing policies and plans concerning other functions, especially resource management, land transport and bio-security.

In addition to the above functions that are performed by all councils, the regional and territorial councils are responsible for some specific functions, these are given below.

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<sup>8</sup> <http://www.lgnz.co.nz/faq/general/index.html>

<sup>9</sup> <http://www.lgnz.co.nz/lg-sector/role/index.html>



The functions of regional councils are:

- ❑ management of the effects of use of freshwater, coastal waters, air and land;
- ❑ bio-security control of regional plant and animal pests;
- ❑ river management, flood control and mitigation of erosion;
- ❑ regional land transport planning and contracting of passenger services;
- ❑ harbour navigation and safety, marine pollution and oil spills;
- ❑ regional civil defence preparedness.

The functions of territorial councils (district and city councils) are:

- ❑ community well-being and development;
- ❑ environmental health and safety (including building control, civil defence;
- ❑ environmental health matters);
- ❑ infrastructure (roads and transport, sewerage, water/stormwater);
- ❑ recreation and culture;
- ❑ resource management including land use planning and development control.

### **5.4.2 Funding<sup>10</sup>**

The main funding sources of local government include property rates, user charges, fees, some central government financial assistance and fuel taxes. The rating and charging authority to the Councils has been granted since 1988 and remain an important source of local tax revenue for local government. In 1996 changes were made to the legislation, which radically reformed the regime, giving councils the right to make financial management policies.

The 1996 reforms to the local government signalled changes and a new approach for local government on how to undertake its financial planning and management responsibilities. This requires councils to establish policies on how they fund expenditure needs on investment, on borrowing management and on security for loans.

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<sup>10</sup> <http://www.unescap.org/huset/lgstudy/country/newzealand/nz.html>

This reform legislation also required the council to prepare every three years a long-term financial strategy covering at least the next ten years. The strategy contains estimates of operating expenditure for each year, the reasons for this expenditure and the proposed ways of funding it. Councils are also required to prepare a borrowing and investment policy. Councils are permitted to borrow the funds required to build capital works such as water and drainage systems with residents paying only the annual cost of that borrowing. Thus, this gives councils the powers:

- ❑ To make financial and infrastructure provision for their communities' long-term needs (e.g. libraries, swimming pools, parks and outdoor recreation facilities, art galleries and cultural activities, job creation, housing); and
- ❑ To provide greater legal autonomy (but subjected councils to increased rigour in explaining their financial management policies) and greater transparency.

The main principles that councils are obliged to address in making their funding policies and allocations are based on the user pay principle (i.e. that the costs of expenditure be borne by those who benefit).

## 5.5 Australia

Australia has six states and two territories, and has been a federation since 1901. The federal government's responsibilities include foreign affairs, defence, immigration, trade, currency, pensions, unemployment insurance and family allowances (CFI (2001)).

### 5.5.1 Local government and councils

The local government in each state operates through the local councils. They range in size, population, and structure and in the services they provide. A council can be made up of a group of suburbs, a town or a rural area.

Councils operate within the legislative framework laid down by the State Government and are part of the democratic framework of Australia. The community elects their Council members every three or four years (varying across the states). The elected members make up Local Government Councils, with the help of the support staff and local communities provide services to the people who work, live, do business and visit local Council areas.

The Councils generally maintain and manage community infrastructure and invest in providing services to the community. They have the powers to raise revenue, (primarily through Council rates), regulate activities (such as building development) and impose penalties if local regulations are breached.

Councils largely operate autonomously within the framework of the legislation and are primarily accountable to their local communities. They are generally not subject to Ministerial direction by either State or Federal Governments.

The functions of state governments include public order, health, education, administration, transport and maintenance of infrastructure. Revenue consists of taxes on property, on employers' payrolls, and on provision and use of goods and services and grants from the Australian Government, which includes an allocation of general sales tax (GST) revenue.

Local government authorities provide services for cities, towns, shires, boroughs, municipalities and district councils. Functions vary but cover such services as construction and maintenance of roads, streets and bridges, provision of water, sewerage and drainage systems, health and sanitary services, building standards and regulating slaughtering, weights and measures. They also provide transport facilities, hospitals, charitable institutions, recreation grounds, parks, swimming pools, libraries, museums and other undertakings. Revenue consists of property taxes and grants from the Australian Government and their parent state governments.

### **5.5.2 General local government and council functions**

Specifically, the functions of the Local Councils in Australia include the following:<sup>11</sup>

- ❑ Economic Development: including employment /training programs, business support and industry development and assistance;
- ❑ Revenue collection: including rates, fess and charges collection;
- ❑ Transport and Roads facilities: including bridges, footpaths, bicycle paths and nature strips, traffic control, management, lighting and drainage of roads. Also road closures, parking and parking infringements;
- ❑ Building and Planning services: including inspections, licensing, certification, enforcement, development approval, planning, land use and building control;
- ❑ Property services: including water, drainage, sewerage, gas, electricity, and street maintenance and cleaning;
- ❑ Sports and Recreation facilities: such as parks, sports fields, golf courses, swimming pools, sport centres, halls, camping grounds, caravan parks, leisure, gardens and reserves;

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<sup>11</sup> [http://www.perth.wa.gov.au/html/ser01\\_.php](http://www.perth.wa.gov.au/html/ser01_.php)

- ❑ General public services: including works and services, emergency services, pest/animal control, plant control, bush fire prevention and litter control;
- ❑ Environmental management and conservation services: rubbish collection and disposal, recycling, septic tank effluent disposal schemes and control of public nuisances and monitoring of sanitary conditions;
- ❑ Health services: such as water and food inspection, immunisation services, toilet facilities, noise control and meat inspection and animal control;
- ❑ Community services: such as child care, aged care and accommodation, cemeteries, community care and welfare services;
- ❑ Other services: Any other functions relating to the peace, order and good of the municipal district.

State and local government expenditure responsibilities greatly exceed their own sources of finance and there is therefore a high degree of vertical fiscal imbalance. The details are set out in Table 5.3.

<b>Table 5.3: Vertical Fiscal Imbalance - Australia - 1999-2000</b>			
	<b>Own-source revenues</b>	<b>Own-purpose outlays</b>	<b>Ratio of own source revenues to own purpose outlays</b>
Commonwealth	69%	55%	1.25
State	25%	39%	0.64
Local Government	5%	7%	0.71

*Source: adapted from Searle (2002)*

### 5.5.3 Local government funding

The funding of Local Government is either in the form of revenue raised by the Local Councils through Council rates (ordinary and/or special rates), charges and fees and the funding provided by the Commonwealth through grants and borrowing. Some of this is managed through the Local Government Departments in each state. However, the main funding sources are rates and charges and grants from the Commonwealth and State.

### ***Rates and Charges***

A council must make an ordinary rate each year. The amount of the ordinary rate may differ according to the category of the land to which it applies. It also has the authority to levy special rates, which may be levied for services provided by the council (such as water supply) or for special purposes.

In Australia council has two choices in determining the structure of a rate (whether an ordinary rate for a category or sub-category of land or a special rate):

- ❑ Rate based on property value or ad valorem: this rate is based on an ad valorem basis where the rate is applied uniformly to the rateable value of the property;
- ❑ Two-part structure rate: This rate has a two-part structure. The first part is the base amount that is the same for each parcel of rateable land subject to the rate. This base amount is determined by the council to cover the general operating costs of the council or to cover the cost of providing the specific service or facilities to which it relates. The second part is an ad valorem amount. The two parts are added together to produce the amount of the rate to be paid in respect of the rateable parcel. If a council makes a rate with a two-part structure, the application of the base amount for the rate (or the category or sub-category of the rate) must not produce more than 50% of the total revenue derived from the rate (or the category or sub-category of the rate).

Special provisions are made for the rating of vacant land. A charge may be made in relation to specified services provided by a council (such as the provision of water, sewerage or drainage services or the collection of garbage).

### **5.5.4 Grants and Borrowing**

Funding by the Commonwealth (or Federal) to Local Government is provided in two components:<sup>12</sup>

- ❑ General purpose untied grants are distributed between the States and Territories according to population (i.e., on a per capita basis).
- ❑ Identified local road grants are distributed between the States and Territories based on historical shares.

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<sup>12</sup> <http://www.dotars.gov.au/localgovt/fags/index.aspx>

A local Government Grants Commission exists in each State and the Northern Territory to determine the level of funding to distribute to Local Government authorities in line with Commonwealth Legislation and on the basis of agreed National Principles. Financial Assistance Grants to Local Government are currently provided under the Local Government (Financial Assistance) Act 1995.

## 5.6 Canada

Canada is a federal country with ten provinces, three territories and almost 5,000 units of local governments. The federal government has responsibility for national debt, currency and taxation, unemployment insurance, regulation of trade, defence, foreign affairs, criminal law, and any areas not explicitly allocated to the provinces. The provinces exist independently of the federal government rather than constitutionally below them, and are responsible for education, health, social assistance, civil law and administration of justice, municipal affairs, licensing, management of public lands and non-renewable natural resources and forestry (Krelove et al (1997), Boadway and Watts (2000)).

Provinces, like the federal government have the power to tax and hence there is sharing of personal income taxes and general sales taxes. Municipalities are “creatures of the provinces” with their operations governed by provincial statutes, and their responsibilities differ between provinces, but municipalities tend to have responsibility for roads, streets, snow removal, public transit, police and fire and water, sewage and refuse collection and disposal, and often recreational and cultural services (Kitchen (2002)).

Table 5.4 shows federal, provincial and local revenues as a percentage of GNP for recent years. Local government, which is the smallest element of their decentralised structure, accounts for over 5% of national income.

**Table 5.4: Government Revenue (excluding grants) as a percentage of GNP**

Year	Federal	Provincial	Local	Total <sup>1</sup>
1970	16.7	13.5	5.6	37.3
1980	15.6	16.4	5.3	39.1
1985	16.0	17.3	5.2	40.4
1990	17.9	18.6	5.8	44.6
1992	18.9	18.4	6.2	46.0
1993	18.0	18.6	6.2	45.3
1994	17.5	19.1	6.0	44.9
1995	17.7	19.0	5.8	45.0
1996	18.0	19.4	5.7	45.5
1997	19.2	19.2	5.7	46.3
1998	19.0	18.8	6.0	46.3
1999	18.7	18.7	5.7	45.6
2000	18.7	18.9	5.1	45.6
2001	18.0	18.3	5.1	44.5
2002	17.1	17.8	5.1	43.0

Source: Treff and Perry (2003) Appendix B.

<sup>1</sup>Includes Canada Pension Plan and Quebec Pension Plan

Table 5.5 overleaf shows federal, provincial and local expenditure as a percentage of GNP for recent years. Local and provincial spending is in excess of federal spending. Provincial governments are responsible for the largest share of spending.

<b>Table 5.5: Government expenditure (excluding grants) as a percentage of GNP</b>				
<b>Year</b>	<b>Federal</b>	<b>Provincial</b>	<b>Local</b>	<b>Total<sup>1</sup></b>
1970	13.2	14.3	10.1	37.7
1980	15.5	17.4	9.4	43.1
1985	19.2	19.3	9.1.1	49.0
1990	18.6	20.2	9.6	50.4
1992	19.5	22.5	10.6	55.1
1993	19.1	21.9	10.4	54.0
1994	18.0	21.0	10.1	51.6
1995	17.6	20.4	9.7	50.3
1996	16.6	19.8	9.3	48.3
1997	15.6	19.1	8.9	46.1
1998	15.3	19.4	8.9	46.2
1999	14.6	18.5	8.4	44.0
2000	14.0	18.2	7.9	42.5
2001	13.8	18.9	7.9	43.1
2002	13.3	18.6	7.9	42.3

Source: Treff and Perry (2003) Appendix B.

<sup>1</sup>Includes Canada Pension Plan and Quebec Pension Plan

Because the division of responsibilities between provinces and municipalities varies widely between provinces, the following discussion aggregates municipal and provincial spending under the provinces. The data shows that the provinces are overall less reliant than they were 30 or 40 years ago on federal grants. This decentralisation of funding is rare in inter-governmental relations, and Boadway and Watts (2000) argue that it relates to the fact that provinces are able to levy personal and corporate income taxes, general sales taxes and payroll taxes and can set their rates independently. As the federal government has reduced its grants to provinces, the provinces have expanded into the "tax room" thus vacated.

There is vertical fiscal imbalance both between the federal government and the provinces, with grants from the federal government to the provinces. There is also vertical fiscal imbalance between the provinces and the municipalities with grants from the provinces to their municipalities. There is also significant horizontal imbalance, with some provinces rich in taxable natural resources (Krelove et al., 1997). There are two main elements of federal provincial transfers, equalisation and the Canada Health and Social Transfer (CHST).



Equalisation is confined to equalisation of resources, and is based on the representative tax system approach (RTS) (Boadway (2003)). Thus, Canada does not attempt to equalise for differences in need between the provinces, although it does make needs based grants to the three territories (McLean, 2003). The representative tax system approach is based on work by the Advisory Commission on Intergovernmental Relations (ACIR (1990)) and (Bird (1999a)). The approach involves calculating how much tax revenue a province would collect if it made an average level of fiscal effort (Martinez-Vazquez and Boex (1997)).

The RTS system is calculated on 33 revenue sources that represent most of the sources used by the provinces, including individual and corporate income, sales, payroll and property taxes, excise taxes, capital taxes, natural resource taxes and user fees (Boadway (2003)). For each revenue source the province's per capita tax base is compared with the per capita tax base averaged across five middle income provinces – British Columbia, Saskatchewan, Manitoba, Ontario and Quebec. This shortfall or excess in per capita tax base for the revenue is then multiplied by a national average tax rate for the revenue source to give the provinces per capita equalisation entitlement for that revenue source (which may be positive or negative). These per capita equalisation entitlements are summed across the 33 revenue sources for each province, and those provinces where the sum is positive (“have-not” provinces) the grant is calculated as population x total per capita entitlement (Boadway (2003)).

## 5.7 UK

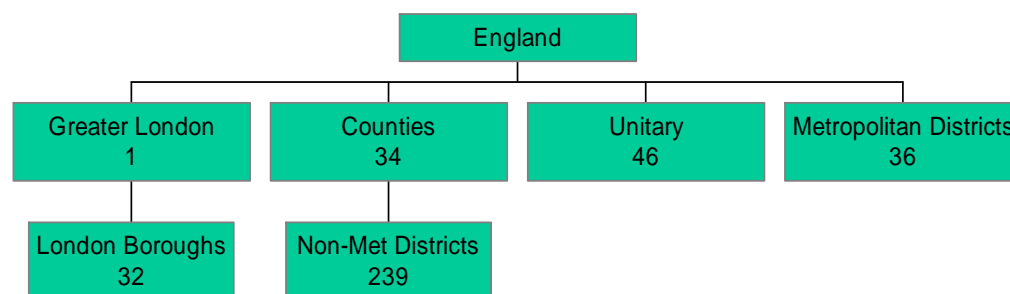
Local government funding is similar in England, Scotland, Northern Ireland and Wales but differences are most marked in Northern Ireland being the least typical. Overall, local government spending amounts to about 8% of national income and 25% of public expenditure (LGFS (2003)).

Local government spending is a devolved function with the local authorities free to decide on finance for local government. Devolved spending is determined by the Barnett formula. Under the Barnett formula, per capita increases in spending for Scotland, Northern Ireland and Wales are set equal to increases in spending per head in England. The operation of the Barnett formula would therefore tend to bring spending per head towards equality for the devolved nations. In practice spending agreed outside the Barnett process has worked against such convergence.

### *Local Government in England*

In England there are some 388 local authorities, set out schematically in the figure overleaf. In addition there are joint boards and authorities in some areas for police, fire and passenger transport.

Figure 5.1: English Local Authorities



In the metropolitan areas, provision is largely through unitary metropolitan district councils, and there are now also 46 unitary councils in the shire areas. The remaining shire areas have a two-tier structure of local government, with the counties carrying out most functions except housing, planning applications, environmental health and tax collection which are the responsibility of the districts and the police service which is the responsibility of joint authorities.

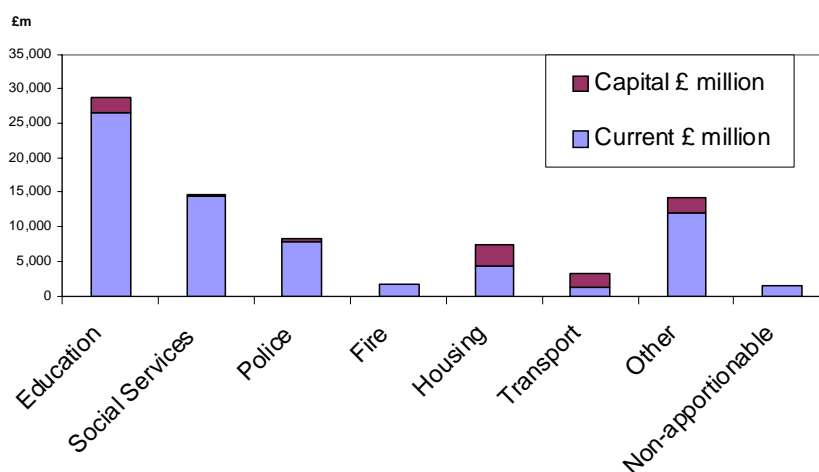
In London most functions are carried out by the London boroughs, or by the City of London, within the square mile. In addition the Greater London Authority has responsibility for strategic planning, transport, highways, police and fire. The division of functions in local government is set out in Table 5.6.

Table 5.6: Local Authority Responsibilities for Services in England								
	Metropolitan areas		Shire areas			London area		
	District Councils	Joint Authorities	County Councils	District councils	Police authorities	City of London	London Boroughs	GLA
		or Unitaries						
Education	✓		✓			✓	✓	
Housing	✓			✓		✓	✓	
Planning applications	✓			✓		✓	✓	
Strategic planning	✓		✓			✓	✓	
Transport planning	✓		✓			✓	✓	
Passenger transport		✓	✓					✓
Highways	✓		✓			✓	✓	
Police		✓			✓	✓		✓
Fire		✓	✓					✓
Social services	✓		✓			✓	✓	
Libraries	✓		✓			✓	✓	
Leisure & recreation	✓			✓		✓	✓	
Waste collection	✓			✓		✓	✓	
Waste disposal	✓	✓	✓			✓	✓	
Environmental health	✓			✓		✓	✓	
Local taxation	✓			✓		✓	✓	
Magistrates' courts	✓		✓			✓	✓	

Source: Adapted from LGFS (2003)

The Figure 5.2 overleaf indicates the distribution of local government spending between functions in England. Education is the largest category, accounting for about a third of local government spending overall. The largest component of education spending is teachers' salaries. Other major areas of spending are social services and police.

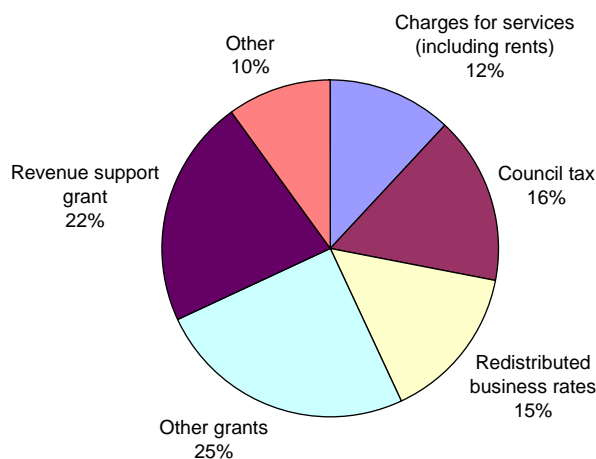
**Figure 5.2: Distribution of Local Authority Spending, England 2001-02**



The figure overleaf shows all local authority income, capital as well as current, including fees and charges. Grants make up nearly 50% of the total. Looking at the current account, and excluding income from fees and charges there are basically three sources of income – central grant, redistributed business rates and council tax. Of these three, council tax contributes approximately 25% of current income.

Council tax is a form of property tax that is levied on the basis of the value of domestic property. The tax is levied at seven rates, according to which valuation band the property falls into (Watt, 1996). Centrally provided income comes in the form of grant, and also in the form of redistributed business rates. Business rates are collected on the basis of the value of local property and paid into a central pool. They are then distributed to local authorities on a per capita basis. These business rates are set by central government and increased each year in line with price inflation. They are not controlled locally, but are a form of assigned revenue (King, 1984). Grants take the form of specific grant, such as police grant, and general grant in the form of the revenue support grant, which is used to equalize for needs and resources and is discussed in more detail overleaf.

**Figure 5.3: Local Authority Gross Income by Source, England 2001-02**



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The revenue support grant acts to equalize between authorities for needs and resources. Needs are measured by an authority's *formula spending share*. Formula spending share is, as its name suggests, calculated by applying a formula to data on characteristics of the authority judged to be relevant to its need to spend. The formula is calculated for seven expenditure areas:

1. education;
2. personal social services;
3. police;
4. fire;
5. highway maintenance;
6. environmental, protective and cultural services; and,
7. capital financing.

A by-product of the calculations of formula spending share is a central view on how much an authority should spend in each of the seven areas. However, the revenue support grant that is paid on the basis of formula spending share is a general grant and does not have to be spent on particular items of service. Furthermore it is pointed out that, "The Government do not use FSS as a measure of how much a council should spend." (ODPM, 2003). Nevertheless, there is a tendency for central government ministries to regard some elements of FSS as "their" money and some regulations are designed to reinforce this. Thus, increases in education FSS are required to be "passported" into education spending by local authorities.

The formula grant (FG) paid to an authority can be expressed as:

$$\text{FG} = \text{Redistributed Business rates} + \text{Revenue Support Grant} + \text{Police Grant} - \text{FSS} - \text{Police Grant} - \text{Assumed Council Tax}$$

Assumed council tax is the amount of council tax the authority would collect if it applied an assumed national standard rate of council tax assumed by the government. (ODPM, 2003). Assumed council tax is a measure of the wealth of the authority, as it will be higher if it has more houses in high tax bands and lower if it has more houses in low council tax bands.

Equalisation works through the revenue support grant (RSG). Leaving out police grant for simplicity, we have from the above:

$$\text{RSG} = \text{FSS} - \text{Redistributed Business Rates} - \text{Assumed Council Tax}$$

The formula works to increase grant as needs, measured by FSS rise, and to lower grant, as the level of resources, measured by assumed council tax, rises.

If all authorities of the same type were to spend at the level of their Formula Spending Shares, they would all, in theory, be able to set the same level of council tax. Business rate income is distributed evenly across the country on a per capita basis. Revenue Support grant is then distributed in order to equalise for differences in both needs and resources. (House of Commons, 2004)

The high level of central funding in England (and the UK generally) has been argued by a number of commentators to impair local accountability and lead to a high level of central control. In order to examine this issue the government has recently carried out a "balance of funding review" and the results of this review have recently been published (ODPM, 2004). The conclusions of the review gave some support to the idea of introducing a local income tax in order to increase the proportion of local funding, but put off any major decisions at this stage.

## 5.8 Conclusions

In this chapter we have examined the features of local government financing in a selection of countries. This is useful background information in placing Ireland in a comparative context and in identifying potential policy issues.

There are some differences in the types of activities undertaken by local government in the countries reviewed. However, in all cases, local government provides a basic minimum level of local service. In a number of countries local government has a wider range of functions than in Ireland. This is reflected in the average share of national sources allocated to local government (as a% of economic activity or as a% of total government revenues), which tends to be larger than in Ireland.

The research identifies a wide variety of funding systems and models. Ireland has a relatively simple and flexible system compared to countries with more elaborate federal, regional and local government systems such as Germany or Italy. This is an advantage of our system. However, the financing of local government in Ireland tends to be more centralised than other countries.

The detailed review of countries undertaken in this chapter highlighted the link between local accountability and the ability of local authorities to raise funding.





## 6 Projecting Expenditures and Revenues

### 6.1 Introduction

In this chapter we present projections for local government expenditures and revenues out to 2006 and 2010. This provides a framework for discussing policy issues in subsequent chapters. Specifically, the identification of expenditures requirements and the estimation of the “funding gap” have implications for the subsequent discussion on expenditure issues and funding options. We accept however that any estimates of future requirements will be somewhat arbitrary in the absence of mechanisms, which allow individuals in the locality to decide on what level of services they are willing to fund.

However in line with the terms of reference, having regard to existing and emerging demands, we estimate the future funding requirements of local authorities in the period to 2010.

In preparing projections, a key objective is to assess “existing and emerging demands” as a basis for projecting likely expenditures. Public policy concepts and experience show that demands on expenditure are likely to be very large if not infinite assuming services are provided at no cost to the recipient. There will be always be demands for further investment in a range of services that are provided by public bodies and measuring demand based on “wants” would lead to projections for significant increases in expenditures.

Accordingly, it is necessary to define demand in an objective and neutral way that could provide a realistic basis for preparing projections. For the purposes of this Review, we consider demands as factors outside of the control of local authorities that tend to increase their current expenditures. This would include, for example:

- ❑ Higher housing maintenance costs as the local authority housing stock expands as a result of on-going government investment;
- ❑ Increased costs associated with managing a more modern public water and sewerage system.

We define emerging demands as unavoidable costs that will arise due:

- ❑ to decisions already taken such as previous investment in enhanced public infrastructure;
- ❑ the consequences of planned decisions such as the roll-out of plans under the NDP or the implementation of new directives, for example in respect of environmental issues;
- ❑ the likely impact of government decisions that have already been taken;
- ❑ the effect of exogenous factors on expenditures such as projected changes in population and the number of households.

The importance of these issues will vary by programme area. Accordingly, it is useful to review recent trends to examine the likely importance of different factors in influencing expenditures. Information provided as part of the Needs and Resources Model is useful for this exercise.

Thus, our projections attempt to assess increases in unavoidable costs on a so-called no-policy-change (NPC) basis taking account of exogenous factors. However, it is important to stress that it does not purport to prepare projections that would meet all the expenditure needs of local authorities as expressed through local representatives and local communities. However we see merit in moving towards a position whereby local communities can, through financing options, decide on increases or decreases in services in line with local demands.

In addition, it should be stressed that this projections exercise is subject to considerable uncertainty. On the expenditure side, it can be difficult to objectively assess external drivers of expenditure. Pay costs are also difficult to predict, as they are the subject of a bargaining process between the government and its employees. On the revenue side, trends are a function of general economic buoyancy, which is difficult to project over the medium term.

It is our understanding that the purpose of this exercise is to provide a framework within which we can consider funding policy issues. We see this exercise as of most value in setting scenarios rather than in producing precise revenue and expenditure estimates.

Table 6.1 sets out the different approaches to undertaking this exercise. These include a review of selected recent projections, a number of top-down and econometric approaches and a bottom-up approach or micro approach, which examines expenditure projections at programme and sub-programme level. Throughout this chapter data are in nominal terms unless otherwise stated.

<b>Table 6.1: Summary of Different Projection Approaches</b>	
1.	Mazars Approach
2.	Indecon Micro Approach
3.	Indecon Top-Down based on expenditure as a % of GNP
4.	Indecon Top-Down based on update for population trends
5.	Indecon Top-Down based on update for population trends and price trends
6.	Indecon Top-Down based on update for population trends and pay increases
7.	Indecon Top-Down based on assumptions about pay and non-pay separately
8.	Indecon Econometric approach
<i>Source: Indecon</i>	

## 6.2 Review of Existing Projections - 2004-2006

As a starting point for this exercise, which helps to illustrate the importance of the previous discussion, we set out the latest projections prepared by Mazars<sup>13</sup>, which cover the period 2004 to 2006.

For a number of programme areas, Mazars project that there will be no or very modest growth in non-pay expenditures for the period under review. This is the case for the following programmes: development incentives and controls, recreation and amenities, agriculture, education, health and welfare and miscellaneous services. This is based on their assessment of emerging needs given realistic assumptions about current policy. However, there is projected expenditure growth in a number of areas as set out below:

- In the housing area, expenditure is projected to increase by 12.3% over the period 2004 to 2006. This is based on the assumption, *inter alia*, that the NDP housing programme is delivered and that maintenance costs rise as the local authority housing stock expands;
- In the water supply and sewerage area, there is also an increase in current expenditure due to the costs of maintaining and operating the enlarged stock of water and sewerage treatment assets given the investment in new schemes under the NDP;
- Finally, in environmental protection, there are projected increases due to the higher cost of waste disposal and domestic refuse collection.

Full details for these projections are included in Table 6.2. Mazars also examine pay separately and conclude that pay developments are projected to add a further €74.4 million to expenditures in 2006. Overall, they project that expenditure would be €332.8 million higher in 2006 compared with 2004.

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<sup>13</sup> Each year Mazars prepare a set of projections outlining likely expenditure needs of local authorities. In this chapter there are several references to the Mazars Report.

<b>Table 6.2: Expenditures Projections for 2004-2006</b>				
	<b>2004 - € M</b>	<b>2005 - € M</b>	<b>2006 - € M</b>	<b>% Change</b>
Housing and Building	589.8	646.4	662.2	12.3%
Road Transportation and Safety	973.5	1020.2	1064.2	9.3%
Water Supply and Sewerage	429.4	441.8	453.9	5.7%
Development Incentives and Controls	167.2	169.9	172.6	3.2%
Environmental Protection	745.9	774.6	810.3	8.6%
Recreation and Amenities	274.9	276.4	277.9	1.1%
Agriculture, Education, Health and Welfare	193.3	193.3	193.3	0.0%
Miscell. Services	235.9	233.9	233.9	-0.8%
Pay/BLG/Other	0	+59.1	+74.4	
Projected Increase		+205.7	+332.8	7.2%
<i>Source: Mazars Consulting, June , 2004</i>				

Mazars also prepared projections for “revenue” over the period under review. “Revenue”, in this context, is defined as receipts from central government, in the form of grants for specific expenditures, and charges levied by local authorities. Mazars project a significant increase in local authority rents, non-domestic water charges and environmental charges. This is summarised by programme group level as set out in Table 6.3. Notably, it is projected that receipts under housing and building would increase by 14% between 2004 and 2006. This is primarily due to higher local authority rents and higher projected transfers from central government. There is also a significant increase in revenues projected under the environmental protection programme group.

Overall, revenues are projected to increase by €102.5 million or 4.5%. This leaves an increase in the funding gap of €230.3 million, which would have to be met from higher allocations under the Local Government Fund or higher receipts from commercial rates. This projected gap is equivalent to about 6% of total current expenditure based on 2004 expenditure estimates.

<b>Table 6.3: Receipts Projections for 2004-2006, €m</b>				
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>% Change</b>
Housing and Building	493.1	548.0	562.1	14.0%
Road Transportation and Safety	635.5	621.5	621.5	-2.2%
Water Supply and Sewerage	408.2	413.5	419.2	2.7%
Development Incentives and Controls	57.7	58.6	59.5	3.1%
Environmental Protection	411.1	433.1	445.8	8.4%
Recreation and Amenities	59.2	59.2	59.2	0.0%
Agriculture, Education, Health and Welfare	162.3	162.3	162.3	0.0%
Miscell. Services	66.0	66.0	66.0	0.0%
<b>Total</b>	<b>2,293.1</b>	<b>2362.2</b>	<b>2395.6</b>	<b>4.5%</b>
Increase in Receipts		+69.10	+102.50	
Projected increase in Funding Gap		136.60	230.30	

*Source: Mazars Consulting, June 2004*

Mazars also include in their analysis assumptions about buoyancy in motor tax receipts, which form part of the Local Government Fund, and commercial rates. They assume that revenues from both will increase substantially over the review period. After adjusting for projected increases arising from these sources the funding gap as reported above falls to an estimated €137.8 million in 2006. In essence, this is an estimate of the projected increase in the Exchequer contribution required to meet projected expenditures within the framework of current funding policy.

<b>Table 6.4: Estimated Gap After Adjusting for Motor Tax and Commercial Rates, €m</b>			
	<b>2004</b>	<b>2005</b>	<b>2006</b>
Growth in Funding Gap	-	136.6	231.3
<i>Less - Motor Tax Receipts</i>	-	14.5	29.2
<i>Less - Commercial Rates</i>	-	31.6	64.3
<b>Cumulative Funding Requirement</b>	<b>-</b>	<b>90.5</b>	<b>137.8</b>

*Source: Mazars Consulting, June 2004*

Dublin City Council have also prepared a set of projections (The Lord Mayor's Commission) which are useful in identifying areas of expected higher expenditure. For illustrative purposes, there is benefit in briefly reviewing these projections.

It is important to note that this analysis was prepared on a different basis to this current exercise, most notably in its approach to the assessment of emerging needs. This leads to higher projected increases in expenditure than for other approaches. As set out in Table 6.5, for example, the analysis projects expenditure increases in environment (+41.4%), water and sewerage (+28.9%) and recreation and amenities (+22.1%). Surprisingly, given the demands in the area, they projected lower expenditure increases in housing. This may reflect the lower maintenance associated with a newer housing stock and the replacement of older houses, which are more costly to maintain. In total, it was projected that current expenditure would increase by 53% between 2002 and 2006.

<b>Table 6.5: Expenditure Projections for Dublin City Council Area, €m</b>						
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	
Housing	40.3	38.2	38.1	38.0	37.9	-6.0%
Roads & Transport	26.0	26.8	27.7	28.7	29.3	12.7%
Water & Sewerage	19.4	23.6	24.3	25.0	25.0	28.9%
Planning & Development	9.9	10.0	10.2	10.5	10.9	10.1%
Environment	80.9	92.1	105.3	109.0	114.4	41.4%
Recreation & Amenities	41.6	43.8	46.0	48.3	50.8	22.1%
Agriculture, Education	4.9	5.1	5.2	5.4	5.6	14.3%
Miscellaneous	9.3	9.6	10.9	10.3	10.7	15.1%
Non programme items	6.0	34.1	52.5	70.0	79.2	1,220.0%
<b>Total</b>	<b>238.3</b>	<b>283.3</b>	<b>320.2</b>	<b>345.2</b>	<b>364.6</b>	<b>53.0%</b>
Increase in Net Expenditure	0.0	45.0	81.9	106.9	126.3	

*Source: The Lord Mayor's Commission, September, 2002.*

The analysis of the financial position in the Dublin City Council area also examined likely trends in revenue. This projected a significant increase in resources from commercial rates and from the Local Government Fund. Nevertheless, the analysis suggested that there would be a significant funding gap as set out in Table 6.6.

<b>Table 6.6: Projections for Revenue and Prospective Funding Gap Dublin City Council Area, €m</b>					
	2002	2003	2004	2005	2006
Increase in Net Expenditure	0.0	45.0	81.9	106.9	126.3
<b>Change in revenue</b>					
Buoyancy in Local Government Fund receipts	0.0	3.0	6.1	9.4	12.9
Cessation of Rates Remission	0.0	0.9	5.1	9.1	12.6
Rates Buoyancy	0.0	3.2	7.2	10.9	14.7
Total Revenue Changes	0.0	7.1	18.4	29.4	40.2
<b>Funding Gap</b>	0.0	37.9	63.5	77.5	86.1
<i>Source: The Lord Mayor's Commission, September, 2002.</i>					

### 6.3 Indecon Approach to Projections

Next, we turn to projections Indecon have prepared as part of this review of financing. These provide a number of scenarios for expenditures and revenues that assist in discussing the key funding and expenditure issues in later chapters.

As discussed earlier, there are a number of approaches to preparing these projections. These include:

- An Econometric approach, which attempts to project future expenditures and revenues based on identified relationships between previous trends and key indicators;
- A Top-down approach based on aggregate drivers of expenditure which provide a basis for aggregate projections of expenditure and revenue;
- A Micro approach based on informed assumptions about key drivers of expenditure at programme group level.

This latter approach is comparable in some respects to the annual exercise prepared by Mazars as discussed above.

For all approaches it is important to consider the key factors influencing expenditures, which can be classified as either demand or cost drivers. Local authorities are engaged in providing a variety of different services. These include services such as refuse collection and water and sewerage where the growth in the number of households or population growth could lead to higher expenditures. They also provide services to businesses, and where further expansion in business activity, as measured by indicators such as Gross National Product (GNP), could increase demand.

In this context, there are a number of indicators that are important in examining prospective expenditure trends. Specifically, these include trends in GNP, population and employment that are demand side factors. In addition, we consider various price indices that could be correlated with likely cost pressures that would affect expenditures over the period from 2002-2010. Table 6.7 presents projections for these various indicators based on the latest medium-term review prepared in 2003 by the ESRI (ESRI, Medium-Term Review). These projections were prepared on the assumption that economic growth would return after the pause over the period 2001 – 2003. The level of real GNP is projected to be 16.8% higher by 2006 and 43.6% higher by 2010 compared with 2002 levels. Part of this will be due to continued growth in employment, which is projected to expand by 16.8% between 2002 and 2010<sup>14</sup>.

In addition to these demand changes, local authority costs are also driven by prices changes. Pay costs are an important driver of local authorities' cost base. The ESRI have prepared projections for non-agricultural pay rates. These project that non-agricultural pay will increase by over 40% between 2002 and 2010. We also present projections for various prices. The consumption price deflator is the broadest measure of consumer inflation and the ESRI project an annual inflation rate, based on this measure, of around 2% per annum. This would increase the price level by 27.1% by 2010. Finally, it is projected that building price inflation will increase by slightly more than consumption prices, reflecting greater supply constraints in this sector.

The analysis of likely price developments indicates that in the absence of additional increase in the demand for services, these price developments are likely to lead to a substantial increase in current expenditures.

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<sup>14</sup> These medium-term projections were prepared in 2003 and the actual number for GNP growth in 2003 and 2004 is different to these projections. However, these projections are used to examine trends in national income over the medium-term and they remain valid for this purpose.



<b>Table 6.7: Projections for Selected Economic and Demographic Indicators</b>									
	2002	2003	2004	2005	2006	2007	2008	2009	2010
GNP Annual Growth Rates	-	2.4	3.0	4.7	5.7	5.6	5.7	5.1	4.8
GNP Index	100	102.4	105.5	110.5	116.8	123.4	130.4	137.0	143.6
Employment Annual Growth Rates	-	1.2	1.2	2.4	2.5	2.7	2.0	2.0	1.7
Employment Index	100	101.2	102.4	104.9	107.5	110.4	112.6	114.9	116.8
Population - Index	100	101.1	102.0	103.1	104.4	105.7	107.1	108.4	109.8
Non-agriculture Pay Rates	-	4.1	2.9	4.4	3.5	4.8	5.2	5.6	5.6
Non-agriculture Pay Rates - Index	100	104.1	107.2	111.9	115.9	121.4	127.7	134.8	142.4
Personal Consumption Prices - Index	100	103.5	105.6	109.0	112.0	115.4	119.1	123.2	127.1
Building Prices - Index	100	104.2	107.3	109.3	111.5	114.3	117.2	120.2	123.2

*Source: ESRI Databank, 2003.*

### 6.3.1 Top-down econometric approach

These data are used in the first approach to projections we undertake where we relate changes in historical expenditures with a number of key drivers of expenditure. This involved developing an econometric model, which attempts to explain changes in expenditure with respect to various price and demand factors. It would be expected that the following price and demand factors would impact on expenditures:

- Pay inflation;
- Building inflation;
- Consumer inflation;
- Population growth;
- Growth in the number of households.

In other words, we tried to explain trends in current expenditure with respect to a range of variables. The model is specified as follows:

$$q = \alpha + \mathbf{x}\beta + u$$

where  $\alpha$  is a constant term specific,  $x$  is a vector or set of explanatory variables believed to explain expenditure trends and  $\beta$  is a vector of coefficients associated with the explanatory variables. For this approach, we use data from the Indecon databases and projections from the ESRI Medium Term Review databank.

A number of different model specifications were estimated. Table 6.8 shows the results from one of the regressions and indicates that the number of households is significant in explaining trends in expenditure. However, in overall terms, we concluded that an alternative approach is required.

<b>Table 6.8: Results from Econometric Analysis</b>			
	<b>Coefficients</b>	<b>Standard Error</b>	<b>t Stat</b>
Intercept	-1.23826E+11	22061631732	-5.612752858
Building Inflation	-5839082114	1260591827	-4.632016477
Number of Households	119680057.9	20952809.27	5.711885996
Trend	-2761029528	572500598.3	-4.822753962
Regression Statistics			
Multiple R	0.997538539		
R Square	0.995083137		
Adjusted R Square	0.99139549		
Standard Error	63443030.86		
Observations	8		
<i>Source: Indecon</i>			

Additional econometric work was undertaken in the form of a different multivariate econometric model. For this the following potential explanatory variables were considered:

- ❑ Population size;
- ❑ Number of households;
- ❑ Public sector pay levels;
- ❑ GNP;
- ❑ Building inflation;
- ❑ Consumer inflation; and,
- ❑ Wage inflation.

The model is specified as follows:

$$LAExp_t = \beta_0 + \beta_1 X_{1t} + \beta_2 X_{2t} + \dots + \beta_N X_{Nt} + u_t$$

where  $LAExp_t$  is our dependent variable i.e. total local authority expenditure (in real terms) and  $X_{it}$ ,  $i = 1, \dots, N$ , refer to the set of explanatory variables included in the regression model. We assume that the error term  $u_t$  is normally and independently distributed, with mean zero and standard deviation equal to  $\sigma$ .

Therefore, we have:

$$u_t \sim NID(0, \sigma_u^2) \\ \forall t = 1, \dots, T$$

where  $T$  denotes the total number of years in the sample. The coefficients  $\beta_0, \dots, \beta_N$  are the parameters to be estimated. In each case the subscript  $t$  is used to denote time period  $t$ . The sample contains a total of  $t = 8$  time periods.

Our approach involves estimating the above model using ordinary least squares (OLS) estimation. Different subsets of explanatory variables used to determine model of best fit and one that conforms to reasonable *a priori* assumptions. A problem arose in this approach due to the very high levels of pair-wise correlation between the explanatory variables i.e. multicollinearity. This is problematic because the high degrees of correlation between the variables mean that it is difficult to disentangle the effects of each variable on the dependent variable.

Since the focus of this econometric exercise is to derive projections of total local authority expenditure going forward we selected a number of individual variables and estimated univariate regressions models. Using this approach our preferred model is the following:

$$LAExp_t = \beta_0 + \beta_1 RPSP_t + u_t$$

where  $LAExp_t$  is local authority expenditure at time  $t$  (in real terms) and  $RPSP_t$  is real public sector pay at time  $t$ .

An important consideration in such a model relates to the potential presence of spurious correlation in our model. Our analysis shows that both  $LAExp$  and  $RPSP$  are trending upward in a stochastic fashion - tests show that  $LAExp$  and  $RPSP$  are non-stationary or random walk stochastic processes (integrated of order 1 i.e.  $I(1)$ ). The time series seem to be trending together however, suggesting a possible long-run or "co-integrated" relationship between the two variables. (In this case the possibility of spurious correlation previously alluded to is not a problem.)

To test for a cointegrated (or long-run) relationship we performed an augmented Dickey-Fuller test for a unit root on the estimated residuals from the equation above. Our test rejected the hypothesis that there is a unit root in this time series suggesting the series are cointegrated. This suggests a long run relationship between the two variables and the estimated relationship is:

$$LAExp_t = -293.4 + 0.31PSP_t$$

Given this estimated relationship we can project forward the level of total local authority expenditures under assumptions about the level of real public sector pay. Assuming this to increase at a rate of 1.5% per annum, this implies the following estimates of total local authority expenditure in nominal terms of €3,989.5 million in 2006 and €4,832.5 million in 2010.

### **6.3.2 Top-down approach - 2**

Despite the difficulties in establishing a clear relationship between expenditure trends and identified drivers, there are clearly a number of variables that determine expenditure trends. In our second top-down approach to projections we prepare a number of projection scenarios based on projected trends in these variables. These are discussed in this section. All projections are in nominal terms.

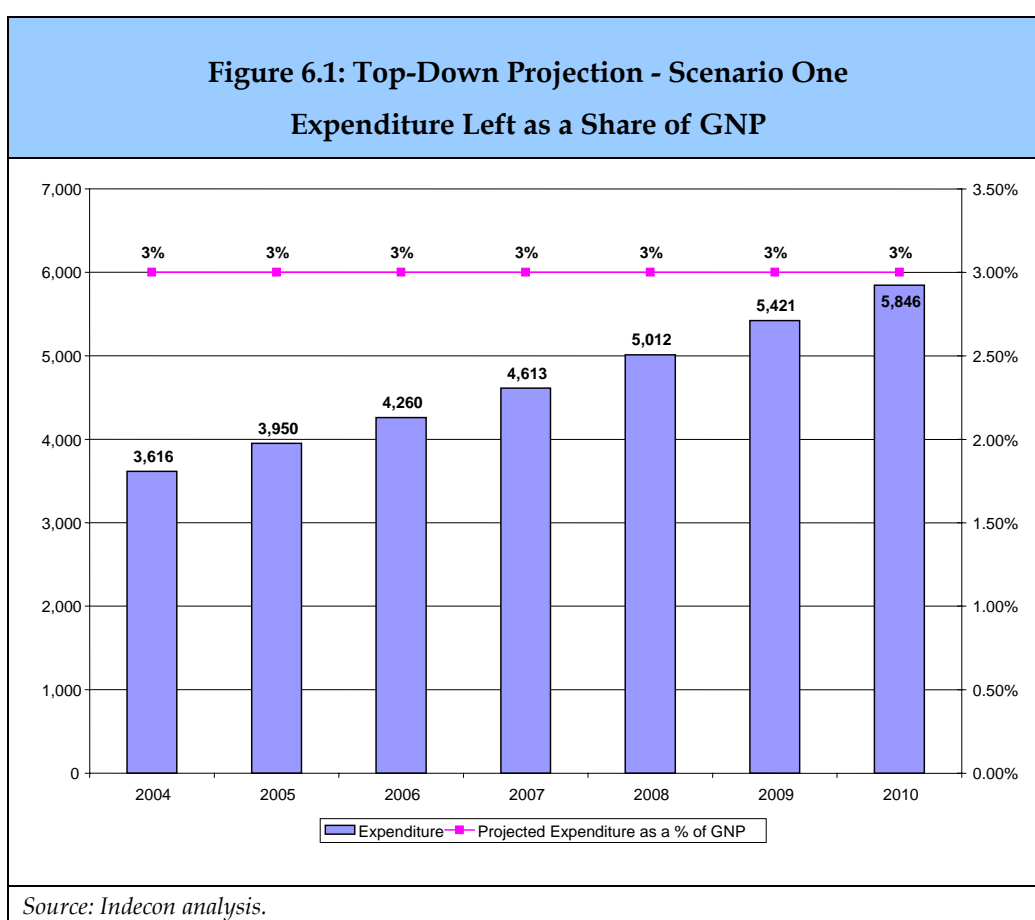
#### ***Scenario One - Expenditure Left as a Share of GNP***

The first scenario assumes that expenditure for the period to 2010 remains at its current share of GNP at 3.0%. Given trends in GNP, this would lead to an increase in expenditure of 61.7% over the period 2004 and 2010. This would lead to expenditures of €5846.8 million in 2010 in nominal terms. This would lead to a very significant increase in resources for the sector but may be a realistic view of likely trends as it assumes that the local government sector retains its share of national income. The outcome is ultimately a function of political considerations in the context of the annual estimates process but there is no reason to believe that the local government sector is facing a lower demand for additional services than other areas of public provision. Indeed, the recent trends show that it is increasing its share of government expenditure. Accordingly, we would suggest, given the important social and economic role that local government plays, that it would be reasonable to expect, subject to funding constraints, that the sector would maintain its share at 3%. Accordingly, we include this scenario in the context of calculating one of the most likely estimates of the future funding gap facing local government.

Table 6.9: Top-Down Projection - Scenario One Expenditure Left as a Share of GNP							
	2004	2005	2006	2007	2008	2009	2010
GNP €m	122,382	131,670	142,015	153,769	167,050	180,690	194,868
Expenditure fixed as a % of GNP	3,616.3	3,950.1	4,260.4	4,613.1	5,011.5	5,420.7	5,846.1

Source: Indecon

The figure below depicts Scenario One in graphical terms.



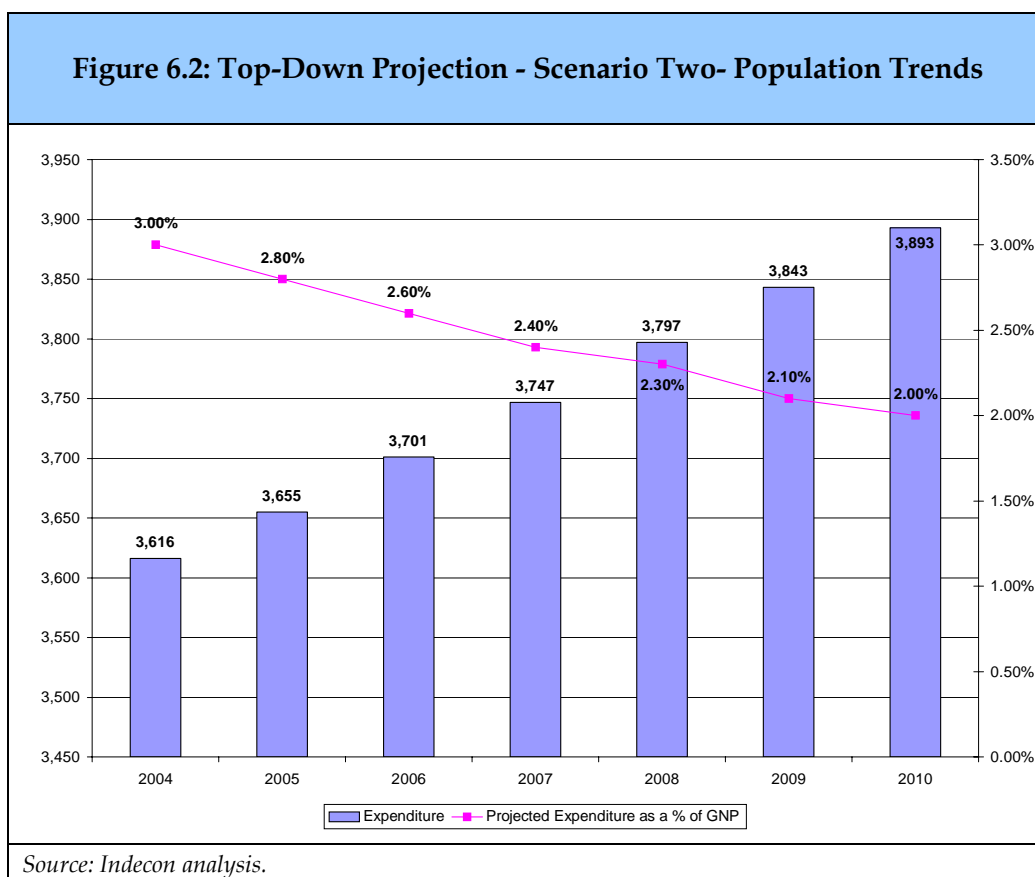
### Scenario Two - Population Trends

The next scenario assumes that the main driver of expenditure is population trends. In other words, we assume that local authority expenditure in nominal terms per head of population remains unchanged out to 2010. In this scenario expenditure falls as a % of GNP in nominal terms given the more modest growth in expenditure. Total expenditure is projected to be €3,893 million in 2010 compared to €5,846 million in scenario one.

Table 6.10: Top-Down Projection - Scenario Two- Population Trends							
	2004	2005	2006	2007	2008	2009	2010
Population Trends	100.0	101.1	102.4	103.6	105.0	106.3	107.6
Expenditure €m	3,616	3,655	3,701	3,747	3,797	3,843	3,893
Population Numbers - Millions	3,917.3	3,960	4,010	4,059	4,113	4,163	4,217
Expenditure per capita €m	923.1	923.1	923.1	923.1	923.1	923.1	923.1
Projected Expenditure as a % of GNP	3.0%	2.8%	2.6%	2.4%	2.3%	2.1%	2.0%

Source: Indecon

The figure below depicts Scenario Two in graphical terms.

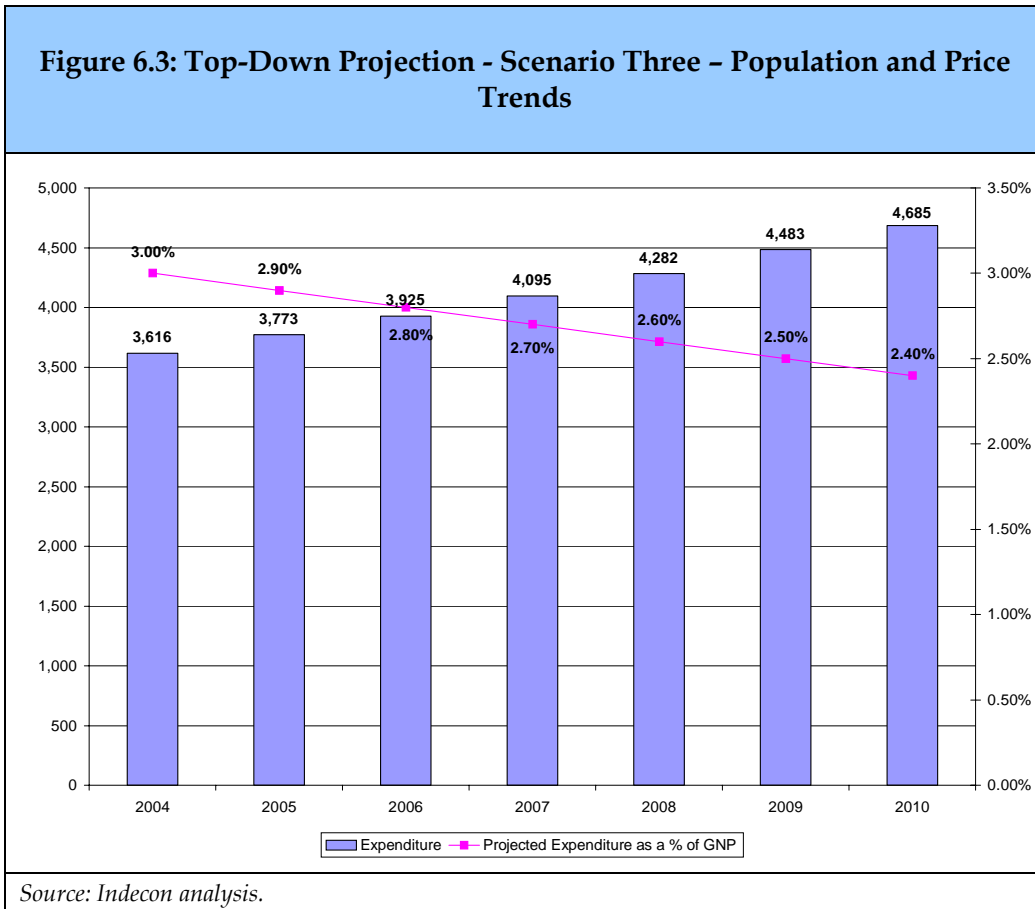


### Scenario Three – Population and Price Trends

The next scenario is scenario two with an adjustment for price developments that are considered to impact upon the sector in the years to 2010. Hence, the drivers of expenditure in this scenario are population and price trends. This leads to an increase in current expenditure of 33.4 percent over the period, with expenditure projected to be €4,685 million by 2010. As a% of GNP, this equates to 2.4% in 2010.

<b>Table 6.11: Top-Down Projection - Scenario Three - Population and Price Trends</b>							
	2004	2005	2006	2007	2008	2009	2010
Population Trends	100.0	101.1	102.4	103.6	105.0	106.3	107.6
Expenditure - Adjusted for Population- €m	3,616	3,655	3,701	3,747	3,797	3,843	3,893
Price Trends	100.0	103.2	106.1	109.3	112.8	116.7	120.4
Expenditure - Adjusted for Population and Prices- €m	3,616.0	3,772.7	3,925.4	4,094.9	4,282.2	4,483.4	4,685.0
Expenditure per capita- €m	923.1	952.8	979.0	1,008.7	1,041.1	1,076.9	1,111.0
Projected Expenditure as a % of GNP	3.0%	2.9%	2.8%	2.7%	2.6%	2.5%	2.4%
<i>Source: Indecon</i>							

The figure overleaf depicts Scenario Three in graphical terms.



#### **Scenario Four - Population Trends and Pay Rates**

In scenario four we attempt to take account of the fact that pay and non-pay expenditures are affected by different factors. For illustration, we assume that non-pay expenditure increases in line with population trends and that the pay bill increases in line with projected non-agricultural pay rates. This leads to an increase in expenditure of almost 19%. This is lower than the previous scenario as we assume that non-pay expenditures increase only in line with population trends. This is a very modest increase which ignores likely price developments.

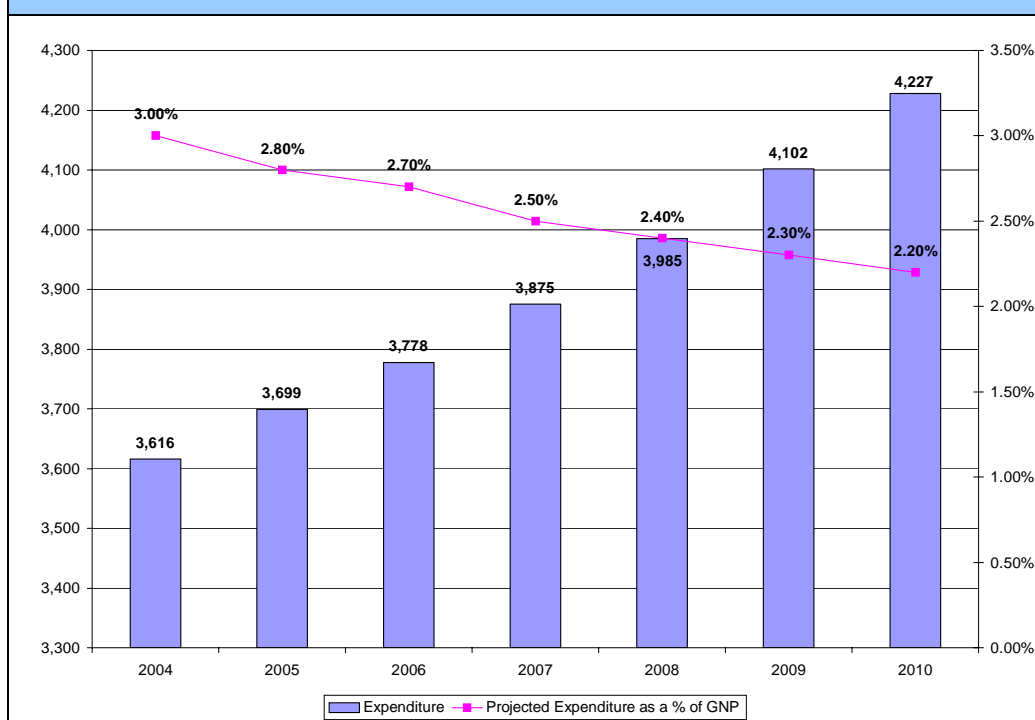


**Table 6.12: Top-Down Projection - Scenario Four - Population Trends and Pay Rates**

	2004	2005	2006	2007	2008	2009	2010
Projected pay rates- €m	100.0	104.4	108.1	113.2	119.1	125.7	132.8
Pay	1,328.5	1,386.8	1,436.3	1,504.5	1,582.6	1,670.6	1,764.7
Population Trends	100.0	101.1	102.4	103.6	105.0	106.3	107.6
Non-Pay- €m	2,287.7	2,312.4	2,341.5	2,370.7	2,402.1	2,431.2	2,462.6
Total Pay and non-Pay- €m	3,616.2	3,699.1	3,777.8	3,875.2	3,984.6	4,101.8	4,227.4
Projected Expenditure as a % of GNP	3.0%	2.8%	2.7%	2.5%	2.4%	2.3%	2.2%

Source: Indecon

The figure below depicts Scenario 4 in graphical terms.

**Figure 6.4: Top-Down Projection - Scenario Four - Population Trends and Pay Rates**

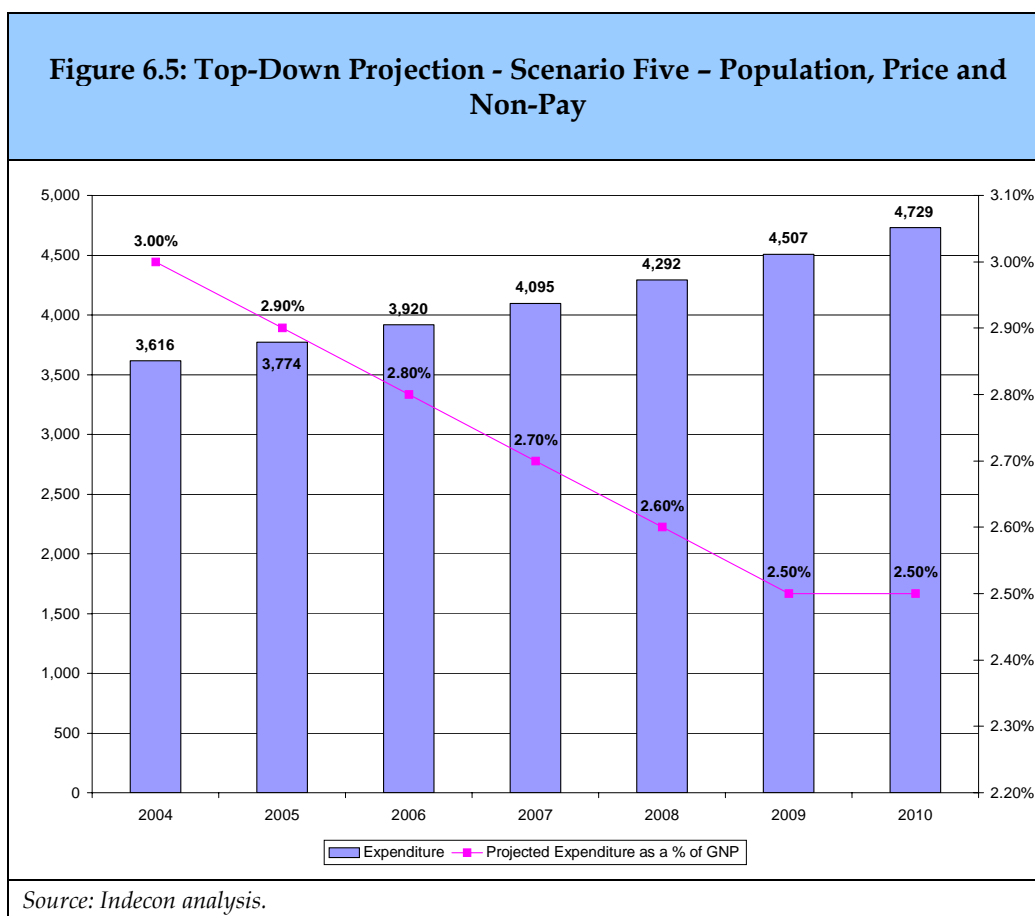
Source: Indecon analysis.

**Scenario Five - Population, Price and Non-Pay**

The need to reflect the importance of prime drivers is taken into account in this final scenario where we assume that non-pay expenditure increases in line with both population trends and price developments. This takes account of demand and prices developments on the non-pay side. In keeping with the previous scenario, we assume that the pay bill increases in line with projected non-agricultural pay rates. This leads to an increase in expenditure of 35% with expenditure projected to be €4,728.8 million by 2010. This is equal to 2.5% of projected GNP for 2010.

<b>Table 6.13: Top-Down Projection - Scenario Five - Population, Price and Non-Pay</b>							
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Projected pay rates	100.0	104.4	108.1	113.2	119.1	125.7	132.8
Pay €m	1328.5	1386.8	1436.3	1504.5	1582.6	1670.6	1764.7
Prices and Population Trends	100.0	104.3	108.6	113.2	118.4	124.0	129.6
Non-Pay €m	2287.7	2386.8	2483.4	2590.7	2709.1	2836.4	2964.0
Total Pay and non-Pay €m	3616.2	3773.6	3919.8	4095.2	4291.7	4507.0	4728.8
Projected Expenditure as a % of GNP	3.0%	2.9%	2.8%	2.7%	2.6%	2.5%	2.5%
<i>Source: Indecon</i>							

Figure 6.5 depicts Scenario 5 in graphical terms.



## 6.4 Conclusions

There are considerable uncertainties associated with the preparation of expenditure projections over the medium-term. This calls for a multi-faceted approach, which sets out a number of scenarios based on a realistic assessment of policy developments and exogenous demand and cost factors. In this chapter, we have examined:

- ❑ Existing projections;
- ❑ Econometric approaches;
- ❑ Top-down approach based on trends in demands and cost factors.

These approaches have produced a number of different scenarios, which indicate that current expenditures of local authorities are likely to increase further in the period up to 2010. In the next chapter, we undertake a micro-approach, which examines trends at programme and sub-programme level.



## 7 Detailed Projections

### 7.1 Introduction

The previous chapter reported projections of local expenditures out to 2010 based on a review of key drivers at an aggregate level. In this chapter we report projections based on a detailed examination at a programme level. This is similar to the annual estimation undertaken by Mazars for the Department of the Environment, Heritage and Local Government. There are a number of data issues which are important in considering historical changes at a programme level. While these do not have any significant impact on our overall projections they are relevant in comparing figures for 1996 and 2004. Specifically, for each programme there is an administration and miscellaneous category which includes expenditures and receipts. In respect of receipts, comparisons included in this category between 1996 and 2004 are misleading because data for 1996 include an element of the Rates Support Grant. The basis of reporting the General Purpose for 2004 has changed and is not included in these data. This deflates 2004 receipts compared with 1996. This applies to each programme group. Also of relevance is that expenditure by programme group is shown gross, before deduction on inter local authority contributions.<sup>15</sup>

We also examine receipts. Throughout this chapter receipts are defined as charges and specific grants from central government and excluding commercial rates and the Local Government Fund.

### 7.2 Housing and Building

For the housing and building programme, there are a number of different areas of current expenditure, as set out in Table 7.1 overleaf.<sup>16</sup> Most of these areas experienced a rapid increase in expenditure between 1996 and 2004. For example, current expenditure on local authority housing, the first sub-programme, increased by 113.8%, while receipts, in the form of rental income and specific grants from central government increased by 92.1%. There were notable increases in most other areas. In total, expenditure in the housing and building programme increased by 80.3%.

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<sup>15</sup> The baseline expenditure data for 2004 for the micro approaches is estimated to be €3,713 million. This is higher than the baseline figure used in the top-down approach as it includes inter-authority expenditures.

<sup>16</sup> A more detailed expenditure breakdown is included in Annex 6. The 1996 data excludes the rates levy and we also for both years exclude inter-authority expenditures.

Over the period 1996 to 2004 there was a 45.3% increase in receipts. Most of the receipts are accounted for by grants from central government, rental income and loan payments from borrowers who secured loans from the Housing Finance Agency and its various predecessors. In 2004 there was a funding gap on this programme of €137.2 million, which is met from the Local Government Fund and local authorities' sources such as commercial rates.

<b>Table 7.1: Housing and Building - Current Expenditure and Receipts 2004 - € Million</b>						
	1996		2004		% Change	
	Expenditure	Receipts	Expenditure	Receipts	Expenditure	Receipts
Local Authority Housing	98.01	114.13	209.5	219.3	113.8%	92.1%
Assistance to Persons Housing Themselves	136.16	135.84	116.9	104.5	-14.1%	-23.1%
Assistance to Persons Improving Houses	8.11	4.32	35.2	13.2	334.0%	205.6%
Administration and Miscellaneous <sup>17</sup>	56.99	22.49	177.9	65.3	212.2%	190.4%
<b>Total</b>	<b>299.27</b>	<b>276.79</b>	<b>539.5</b>	<b>402.3</b>	<b>80.3%</b>	<b>45.3%</b>

*Source: Local Authority Budgets, Department of the Environment, Heritage and Local Government*

The starting point for discussions on expenditure projections for this programme is targets for new housing provision and delivery of various housing schemes and initiatives as set out in the NDP. These are the key determinants of current local authority housing expenditure. However, many of the NDP targets have not been met and are in the process of being revised. This process is being guided by the Action Plans for Social and Affordable Housing 2004-2008 that have been prepared by the Local Authorities and which are now being considered by the Department of the Environment, Heritage and Local Government.

<sup>17</sup> Expenditure is lower in 2004 compared with 1996 for this sub-programme due to changes in the method for accounting for mortgage related loan charges. Prior to 2004 expenditure included both the principal and interest payments. But for 2004 only the principal is included.

The objectives of housing policy as set in the NDP are to maximise supply and to provide social and affordable housing. The specific objectives of this policy are to:

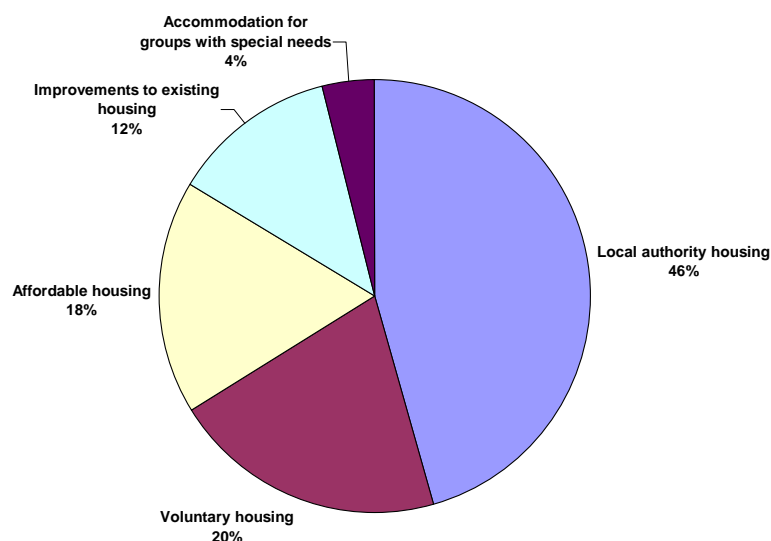
- ❑ Provide the necessary infrastructure investment to facilitate the overall level of demand in a planned and coherent fashion;
- ❑ To increase social housing output to meet rising needs;
- ❑ To continue the drive to improve the physical condition of our housing stock.

Investment in the provision of social and affordable housing for the period 2000-2006 was set out in the NDP and was planned at €9.1 billion. The objectives of the investment were as follows:

- ❑ To increase social and affordable housing output to meet rising need;
- ❑ To enhance the role of the voluntary housing sector in meeting social housing need;
- ❑ To facilitate access to affordable housing by lower income households;
- ❑ To improve the physical condition of the social housing stock and of certain categories of private housing stock;
- ❑ To provide accommodation for groups with special needs.

The figure below summarises the planned NDP investment by measure. €4.1 billion was earmarked for the local authority housing measure (45.6%), €1.9 billion on the voluntary housing measure (20.4%), €1.6 billion on the affordable housing measure (17.7%), €1.1 billion on improvements to existing housing (12.3%), and €359 million on accommodation for groups with special needs (3.9%).

Figure 7.1: Housing Priority 2000-2006 Investment (€ million)

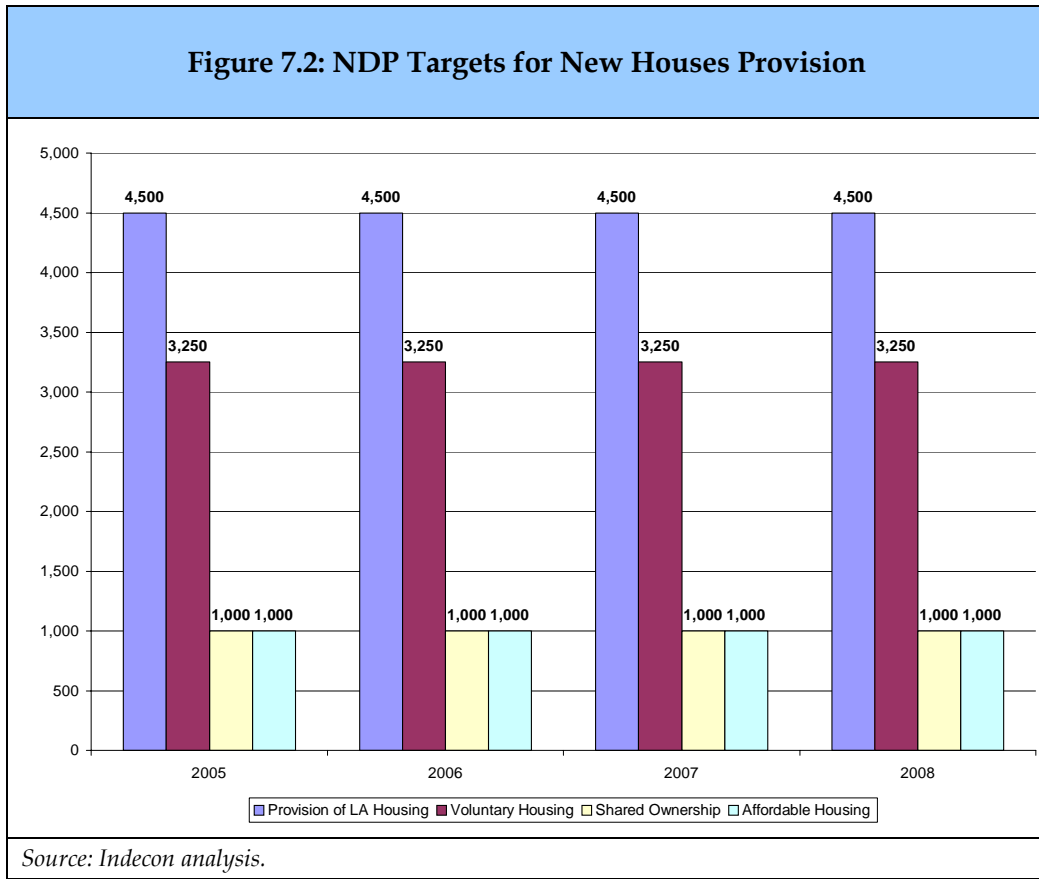


Source: Indecon analysis of ESIOP.

NDP investment leads to additional housing units that increase maintenance costs and other current expenditures of local authorities. Selected housing units are delivered through schemes such as the provision of Local Authority Housing, Voluntary Housing Schemes, Shared Ownership and Affordable Housing. The proposed NDP targets for additional housing units are included in Figure 7.2. It is now assumed that there will be 5,500<sup>18</sup> local authority units acquired in 2005 (compared with a target of 4,500) and 2000 voluntary housing units (compared with a target of 3,250). For the following discussions, it is proposed to use these 2005 targets as projections for future years rather than the NDP targets which are seen to be out of date.

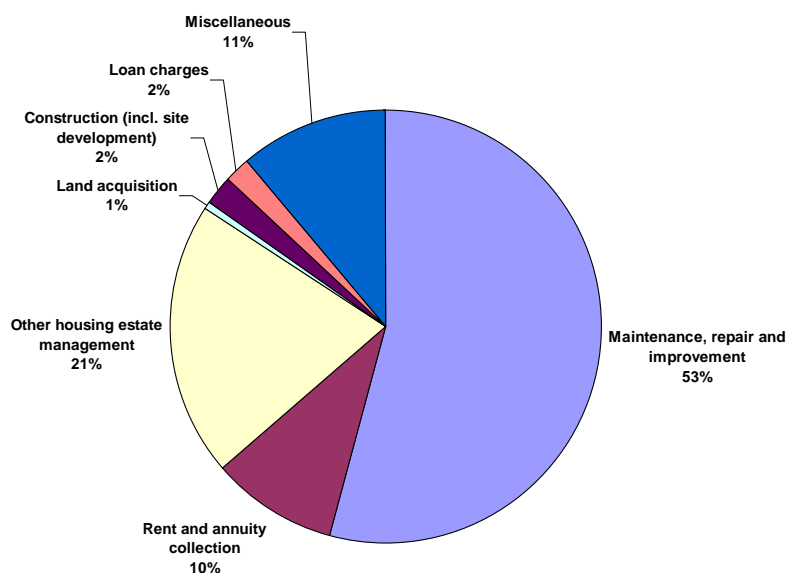
<sup>18</sup> This includes 5,000 starts and 500 acquisitions.





### 7.2.1 Local authority housing

This sub-programme includes expenditures on the maintenance, repair and improvement of the local authority housing stock, rent collection and housing estate management. Over the period 1996-2004 expenditures have increased significantly, reflecting a larger housing stock and an increased focus on improvements. In particular, there has been a focus on improving the physical appearance of estates and developing various soft housing supports. Total expenditure under this sub-programme for 2004 is €209.5 million. The percentage of total expenditure accounted for by each area is included in Figure 7.3 with maintenance, repair, improvement and other housing estate management accounting for almost 75% of expenditures.

**Figure 7.3: Details on Local Authority Housing Expenditure 2003**

Source: Indecon Analysis of the Needs and Resources Data.

First, we examine maintenance, repair and improvement expenditures. Key factors in driving these expenditures are the size of the housing stock and inflation. We use revised projections for this and assume 5,000 new starts each year from 2005 to 2010 and 500 acquisitions. This is instead of the 4,000 (including acquisitions) annual starts included as the NDP targets. We have projected forward the local authority housing stock out to 2010 on this basis as outlined in Table 7.2 overleaf.

**Table 7.2: Local Authority Housing Stock Projections - 2004-2010 - Number of Housing Units**

	2004	2006	2010
Opening Stock	107,253	115,253	133,253
Starts	4,000	5,000	5,000
Acquisitions	500	500	500
Disposals	1,000	1,000	1,000
Closing Stock	110,753	119,753	137,753

Source: Indecon

Previous work by Mazars assume that, on average for each year given the changing housing stock, the maintenance of new houses cost 50% of the estimated cost per unit of the existing stock. While there are issues re the basis of some previous estimates of this, for the purpose of this report we adopt this assumption, which increases costs from €156.1 million in 2004 to €175.1 in 2010 (see row four of table below). Adding in the impact of inflation increases the expenditure to €197.2 in 2010.

**Table 7.3: Projected Local Authority Housing Maintenance Costs - 2004-2010 - € Million**

	2004	2005	2006	2007	2008	2009	2010
Costs including Higher Stock	156.1	162.4	168.8	175.1	181.5	187.8	194.2
Increase per annum	0.0	6.3	12.7	19.0	25.4	31.7	38.1
Assume 50% Maintenance Cost	0.0	3.2	6.3	9.5	12.7	15.9	19.0
Costs Due to Higher Stock @ 50% maintenance	156.1	159.3	162.4	165.6	168.8	172.0	175.1
Inflation Costs	100	102.0	104.0	106.1	108.2	110.4	112.6
Total Projected Costs	156.1	162.5	169.0	175.8	182.7	189.9	197.2

*Source: Indecon*

We also assume that rent collection costs remain at around 10% of total rent collected (see Table 7.4). We have assumed that average rents will grow by 2% per annum and that rental income will increase in line with the number of housing units. We understand that many local authorities are removing maximum rents and this is likely to have positive implications for rental income going forward.

Other expenditures, primarily estate management costs, remain unchanged leading to maintenance and estate costs of €197.2 million in 2010. This is an assumption that we examine when reviewing the detailed Action Plans for Social and Affordable Housing 2004-2008. A summary of these principal items under this sub-programme is included in Table 7.4. This does not include all expenditures in this sub-programme and a summary of all expenditures is included in Table 7.10.

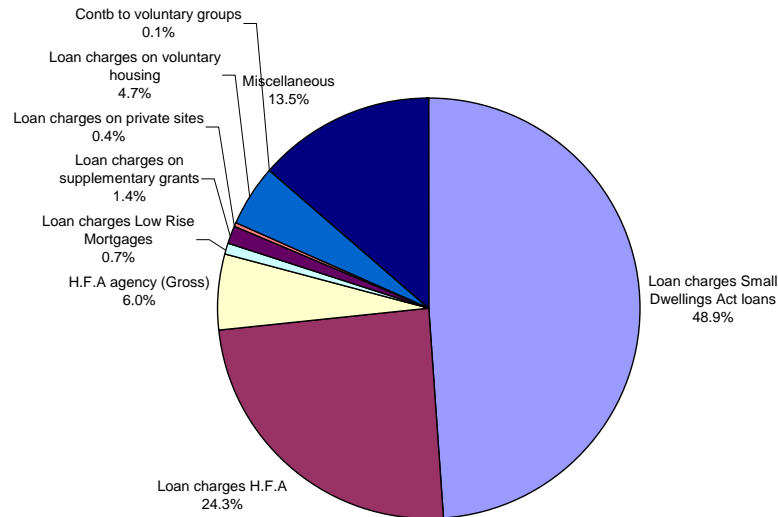
**Table 7.4: Summary of Selected Costs and Revenues for Projections for Local Authority Sub-Programme of Programme One 2004-2010 - € million**

	2004	2006	2010
Rental Income	190.0	218.0	271.5
Maintenance and Estate Costs	156.1	169.0	197.2
Rent collection Costs	19.0	21.8	27.1
Surplus/(Deficit)	14.9	27.2	47.1
<i>Source: Indecon</i>			

### 7.2.2 Assistance to persons housing themselves

In this sub-programme, the expenditure relates to the receipt of loan payments from borrowers who have secured Housing Financial Agency Funding. Payments relate to the transfer of payments by the local authority to the agency. For example there are loans from the Housing Finance Agency (HFA) to the local authorities for equity stakes or mortgages in houses. These transactions relate to the operation of various measures such as Shared Ownership and Affordable Housing. In line with the NDP projections there is significant investment by government in these schemes. However, inflows and outflows should match and for 2004 expenditure equalled €116 million and revenue €104.5 million.

**Figure 7.4: Details on Assistance to Persons Housing Themselves -2003**



Source: *Indecon Analysis of the Needs and Resources Data.*

It is useful to examine in detail the schemes that are funded under this sub-programme. In relation to HFA activities, the Shared Ownership System offers home ownership to those who cannot afford full ownership in the traditional way. Ownership of the house is shared between the owner and the local authority, which enables a person to part own a home but with lower outgoings. Under the Affordable Housing Scheme, new houses are provided by local authorities at discounted prices to eligible purchasers. The house is purchased by way of a mortgage provided by the local authority. Loans are available for up to 35 years and monthly payments should not exceed 35% of the net household income. A subsidy is paid to purchasers whose income is below €25,395, and if the house is re-sold within 20 years a proportion of the proceeds goes to the local authority. It should be noted that income limits apply in relation to eligibility for such loans and we understand that the Department of the Environment, Heritage and Local Government is currently working with financial institutions to facilitate lending by the latter for affordable housing. It was projected in the NDP that housing output from each of the schemes (1999 affordable housing and shared ownership) over the period 2000-2006 would equal 2,000 for both. In addition, there is activity under the Part V and the Sustaining Progress housing Initiative.

It was projected in the NDP that each measure had the capacity to deliver 7,750 units over the period and that by 2006 each measure could contribute 2,000 each. In 2005 projected output is estimated at 2,000, which is lower than the original 3,250 NDP target. It should also be noted that the output of such housing should be boosted over the coming years as a result of the Sustaining Progress Housing Initiative.

**Table 7.5: Shared Ownership and Affordable Housing Schemes Projected Outputs (Units)**

	Year							Est. Total - 2000- 2006
	2000	2001	2002	2003	2004 (to Sep)	2005*	2006*	
Shared Ownership Scheme	1,190	1,611	1,686	998	665	1,000	1,000	8,150
Affordable Housing Scheme	86	272	882	1,524	684	1,000	1,000	5,448
<b>Total</b>	<b>1,276</b>	<b>1,883</b>	<b>2,586</b>	<b>2,522</b>	<b>1,349</b>	<b>2,000</b>	<b>2,000</b>	<b>13,616</b>
<i>Source: ESIOP Progress Reports.</i>								
<i>* NDP targets for 2005 and 2006</i>								

### 7.2.3 Voluntary Housing

Expenditures on voluntary housing are delivered under two separate schemes. Under the Capital Assistance Scheme voluntary housing bodies provide accommodation to meet special housing needs such as those of the elderly, disabled, homeless or smaller families. They decide on the type of housing, given local need with at least 75% of the houses in each project reserved for persons on the local authority list or current tenants. The remaining houses are reserved for persons nominated by the voluntary housing body.

The second scheme is the Capital Loan and Subsidy Scheme. Under this scheme, voluntary housing bodies provide housing for renting, particularly to meet the needs of families with lower incomes. The houses are let by the voluntary housing bodies to persons approved of by the local authority.

<b>Table 7.6: Planned Voluntary Housing Measure Output (Units)</b>								
	Year							Est. Total - 2000- 2006
	2000	2001	2002	2003	2004	2005*	2006*	
Cap. Assistance Scheme	484	554	699	1,018	981	1,625	2,000	7,361
Capital Loan and Subsidy Scheme	467	699	661	599	626	1,625	2,000	6,677
<b>Total</b>	<b>951</b>	<b>1,253</b>	<b>1,360</b>	<b>1,617</b>	<b>1,607</b>	<b>3,250</b>	<b>4,000</b>	<b>14,038</b>
<i>Source: NDP</i>								
<i>* NDP targets for 2005 and 2006</i>								

For these sub-programme inflows should match outflows and there should not be a funding gap. This was the case in 1996. However, in 2004 expenditure equalled €116 million and revenues €104.5 million. The reasons for this gap are unclear and would warrant further investigation. This would require a detailed investigation of the local authorities' mortgage book and an examination of inflows and outflows.

In terms of projections, we assume that there is a 10% increase between each sub-period under review and a marginal widening of the funding gap. The details are included in Table 7.7.

<b>Table 7.7: Summary of Funding Gap 2004-2010</b>			
	2004	2006	2010
Expenditures- €m	116.9	128.6	141.8
Receipts- €m	104.0	114.4	125.8
Gap- €m	13.2	13.8	16.0
<i>Source: Indecon</i>			

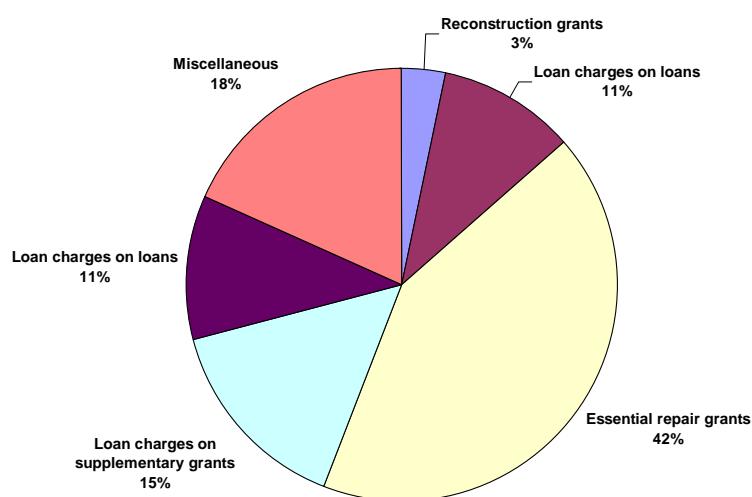
#### **7.2.4 Assistance to persons improving houses**

The main expenditures in this sub-programme include the Disabled Persons Grants and Essential Repairs Grants. This consists of payments to disabled persons to adapt their home and grants for essential repairs. Under the Disabled Persons Grant Scheme, a local authority may make a grant for the provision of additional accommodation or necessary work of adaptation to meet the needs of a member of the household who is disabled. The grant may be up to 90% of the approved cost of the works in the case of private

houses and up to the full cost of the works in the case of a house let by the local authority.

The Essential Repairs Grant scheme enables people in accommodation to have basic repairs carried out to their houses so that they can continue to provide an acceptable standard of accommodation for the occupants. The scheme is primarily intended to secure essential repairs to dwellings occupied by older people.

**Figure 7.5: Details on Assistance to Persons Improving Houses-2003**



Source: *Indecon Analysis of the Needs and Resources Data.*

Total expenditures on this sub-programme were €35.2 million in 2004 and these two schemes accounted for an estimated €28 million of this. These are demand-led schemes where the level of expenditure depends on the availability of local authority resources. It is very difficult to assess these future demands and, specifically at present given that the scheme is under review. For the purpose of this exercise we assume expenditure growth of 10% per annum and that receipts account (i.e. central government grants) for a constant proportion of expenditure. We assume that other expenditures and receipts in sub-programme remain unchanged and that the “funding” gap rises to €34 million by 2010.



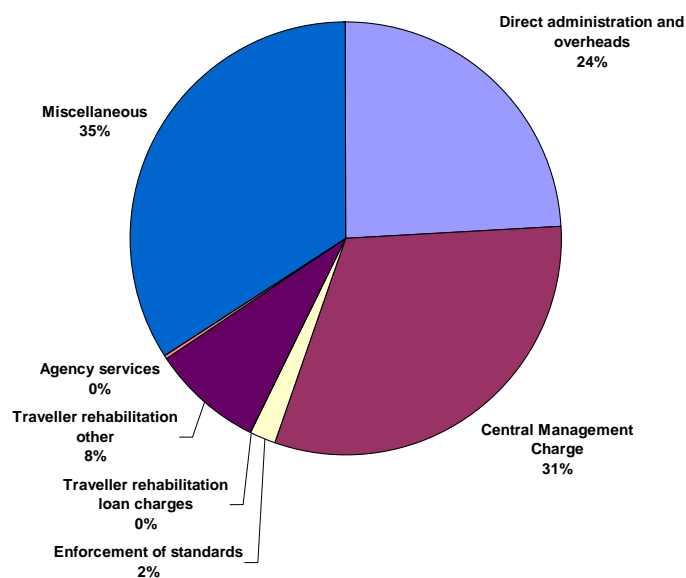
**Table 7.8: Projections for Assistance to Persons Improving Houses - 2004 - 2010**

	2004	2006	2010
Expenditures	35.2	41.1	56.8
Receipts	13.2	15.8	22.8
Gap	22.0	25.3	34.0

Source: Indecon

### 7.2.5 Housing administration and miscellaneous

The following sub-programme includes general administrative expenditures and an apportionment of central management charges. These also include expenditures on homeless and traveller accommodations.

**Figure 7.6: Details on Miscellaneous Expenditure**

Source: Indecon Analysis of the Needs and Resources Data.

Total expenditures are €177.9 million and receipts are €65.3 million. It is assumed that there is no additional expenditure under this heading over the period reviewed but pay, which is an important component of this expenditure, is addressed separately.

**Table 7.9: Projections for Administration Expenditure - 2004 - 2010**

	2004	2006	2010
Expenditures- €m	177.90	177.90	177.90
Receipts- €m	65.30	65.30	65.30
<i>Source: Indecon</i>			

### 7.2.6 Summary

In summary, we assume higher expenditure to 2010 for this programme with increases in receipts from local authority rents and some additional central government grants.

**Table 7.10 Summary of Gap to be Funded by Local Authority's Own Resources and Local Government Fund - €millions**

	2004			2006			2010		
	Exp.	Rec.	Gap	Exp.	Rec.	Gap	Exp.	Rec.	Gap
Local Authority Housing	209.5	219.3	-9.8	225.2	247.3	-22.1	258.8	300.8	-42
Assistance to Persons Housing Themselves	116.9	104.5	12.4	128.6	114.8	13.8	141.8	125.8	16
Assistance to Persons Improving Houses	35.2	13.2	22	41.1	15.8	25.3	56.8	22.8	34
Administration and Miscellaneous	177.9	65.3	112.6	177.9	65.3	112.6	177.9	65.3	112.6
Total	539.5	402.3	137.2	572.8	443.2	129.6	635.3	514.7	120.6
<i>Source: Indecon Estimates</i>									

### **7.2.7 Alternative housing projections based on Action Plans for Social and Affordable Housing 2004-2008**

Action Plans for Social and Affordable Housing 2004-2008, which set out Local Authorities' housing plans, have been prepared recently. Indecon have examined these action plans in detail and have prepared an alternative set of projections for housing incorporating these potential future expenditures.

#### *Local authority housing*

Details of projected output for local authorities housing are contained in the Action Plans for Social and Affordable Housing 2004-2008. We have examined the Actions Plans for the following local authorities in detail:

- Wexford;
- Wicklow;
- Dublin City;
- Galway City;
- South Dublin.
- Galway County;
- South Tipperary;
- Roscommon;
- Kerry;
- Laois.

For 2003 we extracted data for a number of areas from the Annual Housing Bulletin, 2003.

A summary table for these housing plans showing projected increases in housing output for the local authority, voluntary and co-operative sectors and Part V are included in Table 7.11. This shows a very substantial increase in projected output in 2004-2008 over 2003 levels. These are projected increases for all of the local authorities reviewed apart from Galway City. However, it should be noted that these are preliminary at this stage and some of these plans may not have been approved. The key point is that action plans suggest targets much higher than current levels of output in most cases.

<b>Table 7.11: Projected Housing Stock Increases for Selected Local Authorities</b>							
	2003			Average 2004-2008			% Increase 2004-2008 over 2003
	Part V	Other	Total	Part V	Other	Total	
Galway City	0	378	378	100	129	229	-39.4%
Galway County	0	142	142	30.4	179.8	210.2	48.0%
Kerry	0	265	265	43.8	307.4	351.2	32.5%
Laois	0	131	131	40	230.6	333.6	154.7%
Roscommon	0	121	121	21.6	127.6	149.2	23.3%
South Dublin	0	95	95	82	597.4	679.4	615.2%
Tipperary South	0	164	164	52.2	251.4	303.6	85.1%
Wexford	0	228	228	54.6	414.8	469.4	105.9%
Wicklow	0	134	134	109	314.2	417	211.2%

*Source: Department of the Environment, Heritage and Local Government.*

These plans suggest a large increase in the local authority housing stock over output in 2003 and significantly higher investment. Summary data are also available for 19 out of the 36 plans for the main local authority programmes. These are set out in Table 7.12 and they indicate a significant increase in projected output. Projected output for the Voluntary Housing Programmes programme is also included and indicates a significant increase in output. Once again, it should be noted that these are preliminary at this stage and some of these plans may not have been approved.

**Table 7.12: Local Authority Main Programme and Voluntary Housing Programmes**

Local Authority	2002	2003	2004 Forecast	Action plans 2004	2005	2006	2007	2008	Total '04-'08
Conventional Schemes	4,754	4,558	4,350	5,816	6,461	6,548	6,924	6,403	32,152
Part V arrangements		75	150	553	1,277	1,730	1,825	2,033	7,418
<b>Total</b>	<b>4,754</b>	<b>4,633</b>	<b>4,500</b>	<b>6,369</b>	<b>7,738</b>	<b>8,278</b>	<b>8,749</b>	<b>8,436</b>	<b>39,570</b>
Voluntary Housing	2002	2003	2004 Forecast	Action plans 2004	2005	2006	2007	2008	Total '04-'08
Conventional schemes	1,253	1,617	1,800	2,176	2,919	3,141	2,489	2,491	13,216
Part V arrangements				348	594	820	768	733	3,263
<b>Total</b>	<b>1,253</b>	<b>1,617</b>	<b>1,800</b>	<b>2,524</b>	<b>3,513</b>	<b>3,961</b>	<b>3,257</b>	<b>3,224</b>	<b>16,479</b>

*Source: Department of the Environment, Heritage and Local Government.*

In summary, the Action Plans suggest higher local authority housing output. There is also a large increase in expenditure under estate management and remedial works (details for selected local authorities are included in the Annexes). Based on this information, we assume an increase in local authority housing provision to an average of 7,500 units per annum from 2005. This leads to an increase in housing maintenance costs of over €50 million in 2010 compared with 2004.

**Table 7.13: Projected Additional Costs 2004-2010**

	2004	2005	2006	2007	2008	2009	2010
Changes in Costs Due to Higher Stock- €m	156.1	166.0	175.8	185.7	195.6	205.4	215.3
Increase per annum	0.0	9.9	19.7	29.6	39.5	49.3	59.2
Assume 50% Maintenance Cost- €m	0.0	4.9	9.9	14.8	19.7	24.7	29.6
Costs Due to Higher Stock @ 50% maintenance- €m	156.1	161.0	166.0	170.9	175.8	180.8	185.7
Inflation Costs	100	102.0	104.0	106.1	108.2	110.4	112.6
Total Projected Costs- €m	156.1	164.3	172.7	181.4	190.3	199.6	209.1

Source: Indecon

There is also expenditure in 2004 of €36.9 million on other estate management costs. The Action Plans assume further expenditures in this area and it is assumed that there are increases of 25% in 2006 over 2003 and 2010 over 2006. Rental income is a function of changes in rents and changes in stock. We assume increase in stock as above and rental increases of 2% per annum. We also assume that rent collection costs remain constant at around 10% of total rent collected. A summary of these is provided in Table 7.14 and details of all expenditure and receipts are included in Table 7.18.

**Table 7.14: Summary of Costs for Projections for Principal Housing Components 2004-2010- €m**

	2004	2006	2010
Rental Income	190.0	227.1	301.0
Maintenance and Estate Costs	156.1	172.7	209.1
Rent collection Costs	19.0	22.7	30.1
Other expenditures	14.9	31.7	61.8

Source: Indecon

### *Assistance to Persons Housing Themselves*

It was projected that housing output from each of the schemes would equal 7,000 over the period and that output each year would equal 2,000 for both. Based on a review of the Actions Plans there are large planned increases under this heading (details are set out in the Annexes). This may lead to higher inflows and outflows under this sub-programme but we assume that the deficit remains unchanged relative to the previous scenario. Action plans reveal a projected increase in activity.

### *Assistance to Persons Improving Houses*

The main expenditures in this area include the Disabled Persons Grants and Essential Repairs Grants. The Actions plans propose a significant increase in these areas based on a review of selected local authorities. Details are set out in the Annexes and are summarised below for a selection of local authorities.

<b>Table 7.15: Projected Increases in Essential Repairs Grant under Action Plans for Selection of Local Authorities- €m</b>							
	2003	2004	2005	2006	2007	2008	% Change 2008 - 2003
Wicklow	64	83	93	102	109	116	81.3%
Kerry	98	145	150	155	160	160	63.3%
Galway City	11	16	18	20	18	20	81.8%
Laois	48	80	80	80	80	80	66.7%
Galway County	127	130	140	150	155	160	26.0%
Roscommon	158	150	150	150	150	150	-5.1%

*Source: Local Authority Housing Action Plan 2004-2008 and Annual Housing Bulletin Statistics 2003, Department of the Environment, Heritage and Local Government*

Similar details are available for the disabled persons grant. Most authorities, with the exception of Dublin City, project a planned increase.

<b>Table 7.16: Projected Increases in Disabled Persons Grant under Action Plans for Selection of Local Authorities- €m</b>							
	2003	2004	2005	2006	2007	2008	% change 2008 over 2003
Wicklow	91	184	195	206	212	217	138.5%
Kerry	197	240	250	250	260	260	32.0%
Galway City	76	110	120	120	120	120	57.9%
Laois	53	90	90	90	90	90	69.8%
Galway County	110	125	135	135	145	160	45.5%
Roscommon	65	200	150	150	150	150	130.8%

*Source: Local Authority Housing Action Plan 2004-2008 and Annual Housing Bulletin Statistics 2003, Department of the Environment, Heritage and Local Government*

We use these estimates as a basis for our projections. Excluding outliers, we assume an increase in expenditure of 12% per annum from 2004 out to 2010. This leads to an increase in expenditure as set out below.

<b>Table 7.17: Projections for Assistance to Persons Improving Houses - 2004 - 2010 €m</b>			
	2004	2006	2010
Expenditures	35.2	42.3	62.5
Receipts	13.2	16.4	25.3
Gap	22.0	25.9	37.2

*Source: Indecon*

### **Summary**

Assuming the implementation of the Action Plans would lead to a large increase in capital expenditure but a lower increase in current expenditure. The higher projected increase in current expenditure in this scenario compared with the previous scenario is due to higher local authority maintenance costs and higher expenditures on disabled persons and essential repairs grant. The full details are included in Table 7.18.



**Table 7.18 Summary of Gap to be Funded by Local Authority's Own Resources and Local Government Fund- €m**

	2004			2006			2010		
	Exp.	Rec.	Gap	Exp.	Rec.	Gap	Exp.	Rec.	Gap
Local Authority Housing	209.5	219.3	-9.8	238.5	256.4	-17.9	293.1	330.3	-37.2
Assistance to Persons Housing Themselves	116.9	104.5	12.4	128.6	114.8	13.8	141.8	125.8	16
Assistance to Persons Improving Houses	35.2	13.2	22	42.3	16.4	25.9	62.5	25.3	37.2
Administration and Miscellaneous	177.9	65.3	112.6	192.9	65.3	127.6	207.9	65.3	142.6
Total	539.5	402.3	137.2	602.3	452.9	149.4	705.3	546.7	158.6

Source: Indecon Estimates

### 7.3 Road Transportation and Safety

In respect of Road Transportation and Safety, the following discussion is based on data in respect of current expenditure on road improvements.

On this basis, expenditure on road transportation and safety amounted to €1,000.6 million in 2004. Receipts, which are primarily transfers from central government, amounted to €634.2 million, leaving a funding gap on this programme of €366 million.

For 2004, road maintenance expenditure amounted to €379.7 million, an increase of 100.1% on 1996. Local authorities are responsible for the maintenance of both national and non-national roads. For national roads, grants are provided by the National Roads Authority as indicated by the receipts included in Table 7.19 overleaf. The improvement and maintenance of non-national roads (including traffic management) is funded from a combination of local resources (which includes receipts from fines and fees) and grants provided from Central Government - i.e. the Local Government Fund and other Exchequer grants.

The analysis of road transportation and safety expenditure shows that expenditure on road improvements and road traffic are covered by a combination of government receipts and charges. In contrast, local

authorities fund a large gap in respect of road maintenance and administrative and miscellaneous. In 2004, this gap amounted to €366.4 million.

<b>Table 7.19: Road Transportation and Safety - Expenditure and Receipts 2004 - € Million</b>						
	1996		2004		% Change	
	Expenditure	Receipts	Expenditure	Receipts	Expenditure	Receipts
Road maintenance	189.78	83.26	379.7	191.7	100.1%	130.2%
Road Improvement	136.88	134.83	302.4	301.1	120.9%	123.3%
Road Traffic	21.47	17.87	70.3	85.9	227.4%	380.7%
Administration and Miscellaneous	107.74	113.83	248.2	55.5	130.4%	-51.2%
Total	455.86	349.80	1000.6	634.2	119.5%	81.3%
<i>Source :Local Authority Budgets, Department of the Environment, Heritage and Local Government</i>						

The NDP contains projections for expenditures on non-national roads and we understand that current levels are matching these targets. In each of the programme areas high levels of funding are being provided and we do not have specific information regarding future expenditures in this area. It should be noted that Local Authorities consider that significant additional funding will be required in the future to both maintain the existing non-national roads programme and also to cater for “new” requirements. In particular, preliminary results from a Pavement Condition Study, indicate that there will be a need for significant continued extra investment in the Restoration Programme

Also, in addition to existing grant schemes, which are mainly directed at conserving, restoring and maintaining the existing extensive non-national roads network, there are a number of significant proposals being mooted which are not catered for in the existing non-national roads programme. Rapid economic growth has generated a new type of need in the non-national roads area for the provision of new major strategic non-national roads and local authorities have indicated that they will be putting forward a number of such major schemes for funding.

Given the approach to assessing future demands used in this Review, it is difficult to be definitive about the likely expenditures needs out to 2010. However, we recognise that this is an area where needs are significant and where the government is committed to enhancing infrastructure. Accordingly, we project that expenditure would be €100 million higher each year out to 2010 compared to 2004 levels.

**Table 7.20 Summary of Gap to be Funded by Local Authority's Own Resources and Local Government Fund- €m**

	2004			2006			2010		
	Exp.	Rec.	Gap	Exp.	Rec.	Gap	Exp.	Rec.	Gap
Road maintenance	379.7	191.7	188	429.7	191.7	238	429.7	191.7	238
Road Improvement	302.4	301.1	1.3	352.4	301.1	51.3	352.4	301.1	51.3
Road Traffic	70.3	85.9	-15.6	70.3	85.9	-15.6	70.3	85.9	-15.6
Administration and Miscellaneous	248.2	55.5	192.7	248.2	55.5	192.7	248.2	55.5	192.7
Total	1000.6	634.2	366.4	1100.6	634.2	466.4	1100.6	634.2	466.4

*Source: Indecon Estimates*

## 7.4 Water Supply and Sewerage

The next programme is current expenditure associated with the provision of water and sewerage services. These services are the responsibility of local authorities and current expenditures amounted to €486.7 million in 2004. The first sub-programme is public water schemes whose expenditure increased by 81.7% between 1996 and 2004. This expenditure relates to the provision, operation and maintenance of the water supply network and the cost of water collection and treatment. Receipts account for a significant amount of the expenditure and are primarily commercial charges.

The next item covers the same types of expenditure in respect of public sewerage schemes. The receipts relate to drainage and discharge charges. Other expenditure areas relate to private installation and miscellaneous and administration.

Overall, the cost of these services increased by 138% over the period while receipts increased by only 31.8%. The overall gap amounted to €267.9 in 2004, which are primarily the operational costs of providing domestic water services.

There are policy changes in respect of water policy, which will affect future receipts. Local authorities are now obliged to determine the breakdown in costs between domestic and non-domestic users and to charge non-domestic users the full costs. In addition, the costs for domestic services are to be funded by central government through the Local Government Fund.

<b>Table 7.21: Water Supply and Sewerage - Expenditure and Receipts 2004 - € Million</b>						
	1996		2004		% Change	
	Expenditure	Receipts	Expenditure	Receipts	Expenditure	Receipts
Public Water Scheme	117.98	129.32	214.4	151.3	81.7%	17.0%
Public Sewerage Scheme	50.98	11.35	168.1	45.9	229.7%	304.4%
Private Installations	0.63	0.41	11.1	11.4	1661.9%	2680.5%
Administration and Miscellaneous	34.91	29.45	93.1	16.2	166.7%	-45.0%
Total	204.50	170.53	486.7	224.8	138.0%	31.8%
<i>Source :Local Authority Budgets, Department of the Environment, Heritage and Local Government</i>						

There have been significant increases in current expenditure as NDP investment has added to the stock of public infrastructure in this area. Table 7.22 shows recent trends in Government's Capital investment, which shows a large increase which is leading to higher current expenditure. Further planned investment over the remainder of the current NDP period and for the post 2006 period will lead to additional increases in costs.

**Table 7.22: Selected trends in Capital Investment €m**

	1996	1997	1998	1999	2000	2001	2002	2003 Prov	2004 Est.
Transport	591	730	835	1,292	1,503	1,877	2,160	2,366	2,574
Environmental protection	163	216	245	377	526	593	597	573	585
Housing	427	451	488	656	874	1,297	1,615	1,704	1,795
Govt construction etc	196	271	393	558	707	840	874	805	824
Grand total	1,377	1,668	1,961	2,883	3,610	4,607	5,246	5,448	5,778
As a % of GNP	2.67	2.82	2.88	3.76	4.10	4.78	5.07	4.99	5.06

*Source: Public Capital Programme, 2004 and ESRI Projections*

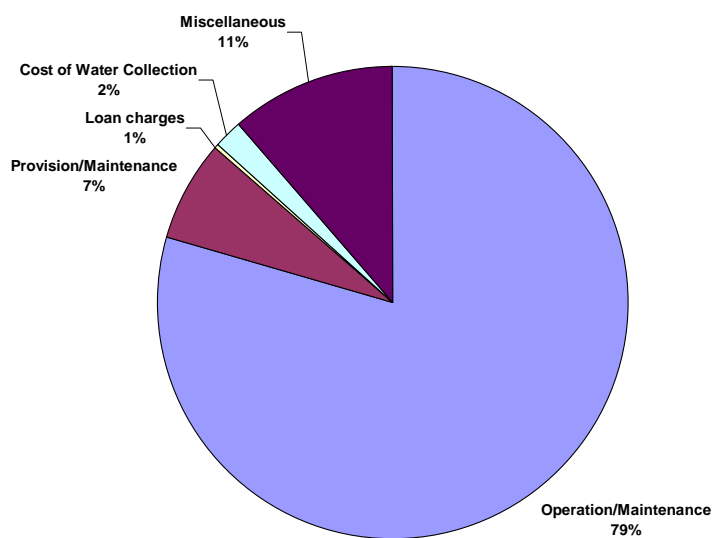
However, it is difficult to establish a clear driver of these costs that could provide a basis for assessing future demands. One possible driver could include changes in the number of households and/or population changes or economic growth, as this is an indicator of user demand. However, there is also a very significant increase in service improvements and water quality which are adding to expenditures. These are related to the consequences of EU environmental directives and are adding to cost increases.

Overall, there are a variety of factors that will increase the current costs of the provision of public water and sewerage services out to 2010. These include:

- Population increases;
- Increases in economic activity;
- Higher operating costs from new treatment plants, collection and distribution systems;
- Leakage reduction and repairs, where relevant.

Mazars in their projections forecast an increase in expenditures in this area of 8.9% over the period 2003 to 2006, and it is interesting to compare this projection with changes in some potential measures of demand such as population or GNP. As discussed earlier, the ESRI projected that GNP will increase by 16.8% over the period 2002 to 2006 while the population is projected to increase by 4.4% over the same period.

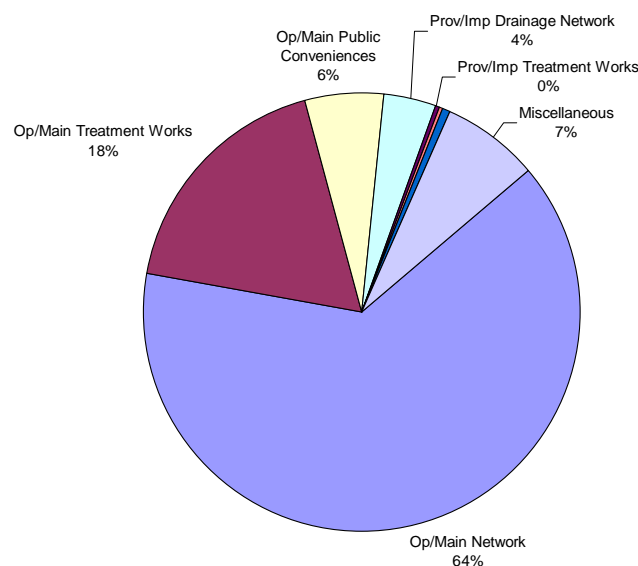
The first sub-programme relates to public water schemes, which includes the provision, operation and maintenance of water supplies. Most of the details of expenditures are included in Figure 7.7.

**Figure 7.7: Details of Expenditure on Public Water-2003**

Source: *Indecon Analysis of the Needs and Resources Data.*

The next item covers the same types of expenditure in respect of public sewerage schemes. These are also the same receipts, which are from commercial drainage and discharge charges.

**Figure 7.8: Details of Expenditure on Public Sewerage-2003**



Source: *Indecon Analysis of the Needs and Resources Data.*

Other expenditure sub-programmes relate to installation (€11.1) and miscellaneous and administration (€93.1)

Given the difficulties in preparing projections in this area, we initially base our projections on estimates prepared by local authorities. These are set out in the table overleaf and indicate that projected increases are significant, reflecting the enlarged stock of modern treatment plants that has come on stream. As the table indicates, expenditures are projected to increase by 77.9% or by €238.2 million in cash terms between the 2002 and 2008.

**Table 7.23: Projected Costs of Water and Sewerage Services by Local Authorities - € million**

	2002	2005	2008	Percentage
Carlow Co.Co.	2.62	4.85	5.81	121.8%
Cavan Co.Co.	3.45	5.72	7.98	131.3%
Clare Co.Co.	9.84	16.92	17.80	80.9%
Cork City Council	8.90	13.18	13.29	49.3%
Cork Co.Co.	23.28	33.40	43.70	87.7%
Donegal Co.Co.	12.01	16.14	28.54	137.6%
Dublin City Council	58.53	69.50	73.00	24.7%
Dun Laoghaire/Rath	19.10	20.32	23.38	22.4%
Fingal Co.Co.	21.58	25.58	29.38	36.1%
Galway City Co.	4.41	10.00	10.00	126.8%
Galway Co.Co.	7.28	12.53	20.90	187.1%
Kerry Co.Co.	8.91	17.80	23.90	168.2%
Kildare Co.Co.	14.20	17.56	18.80	32.4%
Kilkenny Co.Co.	3.80	7.60	8.70	128.9%
Laois Co.Co.	3.79	5.50	11.00	190.2%
Leitrim Co.Co.	1.97	2.74	3.11	57.9%
Limerick City Co.	3.85	5.38	5.38	39.7%
Limerick Co.Co.	8.80	12.10	13.90	58.0%
Longford Co.Co.	3.30	4.30	4.50	36.4%
Louth Co.Co.	2.90	13.89	17.77	512.8%
Mayo Co.Co.	10.50	13.50	15.00	42.9%
Meath Co.Co.	10.27	11.97	18.25	77.7%
Monaghan Co.Co.	3.30	8.54	11.37	244.5%
Offaly Co.Co.	2.91	4.33	5.20	78.7%
Roscommon Co.Co.	5.35	7.48	8.66	61.9%
S. Tipperary Co.Co.	5.65	13.70	17.30	206.2%
N. Tipperary Co.Co.	4.23	8.10	9.90	134.0%
Sligo Co.Co.	2.44	6.15	7.50	207.4%
South Dublin Co.Co.	15.10	18.40	23.50	55.6%
Waterford City Co.	3.30	4.66	5.04	52.7%
Waterford Co.Co.	3.30	6.06	7.16	117.0%
Westmeath Co.Co.	5.18	7.65	8.40	62.2%
Wexford Co.Co.	6.00	10.85	12.40	106.7%
Wicklow Co.Co.	5.60	8.55	13.25	136.6%
Total Expenditure	305.65	444.95	543.77	77.91%

Source: Report of Local Authority / Department of the Environment, Heritage and Local Government Interface Sub-Group, October 2002.

Data are also available on the domestic and non-domestic share of this expenditure (see table overleaf).



**Table 7.24: Projected Operational Costs of Water and Sewerage Services by Local Authorities - € million**

	2002	2008	Domestic share 2002 %	Non-Domestic Share 2002 %
Carlow Co.Co.	2.62	5.81	67.6%	32.4%
Cavan Co.Co.	3.45	7.98	81.7%	18.3%
Clare Co.Co.	9.84	17.80	58.8%	41.2%
Cork City Council	8.90	13.29	65.3%	34.7%
Cork Co.Co.	23.28	43.70	49.2%	50.8%
Donegal Co.Co.	12.01	28.54	75.6%	24.4%
Dublin City Co.	58.53	73.00	33.3%	66.7%
Dun L./Rath Co. Co.	19.10	23.38	85.7%	14.3%
Fingal Co.Co.	21.58	29.38	45.1%	54.9%
Galway City Co.	4.41	10.00	66.9%	33.1%
Galway Co.Co.	7.28	20.90	81.0%	19.0%
Kerry Co.Co.	8.91	23.90	41.1%	58.9%
Kildare Co.Co.	14.20	18.80	64.1%	35.9%
Kilkenny Co.Co.	3.80	8.70	58.2%	41.8%
Laois Co.Co.	3.79	11.00	68.9%	31.1%
Leitrim Co.Co.	1.97	3.11	82.7%	17.3%
Limerick City Co.	3.85	5.38	40.0%	60.0%
Limerick Co.Co.	8.80	13.90	65.9%	34.1%
Longford Co.Co.	3.30	4.50	76.7%	23.3%
Louth Co.Co.	2.90	17.77	71.7%	28.3%
Mayo Co.Co.	10.50	15.00	65.3%	34.7%
Meath Co.Co.	10.27	18.25	87.9%	12.1%
Monaghan Co.Co.	3.30	11.37	31.8%	68.2%
Offaly Co.Co.	2.91	5.20	90.7%	9.3%
Roscommon Co.Co.	5.35	8.66	65.6%	34.4%
S. Tipperary Co.Co.	5.65	17.30	53.1%	46.9%
N. Tipperary Co. Co.	4.23	9.90	72.3%	27.7%
Sligo Co.Co.	2.44	7.50	44.3%	55.7%
South Dublin Co. Co.	15.10	23.50	67.5%	32.5%
Waterford City Co.	3.30	5.04	79.7%	20.3%
Waterford Co.Co.	3.30	7.16	75.8%	24.2%
Westmeath Co.Co.	5.18	8.40	72.6%	27.4%
Wexford Co.Co.	6.00	12.40	46.3%	53.7%
Wicklow Co.Co.	5.60	13.25	73.4%	26.6%
Total Expenditure	305.65	543.77	58.4%	41.6%

Source: Report of Local Authority / Department of the Environment, Heritage and Local Government Interface Sub-Group, October 2002.

The breakdown varies by local authority reflecting different circumstances. For example, counties with concentrations of particular types of industries would have a higher non-domestic share than the average, which is between 30% and 60%.

In our projections, we assume that current expenditure grows at 12 % per annum over the period which is in line with the increases included in the tables for both public water schemes and the public sewerage schemes. In other words, we assume that they increase in line with the average projected increase for all local authorities as reported by local authorities and set out in the previous tables. There is no planned increase in expenditures on private installations and administration and miscellaneous but pay is dealt with separately. This leads to a projected increase in expenditure to €859 million by 2010.

<b>Table 7.25: Projections on Water Expenditures - €m</b>			
	<b>2004</b>	<b>2006</b>	<b>2010</b>
Public Water Scheme	214.4	268.9	423.2
Public Sewerage Scheme	168.0	210.7	331.6
Private Installations	11.1	11.1	11.1
Administration and Miscellaneous	93.1	93.1	93.1
Total	486.6	583.9	859.0
<i>Source: Indecon</i>			

Receipts are mostly charges on the commercial sector and are projected to grow in line with the non-domestic total water services costs. These are estimated to be €275.5 million in 2006 out of total expenditure of €583.9 million. This reflects government directives in respect of pricing policy where charges increase in line with the projected increase in non-domestic expenditures. Despite higher charges, there is a projected widening gap to be funded by either commercial rates or the Local Government Fund.

<b>Table 7.26 Summary of Gap to be Funded by Local Authority's Own Resources and Local Government Fund - €m</b>									
	2004			2006			2010		
	Exp.	Rec.	Gap	Exp.	Rec.	Gap	Exp.	Rec.	Gap
Public Water Scheme	214.4	151.3	63.1	268.9	185.3	83.6	423.2	272.6	150.6
Public Sewerage Scheme	168	45.9	122.1	210.7	56.2	154.5	331.6	82.7	248.9
Private Installations	11.1	11.4	-0.3	11.1	14	-2.9	11.1	20.5	-9.4
Administration and Miscellaneous	93.1	16.3	76.8	93.1	20	73.1	93.1	29.4	63.7
<b>Total</b>	<b>486.6</b>	<b>224.9</b>	<b>261.7</b>	<b>583.9</b>	<b>275.5</b>	<b>308.4</b>	<b>859</b>	<b>405.3</b>	<b>453.7</b>
<i>Source: Indecon Estimates</i>									

Indecon have had detailed discussions with the Department of the Environment, Heritage and Local Government to obtain additional information or views on the projections in this area. This reflects concerns with projections based exclusively on data provided by local authorities. Arising from these discussions, we examined in detail the costs for five local authorities:

- Galway City;
- Donegal;
- Fingal;
- Cork County, and;
- Kildare.

Details are included in the Annexes and these reviews have informed our assessment of the appropriate expenditure projections to adopt. Accordingly, the conclusion is that projected expenditures for 2005 and 2008 seem reasonable given the budgeted expenditures for 2004. For example, Kildare County Council Budget estimates that expenditures would be €15.5 million in 2004, with projected expenditure of €17.5 million in 2005 and €18.8 million in 2008. These indicate on-going increases in costs and in addition, there are large investments planned that would increase expenditure further.

In conclusion, for the selected local authorities reviewed, actual approved expenditures for 2004 are close to 2005 projections and all have experienced very significant increases in current expenditures. A review of the proposed

capital programme suggests a further on-going increase in expenditures. Indecon for our review believes that the projections prepared by local authorities are based on detailed information on capital projects and in our judgement represent the best basis available for projecting resource requirements.

## 7.5 Development Incentives and Controls

Next, we examine the development incentives and controls programme where expenditure is estimated to be €194.5 million in 2004. This represents a lower level of expenditure than other programme areas but in common with these areas there has been a significant increase in expenditure over the period 1996 to 2004.

Land use planning accounts for the largest share of expenditure and consists of processing planning applications, preparation of development plans, conservation measures and the enforcement of building regulations. Receipts relate mainly to fees for planning applications. The other areas of expenditure account for relatively minor amounts including:

- Management of industrial development sites;
- Promotional activities;
- Urban renewal and area planning;
- Various representational functions.

Receipts for these areas, as set out in Table 7.27, are limited and relate mainly to income from leasing sites and properties. For 2004 receipts amounted to €83.4 million, compared with expenditures of €194.5 million.

<b>Table 7.27: Development Incentives and Controls - Expenditure and Receipts 2004 - € Million</b>						
	1996		2004		% Change	
	Expenditure	Receipts	Expenditure	Receipts	Expenditure	Receipts
Land Use Planning	22.83	11.20	78.5	41.3	243.8%	268.8%
Industrial Development	2.52	1.08	5.1	3.1	102.4%	187.0%
Other Development/Promotion	10.79	4.49	27	11.4	150.2%	153.9%
Representational Functions	0.14	0.00	0.699	0	399.3%	-
Promotion of Interest of the Local Community	2.67	0.93	30.4	8	1038.6%	760.2%
Twinning of Local Authority Areas	0.27	0.00	0.823	0	204.8%	-
Administration and Miscellaneous	14.55	16.21	52	19.6	257.4%	20.9%
Total	53.77	33.91	194.5	83.4	261.8%	145.9%
<i>Source :Local Authority Budgets, Department of the Environment, Heritage and Local Government</i>						

The main drivers of expenditure are:

- Increases in planning application activity arising from expanding economic activity;
- The impact of the Planning and Development Act (2000).

In terms of projections it is assumed that planning applications would lead to additional expenditures. However, given the growing gap between expenditures and fees, we understand that efforts are being made to recoup higher expenditures through higher fees. We assume that this policy change would occur and we assume that fees increase in line with higher expenditures. For other areas, there is no basis for assuming increases in future expenditure. Accordingly, we assume that the funding gap remains unchanged in nominal terms at €111.1 million.

<b>Table 7.28 Summary of Gap to be Funded by Local Authority's Own Resources and Local Government Fund</b>									
	<b>2004</b>			<b>2006</b>			<b>2010</b>		
	<b>Exp.</b>	<b>Rec.</b>	<b>Gap</b>	<b>Exp.</b>	<b>Rec.</b>	<b>Gap</b>	<b>Exp.</b>	<b>Rec.</b>	<b>Gap</b>
Land Use Planning	78.5	41.3	37.2	78.5	41.3	37.2	78.5	41.3	37.2
Industrial Development	5.1	3.1	2	5.1	3.1	2	5.1	3.1	2
Other Development/Promotion	27	11.4	15.6	27	11.4	15.6	27	11.4	15.6
Representational Functions	0.699	0	0.699	0.699	0	0.699	0.699	0	0.699
Promotion of Interest of the Local Community	30.4	8	22.4	30.4	8	22.4	30.4	8	22.4
Twinning of Local Authority Areas	0.823	0	0.823	0.823	0	0.823	0.823	0	0.823
Administration and Miscellaneous	52	19.6	32.4	52	19.6	32.4	52	19.6	32.4
<b>Total</b>	<b>194.5</b>	<b>83.4</b>	<b>111.1</b>	<b>194.5</b>	<b>83.4</b>	<b>111.1</b>	<b>194.5</b>	<b>83.4</b>	<b>111.1</b>
<i>Source: Indecon Estimates</i>									

## 7.6 Environment Protection

There are a number of areas of expenditure under the environment protection programme but the main areas are waste disposal and fire protection. These account for approximately 80% of expenditure as set out in Table 7.29. Waste disposal consists of domestic refuse, street cleaning and landfills. Income is waste charges for commercial and domestic users. Fire protection is the cost of providing the fire fighting function. Receipts include receipts from other local authorities for services provided.

There has been a very significant increase in expenditure in this programme. The increase between 1996 and 2004 has been 214% with receipts up by 251.7%. There is now a large funding gap of €352.6 million.

<b>Table 7.29: Environment Protection - Expenditure and Receipts 2004 - € Million</b>						
	1996		2004		% Change	
	Expenditure	Receipts	Expenditure	Receipts	Expenditure	Receipts
Waste Disposal	91.96	29.23	399.4	322.4	334.3%	1003.0%
Burial Grounds	7.34	3.82	16.1	7.2	119.3%	88.5%
Safety of Structures/ Places	8.08	3.35	12.1	5.7	49.8%	70.1%
Fire Protection	110.41	31.83	252.1	79.3	128.3%	149.1%
Pollution Control	7.37	1.09	21.5	5.4	191.7%	395.4%
Administration and Miscellaneous	25.11	53.90	84.7	13.3	237.3%	-75.3%
<b>Total</b>	<b>250.27</b>	<b>123.20</b>	<b>785.9</b>	<b>433.3</b>	<b>214.0%</b>	<b>251.7%</b>
<i>Source :Local Authority Budgets, Department of the Environment, Heritage and Local Government</i>						

First, we examine waste disposal where expenditure equals €399.4 million, which is 51% of the total expenditure in this programme. There are a variety of developments in the waste area that are increasing costs and leading to greater costs under the polluter pays principle. For example, the National Waste Policy obliges local authorities to adapt waste management targets, which include:

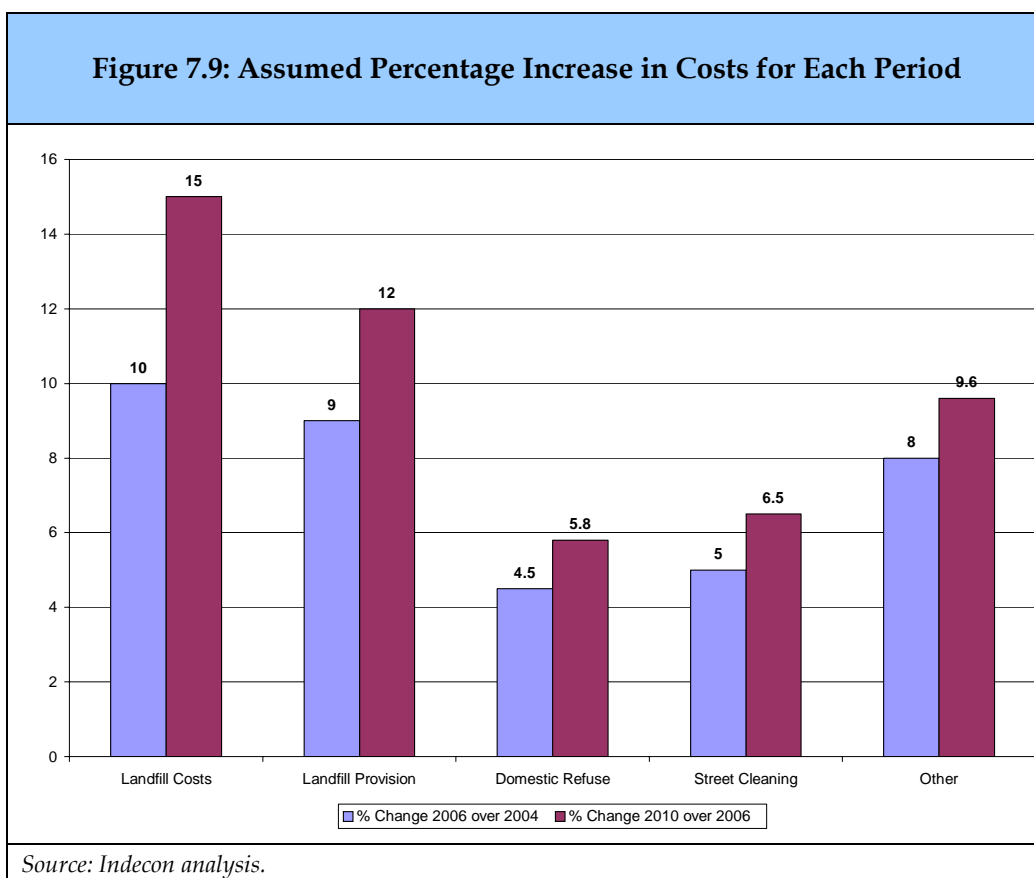
- Diversion of household waste from landfill;
- Significant recycling;
- Development of environmentally friendly waste energy technologies.

The Waste Management Act (1996) also requires local authorities to implement the Polluter Pays Principle. In some areas this involves charges being levied on waste produced. It has also led to an increase in the cost of landfill. In terms of projections, these developments will have significant effects as follows:

- Costs associated with a different approach to waste disposal;
- Costs of maintaining closed landfill sites;
- Growths in revenue from refuse and landfill charges.

There is also the effect of contracting out refuse collection and disposal with private contractors taking over the role that was previously within the ambit of the local authorities. It is now estimated that 50% of volumes is collected by private operators.

Given the implementation of waste plans it is difficult to estimate likely future costs but we believe that the additional costs will be significant. We are aware that Regional Waste Management Plans are being prepared. These were not available in time to be incorporated into these projections, and they could lead to additional expenditure increases. Based on discussions with local authorities and work by Mazars we assume percentage increases for each period in the key waste areas as set out below.





This leads to increases, as set out in Table 7.30, and in overall terms we project that expenditure will increase by approximately €75 million. All of the expenditure headings show an increase but landfill costs are projected to be the principal cost driver.

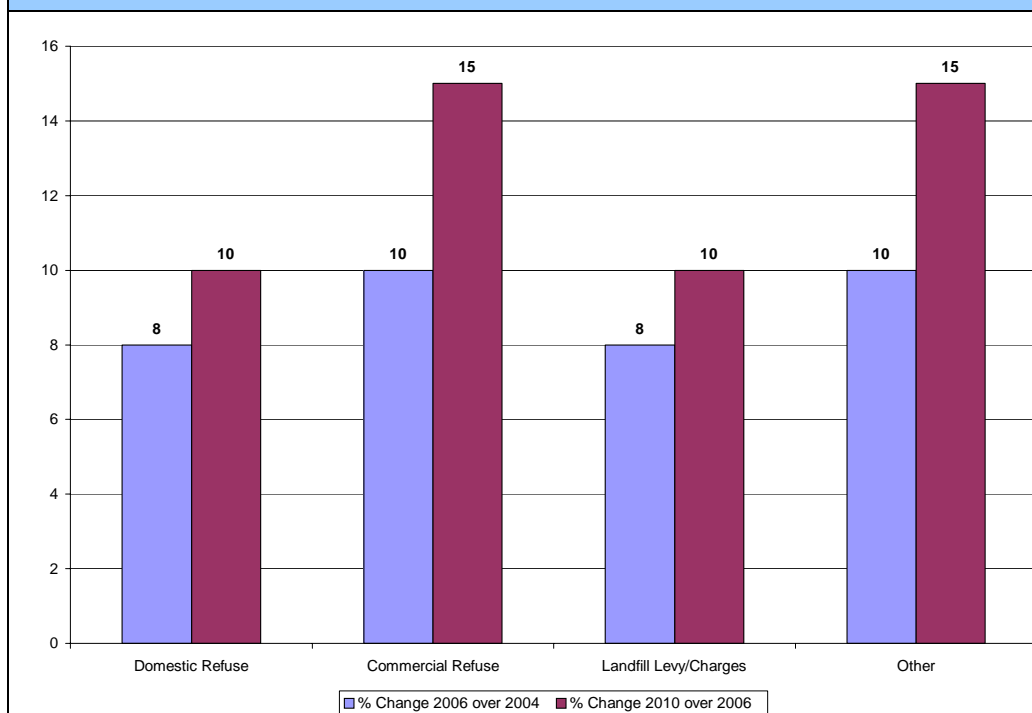
**Table 7.30: Projections for Waste Disposal Expenditures 2004-2010 - €m**

	2004	2006	2010
Landfill Costs	139.79	153.77	176.83
Landfill Provision	47.93	52.24	58.77
Domestic Refuse	97.85	102.26	108.19
Street Cleaning	61.11	64.16	68.33
Other	52.32	56.51	61.93
Total	399.4	428.94	474.06

Source: Indecon

Projected increases in revenues are set below. We assume large increases reflecting the further extension of the polluter pays principle into these areas.

**Figure 7.10: Assumed Percentage Increase in Revenues for Each Period**



Source: Indecon analysis.

This leads to a projected increase in waste related revenues as set out in Table 7.31. There are increases in revenues but there is considerable charging for refuse collection uncertainty in this area given the introduction this year of pay by weight charging for refuse collection. Overall, we project that revenues will increase to €388.9 million by 2010.

<b>Table 7.31: Projections for Waste Disposal Related Revenues 2004-2010 - €m</b>			
	<b>2004</b>	<b>2006</b>	<b>2010</b>
Domestic Refuse	101.51	109.63	120.59
Commercial Refuse	26.58	29.23	33.62
Landfill Levy/Charges	143.77	155.27	170.79
Other	50.55	55.61	63.95
<b>Total</b>	<b>322.4</b>	<b>349.73</b>	<b>388.95</b>
<i>Source: Indecon</i>			

We assume no major change in the funding gap for the following areas:

- ❑ Burial Grounds;
- ❑ Safety of Structures/Places;
- ❑ Pollution Control; and
- ❑ Administration and Miscellaneous.

We recommend a modest increase in Fire Protection because of specific changes that are being implemented on foot of a recent review. The Review of Fire Safety and Fire Services in Ireland identified a number of areas for policy action. These areas are:

- ❑ the development of community fire safety programmes to shift the current focus from responding to fires to involving the community at large in the task of preventing fires resulting in a better awareness of fire and how to guard against it;
- ❑ the development of a risk based approach to the determination of fire and emergency response cover resulting in a more appropriate and effective response to emergency calls;
- ❑ the introduction of a competency based approach to recruitment, retention and career progression in the fire service resulting in progression based on the tasks involved; and
- ❑ the enhancement of health, safety and welfare programmes within the fire service resulting in a safer and healthier regime for our fire-fighters.

Following discussion with the Department an increase in expenditure of about €10 million by 2010 is earmarked for the implementation of these changes.

Accordingly, the projected increase in the funding gap for waste and the other areas are set out below. In essence, there is a modest increase in the funding gap, despite higher expenditure, due to significantly higher receipts arising from higher charges.

**Table 7.32 Summary of Gap to be Funded by Local Authority's Own Resources and Local Government Fund - €m**

	2004			2006			2010		
	Exp.	Rec.	Gap	Exp.	Rec.	Gap	Exp.	Rec.	Gap
Waste Disposal	399.4	322.4	77.0	428.9	349.7	79.2	474.1	388.9	85.2
Burial Grounds	16.1	7.2	8.9	16.1	7.2	8.9	16.1	7.2	8.9
Safety of Structures/ Places	12.1	5.7	6.4	12.1	5.7	6.4	12.1	5.7	6.4
Fire Protection	252.1	79.3	172.8	252.1	79.3	172.8	262.1	79.3	182.8
Pollution Control	21.5	5.4	16.1	21.5	5.4	16.1	21.5	5.4	16.1
Administrati on and Miscellaneou s	84.7	13.3	71.4	84.7	13.3	71.4	84.7	13.3	71.4
<b>Total</b>	<b>785.9</b>	<b>433.3</b>	<b>352.6</b>	<b>815.4</b>	<b>460.6</b>	<b>354.8</b>	<b>870.6</b>	<b>499.8</b>	<b>370.8</b>
<i>Source: Indecon Estimates</i>									

## 7.7 Recreation and Amenities

The next area concerns expenditures in respect of recreation and amenities facilities. Total expenditures are estimated to be €307.8 million in 2004, an increase of 68.7% over 1996 expenditures. Receipts, which primarily include charges for various services, amounted to €67.9 million. This is a low percentage of expenditure to revenue reflecting the social subsidy for many of these merit goods and services. Overall, there is a considerable funding gap in this programme of €239.9 million, which is met by local authorities' own resources. Full details of expenditure are included in Table 7.33.

<b>Table 7.33: Recreation and Amenities - Expenditure and Receipts 2004 - € Million</b>						
	1996		2004		% Change	
	Expenditure	Receipts	Expenditure	Receipts	Expenditure	Receipts
Swimming Pools	10.11	5.45	19.6	7.6	93.9%	39.4%
Libraries	43.57	6.70	94.5	12.9	116.9%	92.5%
Parks, Open Spaces Etc.	88.15	51.29	102.7	21.2	16.5%	-58.7%
Other Recreation/ Amenity	25.22	12.58	54.3	20.1	115.3%	59.8%
Administration and Miscellaneous	15.39	35.18	36.7	6.1	138.5%	-82.7%
<b>Total</b>	<b>182.45</b>	<b>111.20</b>	<b>307.8</b>	<b>67.9</b>	<b>68.7%</b>	<b>-38.9%</b>

*Source :Local Authority Budgets, Department of the Environment, Heritage and Local Government*

There is a commitment under the NDP for investment in social, cultural and recreational activities. We assume that the local authorities will have to incur some additional operating costs as a result of this investment. However, we do not have a basis for projecting these expenditures into the future.

There could be significant additional costs under this programme if the local authority system was in a position to meet the population's growing expectations in a number of these areas. However, within the definition of emerging needs used as a basis for this projections exercise, we do not have a basis of projecting these forward and we assume that the gap of €239.9 remains unchanged in nominal terms.

## 7.8 Agriculture, Education, Health and Welfare

There are various minor expenditure areas under this programme group and a significant expenditure under education. The education expenditure relates to Higher Education Grants and payments from the Vocational Education Committee. These are funded from specific central government grants. Total expenditure amounted to €214 million in 2004, which is a 45.2% increase over the period. There was a funding gap of €27.4 million in 2004.

**Table 7.34: Agriculture, Education, Health and Welfare - Expenditure and Receipts 2004 - € Million**

	1996		2004		% Change	
	Expenditure	Receipts	Expenditure	Receipts	Expenditure	Receipts
Agriculture	6.70	2.06	9.3	3.2	38.8%	55.3%
Education	130.65	125.88	186.7	181.7	42.9%	44.3%
Health/Welfare	0.85	0.08	1.01	0.125	18.8%	56.3%
Administration and Miscellaneous	9.14	8.13	17	1.6	86.0%	-80.3%
Total	147.34	136.14	214.01	186.63	45.2%	37.1%

*Source :Local Authority Budgets, Department of the Environment, Heritage and Local Government*

In terms of projections, most of the expenditures are undertaken on behalf of the Department of Education and Science and receipts match expenditures. In looking forward, we are not aware of any policy developments that are likely to increase spending. On a no-policy change basis we project that expenditures would be unchanged and that funding gap remains at €27.4 million.

## 7.9 Miscellaneous Services

Under the miscellaneous services heading there are a large number of expenditures which are self-explanatory as set out in Table 7.35. Others, which may not be as obvious include:

- Plant/materials which is the operation of plant not included in other expenditure headings;
- Financial management, which relates to rate collection costs and interest/banking charges.

The main expenditures areas are financial management and administration/miscellaneous which account for over €150 million of the €222.8 total expenditure. There is a significant gap between these expenditures and receipts of €155.2 million in 2004.

<b>Table 7.35: Miscellaneous Services - Expenditure and Receipts 2004 - € Million</b>						
	1996		2004		% Change	
	Expenditure	Receipts	Expenditure	Receipts	Expenditure	Receipts
Land Acquisition/ Development	1.46	0.09	3.9	0.24	167.1%	166.7%
Plant/Materials	0.25	0.00	6.5	4.3	2500.0%	-
Financial Management	27.89	2.16	47	2.3	68.5%	6.5%
Elections	2.77	0.29	6.7	0.08	141.9%	-72.4%
Administration Justice/ Consumer Protection	11.57	2.65	19.6	10.2	69.4%	284.9%
Property Damage	1.84	1.32	2.6	2.5	41.3%	89.4%
Markets, Fairs and Abattoirs	1.82	1.68	3.6	3.8	97.8%	126.2%
Administration and Miscellaneous	35.59	46.87	99.9	44.2	180.7%	-5.7%
Chairman's Allowance	0.79	0.00	1.9	0	140.5%	-
Entertainment and Associated Expenses	0.52	0.00	1.1	0	111.5%	-
Exps. of Memb of L.A's Repr at Conferences	6.38	0.00	28.8	0	351.4%	-
Exps. of Memb attending conferences abroad	0.58	0.00	1.2	0	106.9%	-
<b>Total</b>	<b>91.46</b>	<b>55.06</b>	<b>222.8</b>	<b>67.62</b>	<b>143.6%</b>	<b>22.8%</b>
<i>Source :Local Authority Budgets, Department of the Environment, Heritage and Local Government</i>						

In common with some of the minor expenditure areas, we do not have specific drivers that project future expenditures. Accordingly, we do not project increases in this area. However, a significant element relates to pay increases, which are addressed separately.

## 7.10 Summary of Conclusions

Table 7.36 summarises the projected expenditure based on the detailed review of programme and sub-programme. By 2010 projected expenditure is set to increase by 31.3%. This comprises an increase of 19.2% in non-pay expenditure and a 32.8% increase in pay. Non-pay increases are primarily driven by higher expenditures on housing and building, water supply and sewerage and waste. For a number of the programme areas it is assumed that there are no increases, reflecting the basis upon which the projections are prepared.

The projected increase in pay is based on the ESRI's assessment of future trends in non-agricultural pay and indicates a projected increase of 32.8% between 2004 and 2010. This is based on an average annual increase in pay of between 4 % and 5% per annum up to 2010. The figures are included in Table 6.7. In 2004, pay is estimated to be €1,328.5 million. With the projected increase this amounts to €1,764.7 in 2010. Of course, pay outcomes will be the result of a bargaining process and it is impossible to be definitive on this. Accordingly, these are indicative and are based on a reasonable assessment of trends in the economy as a whole and the assumption that local authority pay will grow in line with pay in the economy as a whole.

<b>Table 7.36: Micro-based Expenditure Projections for 2004-2010 - € million</b>					
<b>€m</b>	<b>2004</b>	<b>2006</b>	<b>2010</b>	<b>% Change 2006 over 2004</b>	<b>% Change 2010 over 2004</b>
Housing and Building <sup>19</sup>	539.6	602.3	705.3	11.6%	30.6%
Road Transportation and Safety	1,000.6	1,100.6	1,100.6	10.0%	10.0%
Water Supply and Sewerage	486.6	583.9	859.0	20.0%	76.5%
Development Incentives and Controls	194.5	194.5	194.5	0.0%	0.0%
Environmental Protection	785.9	815.4	870.6	3.8%	10.8%
Recreation and Amenities	307.8	307.8	307.8	0.0%	0.0%
Agriculture, Education, Health and Welfare	214.0	214.0	214.0	0.0%	0.0%
Miscell. Services	222.8	222.8	222.8	0.0%	0.0%
<i>Less Inter-Authority Expenditure</i>	<i>135.0</i>	<i>148.5</i>	<i>162.0</i>	<i>10.0%</i>	<i>20.0%</i>
<b>Total Programme Expenditure</b>	<b>3616.3</b>	<b>3892.8</b>	<b>4312.2</b>	<b>7.6%</b>	<b>19.2%</b>
Pay	1,328.5	1,436.3	1,764.7	8.1%	32.8%
Pay Increases		107.8	436.2		
<b>Total</b>	<b>3,616.3</b>	<b>4,000.7</b>	<b>4,748.4</b>	<b>10.6%</b>	<b>31.3%</b>
As a % of GNP	3.0%	2.8%	2.4%		
<i>Source: Indecon</i>					

<sup>19</sup> For Housing we use the option where we assume that the Housing Action Plans are in part implemented.



We have prepared projections on a number of different approaches<sup>20</sup>. A summary of the expenditure projections is presented in Table 7.37. Keeping expenditure as a constant share of national income provides the highest estimates of future expenditure. This would increase expenditure to €5846 million by 2010. The other top-down approaches provide a range of estimates with the median estimate projecting expenditures of around €4,700 million for 2010. This is also close to the estimates prepared using the bottom-up detailed methodology.

<b>Table 7.37 Summary of Different Expenditure Scenarios Prepared by Indecon - €m</b>			
	<b>2004</b>	<b>2006</b>	<b>2010</b>
<b>Mazars Bottom-up Scenario</b>			
Expenditure	3487.5 (2003)	3,943.7	Na
as a % of GNP	3.2%	3.0%	Na
<b>Indecon Micro Scenario</b>			
Expenditure	3616	4000.7	4748.4
as a % of GNP	3.0%	2.8%	2.4%
<b>Top-down Scenario One</b>			
Expenditure	3616	4260	5846
as a % of GNP	3.0%	3.0%	3.0%
<b>Top-down Scenario Two</b>			
Expenditure	3616	3701	3893
as a % of GNP	3.0%	2.6%	2.0%
<b>Top-down Scenario Three</b>			
Expenditure	3616	3925	4685
as a % of GNP	3.0%	2.8%	2.6%
<b>Top-down Scenario Four</b>			
Expenditure	3616	3777.8	4227.4
as a % of GNP	3.0%	2.7%	2.2%
<b>Top-down Scenario Five</b>			
Expenditure	3616	3919.8	4728.8
as a % of GNP	3.0%	2.8%	2.5%
<b>Econometric Scenario</b>			
Expenditure	3487.5 (2003)	3989.5	4832.5
as a % of GNP	3.2%	3.0%	2.7%
<i>Source: Indecon</i>			

<sup>20</sup> It is useful to re-cap on the top-down scenarios. The first scenario assumes that expenditure for the period to 2010 remains at its current share of GNP at 3.0%. Scenario Two assumes that the main driver of expenditure is population trends. Scenario three is scenario two with an adjustment for price developments that are considered to impact upon the sector in the years to 2010. In scenario four we attempt to take account of the fact that pay and non-pay expenditures are affected by different factors. For illustration, we assume that non-pay expenditure increases in line with population trends and that the pay bill increases in line with projected non-agricultural pay rates. Finally, in Scenario Five we assume that the pay bill increases in line with projected non-agricultural pay rates we assume that non-pay expenditure increases in line with both population trends and price developments.

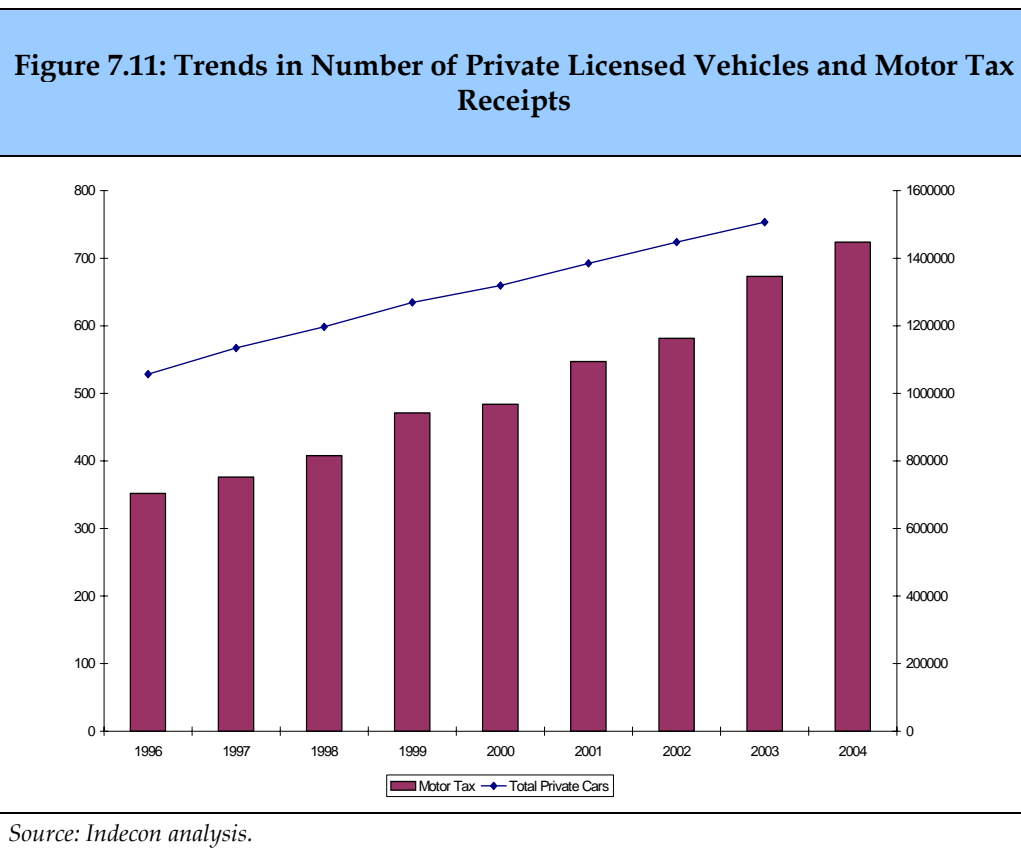
“Revenue” defined as receipts from central government transfers on specific grants and charges indicate a significant increase in local authority rents, non-domestic water charges and environment charges are projected. However, we project that receipts would increase by 18.7% over the period which is below the annual increases experienced over the last number of years. The reason for this is that, over recent years, local authorities have moved towards charging the economic cost of non-domestic water and other environmental services.

<b>Table 7.38: Revenue Projections for 2004-2010 €m</b>					
	<b>2004</b>	<b>2006</b>	<b>2010</b>	<b>% Change 2006 over 2004</b>	<b>% Change 2010 over 2004</b>
Housing and Building	401.8	452.5	546.7	12.6%	36.1%
Road Transportation and Safety	634.2	635.2	636.2	0.2%	0.3%
Water Supply and Sewerage	224.9	275.5	405.3	22.5%	80.2%
Development Incentives and Controls	83.4	83.4	83.4	0.0%	0.0%
Environmental Protection	433.3	460.6	499.9	6.3%	15.4%
Recreation and Amenities	67.9	67.9	67.9	0.0%	0.0%
Agriculture, Education, Health and Welfare	186.6	186.6	186.6	0.0%	0.0%
Miscell. Services	67.6	67.6	67.6	0.0%	0.0%
Less Inter-Authority Transfers	135.0	148.5	162.0	10%	20%
<b>Total</b>	<b>1,964.7</b>	<b>2,080.8</b>	<b>2,331.6</b>	<b>5.9%</b>	<b>18.7%</b>
<i>Source: Indecon</i>					

The difference between expenditures and revenues must be funded by either commercial rates and/or transfers from the Local Government Fund of which motor tax receipts are a significant component. Commercial rates amounted to €907.5 million in 2004 and are likely to increase further. We assume that they increase in line with either the CPI or nominal GNP.

The next step to consider is projections in motor tax receipts which form the principal element of the Local Government Fund. Figure 7.11 sets out the growth in the number of licensed private cars over the period 1996-2003 and growth in motor tax receipts. According to the Department of the Environment, Heritage and Local Government figures, there were 1,507,106 private cars licensed in the Republic of Ireland at the end of 2003. This compared with 1,057,383 private cars licensed in 1996, representing a

remarkably high growth of almost one-quarter in the stock of private cars over period. Motor tax receipts have followed this upward trend and receipts in 2004 were estimated to be €747 million compared to €352 million in 1996.



We consider two approaches to projecting motor tax receipts. One is to project in line with changes in the CPI. An alternative approach is to assess receipts in line with the prospective level of ownership of private cars. In Table 7.39 we present a comparative analysis of the number of passenger cars per 1,000 of population across the EU-15 Member States over the period 1990-2002. According to the figures in Table 5.2, the incidence of car ownership in Ireland has risen substantially during the 1990s, with the number of passenger cars per 1,000 of population reaching 374 in 2002 compared with 227 in 1990. Despite this increase, however, it is notable that the incidence of car ownership in Ireland remains below the average across the EU, suggesting further catch-up potential in terms of the future growth in the car stock in Ireland. To close the gap would suggest a 31% increase in car ownership per population. For the purposes of this analysis we assume that 20% of this growth happens between now and 2010 and involves an increase of 3.5% per annum. We believe that this may represent an overly optimistic assessment of motor tax receipts and the growth rates in car ownership in Ireland experienced since 2000 are very unlikely to be sustained. While this is

useful for scenario purposes, we do not believe it is prudent to use this upper estimate in base case planning.

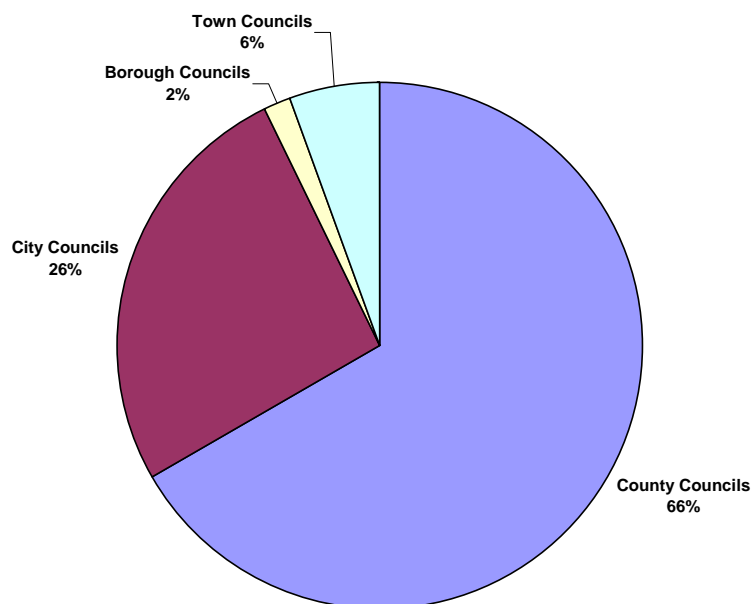
<b>Table 7.39: Number of Passenger Cars per 1,000 of Population in EU-15 Member States - 1990-2002</b>					
	<b>1990</b>	<b>1994</b>	<b>1998</b>	<b>2002</b>	<b>% Increase 2002 over 1990</b>
Belgium	388	413	440	464	19.6%
Denmark	309	312	343	352	13.9%
Germany	447	488	508	542	21.3%
Greece	171	199	254	339	98.2%
Spain	309	351	408	459	48.5%
France	415	430	456	491	18.3%
Ireland	227	262	310	374	64.8%
Italy	483	524	545	591	22.4%
Luxembourg	480	540	613	646	34.6%
Netherlands	368	383	376	425	15.5%
Austria	387	433	481	496	28.2%
Portugal	187	242	321	285	52.4%
Finland	389	368	392	422	8.5%
Sweden	421	409	428	454	7.8%
United Kingdom	360	372	404	447	24.2%
EU-15	393	422	451	491	24.9%
<i>Source: European Commission, DG TREN</i>					

In Table 7.40 we present an estimate of the funding gap based on a number of scenarios. On the expenditure projections, we use the projections based on one the scenarios we consider appropriate to use, namely keeping local government's share of GNP at a constant 3% and the detailed micro expenditure projection discussed in this chapter. Projections of receipts from specific government grants and charges are also based on this detailed micro approach. We assume that commercial rates, motor tax receipts and the Exchequer element of the Local Government Fund grow in line with the CPI. This provides a range of estimates of the funding gap from €157.1 million to €416.4 million for 2006 and €415.9 million to €1,513.5 million for 2010.

<b>Table 7.40: Indicative Estimates of the Likely Funding Gap - € Million</b>			
	<b>2004</b>	<b>2006</b>	<b>2010</b>
(A) Expenditure Projections based on keeping Local Government Expenditure at a constant share of GNP	3,616.3	4,260	5,846
(B) Expenditure Projections based on Micro Approach	3,616.3	4,000.7	4,748.4
- Less Receipts from Specific Government Grants and Charges	1,963.7	2,080.80	2,331.57
- Less Commercial Rates increasing in line with CPI	907.6	966.9	1097.5
- Less Local Government Fund (General Purpose Grants) increasing in line with CPI	747	796	903
(A) Gap	-	416.3	1513.9
(B) Gap	-	157.1	415.9
<i>Source: Indecon</i>			

## 7.11 Projections by Class of Local Authority

Next, we examine expenditure projections by class of local authority. Data for 2004 provide a breakdown of expenditure by class of local authority. This data indicates that county councils account for 66.7 % of current expenditure while city councils are the next most significant accounting for 26.1% of total expenditures of €3.6 billion. Expenditures by borough council and town councils equal 1.7% and 5.6% respectively.

**Figure 7.12: Expenditure Shares by Class of Local Authority-2004**

Source: *Indecon analysis.*

In terms of the expenditure projections one option is to apportion total projected expenditures for 2006 and 2010 in line with the expenditure shares of each class of local authority. Based on the expenditure projection based on a detailed analysis of each programme (i.e. the micro approach), this provides a projection as included in Table 7.41.

<b>Table 7.41: Expenditure Projection by Class - € M</b>			
	<b>2004</b>	<b>2006</b>	<b>2010</b>
County Councils	2,437	2,706	3,212
City Councils	899	998	1,185
Borough Councils	61	68	81
Town Councils	206	228	271
	3,616	4,000.7	4,748.4
<i>Source: Indecon analysis.</i>			

We also prepared projections using the expenditure projections based on keeping local government's share of GNP at a constant 3%. This is a higher level of expenditure than considered above, but which we believe represents the best option for the base case for planning purposes. Assuming that the share of expenditure accounted for by each class of local authority is the same as above, this leads to projections by class as set out in Table 7.42.

<b>Table 7.42: Expenditure Projection by Class Assuming a Constant Share of GNP €m</b>			
	<b>2004</b>	<b>2006</b>	<b>2010</b>
County Councils	2,437	2,882	3,954
City Councils	899	1,063	1,459
Borough Councils	61	72	99
Town Councils	206	243	334
	3,616	4,260	5,846
<i>Source: Indecon analysis.</i>			

## 7.12 Conclusion

In this chapter we prepared projections based on a detailed analysis of each programme. By 2010 projected expenditure is set to increase by 31.3%. This comprises an increase of 19.2% in non-pay expenditure and a 32.8% increase in pay. Non-pay increases are primarily driven by higher expenditures on housing and building, water supply and sewerage and waste. For a number of the programme areas it is assumed that there are no increases, reflecting

the basis upon which the projections are prepared. The projected increase in pay is based on the ESRI's assessment of future trends in non-agricultural pay and indicates a projected increase of 32.8% between 2004 and 2010. This is based on an average annual increase in pay of between 4 % and 5% per annum up to 2010. In 2004, pay is estimated to be €1,328.5 million. With the projected increase this amounts to €1,764.7 in 2010. Of course, pay outcomes will be the result of a bargaining process and it is impossible to be definitive on this. Accordingly, these are indicative and are based on a reasonable series of trends in the economy as a whole and an assumption that local authority pay will grow in line with pay in the economy as a whole.

"Revenue" defined as receipts from central government transfers and charges, indicates a significant increase in local authority rents, non-domestic water charges and environment charges are projected. However, we project that receipts would increase by 18.7% over the period which is below the annual increases experienced over the last number of years. The reason for this is that, over recent years, local authorities have moved towards charging the economic cost of non-domestic water and other environmental services.

We have prepared expenditure projections on the basis of a number of different approaches. Keeping expenditure as a constant share of national income provides the highest estimates of future expenditure. The other approaches provide a range of estimates with the median estimate projecting expenditures of around €4,700 million for 2010. This is also close to the estimates prepared using the bottom-up detailed methodology.

We use these to present an estimate of the funding gap based on a number of scenarios. On the expenditure projections, we use the projections based on keeping local government's share of GNP at a constant 3% and the detailed micro expenditure projection discussed in this chapter. Projections of receipts from specific government grants and charges are also based on this detailed micro approach. We assume that commercial rates, motor tax receipts and the non-motor tax receipts element of the Local Government Fund grow in line with the CPI. This provides a range of estimates of the funding gap from €157.1 million to €416.4 million for 2006 and €415.9 million to €1,513.5 million for 2010. These estimates are in nominal terms and this gap will need to be addressed by a combination of efficiencies, increases in charges, new sources of local revenues or increases in exchequer funds, commercial rates, or motor taxation, or a reduction in services.



## 8 Potential for Expenditure Efficiencies

### 8.1 Introduction

At the outset, it should be stressed that individual county managers and their teams are responsible for on-going improvements in services and cost efficiencies. The objective of this element of the study is to examine further policy measures that would facilitate the achievement of further efficiencies and support the work of local authorities.

In this chapter we examine in detail a range of expenditure issues focusing on the potential for efficiencies, and which would thereby facilitate additional service improvements. In particular, we review the existing system of funding and the main elements of spending encompassed by the programme groups.

The need to ensure that potential efficiencies are being maximised is essential given the extent of economic and social challenges that need to be addressed in local communities. Securing such efficiencies is not designed to reduce public expenditure, but to make available the resources needed to meet the existing and emerging demands on local authorities.

Before we examine specific expenditure programmes and identify initiatives and measures to enhance efficiency, it is important to consider some key background issues.

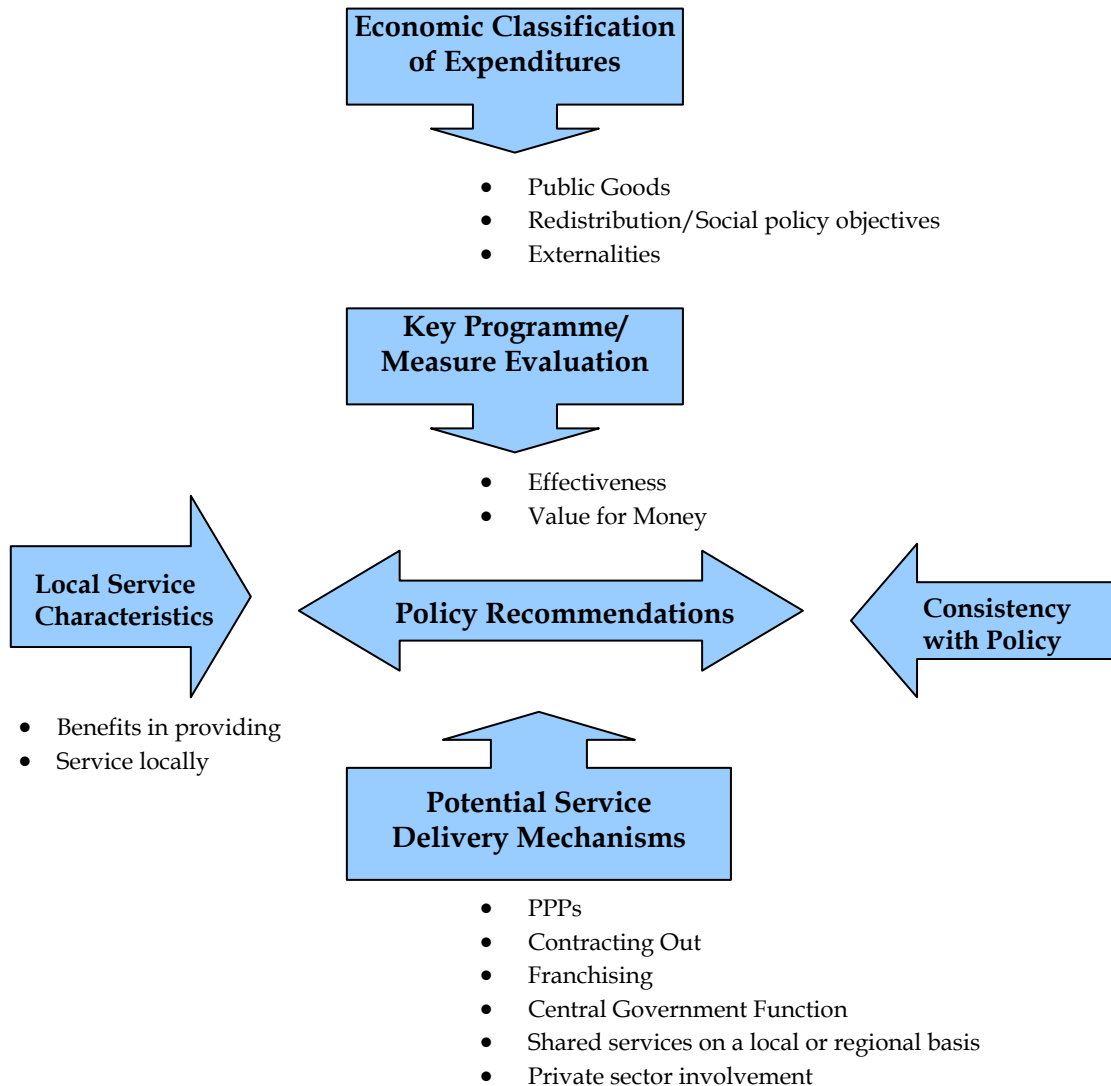
### 8.2 Assessment Framework

Given the range and complexity of local government expenditure, it is necessary to establish a framework for assessing expenditure. This involves assessing a range of questions including:

- ❑ Is there a market failure argument justifying local authorities' activities?
- ❑ For each service /activity, is it local or national in character?
- ❑ How should services be funded?
- ❑ What are the potential options for delivery?

A summary of our approach to the expenditure evaluation is presented in the figure overleaf.

**Figure 8.1: Indecon's Expenditure Review Model**



It is also critical in examining potential efficiencies to consider the incentives facing users to maximise efficiency, and the type of information and structural mechanisms in place to support efficiency programmes. In this section, we review some of the key issues including the role of local government, the distinction between funding and provision, the geographic location of delivery, the incentives facing users, and structural and information supports to enhance efficiency. We then examine the application of these issues for selected programmes and develop overall conclusions on these central issues.

### 8.2.1 Role of local government

In considering the potential for efficiency gains in local government, it is important to firstly consider the issue of what are the appropriate functions for local government. This concerns issues such as whether there are areas where other organisations, such as local economic or community development bodies, should be part of local authorities, as well as whether some of the functions of local government should be transferred to other organisations.

To assist in the consideration of these issues, it is necessary to review the rationale for local government provision of services. Local government should be involved in the provision of a service if there exist particular characteristics of an activity that suggest that it would not be successfully delivered in the absence of a government role. This centres on arguments around market failure and provides the justification for action by either local or national government. There are number of reasons for government intervention, including:

- Externalities, where prices may not equal marginal social cost;
- Public goods;
- Achieving non-economic social or distribution goals;
- Merit goods.

An externality can occur whenever the activities of one economic agent affect the activities of others in ways that are not reflected in market transactions. Externalities cause private and social costs and benefits to diverge, thus distorting price signals. This implies that the market may not produce sufficient quantities of a good or service that has external benefits to society. Some local authority functions are appropriate due to such externalities.

There are also 'public good' reasons for certain local authority services, which reflect the characteristics of non-exclusivity and non-rivalry. A service is exclusive if it is relatively easy to exclude individuals from benefiting from it once it is produced. A service is non-exclusive if it is impossible, or very costly, to exclude individuals from benefiting from the service. Street lighting and local roads are public goods, and as a result local authorities in most developed countries play a critical role in such areas. The difficulties with financing public goods through market mechanisms suggest a key role for local authorities in their finance role, and this has often been extended to their provision, although this is not always necessary. Financing public goods exclusively through charges is problematic because of non-excludability. With private goods, in contrast, a move to increased use of charging may be more appropriate, thus enabling the greater use of user charging and user decisions on the appropriate levels of consumption.

There is also a role for government in the achievement of non-economic social goals. In the context of local authorities, the provision of social and affordable housing is an example of this. Through investment in local authority housing, social and affordable housing schemes, central or local government are providing a subsidy to low-income households to assist with their housing needs. This is undertaken for redistribution and social objectives.

Related to social objectives there is a case for funding of so-called “merit goods”. Included in this category could be the provision of parks, libraries and other amenities. This is based on a belief that the societal benefits of these services exceed the private benefits, and there is a case for government intervention.

An understanding of which local authority services fall into each of the above categories is important in considering both potential efficiencies and also the appropriate funding mechanisms.

### **8.2.2 Distinction between funding and provision, and appropriate delivery mechanisms**

In assessing the activities being undertaken by local authorities it is important to distinguish between the funding of services by local authorities and direct service provision. Linked with this are decisions on the appropriate delivery mechanisms. A local authority has the option of funding a service, which is provided by others, or providing the service directly. For example, local authorities pay for the maintenance and repair of their housing stock, and in some instances this work is undertaken by staff employed by the local authorities. An alternative approach is to contract out such services, which are then delivered by private sector suppliers. There is no correct answer in principle to this question, but it is essential that the most cost effective options are chosen.

Public good arguments suggest a financing role for government because the market alone may not produce the optimal amount for a given product. This argument does not necessarily justify direct provision by local government, although traditionally local authorities have financed and directly provided a range of these goods. This may of course be appropriate if local authorities are the most cost efficient providers of such services.

Concerns about the efficiency and effectiveness of public delivery have led to a re-appraisal of the appropriate role for local government amongst OECD countries, including New Zealand and Australia, and to an increasing extent amongst other European countries. This is impacting upon practice in Ireland, where there has been an increase in the percentage of services that are contracted out, reflecting the cost efficiency gains in certain cases from such delivery mechanisms.

Governments also have a role in regulating services. In assessing the activities of local authorities we outline where we believe there is a financing, delivery or regulatory role for local government. There may be cases where local authorities' role in the future, or that of a separate agency, could more appropriately focus on service regulation rather than the more traditional financing or delivery role.

The issue of appropriate regulation is particularly relevant in areas where local authorities have withdrawn from service provision and where private suppliers are now providing the service. In some cases, this has led to the emergence of a competitive market with private operators vying for business. This can be a positive development for consumers with potential price and service quality benefits. However, private sector monopolies have emerged in the area of refuse collection, and in the absence of appropriate regulation, this can lead to negative welfare consequences for consumers. These developments, pose questions for regulatory authorities and the optimal manner in which local authorities should withdraw or contract out services. This can also impact on efficiencies, as the comparator to internal supply should be a competitive market price or a regulated price.

### **8.2.3 Geographic location of delivery**

Ireland has a large number of local authorities per capita and although this is not out of line with many countries other than the UK it raises fundamental issues about the geographic location of delivery of local authority services. While much focus in debates on the number of local authorities has been on administrative costs, these are of very minor importance compared with how the structure of local governments impact on the cost of local authority services. In most cases responsibility not just for the level of services but for the delivery and supply of services has for historical reasons been aligned with local authority structures. We would be astonished if the most cost effective way of delivering services was always aligned with such structures. Provision of services on such a basis would be highly unusual for both private sector suppliers and for national utilities. In some cases local authorities have been implicitly aware of the higher costs associated with providing services on a local authority basis and this has led local authorities to the commendable development of sharing of selective services. This, however, only applies to a very limited extent and we believe there is a need for a fundamental review by each local authority and by policymakers of the appropriate geographic mode of delivery for local authority services. There is a wide range of options including:

- (i) Direct provision by individual local authorities on a county basis.
- (ii) Subcontracting of services to the private sector on a county basis.
- (iii) Sharing of direct provision between local authorities.
- (iv) National or regional tendering to the private sector.
- (v) Regional or national provision by separate agencies.

A real benefit of having a significant number of local authorities is that it assists in closely matching provision of local public goods to local preferences. Such efficiencies can be secured by decentralising decision-making in relation to local public goods to local government units that approximate in size to the benefit areas of the local public goods they provide. This is a unique and valuable role for local government as it can ensure a close match between local preferences and local provision. From this perspective small units are advantageous as they allow greater variety and a closer fit to preferences. However, this may prevent significant gains from economies of scale. The Commission for Taxation Report (1985) highlighted the importance of classifying the services provided by local authorities as either local or national. It argued that “the case for devolving administration of services to local authorities is based on considerations of efficiency and of giving people greater access to services, thus allowing easier contact with local representatives and officials”. It also defined local services as those which are optional insofar as the “locality has wide discretion over what is done and the manner in which it is done”. These are services where there is scope for local “initiative” and “variety”. Moreover, decisions in respect of these services should be left to the representatives of the local community.

There is a potential trade off between local authority structures that ensure a match between local preferences and local provision, and the achievement of economies of scale in service delivery. For services where there is scope for local initiative and variety, and where the level and quality of services differs between areas, the benefits of local delivery may outweigh the efficiencies associated with economies of scale. However, even in these cases, locally determined service provision and locally organised delivery may not necessarily be linked. This has important implications for the efficiency of local government services.

Table 8.1 overleaf sets out details on population and the number of households per local authority. This indicates significant variance in population size arising from the original county boundaries and significant inter-authority demographic change. While a simplistic view might suggest merging local authorities and moving to larger units of delivery, account must be taken of county allegiances and of the fact that the key issue is how to secure economies of scale.

<b>Table 8.1: Local Authorities by Size – Population and Households</b>		
	<b>Population</b>	<b>Households</b>
Dublin City	495,101	180,852
Cork County	324,843	10,5248
South Dublin	239,887	73,516
Fingal	196,223	60,872
Dun Laoghaire/Rathdown	191,389	64,132
Kildare	163,995	50,477
Galway County	143,052	45,253
Donegal	137,383	44,713
Meath	133,936	41,675
Kerry	132,424	43,322
Cork City	123,338	42,742
Limerick County	121,471	38,378
Mayo	117,428	39,354
Wexford	116,543	38,011
Wicklow	114,719	36,572
Clare	103,333	33,874
Louth	101,802	33,495
Kilkenny	80,421	25,603
South Tipp.	79,213	26,410
Westmeath	72,027	23,360
Galway City	65,774	21,053
Offaly	63,702	20,144
North Tipp.	61,068	20,213
Laois	58,732	18,556
Sligo	58,178	19,643
Waterford County	56,954	18,606
Cavan	56,416	18,340
Limerick City	54,058	18,945
Roscommon	53,803	18,142
Monaghan	52,772	16,753
Carlow	45,845	14,931
Waterford City	44,564	15,299
Longford	31,127	10,375
Leitrim	25,815	9,099
Total	3,917,336	1,287,958
<i>Source: CSO, Census 2002</i>		

#### **8.2.4 Structural and information supports**

The issue of supports to facilitate local authority managers to maximise efficiencies is of key importance and merits particular attention. We believe there is need for on-going provision of information on service delivery to policy-makers and enhanced systems including information technology to

accelerate efficiencies. This is consistent with the objectives of recent reforms in respect of performance indicators.

Changes in technology, in cost structures and in the availability of competitive suppliers can significantly alter the relative efficiency of alternative delivery options. This means that securing significant efficiency or cost savings from changing policies does not necessarily imply any defect in previous practices. There are also constraints in the speed with which different organisations can change. It is, therefore, essential that local authorities do not see plans to secure efficiency improvements as amounting to criticisms.

A noteworthy difference between local authorities and very cost focused commercial companies operating in competitive markets is that local authorities can see suggestions for potential new efficiencies in a defensive light, while many commercial managers see a need for ongoing plans each year to secure significant further efficiency gains.

Local authorities need clearer incentives to secure additional efficiencies. This could involve the roll out of multi-annual budgeting with provision to ensure that under-spends in any year can be carried forward. Savings could be ring-fenced and be used to fund on-going service improvements. We understand that this happens to some extent at present in areas such as housing and roads. However, we believe that there is a need for a greater focus on this and that these reforms should be implemented alongside attempts to generate a culture at all levels of central and local government of giving a high priority to achieving cost efficiencies.

There is a need to review the standardisation and presentation of data on local authority expenditures. As part of this Review we have examined in detail the available information on expenditure. We recognise that there are difficulties in collecting and collating data at the centre based on returns from a large number of bodies. There are a number of data sources that provide very valuable information, but there is a need to implement changes to assist policy makers at local and central government in achieving their policy objectives and in securing expenditure efficiencies. This, at a minimum, would include details on the costs of services by delivery mechanisms and by local authority. Information on the costs of delivering services would provide the necessary benchmarking information to help in deciding on the most cost effective delivery option. We understand that a costing system is being developed. We would recommend that this be introduced as a priority.

The current system includes detailed expenditure data on a programme basis, but there is a lack of detail on expenditure broken into, for example, pay and non-pay. We believe that changes could be made to provide a more detailed breakdown of the types of expenditure incurred. A useful model is the information provided in the annual Estimates Volume for Central Government expenditure.

We are also concerned about the fact that not all local authorities have audit committees. Professionally resourced audit committees focused on



identifying potential efficiency savings could provide a valuable support to managers and elected representatives. In addition, we are concerned that current legislation prevents the appointment of outside specialists to local authority audit committees.

The local government Director of Audit is undertaking valuable work in identifying on-going value for money issues. We have reviewed the value for money reports and had detailed discussions with a number of local authority officials about the work being undertaken. There is general agreement that this work is valuable in ensuring value for money but that it should be intensified. We believe that the merits of better expanding this role or extending the function of the Comptroller and Auditor General into local authority expenditures should be examined.

There is also a need for a new regulatory framework to regulate local services previously supplied by local authorities that are now supplied by private local monopolies.

### **8.2.5 Incentives facing service users**

There is a need to ensure that the incentives facing users assist in maximising efficiencies and we believe there are major issues to be addressed in this area. The key issues are as follows: 'Are users sufficiently incentivised to reduce excess demand and improve efficiency of local authority services'? And 'Are users sufficiently incentivised to choose the lowest cost delivery option for required services where options are available'? In many cases prices are not structured to achieve these objectives. For example, in respect of water charges, a system where local authorities are not permitted to implement any charges for most users is simply not consistent with an objective to maximise efficiencies and provide the correct incentives to users. The planning area and the various approaches to payment systems are other examples. These should be encouraged through lower prices for the lowest cost approach to payment.

One area where local authorities have recognised the importance of implementing incentives to encourage users to minimise demand is in the case of refuse collection. Table 8.2 overleaf presents details of waste charges in euro per tonne for all county and city councils in Ireland between 2000 and 2004. It can be seen that charges vary significantly by council, with the highest waste charges in Cork County (€240 per tonne), Dublin City (€225 per tonne), South Dublin (€225 per tonne) and Cork City (€215 per tonne). Some of the lowest charges are in Offaly, Cavan, Donegal and Monaghan (€125 per tonne). Furthermore, the data shows that waste charges have increased markedly in a number of counties and cities over the period e.g. Donegal (418%), County Cork (380%) and Cork City (€330%). In other counties and cities the rate of increase has been less pronounced. Full details on the charges for 2005, with the introduction of pay by weight, and details of the different service providers are included in Annex 5 to this report.

Table 8.2: Waste Charges (€ Per Tonne)

	2000	2001	2002	2003	2004	% Change 00-04
Cork Co. Co.	50	60	100	230	240	380
Dublin City Council	155	155	165	175	225	45
South Dublin Co. Co.	155	155	165	175	225	45
Cork City Council	50	59.04	154.68	215	215	330
Kildare Co. Co.	183	153	n/a	n/a	201	9
Limerick City Council	44.44	69.84	104	145	190	327
Limerick Co. Co.	44.44	69.84	104	145	155	248
Fingal Co. Co.	50.79	102	125	165	185	264
Galway City Council	50.79	102	125	165	185	264
Kerry Co. Co.	53.33	66.03	93	140	180	238
Wexford Co. Co.	45.71	82.53	155	180	180	294
Kilkenny Co. Co.	44.44	69.84	115	165	165	271
Leitrim Co. Co.	n/a	n/a	116	142	165	n/a
Roscommon Co. Co.	n/a	n/a	116	142	125+LL	n/a
South Tipperary Co. Co..	50.79	60.31	100	165	165	225
Waterford Co. Co.	50.79	63.49	150	165	165	265
Clare Co. Co.	44.44	76.18	110	135	160	260
Carlow Co. Co.	n/a	n/a	n/a	n/a	156	n/a
Mayo Co. Co.	44.44	69.84	123	150	150	238
Sligo Co. Co.	44.44	69.84	123	150	150 Priv.	238
Westmeath Co. Co.	40.63	63.49	125	150	150	269
North Tipperary Co. Co.	n/a	n/a	105	135	148.5	n/a
Louth Co. Co.	70	70	145	145	145	107
Galway Co. Co.	50.79	76.18	136	139	139	147
Laois Co. Co.	48	63	105	125	135	181
Offaly Co. Co.	44	63	105	125	125	184
Cavan Co. Co.	63.5	76.2	115	120	125	96
Donegal Co. Co.	24.13	43.17	77	100	125	418
Monaghan Co. Co.	58.42	76	96	116	125+LL	140

Source: IBEC<sup>21</sup>

### 8.3 Programme Issues

In considering the potential for expenditure efficiencies it is useful to examine each of the main programmes and to analyse the applicability of the issues reviewed earlier.

<sup>21</sup> Kildare waste charge is based on fee levied at baling station. Waste is then transported to Arthurstown. Limerick City Council does not operate a landfill. Waste goes to county landfill and surrounding counties. Limerick County waste charges are negotiated between LA's and landfills and private waste operators. The charge shown relates to Limerick landfill. Galway city use the County landfill in Ballinasloe Leitrim has no landfill. Waste is collected by private operators.. Sligo waste collection is fully privatised. Waste is transported to Mayo therefore Mayo landfill charges apply. Commercial waste from Dun Laoghaire/Rathdown County is sent to Arthurstown Landfill, Co. Kildare. Longford has no landfill with waste in the county collected by one private operator. Meath has no landfill and its waste is currently being baled and brought to Arthurstown landfill. This service is provided by private contractors.

### 8.3.1 Housing and building

In Chapter 7 we discussed in detail the nature of expenditures on housing and building. These include significant housing support, which is focussed on achieving social objectives. We believe that there is a role for the government in this area as an explicit social subsidy to people on low incomes trying to purchase a home or access affordable rental accommodation.

Housing needs vary by locality and there is a need to provide a variety of different supports to assist people in different localities. Accordingly, we believe that there is a strong case for the provision of these services by local authorities. In addition, most of the expenditure is funded through charging (i.e. rental income, house disposals or loan repayments) or local authorities' own resources. We believe that this is appropriate, particularly given that capital investment is funded entirely from Exchequer resources. An analysis of the extent to which receipts fund local authority housing is presented in the table below.

<b>Table 8.3: Expenditure and Receipts Per Functional Area 2004 - Housing</b>			
<b>€m</b>	<b>Expenditures</b>	<b>Receipts</b>	<b>Receipts as a % of expenditure</b>
Local Authority Housing	209.5	219.3	104.7%
Assistance to Persons Housing Themselves	116.9	104.5	89.4%
Assistance to Persons Improving Houses	35.2	13.2	37.5%
Administration and Miscellaneous	177.9	65.3	36.7%
<b>Total</b>	<b>539.5</b>	<b>402.3</b>	<b>74.6%</b>

*Source :Local Authority Budgets, Department of the Environment, Heritage and Local Government*

The principal areas of expenditure in relation to housing are maintenance, repair and improvement and estate management. The expenditures on housing maintenance and repair are significant and reflect on-going maintenance and periodic improvements. We recognise that this is essential to ensure that the housing stock asset is properly maintained and that there is no deterioration in housing units which would increase costs in the longer term.

Data on average costs per dwelling for selected local authorities are included in Table 8.4 overleaf and indicate that these costs vary significantly between selected local authorities. This may be due to differences in the age of housing stock and the extent of regeneration and remedial works already carried out. The Housing Actions Plans suggest that local authorities are moving from response maintenance to planned maintenance programmes and this could lead to efficiency gains. There are also on-going

improvements in a number of local authorities designed to enhance maintenance at the lowest possible cost. The different roles played by response maintenance and planned maintenance programmes are important in this respect.

While there are explanations for these differences in costs between local authorities, overall costs in this area seem significant although they are on a par with housing maintenance costs for UK local authorities. Nevertheless, there may be scope to minimise these costs. In particular, we would support new initiatives for tenants who minimise the on-going costs of repair and maintenance. One potential option in this regard which needs further consideration would be to provide tenants with a discount of a certain percentage of their rents per annum if maintenance costs are zero or set below a certain level. This idea would, however, need to be carefully designed. There would, for example, be marginal benefit in rewarding tenants of new dwellings with low maintenance for taking responsibility for works that are not needed anyway, and so crude mechanisms which did not reflect the age of the housing stock are not envisaged.

**Table 8.4: Expenditure on Housing Repair and Maintenance for Selected Local Authorities – 2002 – €**

Name	Houses	Expenditure	Exp per Unit
Cork City Council	7,619	7,407,386	972
Dublin City Council	25,376	35,119,686	1,384
Galway City Council	1,819	1,680,084	924
Limerick City Council	3,219	2,953,240	917
Waterford City Council	2,442	2,094,106	858
<i>Average of City Councils</i>	8,095	9,850,900	1,011
Clonmel Borough Council	506	324,083	640
Drogheda Borough Council	1,007	738,189	733
Kilkenny Borough Council	489	817,876	1,673
Sligo Borough Council	914	844,468	924
Wexford Borough Council	718	428,742	597
<i>Average of Borough Councils</i>	727	630,672	913
<i>Source: Indecon Analysis of the Needs and Resources Data.</i>			

On the supply side, there may be scope to contract out a higher percentage of this service. While there are strong market failure arguments for the funding of housing, this does not, however, imply that the service should be provided directly by local authorities. The table overleaf indicates that direct provision remains the principal mechanism for delivering the housing maintenance service but approximately 30% is provided on a contract basis. The

maintenance of local authority housing should be provided on the basis of the most efficient mechanism and on-going and rigorous benchmarking of this is required. As discussed earlier in this chapter, there are no clear market failure reasons for this service to be provided directly by local authorities. Experience in Ireland with other services and the experience internationally suggests that other delivery mechanisms may offer better value for money. Indeed, reviews of cost savings arising from contracting out in the UK (Watt P.A. 1996) suggest cost savings of upwards of 20%.

The detailed data from the needs and resources model set out above identifies notable differences in maintenance costs per dwelling. Local authority sources have confirmed that the process of contracting out has led, in a number of cases, to savings and the extent of these savings depends on the scope to relocate employees to other tasks. We believe that there are market failure arguments, which suggest a role for local authorities in owning and managing a housing stock. This is required to assist the government in achieving its social and affordable housing objectives. However, a reduced reliance on direct provision of maintenance and repair may yield savings although the implications for industrial relations would need to be carefully considered.

**Table 8.5: Local Authority Housing Expenditures % of Total 2004**

	Direct Provision - %	Direct Provision on a Shared Basis with Other Local Authorities - %	Contracted Out - %	Private Sector Supply and Provision - %	Joint Venture with Private Sector - %	Total - %
Maintenance, repair and improvement	64.4	0	30.3	5.3	0.00	100
Other housing estate management	89.2	0	9.1	1.12	0.5	100

*Source: Indecon Survey of Local Authorities*

We have also examined rent collection costs, and details of expenditures for a selection of local authorities are set out the table below. These indicate large variations in collection costs per unit and a high cost, especially relative to rental income. As highlighted in Chapter 7, collection costs equate to 10% of total rental income. We are aware that there are on-going issues in this area and difficulties in collecting rents due. However, the costs of collecting rent involved seem high and different payment options and procedures need to be explored. This could involve contracting out this function and the possible introduction of different payment options with appropriate incentives for

mechanisms to be put in place for rent collection that will secure economies of scale. This could include sharing between local authorities.

<b>Table 8.6: Expenditure on Rent Collection Costs for Selected Local Authorities - 2002</b>			
<b>Name</b>	<b>Costs - €</b>	<b>No. of Houses</b>	<b>Costs per Unit</b>
Cork City Council	858,170	7,619	112.6
Dublin City Council	5,087,881	25,376	200.5
Galway City Council	148,375	1,819	81.6
Limerick City Council	208,775	3,219	64.9
Waterford City Council	249,016	2,442	102.0
<i>Average for City Councils</i>	1,310,443	8,095	112
Clonmel Borough Council	135,312	506	267.4
Drogheda Borough Council	78,000	1,007	77.5
Kilkenny Borough Council	28,890	489	59.1
Sligo Borough Council	106,902	914	117.0
Wexford Borough Council	117,652	718	163.9
<i>Average for Borough Councils</i>	93,351	727	137

*Source: Indecon Analysis of the Needs and Resources Data.*

The final area of expenditure in this area is in respect of Disabled Persons and Essential Repairs Grants Scheme. The Essential Repairs Grant can be an effective approach to meeting the housing needs of elderly persons by enabling them to make repairs to facilitate them remaining in their home. The Disabled Persons Grant assists with house adaptations for disabled persons and is subject to an assessment of need by Occupational Therapists.

We understand that there is a review of the Disabled Persons Grant scheme in an effort to ensure that the available funding goes to those most in need. We are also aware that the scheme is a major issue for most local authorities and needs to be addressed. Specifically, there is the issue of funding and the requirement that the local authority must provide one third of the funding from its own revenue resources.

We have reviewed whether there is merit in transferring responsibility for this scheme to other bodies such as the Health Boards. A new system of assessing persons with disabilities is being developed within the health system, which relate to the health and education needs of disabled persons. We are aware that there are no plans for other disability-related needs to be part of this process nor would we recommend that housing be included in the mandatory assessment of needs requiring the subsequent preparation of a service as proposed for health and education. However, there are benefits in ensuring that the assessments of needs for disabled persons are concentrated

in the area of the Government system where the expertise may rest. This is particularly relevant given the increasing link between the Disabled Persons Grant schemes and the long term care for the elderly.

Notwithstanding the funding and other issues that need to be taken into account, we believe that the question of which body should be responsible for running this scheme and organising needs assessments is key. We propose that this issue should be considered as part of the review of the scheme that is now under way and in the context of the implementation of the Disability Bill.

## 8.4 Road Transportation and Safety

In respect of Road Transportation and Safety, we focused on expenditure on roads improvements and maintenance. The improvement and maintenance of non-national roads is funded from a combination of local resources and grants from Central Government. Grants from the National Roads Authority are provided in respect of national roads. Improvement works classified as current expenditures carried out on non-national roads are funded from a variety of sources including restoration improvements grants and specific grants. These allocations are based on bids from local authorities, which are adjudicated upon by the Department of the Environment, Heritage and Local Government. Hence, the position is as follows:

Roads investment is a public good and there is a clear rationale for government involvement. Moreover, there is a role for local authorities acting as an agent for the NRA in respect of national roads. Local authorities are also best placed to establish local needs and preferences in respect of non-national roads. We believe that this is an appropriate function for local government.

However, a key policy question concerns how road maintenance and improvement works should be funded. The current system is cumbersome and involves Exchequer grants and allocation of grants through the Local Government Fund. It is clear that this is a public good activity where it is best delivered locally, but there are issues regarding financing. Financing from the centre for national roads makes sense but non-national expenditures are a different matter.

In respect of non-national roads, this had led to the situation where a key task for local authorities in meeting local transport needs has defaulted to central government. This is an unsatisfactory situation, as the demand for enhanced infrastructure locally is not funded by the principal beneficiaries of this infrastructure. This can lead to a misalignment of costs and benefits, and has implications for the overall need for new local financing measures. There is a role for central government to provide allocations to achieve equalisation objectives where needs and resources vary. For example, there are a number of counties in Ireland where an extensive road network and significant tourism traffic would increase road investment needs. Nevertheless, the

current position where there is such a high percentage of central funding is not optimal and we believe that there is scope for improvement in this area.

We would recommend that the specific grants from the NRA for the maintenance of National Primary and Secondary Roads should continue, as it is the most sensible funding option. However, in an ideal scenario a higher share of the funding for non-national roads should be from local revenue sources. This will depend on decisions to extend local authorities funding base. The issue of funding options will be discussed in the next chapter.

<b>Table 8.7: Expenditure and Receipts Per Functional Area - Road Safety and Transportation - 2004</b>			
	<b>Expenditures - € Million</b>	<b>Receipts - € Million</b>	<b>Receipts as a % of expenditure</b>
Road Upkeep	379.7	191.7	50.5%
Road Improvement	302.4	301.1	99.6%
Road Traffic	70.3	85.9	122.2%
Administration and Miscellaneous	248.2	55.5	22.4%
<b>Total</b>	<b>1,000.6</b>	<b>634.2</b>	<b>63.4%</b>
<i>Source :Local Authority Budgets, Department of the Environment, Heritage and Local Government</i>			

In terms of delivery issues, contracting out is becoming more significant. We believe that this is a welcome development and has the potential to yield additional efficiency gains over time.



Table 8.8: Road Upkeep – Breakdown of Expenditures - % - 2004

Expenditure Area	Direct Provision	Direct Provision on a Shared Basis with Other Local Authorities	Contracted Out	Private Sector Supply and Provision	Joint Venture with Private Sector	Total
	%	%	%	%	%	%
Maintenance of national roads	66.67	0.06	28.17	5.11	0	100
Maintenance of urban roads	63.55	6.36	24.64	5.45	0	100
Maintenance of local and regional roads	75.50	0	20.78	3.67	0.06	100
Maintenance of public lighting	8.22	0	69.89	16.67	5.22	100
Traffic Management	78.11	0.39	17.89	3.61	0	100

*Source: Indecon Survey of Local Authorities*

## 8.5 Water Supply and Sewerage

Efficiency issues in respect of water supply and sewerage centre on economies of scale, and on user incentives and the appropriate delivery mechanism. The commercial sector is now being charged for these services but the domestic sector receives them free of charge. This leads to over consumption and to unnecessary expenditure. There is potential for significant expenditure efficiencies if users were faced with meeting the full economic cost of these services. This is the most important issue facing the task of ensuring efficiency in water supply.

**Table 8.9: Expenditure and Receipts Per Area - Water Supply and Sewerage - 2004 - €m**

	Expenditures	Receipts	Receipts as a % of expenditure
Public Water Scheme	214.4	151.3	70.6%
Public Sewerage Scheme	168.1	45.9	27.3%
Private Installations	11.1	11.4	102.7%
Administration and Miscellaneous	93.1	16.2	17.4%
	486.7	224.8	46.2%

*Source: Local Authority Budgets, Department of the Environment, Heritage and Local Government*

Data from the Indecon survey of local authorities is also available on the types of delivery mechanism. In this area there are two main activities, the operation and maintenance of networks and the operation and maintenance of treatment plants. For most of the local authorities surveyed direct provision in respect of the network is the most used delivery mechanism. However, with the expansion of Public Private Partnerships, contracting out is increasing in importance. In addition, there is more direct provision on a shared basis with other local authorities.

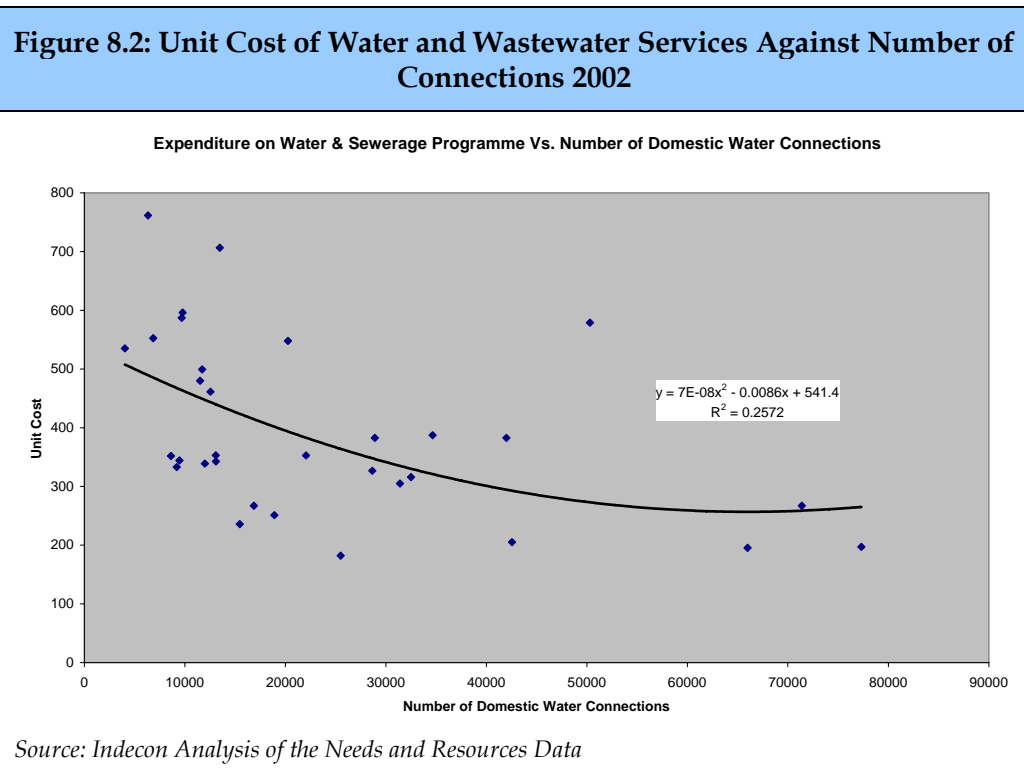
**Table 8.10: Breakdown of Public Water Supply Expenditures by Type of Delivery Mechanism - 2004**

	Direct Provision	Direct Provision on a Shared Basis with Other Local Authorities	Contracted Out	Private Sector Supply and Provision	Joint Venture with Private Sector	Total
	%	%	%	%	%	
Operation/maintenance of network	90.78	2.33	3.94	2.94	0	100
Operation/maintenance of network	64.88	15.00	16.88	3.24	0	100
Operation/maintenance of network	69.12	0	20.59	4.41	0	100

*Source: Indecon Survey of Local Authorities*

We believe that the provision of these services on a shared basis with other local authorities or on a regional or national basis could lead to efficiency savings. Unlike other services provided by local authorities, we do not believe that water services are necessarily a local service. Given the various directives in respect of water quality, and consumers' expectations, the product being delivered is increasingly standardised: there is not much scope for local discretion or variety. This suggests that regional bodies organised on the same basis as waste management or a national body could have responsibility for these services as the benefits of economies of scale outweigh the benefits of the service being provided locally. In other words, they could be delivered on the same basis as gas or electricity through a national entity with regional/local networks. At present, there are a large number of bodies involved in this service, each with its own administrative and engineering capacity. This may be leading to higher administration costs and a failure to maximise economies of scale.

The issue of economies of scale in the water sector is particularly important and raises the issue of the appropriate geographic location of supply. Figure 8.2 below provides estimates of the unit cost of expenditures on water and sewerage versus the number of domestic waste connections for each local authority. This data was extracted from the needs and resources model and indicates that unit costs fall as the number of water connections increases. Each point in the graph represents a local authority and the costs of delivery are lower for local authorities with a larger number of connections. We are aware that population density impact on costs. The estimates, however, suggest that there are clear economies of scale in the provision of water and wastewater services and this has important implications for delivery mechanisms.



We understand that the Department of the Environment, Heritage and Local Government is examining the issue of economies of scale in the provision of water services. We see merit in the commercialisation of water charges with full charging for services. We also believe that there is a case for local authorities involved in this area to be scaled back with the transfer of this function to a regional or national body. However, the absence of any domestic charges results in wasteful usage and a misalignment between costs and demand. We understand, however, that in current circumstances there would be strong resistance to the introduction of economic charging for all domestic water services. In our recommendations we consider ways of addressing this important issue.

## 8.6 Development Incentives and Controls

Land use, and development and planning, are public good activities where there are significant externalities. It is also accepted that there is a local aspect to planning, as decisions need to reflect local preferences and choices as well as national objectives. This is a central responsibility for local government, where there are clear benefits in ensuring that decisions that affect communities are taken locally.

A noteworthy feature of local government expenditures on development incentives and control is the low percentage of receipts as a percentage of expenditure. This is understandable for selected services, but the issue of the appropriate fees and charges, and other revenues, requires careful attention. Details are presented in Table 8.11 below.

<b>Table 8.11: Expenditure and Receipts Per Functional Area - Development Incentives and Controls - 2004</b>			
	<b>Expenditures - € Million</b>	<b>Receipts - € Million</b>	<b>Receipts as a % of expenditure</b>
Land Use Planning	78.5	41.3	52.6%
Industrial Development	5.1	3.1	60.8%
Other Development/ Promotion	27	11.4	42.2%
Representational Functions	0.699	0	0.0%
Promotion of Interest of the Local Community	30.4	8	26.3%
Twinning of Local Authority Areas	0.823	0	0.0%
Administration and Miscellaneous	52	19.6	37.7%
<b>Total</b>	<b>194.5</b>	<b>83.4</b>	<b>42.9%</b>
<i>Source :Local Authority Budgets, Department of the Environment, Heritage and Local Government</i>			

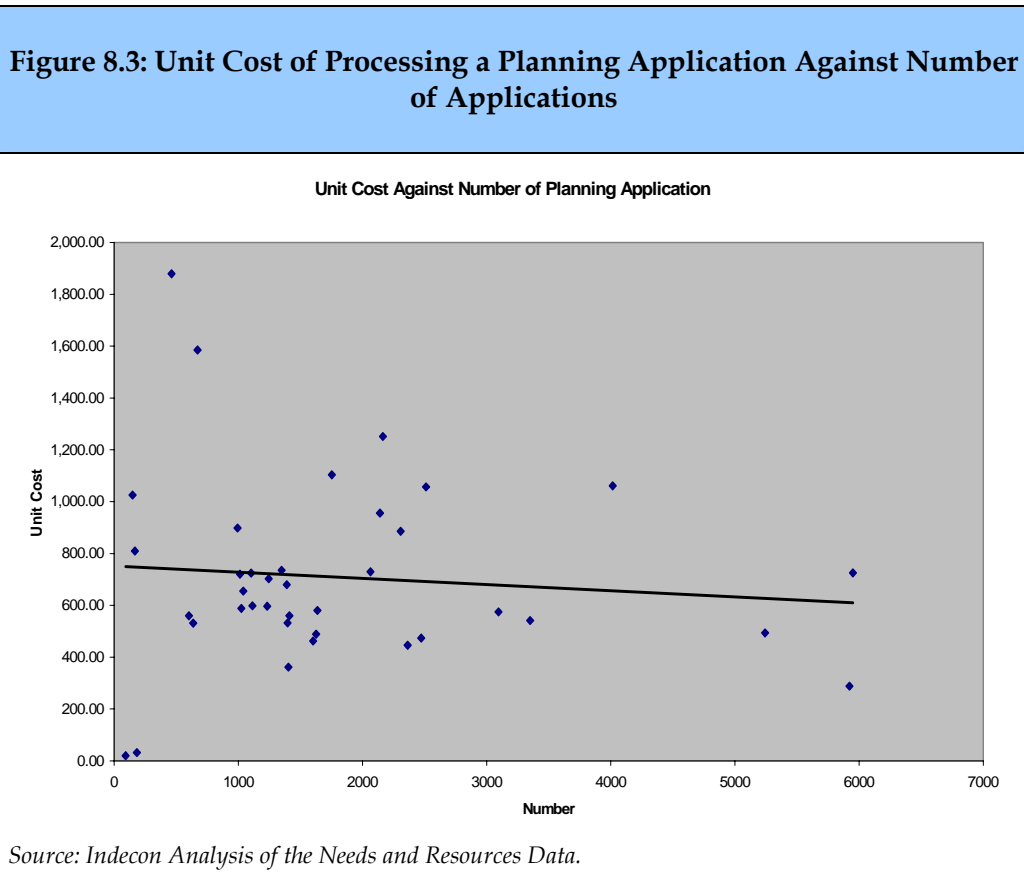
While accepting the local nature of these planning and development activities, we believe there may be scope to share some of the administration costs between local authorities. For the smaller authorities, dealing with a limited number of planning applications, the cost per application could be significant. We believe there is scope to share the workload between local authorities to manage these activities in a more cost-effective manner. We believe that sharing of services has wider applicability but there is certainly a case in this area. Details of average planning application costs for selected local authorities are included in Table 8.12 below.

**Table 8.12: Income and Expenditure per Planning Application for Selected Local Authorities - 2004**

Name	Numbers	Income - €	Expenditure - €	Exp per Application - €	Income per Application - €
Cork City Council	1,013	517,629	729,776	720.41	510.99
Dublin City Council	4,016	2,620,155	4,262,123	1,061.29	652.43
Galway City Council	672	946,774	1,065,329	1,585.31	1,408.89
Limerick City Council	462	465,741	868,341	1,879.53	1,008.10
Waterford City Council	637	430,417	338,574	531.51	675.69
<i>Average for City Councils</i>	<i>454</i>	<i>612,745</i>	<i>484,945</i>	<i>1,003</i>	<i>851</i>
Kilkenny Borough Council	167	64,227	135,253	809.90	384.59
Sligo Borough Council	148	124,433	151,790	1,025.61	840.76

*Source: Indecon Analysis of the Needs and Resources Data.*

A similar analysis was undertaken for the process of assessing planning applications. For a number of counties the cost per application is extremely high particularly for counties with a small number of applications (see Figure 8.3 overleaf).



Efficiency savings are also possible if planning fees more accurately reflect costs. This would lead to a better alignment between demands and costs, with potential efficiency savings. We discuss this issue of charging in more detail in subsequent chapters, and we believe there is merit in a system whereby application fees should more accurately reflect economic costs.

## 8.7 Environmental Protection

Local authorities have a significant role in environmental protection, most notably in waste disposal. Local authorities are also involved in a range of other service areas, with fire protection being the most significant in current expenditure terms. Policy in the waste area has been evolving rapidly with an increasing emphasis on charging for refuse collection and for landfills, while local authorities have been moving away from direct provision in the refuse collection area. We believe that this is the correct direction for policy and that significant benefits could be derived from these policy changes.

An analysis of current expenditure for the key environmental services areas provided by local authorities is presented in the table overleaf. The figures show that receipts as a percentage of expenditure was highest (at 80.7%) in

the case of waste disposal, and we would support moves to achieve full cost recovery on the provision of these services. In the case of other areas such as fire protection, less than half of expenditure is met by receipts and we would support moves to achieve a much higher level of income contribution to these services. Where commercial buildings are concerned or where residential buildings are insured, full economic cost recovery should be achieved and the collection of these charges could be outsourced under appropriate guidelines.

**Table 8.13: Expenditure and Receipts Per Functional Area - Environmental Protection - 2004**

	Expenditures - € Million	Receipts - € Million	Receipts as a % of expenditure
Waste Disposal	399.4	322.4	80.7%
Burial Grounds	16.1	7.2	44.7%
Safety of Structures/Places	12.1	5.7	47.1%
Fire Protection	252.1	79.3	31.5%
Pollution Control	21.5	5.4	25.1%
Administration and Miscellaneous	84.7	13.3	15.7%
<b>Total</b>	<b>785.9</b>	<b>433.3</b>	<b>55.1%</b>

*Source :Local Authority Budgets, Department of the Environment, Heritage and Local Government*

In the domestic refuse area, direct provision is now less prevalent with a greater emphasis on contracting out. These developments can have an impact on efficiencies within the correct regulatory framework. Contracting out can bring benefits through a competitive tendering process for the original contract, on going monitoring of performance and re-tendering after a specific time period. This model is working well in a number of local authorities.

This raises issues for appropriate regulation which is particularly relevant in areas where local authorities have withdrawn from service provision and where private suppliers are now filling the gap. This is a particular issue in the market for refuse collection, where a number of different delivery mechanisms are now in operation. These include direct provision by local authorities, contracting out/franchising out, and where local authorities have exited totally from provision and the service is now provided by a private sector operator. It is this latter case where appropriate price and quality regulation is required to ensure that service standards are maintained and that consumers are not paying excessive prices. These developments, pose questions for regulatory authorities and the optimal manner in which local authorities should withdraw or contract out services. Waste management is an example of one area where regulation is needed. In cases where a competitive tendering process for a franchise arrangement is implemented additional regulation may not be necessary.



In other areas such as street cleaning, and ownership and management of landfills, there may be scope for moving to different delivery mechanisms. For street cleaning, a contracted out model has provided cost savings where it has been implemented. This is based on a detailed review of a case study in one local authority, the international evidence and discussions with local authorities. There may be scope for further extension of this across local authorities. The introduction of full economic charging in the area of landfill offers scope for further policy changes. Local government have responsibility for meeting the costs of maintaining old landfills and this is a role that we believe they should continue to perform. In respect of new landfills, there is a role for private sector provision as there is no obvious reason why local authorities should necessarily be involved in the management of landfills although tight regulation is essential. The main policy issues relate to charging and regulation to ensure that environmental and health regulations are met. We believe that local authorities should focus primarily on the planning and regulation of landfills, and we doubt whether ownership is necessarily a core function for local authorities.

**Table 8.14: Breakdown of Waste Disposal Expenditure - % of Total - 2004**

	Direct Provision	Direct Provision on a Shared Basis with Other Local Authorities	Contracted Out	Private Sector Supply and Provision	Joint Venture with Private Sector	Total
	%	%	%	%	%	%
Operation of landfill	73.29	2.57	22.00	2.14	0	100
Domestic refuse	28.47	0.00	29.41	36.24	5.88	100
Street cleaning	86.28	0.17	12.44	1.11	0	100
Trade & other waste	27.81	0	22.19	44.06	5.94	100
Operation & upkeep of burial grounds	91.11	1.39	6.94	0	0.56	100

Source: *Indecon Survey of Local Authorities*

In respect of other functions in this programme area, there are also public good type activities that are local in character. We do not recommend any changes in respect of these functions, although the cost efficiency of direct provision in areas such as laboratory testing should be carefully monitored by the relevant local authorities.

<b>Table 8.15: Breakdown of Fire Protection and Pollution Control Expenditures in 2004 - % of Total</b>						
	<b>Direct Provision</b>	<b>Direct Provision on a Shared Basis with Other Local Authorities</b>	<b>Contracted Out</b>	<b>Private Sector Supply and Provision</b>	<b>Joint Venture with Private Sector</b>	<b>Total</b>
	%	%	%	%	%	%
Fire fighting	76.56	22.06	0.06	1.33	0	100
Fire prevention	79.50	18.33	0	2.17	0	100
Pollution Control- Monit. Enforcement (incl. Air poll.)	85.44	1.67	9.94	2.94	0	100
Pollution Control- Laboratory Testing	41.28	24.06	31.72	2.94	0	100

*Source: Indecon Survey of Local Authorities*

## 8.8 Recreation and Amenity

Recreation and amenity are merit goods where there is a clear rationale for local government involvement. In addition, the services are of a clear local nature, where local preferences are a key factor in delivery. The nature of the service also suggests that the financing should be partially from general receipts and that there is a strong case for a significant social subsidy. This is not to say that further increases in revenue should not be pursued if appropriate, but we do not believe this as a priority.

<b>Table 8.16: Expenditure and Receipts Per Functional Area in 2004 - Recreation and Amenity</b>			
	<b>Expenditures - € Million</b>	<b>Receipts - € Million</b>	<b>Receipts as a % of expenditure</b>
Swimming Pools	19.6	7.6	38.8%
Libraries	94.5	12.9	13.7%
Parks, Open Spaces Etc.	102.7	21.2	20.6%
Other Recreation/ Amenity	54.3	20.1	37.0%
Administration and Miscellaneous	36.7	6.1	16.6%
	307.8	67.9	22.1%

*Source :Local Authority Budgets, Department of the Environment, Heritage and Local Government*

The main question, therefore, relates to delivery. Services such as swimming pools, recreation centres and art galleries/museums can, in some cases, be contracted out on a cost effective basis. The table below indicates that in respect of swimming pools, contracting out is becoming more popular. However, currently direct provision remains the dominant form of delivery. In the context of securing efficiencies, we believe that there may be further scope for extending these approaches on a case-by-case basis. There may also be opportunities for increased joint venture activities with the private sector.

<b>Table 8.17: Breakdown of Expenditure on Parks, Open Spaces, Recreation Amenities - % of Total - 2004</b>						
	<b>Direct Provision</b>	<b>Direct Provision on a Shared Basis with Other Local Authorities</b>	<b>Contracted Out</b>	<b>Private Sector Supply and Provision</b>	<b>Joint Venture with Private Sector</b>	<b>Total</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Operation of Parks/open spaces	84.83	0	12.89	2.28	0	100
Operation of Libraries	96.33	1.67	0.06	1.94	0	100
Operation of Swimming Pools	46.47	6.67	36.87	10.00	0	100
Operation of recreation centres	67.69	0	16.92	7.69	7.69	100
Maintenance/operation of art galleries/museums etc.	85.00	0	11.43	0	3.57	100

*Source: Indecon Survey of Local Authorities*

## 8.9 Agriculture, Education, Health and Welfare

The next main expenditure area relates to various education grants that are dispersed by local authorities on behalf of the Department of Education and Science. The involvement of local authorities in this activity is a matter for debate, as there is no local element of discretion; policy is decided at the centre and is decided on a uniform basis throughout the State.

We question local authorities' involvement in this activity and believe there may be more appropriate delivery mechanisms within alternative structures. In the absence of significant changes, we believe that local authorities should charge central government the full economic cost of providing these services.

**Table 8.18: Expenditure and Receipts Per Functional Area - 2004 - Agriculture, Education and Health/Welfare**

	Expenditures - € Million	Receipts - € Million	Receipts as a % of expenditure
Agriculture	9.3	3.2	34.4%
Education	186.7	181.7	97.3%
Health/Welfare	1.01	0.125	12.4%
Administration and Miscellaneous	17	1.6	9.4%
	214.01	186.625	87.2%

*Source :Local Authority Budgets, Department of the Environment, Heritage and Local Government*

## 8.10 Miscellaneous Services

In the miscellaneous category, there are a number of different activities that are not core functions but are essential to support the main activities of local authorities. There are also elements that are important functions such as elections and representative functions and we believe that these expenditure areas require on-going review by local authorities and the relevant bodies.

<b>Table 8.19: Expenditure and Receipts Per Functional Area - Miscellaneous - 2004 - € Million</b>			
	<b>Expenditures</b>	<b>Receipts</b>	<b>Receipts as a % of expenditure</b>
Land Acquisition/Development	3.9	0.24	6.2%
Plant/Materials	6.5	4.3	66.2%
Financial Management	47	2.3	4.9%
Elections	6.7	0.08	1.2%
Administration Justice/Consumer Protection	19.6	10.2	52.0%
Property Damage	2.6	2.5	96.2%
Markets, Fairs and Abattoirs	3.6	3.8	105.6%
Administration and Miscellaneous	99.9	44.2	44.2%
Chairman's Allowance	1.9	0	0.0%
Entertainment and Associated Expenses	1.1	0	0.0%
Exps. of Members of L.A's Repr at Conferences	28.8	0	0.0%
Exps. of Members attending conferences abroad	1.2	0	0.0%
	<b>222.8</b>	<b>67.62</b>	<b>30.4%</b>
<i>Source :Local Authority Budgets, Department of the Environment, Heritage and Local Government</i>			

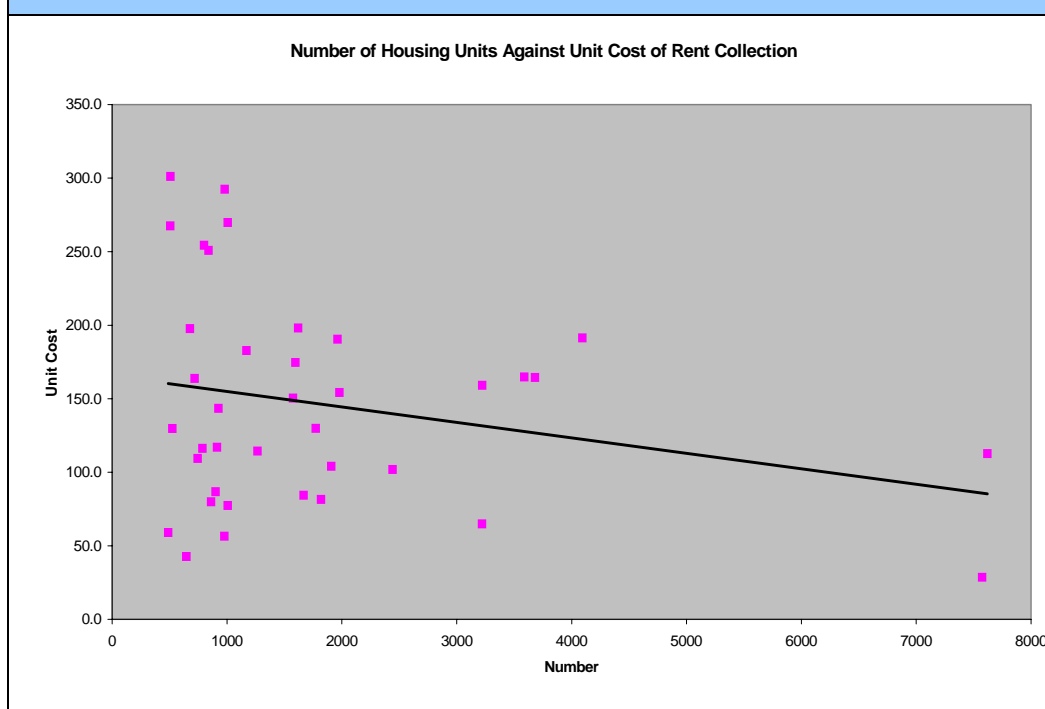
Most of the services are provided on a direct provision basis. We believe that there is scope to examine alternative delivery mechanisms, particularly in the area of financial management, which is one of the largest expenditure categories.

The issues of financial management and the collection of income are of importance, as in some areas the costs of revenue collection are high. An analysis of the forms of delivery of income collection activities is presented in the table overleaf. The figures show a very heavy dependence on direct provision and very little sharing of activities with other local authorities, while most collection activities do not make use of outside contract provision. We very much doubt that collection of income is always most appropriately organised on a local authority structure basis, or that the skills to undertake these activities most efficiently reside with local authorities. We also believe that collection of income activities are subject to significant economies of scale.

<b>Table 8.20: Breakdown of Expenditure on Financial Management/Billing Collection of Income - 2004 - % of Total</b>						
	<b>Direct Provision</b>	<b>Direct Provision on a Shared Basis with Other Local Authorities</b>	<b>Contracted Out</b>	<b>Private Sector Supply and Provision</b>	<b>Joint Venture with Private Sector</b>	<b>Total</b>
	%	%	%	%	%	%
Local authority rent & annuity collection	99.44	0	0	0.56	0	100
Rate collection	99.17	0	0	0.83	0	100
Collection of motor tax	85.31	12.50	0	2.19	0	100
Collection of water & waste charges	99.44	0	0	0.56	0	100
Car parking & traffic related charges	87.78	0	11.67	0.56	0	100

*Source: Indecon Survey of Local Authorities*

We also undertook an analysis of rent collection costs relative to the number of local authority dwellings. Again, there is evidence of potential benefits from collecting local authorities' rents for larger administrative units. This reflects the benefits of higher densities, but with fixed costs, particularly labour, average costs would be lower for larger administrative units (see figure below). The evidence supports the need to ensure that service delivery is focused on the most cost effective option.

**Figure 8.4: Unit Cost of Rent Collection Against Number of LA Dwellings**

In relation to local authorities' community and development functions, this raises the issue of the integration of local authority structures and those of parallel organisations. Local authorities have a mandate for the delivery of a range of functions related to economic and social development, and the promotion of the interests of the local community. This involves providing supports at a local level and the delivery of a range of initiatives financed through central Exchequer resources and local authorities' own resources. In parallel with these local government structures, there are a large number of local development bodies. These include County/City Development Boards, County/City Enterprise Boards, ADM Partnership, Community Groups and Leader groups.

The County / City Development Boards (CDBs) are the mechanism for local government, local development, the State agencies, and the social partners, to work out an agreed vision for their county or city. They are required to develop and implement a Strategy for Economic, Social and Cultural Development.

Enterprise Boards promote local development through the provision of grant aid and advisory / management ("soft") supports to micro enterprises (10 employees or fewer) in manufacturing, services and tourism.

Partnerships are independent companies with a Board of Directors drawn, at local level, from representatives of the Social Partners, the State Agencies and from Community and Voluntary Organisations active in economic and social development. They are the principal local development group to focus

exclusively on issues of combating disadvantage and on target groups such as the long-term unemployed.

Also, there are a number of ADM-supported Community Groups outside designated areas of disadvantage that operate to a similar agenda.

LEADER is the EU Community Initiative that is based on the "bottom-up" principle and provides the opportunity for the rural community, through local action groups, to involve itself directly in its own development.

These agencies provide a range of supports and are designed to focus on promoting social and economic developments in their areas. There are also differences in the objectives of these organisations, and differences between the latter and local government authorities. Nevertheless, this parallel structure leads to two specific issues. First, there are a considerable number of bodies that incur overhead administrative costs. While administrative costs will be needed regardless of structures, the range of bodies may be adding to administrative costs. Second, there is an on-going issue of the relationship between these bodies and the democratically elected representatives of local authorities.

We believe that it is highly desirable that the local development and local government sectors co-ordinate and integrate their activities to ensure maximum efficiencies, and a more effective and accountable delivery of local services to communities. The CDBs were established to, *inter alia*, bring about such an approach. It is essential that the CDBs proactively work towards achieving this objective and that Government Departments and relevant agencies support them in this. The joint initiative by the Ministers for the Environment, Heritage and Local Government, Community, Rural and Gaeltacht Affairs and Justice, Equality and Law Reform in utilising the CDBs to improve service delivery under community and local development programmes is illustrative in this context. We believe that the CDBs should be used to proactively bring about better cohesion and integration of local government and local development services.

The key point, however, is that there is a need for an on-going assessment of the appropriate functions for local authorities, which may result in adjustments to secure efficiencies.

## **8.11 Conclusions on Potential Expenditure Efficiencies**

In recent years a number of counties have engaged in a process of local government reform to attempt to achieve efficiency gains. Achieving efficiency in the provision of a wide range of diverse and labour intensive service provisions is a major challenge, and we are aware that achieving significant efficiency gains in the short-term will not be possible. We also recognise that local authority Managers and Heads of Finance have achieved



significant efficiencies in a number of areas (including road maintenance, housing maintenance, waste disposal etc.) and are focused in pursuing on-going improvements.

We believe, however, that over time measures can be taken to facilitate local authorities to accelerate efficiency improvements, particularly if this is combined with reforms in the methods of funding local authorities. In considering potential efficiency gains it is important to realise the constraint implied by an overdependence on central funding, and that regardless of the performance of central government officials there is on-going difficulty in central government attempting to monitor and promote efficiency in local government. This is the problem of decentralised information.

“The essence of the problem is that the centre is trying to set up a system designed to achieve more efficiency, but, because it does not and cannot know the specific circumstances, its instructions can frequently contradict what those on the spot know to be the sensible thing to do.” Nove (1977, p.111)

The problem is ultimately bound up with decisions about the balance of local and centrally provided finance. As long as central government provides the bulk of local finance it will understandably continue to seek a central planning and control function. But information asymmetry will severely impair its ability to carry out such a role. In the short-term it is necessary to ensure that local government is adequately funded from available resources. However the long-term solution must be based on increasing the proportion of local finance for local government while also delegating performance management.

Given the funding requirements of local government, the potential for efficiencies to contribute in some way to the projected funding gap must be rigorously explored, in addition to identifying new sources of revenue. In many cases maximising efficiencies may result in the need to reallocate staff or budget lines to other programmes rather than through reductions in expenditures. We accept that there are on-going initiatives by Councils, Managers, Heads of Finance and others, as well as by the Department of the Environment, Heritage and Local Government and the Department of Finance to maximise efficiencies. However, there needs to be an on-going programme to accelerate efficiency savings which is given high priority and which is facilitated by policy and other changes.

The three most important tasks are to secure a better alignment between costs and demand by changing incentives, improving information to facilitate decision makers, and ensuring that service provision is undertaken on the most cost effective geographic basis.



## 9 Revenue Options

### 9.1 Introduction

In this chapter we examine potential options for reform of the funding of local government. This includes an assessment of the current system and a review of potential reforms. It also examines options for raising additional revenues. Our projections for local authority current expenditures indicate significant increases in requirements over the period to 2010. This will require a combination of increases in locally based revenue resources, improvements in efficiency, increased transfers from the Exchequer or a reduction in services.

### 9.2 Principles of Local Government Financing

Our review of the existing system of funding is examined in the context of alternative funding options. This analysis is focused on ensuring a sustainable funding system for local authorities, while taking account of Ireland's obligations under the Stability and Growth Pact, the European Charter of Local Self Government and the fact that local government has constitutional recognition.

Our assessment of the options takes account of the following principles:

- ❑ Administrative simplicity and efficiency;
- ❑ Local accountability, decision making and flexibility;
- ❑ Equity, including ability to pay and the breadth of the revenue base;
- ❑ Equalisation;
- ❑ The polluter/user pays principle;
- ❑ Compatibility with national economic and social policies, in particular national taxation strategies.

It is useful to examine some of these principles in detail before considering specific revenue options.

#### 9.2.1 Administrative simplicity and efficiency

Every taxation system should be as administratively simple as is feasible. This means that sources of revenue should be easy to collect and that the costs of collection should be commensurate with the revenue return. Systems should also be transparent and easy to understand for taxpayers.

Any system must also promote efficiency in its widest possible sense. This means ensuring that services are provided cost effectively and that all economic agents face the correct incentives to minimise costs. For local authorities, this implies that the funding of a service should be related to the cost of provision. In circumstances where a service is funded centrally, efficiency objectives require that incentives be in place to ensure that local authorities minimise costs and this also requires that correct incentives be placed on the users of services.

Providing services at below (or indeed at no) cost is likely to lead to excessive demand with implications for efficiency. This highlights the importance of linking payment to consumption, except in the case of merit goods or where distributional factors are relevant. The funding of services through charging or local taxation, rather than national taxation, has implications for this aspect of efficiency.

Efficiency also requires a transparent system where the costs of providing a service and the funding consequences are clear to all. This could include acceleration of plans to introduce a costing system.

We believe the current system of local government financing rates poorly in terms of its role in promoting efficiency. In particular, the misalignment between costs and demand in areas such as water and other services is a worrying deficiency in the current system.

### **9.2.2 Local accountability, decision making and flexibility**

The implications of different funding options for accountability, decision-making and flexibility are also important.

A key issue in this respect is the extent to which those responsible for determining the scale and methods of delivery of local government expenditure are also responsible for raising the revenues to fund this expenditure. If funding is largely provided centrally this has implications for the extent to which local representatives are accountable to the electorate. Given the absence of local taxation, apart from commercial rates in the Irish local authority system, the fact that most priority is given to expanding services is hardly surprising, and central government needs to be aware of the incentive implications of this system.

The argument in favour of greater accountability is that it enables local government to reflect the preferences of the electorate in a particular area. If an electorate favours a particular model of local government in terms of the level of service provision, this can be reflected in the representatives they elect. This is the essence of a democratic system where representatives making decisions in relation to public spending are accountable to the beneficiaries of those services.

It also follows that the electorate, whose preferences are reflected in the type of local government they elect, pay for those services. Accountability is related to the extent to which the electorate fund the services they consume. This avoids a system where local representatives call for higher spending for the benefit of their electorate, but where the linkage between this and the funding of the services is weak.

Of course, this does not suggest that central government should not be interested in the operation of local government or should not have a key role in the funding of local authorities. Central government may use local government as a convenient agent for delivering various local services. It should also be legitimately concerned about the impact local government decisions have on national economic and social policy goals, and the provision of public goods and wider services.

It is, however, clear to us that the current system of local government funding scores poorly in terms of accountability. This is based on the fact that domestic households and some commercial properties do not make a local tax contribution towards the costs of services provided locally, and that there is less than full economic cost recovery on many local authority services. In this regard, it is noted that 46% of spending is financed centrally.

### **9.2.3 Equity**

Equity considerations encapsulate a number of elements. Progressive systems of revenue collection take account of ability to pay and ensure that those on lower incomes pay a lower percentage of government services. This would suggest that tax burdens should be related to ability to pay and that, in the event of charging for certain services, equity issues need to be addressed either via charging for specific services or through the use of waiver schemes or national social welfare adjustments, as appropriate. There may, however, be some conflicts between equity and efficiency, particularly because of the importance for efficiency in the link between consumption and payment.

Equity could also refer to the contribution of different sectors to financing a particular system. Under the current system, while commercial rates are in operation, domestic rates do not apply, and similar issues arise in relation to water charges. On the issue of equity between sectors, it could be argued that all sectors should make a contribution to the cost of services.

### **9.2.4 Equalisation**

Related to the question of equity is the issue of equalisation between different areas. Local authorities with higher income could have lower demands for service provision and a relatively high-income base. Conversely, there are areas where needs may be greater than resources.

On equity grounds, there is a role for central government in allocating resources to equalise the position between different local authorities. There is a common rationale internationally for central government involvement in supporting the funding of local authorities. In Ireland, this is the objective underlying the operation of the needs and resources model, and one that we believe merits continuation and further refinement. Account must be taken not only of the revenue base of different local authorities, but also of the demands on different types of local authorities.

### **9.2.5 Breadth of revenue base**

Any system of funding must have adequate resources to cover expenditures. Given the negative economic effects of high marginal tax rates, this highlights the importance of a wide tax base. This would help to minimise the deadweight and other costs associated with taxation, and the distortionary impact of a narrow dependence on selected sources of revenue.

### **9.2.6 The polluter and user pays principles**

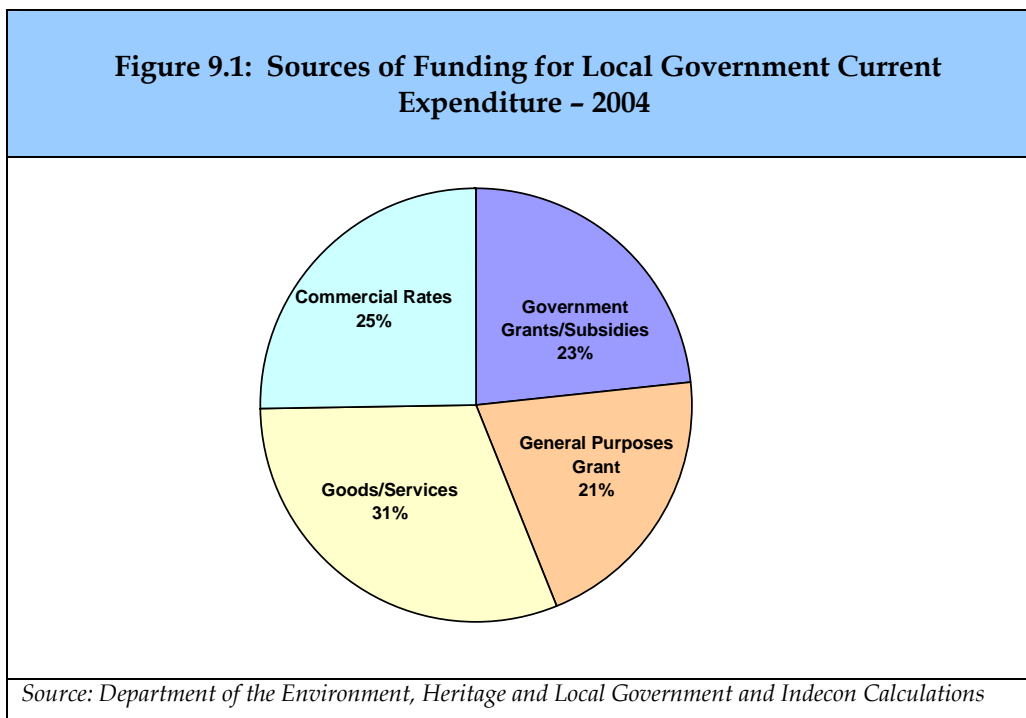
In discussing efficiency, we referred to the benefits of charging users the full costs of a service. In terms of the polluter or user pays principle, this would involve the external costs associated with an activity. Polluter pays principle suggests that these costs should be internalised and that economic agents reflect these in their decision making. Local authorities are to be commended in moving towards this principle in respect of a range of charges (for example, landfill and waste charges). However, we believe that this needs to be developed further to ensure full application of this principle.

### **9.2.7 Compatibility with national policies**

Finally, it is important to consider the extent to which any system of local government funding is compatible with national economic and social objectives. For example, Ireland's low corporation tax is a key element of national policy. Similarly income taxation policy has been designed to generate high employment and facilitate low unemployment and to support national competitiveness. In some previous reports suggestions for certain local authority taxes paid insufficient attention to compatibility with key national policies.

### 9.3 Review of the Current Funding System

In earlier chapters, we reviewed the current system of local government in some detail but it is useful to recap on some of its main funding features. Local government is funded by a combination of local taxation, charges for goods and services and transfers from central government. Figure 9.1 below depicts the breakdown of funding of local authorities by source in 2004.



It can be seen that charging for goods and services accounts for 31% of funding followed by Government grants/subsidies at 23%. Commercial rates account for 25% while the Local Government Fund provides 21%.

There are a number of noteworthy features of the current funding system, including:

- ❑ A high percentage of local authority funding is provided by central government in the form of grants/subsidies and the general-purposes grant;
- ❑ There is no local taxation on individuals or households;
- ❑ Businesses pay a high percentage of all locally raised finance via commercial rates;
- ❑ Within transfers from central government, there are grants for specific activities and a general transfer from the Local Government Fund;
- ❑ Grants are provided where local government is undertaking specific services on behalf of central government;

- ❑ The Local Government Fund is financed by an exchequer contribution and the proceeds from motor taxation and is allocated on the basis of needs and resources;
- ❑ The norm for the delivery of local authority services is aligned with local authority geographic structures;
- ❑ There is a poor system of incentives facing users to maximise efficiencies for substantial areas of local authority spend.

It is interesting to consider how each of the specific areas of local government expenditure is funded. The table below outlines the percentage of expenditure in each area that is funded through either specific grants/subsidies or charges. These are the two areas of receipts that are earmarked for specific activities. In respect of housing and building, 78.1% of expenditure on this area is funded through either charging or through direct grants from central government. In some areas the degree of discretion of local authorities in determining the level of expenditure is greater than others.

<b>Table 9.1: Sources of LA Funding by Functional Area - 2003</b>			
	<b>Government Grants/Subsidies as a % of Total</b>	<b>Goods and Services as a % of Total</b>	<b>Combined as a % of Total</b>
Housing and Building	23.2%	54.9%	78.1%
Road Transport and Safety	54.7%	12.9%	67.6%
Water Supply and Sewerage	3.3%	35.5%	38.8%
Development Incentives and Controls	6.3%	34.0%	40.2%
Environmental Protection	1.0%	37.5%	38.5%
Recreation and Amenity	8.4%	12.9%	21.3%
Agriculture, Education, Health and Welfare	84.8%	1.6%	86.4%
Miscellaneous Services	8.6%	38.6%	47.2%
<b>Grand Total</b>	<b>27.3%</b>	<b>28.5%</b>	<b>55.8%</b>
<i>Source: Returns of Local Taxation, Department of the Environment, Heritage and Local Government</i>			

Table 9.2 sets out the sources of funding across selected local authorities. The data indicate that different councils fund their expenditure in different ways. For example, Louth County Council finances 70.5% of its expenditure through State grants and only 5.4% through rates. By contrast, the corresponding percentages for Dun Laoghaire-Rathdown are 7.8% and 40.1% respectively, indicating very different sources for financing expenditure.



Table 9.2: Sources of Funding by Selected Local Authority - 2003

	State Grants and General Purpose as a % of Gross Expend.	State Grants as a % of Gross Expend.	General Purpose as a % of Gross Expend.	Charges as a % of Expend.	Rates as a % of Expend.
Carlow	58.0%	30.6%	27.3%	26.3%	11.5%
Cavan	70.4%	44.9%	25.5%	17.7%	10.1%
Clare	46.6%	33.9%	12.7%	24.1%	27.6%
Cork	45.4%	27.6%	17.8%	29.0%	23.2%
Donegal	65.1%	42.9%	22.2%	20.6%	13.3%
Dun Laoghaire/ Rathdown	30.4%	7.8%	22.6%	25.9%	40.1%
Fingal	33.5%	18.6%	14.9%	31.4%	35.1%
Galway	75.0%	50.7%	24.2%	15.0%	9.6%
Kerry	53.2%	33.9%	19.3%	27.5%	12.5%
Kildare	44.9%	25.7%	19.2%	28.0%	23.6%
Kilkenny	60.6%	34.7%	25.9%	24.5%	11.7%
Laois	56.7%	28.4%	28.3%	30.2%	12.8%
Leitrim	78.4%	47.1%	31.3%	12.6%	7.3%
Limerick	47.8%	28.0%	19.8%	32.2%	20.0%
Longford	73.8%	45.6%	28.2%	17.9%	6.5%
Louth	80.4%	70.5%	9.9%	11.5%	5.4%
Mayo	60.3%	36.8%	23.5%	26.7%	9.3%
Meath	57.1%	31.3%	25.8%	25.8%	13.1%
Monaghan	65.4%	42.2%	23.1%	21.2%	8.2%
Offaly	61.6%	35.9%	25.6%	22.4%	11.5%
<i>Source: Department of the Environment, Heritage and Local Government and Indecon Calculations</i>					

## 9.4 Impact of Different Revenue Options

In assessing revenue options, we examine how they rate in terms of the key criteria such as efficiency, equity, accountability, and compatibility with national policy.

An overarching issue in assessing the impact of different local taxation options concerns the potential impact on the distribution of income. Data on income distribution is useful in considering the likely effect of alternative funding options in the absence of other responses by central government. In Figure 9.2 we present an analysis of income distribution in Ireland by income decile.

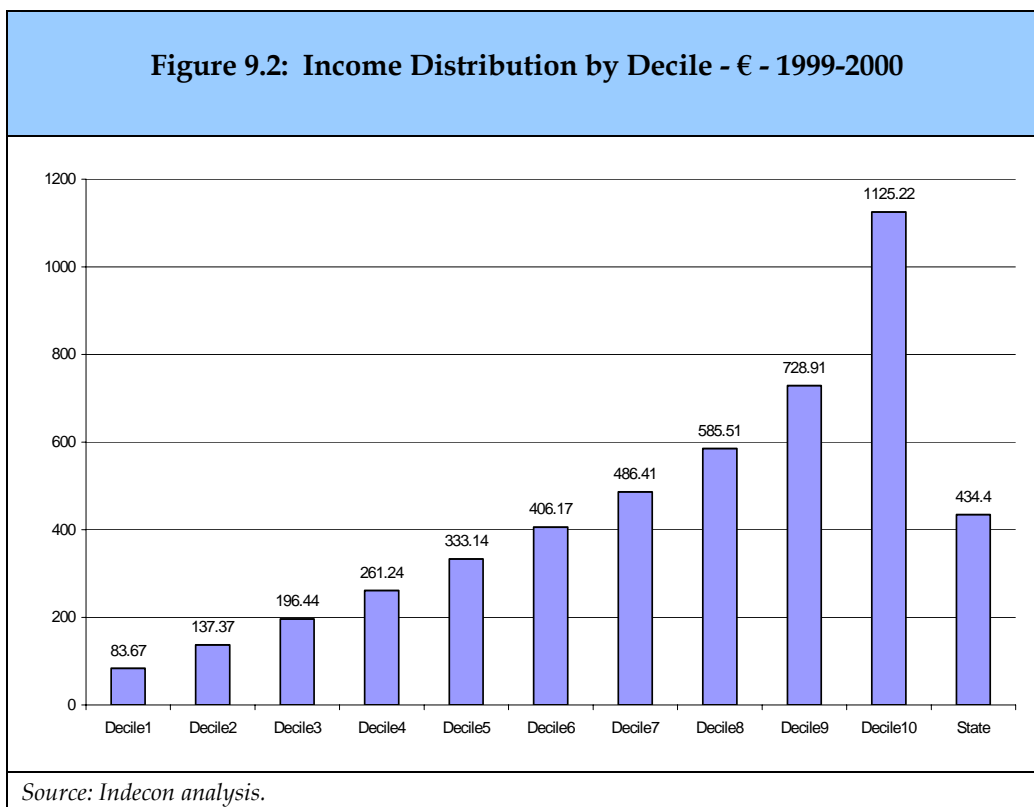
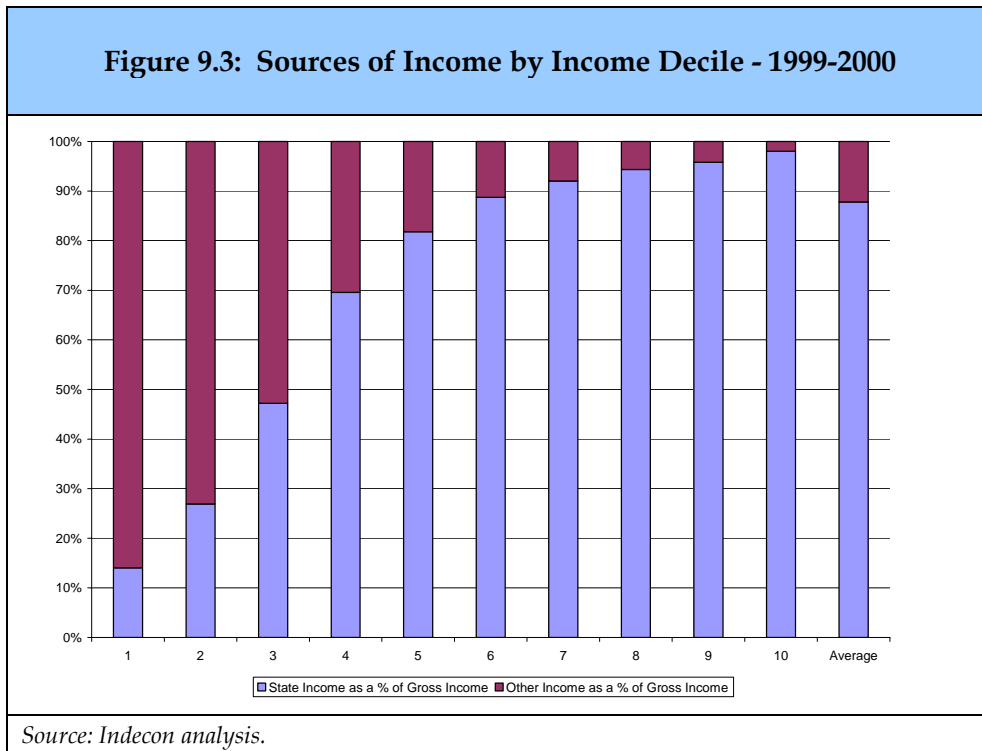


Figure 9.3 overleaf indicates the source of income in relation to State transfers versus other income, relative to total income. The graphic indicates that persons on lower incomes are typically very dependent on state transfers. Responding to equity issues concerning changes in local government funding is therefore amenable to changes in state transfers at national levels. In addition, the uneven distribution of income and the need to ensure equitable policies are reflected in our recommendations on funding which we discuss subsequently.



## 9.5 Specific Revenue Options

As a background to the examination of the broad mix of potential funding options for local authorities, it is useful to consider a range of specific revenue options. These include options recommended previously, as well as ideas submitted to the consultancy team by local authorities and other interested parties.

We believe that some of these options are not feasible or would damage national economic competitiveness, while others would not address the key challenges in relation to accountability, efficiency and adequacy of resources. A wide range of variants on these recommendations, as well as other recommendations were also considered, but in this report we focus on the main options. Table 9.3 overleaf sets out a number of examples of funding options considered. We discuss each option further in the subsequent paragraphs.

**Table 9.3: Examples of Funding Options Considered**

<b>Table 9.3: Examples of Funding Options Considered</b>	
1.	CONTINUE WITH CURRENT SYSTEM
2.	INCREASES IN EXISTING CHARGES
3.	EXTENSION OF WATER CHARGES
4.	CONTRIBUTION FROM DOMESTIC AND COMMERCIAL PROPERTIES
5.	LOCAL INCOME TAXES
6.	LOCAL SALES TAXES
7.	LOCAL CORPORATE OR BUSINESS TAXES
8.	OTHER TAXATION INITIATIVES

### 9.5.1 Continue with current policy approach

The current system of local government funding in Ireland has some strengths and it succeeds in delivering services. It is also adaptable to change, and the system has experienced changes that have led to service improvements which have yielded significant benefits to local communities. There have also been improvements in efficiency and the introduction of new delivery mechanisms. Notwithstanding these strengths, there are, however, deficiencies in the current system.

The current system of local government funding is, in many respects, the product of historical and political developments. It is very difficult to believe that anyone designing the most appropriate system of local government funding for Ireland in 2005 would design the current system, with its high dependence on central funding, an exceptionally narrow taxation base on the commercial sector, and an unusual framework for local charges whereby some service areas, such as waste, attract charges close to their economic costs while others, such as water services for the domestic sector, attract zero charges. Changes to any existing funding system will of course have to overcome problems of inertia and the issue of winners and losers. Changes also have to take account of political constraints and the overall acceptability of options to the community.

The disadvantages of the current system are, however, well documented and were outlined in previous reviews and in the large number of the submissions received by the consultancy team. We also examined these weaknesses in the review of local government funding principles. A key disadvantage is that the current system is highly centralised. While it is acknowledged that there is no optimal or correct balance between local and central government, we do not believe that the current balance is appropriate and that more funding should be raised locally. There is limited local discretion with the current system, with significant central funding coinciding with central control over a range of issues. Even more fundamentally, there is a major issue for local accountability and in-built in the current system is a worrying misalignment between the demand for services and the funding implications.

In essence, the beneficiaries of services are not, under the current system, meeting a significant element of the service cost. The lack of local funding and the centralised nature of the system also lends to on-going financial pressure for ever higher levels of services, with a greater focus on service provision than on achieving cost efficiencies. This is not to suggest that local authorities do not face on-going cost pressures and we are aware of the current efforts made to improve cost efficiency. We believe, however, that the full potential for efficiency gains cannot be realised within the existing financing structure.

In common with all previous reviews, we believe that there is a need for a reform of the current system of local government funding in Ireland.

### **9.5.2 Increases in existing charges**

An obvious potential source of additional funding for local authorities is a change in the approach to charging for services. Charges can be efficient if they encourage economic agents to act efficiently by minimising demand. For example, households are likely to minimise their waste disposal if they are charged the full economic cost of collection and disposal. Hence, closer alignment of prices with actual costs can lead to welfare benefits.

Against this issue, one must also consider the implications for equity. Fixed charges can have a disproportionate effect on low-income households, as they account for a higher percentage of household income. This can be addressed by national policies through the Social Welfare transfer system and also by the targeting of any increases in charges to take account of equity issues.

Charging can encourage consumers to align demand to ensure that demand reflects the actual cost to society of providing a service. This can lead to conservation of scarce resources, while reducing over-consumption. This would involve local authorities recovering the full economic costs of services in certain areas. A better assessment of demand for these services based on real costs could also help in achieving infrastructure savings. Charging can also help in achieving other policy objectives. In areas such as environment policy, charging can help to ensure that consumers face the full consequences

of their actions and are consistent with the polluter pays principle. This may be a more efficient policy response than other options such as regulation.

Charging for a particular service rather than funding from general taxation can also encourage transparency and can help in facilitating comparisons between local authorities. It may also encourage the development of a contestable market, where competing private sector operators could in certain cases provide a service more efficiently, although this may not always be the case.

Of most significance is that increases in current charges would enable the establishment of a link between payment and consumption. We would, however, stress that charges should not be used as a form of taxation, and there could be 'public good' elements to some services that suggest funding from general receipts. These arguments were discussed in detail when considering expenditures in Section 8. For example, libraries could be considered a 'merit good', where a justification for subsidy would arise and where full economic charging would be inappropriate.

Charging can bring many benefits such as efficiency, transparency and consistency with the polluter/user pays principle. Acceptability is an issue with the introduction of new charges to fund services that were previously subsidised or provided at zero price. However, there is greater acceptability of charging where there is a clear link between the level of payment and consumption.

There are, however, already a wide range of charges in place and while some additional funds could be secured by increases or more effective collection methods in charges on rents, planning fees, waste and other areas such as fire services, it would be a mistake to overestimate the revenue potential from such initiatives. Changes to charging policies on their own will not, however, be sufficient to meet the funding requirements of local authorities and will not be sufficient to address key issues of accountability, the alignment between local demand for service improvement and the willingness of local communities to fund such services. In addition, there has been an increase in specific charges in recent years in areas that were previously funded from general taxation.

Where services have been funded in full or partially from general taxation, there is a perception that they are free or subsidised. Convincing people to pay for services that they received for free is difficult. Related to this is the fact that charges can be seen as a form of taxation. It is therefore important that in increasing any existing charges that local authorities can demonstrate that they are provided efficiently and that charges above economic costs are not levied. A phased introduction of adjustments to charges is also appropriate. In considering the option of increasing some existing charges, we believe that it is important to consider some principles of charging, which are set out in the table overleaf.

<b>Table 9.4: Selected Principles of Charging</b>
CHARGES SHOULD REFLECT THE COST OF PROVIDING THE SERVICE.
CHARGES SHOULD REFLECT THE LEVEL OF CONSUMPTION.
THE COSTS OF COLLECTION SHOULD BE ECONOMICAL.
CHARGES SHOULD BE EQUITABLE.

We believe that charges should reflect the cost of providing local authority services, except in the case of merit goods, or where other factors are involved. At the starting point for examining charges, we believe that local authorities should consider whether charges cover the actual cost of the services being provided.

We also believe that charges should reflect the level of consumption. For efficiency reasons, the benefits of charging will be increased if charges are linked to usage. The costs of collection should also be economical relative to the amount collected. Charges should be equitable and a transparent subsidy of services or a waiver scheme for low incomes should be considered in each case, if appropriate, or alternative responses through national social welfare policies introduced.

We also examined the option of increasing existing charging in relation to the key criteria of efficiency, equity, accountability and compatibility with national policy. In terms of the assessment criteria the option of increasing existing local charging scores very highly. It is administratively simple and efficient and is positive for local accountability. However, the equity criterion needs to be taken account of in the design of charges or in national policies. As discussed previously, equity can be defined in a number of ways and charging can support equity inasmuch as everybody is paying according to service usage.

Charging also scores highly in terms of the polluter/user pays principles and is compatible with national policy. Overall, increasing existing local charging scores highly on the established assessment criteria. We would, however, point out that this should apply equally to services provided to central government, as well as to services provided to individuals and businesses.

One area where adjustments to charges may be appropriate relates to planning services. Details on income and expenditure for a selection of local authorities are included in Table 9.5 overleaf.

**Table 9.5: Income and Expenditure per Planning Application for Selected Local Authorities – 2003**

Name	No. of Apps.	Income - €	Expenditure - €	Exp per Application - €	Income per Application - €
Kilkenny Borough Council	167	64,227	135,253	809.90	384.59
Sligo Borough Council	148	124,433	151,790	1,025.61	840.76
Cork City Council	1,013	517,629	729,776	720.41	510.99
Dublin City Council	4,016	2,620,155	4,262,123	1,061.29	652.43
Galway City Council	672	946,774	1,065,329	1,585.31	1,408.89
Limerick City Council	462	465,741	868,341	1,879.53	1,008.10
Waterford City Council	637	430,417	338,574	531.51	675.69

*Source: Department of the Environment, Heritage and Local Government and Indecon Calculations*

As the table indicates expenditure is greater than revenue for most of the councils reviewed. For some local authorities, however, revenue exceeds expenditures and we understand that this may reflect the timing of payments and that it may be more relevant to focus on the average for all of the authorities. Central government places a cap on the charges that can be levied for planning applications and we recommend that this should be removed. We would not, however, support using charges as a form of taxation.

In terms of potential increases in existing charges, it is worth recalling how specific areas are funded and the importance of charging in particular areas (see Table 9.6 overleaf). There is significant charging in the housing area and we believe that there is some additional scope in this area that we discuss below. In road transport, parking fees are the main area, and we believe that these fees cover costs and reflect local circumstances. For environmental protection there has been a range of policy measures to introduce charges, including pay-by-weight charges for refuse collection and charging for landfill. Receipts are rising as a percentage of expenditure in this area and we believe that this is a welcome development. We recommend that these trends should continue and would support further cost recovery, where possible.

In other areas, there may not be much scope for additional charging. For recreation and amenities we believe that there is a strong argument that much of this expenditure should be met from general tax receipts.



<b>Table 9.6: Sources of Funding for Functional Areas - 2003</b>			
	<b>Government Grants/Subsidies as % of Total</b>	<b>Goods and Services as % of Total</b>	<b>Combined as % of Total</b>
Housing and Building	23.2%	54.9%	78.1%
Road Transport and Safety	54.7%	12.9%	67.6%
Water Supply and Sewerage	3.3%	35.5%	38.8%
Development Incentives and Controls	6.3%	34.0%	40.2%
Environmental Protection	1.0%	37.5%	38.5%
Recreation and Amenity	8.4%	12.9%	21.3%
Agriculture, Education, Health and Welfare	84.8%	1.6%	86.4%
Miscellaneous Services	8.6%	38.6%	47.2%
<b>Grand Total</b>	<b>27.3%</b>	<b>28.5%</b>	<b>55.8%</b>
<i>Source: Returns of Local Taxation, Department of the Environment, Heritage and Local Government</i>			

One area that merits further consideration concerns local authority housing rents. It should be recognised, however, that deciding on the optimal level of local authority rents given local market trends and the need for an appropriate social subsidy is difficult. The research undertaken for this Review points to marked differences in rents across local authorities (see Table 9.7 overleaf). Some of these reflect differing market conditions. For example, rents in Dublin city are the highest of the local authorities reviewed. However, the differences in rents may not necessarily reflect local housing market conditions or explicit decisions in respect of the current level of social subsidy. A recent report on Housing Policy and Performance by the National Economic and Social Council (NESC) highlighted a number of issues in relation to public rental policy. It is useful to restate the key points raised by the NESC report, as follows:

It has been noted that the current differential rental scheme for Irish social housing results in a continuing shortfall between rents collected and the costs of maintenance and management. Adjusting rents to tenants' ability to pay has a major social value when, as is the case with Local Authority housing, tenants are concentrated at the lowest end of the income spectrum. However, the operation of the current differential rental scheme has a number of unintended drawbacks. The most severe drawback is that it constitutes a continuing drain on local authority resources rather than a financial asset. The stock is unable to generate a surplus for further investment (e.g. refurbishment and regeneration is dependent on securing separate funding) and a continuing dependence is created on central funding and decision-making. There are several other drawbacks too. The existence of maximum rent levels reduces the overall progressivity of the scheme, as higher income tenants benefit disproportionately. Other possible inequities arise from the capping of rent

contributions by subsidiary earners in a household, which makes it possible for multi-earner households to pay a much lower proportion of their income in rent than single earner households (Murray and Norris, 2002). The failure to reflect the quality or demand for particular dwellings in the calculation of rents leads to horizontal inequities; tenants with identical incomes and family circumstances can find themselves paying the same rent but for dwellings whose locations or quality give a wholly different value. Inefficient pricing can arise as the age of houses largely determines maximum rent variations, while age is often poorly correlated with the overall quality of dwellings and the supply of, and demand for, different dwellings and locations. Finally, people in similar circumstances can also be treated very differently because of the county or borough in which they are renting as there is considerable variety in all aspects of rent calculation across local authorities (in the treatment of dependants and subsidiary earners, maximum rent limits, income banding, etc.)

The Council notes that some other public rental policies have arisen outside of local authority housing. For example, minimum contributions are paid by recipients of Rent Supplement under SWA and calculated on income above a set baseline (Background Analysis); whereas the provision of emergency B&B accommodation does not incur any rent, even though this has developed into a long-term accommodation solution for many households (the average stay in 2003 was 18 months). It is important, in the interests of both equity and efficiency, that rental policies across the range of long-term accommodation for social tenants are consistent in charging a fair rent, while reflecting the ability to pay. For all these reasons, therefore, the Council recommends that a review of the current differential rents policy be carried out to improve the sustainability and effectiveness of the current scheme."

The issue of appropriate levels of rents should be examined as part of the on-going review of housing policy.

**Table 9.7: Housing Rental Income for Selected Local Authorities - 2002**

Name	Houses	Rental Income - €	Income per Unit - €
Cork City Council	7,619	11,208,513	1,471
Dublin City Council	25,376	45,128,870	1,778
Galway City Council	1,819	2,303,500	1,266
Limerick City Council	3,219	4,071,604	1,265
Waterford City Council	2,442	2,599,024	1,064
Average for City Councils	8,095	13,062,302	1,369
Clonmel Borough Council	506	742,273	1,467
Drogheda Borough Council	1,007	1,001,884	995
Kilkenny Borough Council	489	819,528	1,676
Sligo Borough Council	914	827,639	906
Wexford Borough Council	718	839,688	1,169
Average for Borough Councils	727	846,202	1,243

*Source: Indecon Analysis of the Needs and Resources Data.*

### 9.5.3 Extension of Water Charges

The absence of any water charges on domestic residences and on certain commercial premises, regardless of the income and assets of property owners or the consumption levels of water, is not consistent with economic efficiency. It also is inconsistent with principles of accountability or equity. We believe that the current position leads to significant inefficiencies. In addition, we understand that the cost of these services is rising rapidly and is placing significant financial pressures on local authorities.

We recognise the implementation difficulties associated with this issue but believe that the introduction of water charges has strong merits. However, we do not believe that the introduction of charging for all consumers is feasible in the short term, despite its economic merits, and would recommend a targeted approach, which is more realistic.

We also considered an option whereby water charges would be introduced for all households but where persons on low incomes would benefit from a waiver scheme to be financed through the central Exchequer. In addition, we considered an option whereby consumers would be charged for only consuming water above a certain limit. This would encourage conservation and link payment to efficient consumption, which we believe would have more general acceptance.

On balance, however, we see merit in the short term in a more structured proposal whereby water charges would be extended only to all non-principal private residences and to commercial buildings not currently covered by these charges. There are an increasing number of non-principal private residences and we do not believe that owners of investment properties or second homes should benefit from exemptions that lead to an Exchequer cost. Specifically, we believe that owners of investment properties and additional premises should pay the economic costs of provision of water to these homes. This would ensure that more of the full cost, including environmental costs associated with these premises is borne by owners.

In chapter seven on projections, estimates were presented of the projected cost of water services. The total cost of water services is projected at €445 million in 2005, while the domestic share is 58.4% giving a total domestic cost of €259 million, which is equivalent to over €200 for each dwelling in the State. This is currently funded from general taxation.

The extension of water charges would be consistent with the move to have more environmentally reflective charges. New environmental charges have been introduced in the form of pay-by-weight refuse collection, new regulations in respect of landfill charging and charging the commercial sector for water services. This latter development has led to a very significant increase in water charges in recent years (see Table 9.8 overleaf). Considerable variation in growth rates of water charges over the period 2000 to 2004 is also evident, ranging from no change in Cavan to a 247% increase in Longford. They also tend to vary across counties and cities. Longford (€7.95 per 1,000 gallons), Dun Laoghaire/Rathdown (€6.54 per 1,000 gallons) and

Fingal (€5.96 per 1,000 gallons) currently have the highest water charges, with charges the lowest in Leitrim (€2.92 per 1,000 gallons), Sligo (€2.79 per 1,000 gallons) and Cork County (€2.77 per 1,000 gallons).

Table 9.8: Water Charges (€ Per 1,000 Gallons)						
	2000	2001	2002	2003	2004	% Increase
Longford Co. Co.	2.29	2.29	2.40	5.80	7.95	247
Dun Laoghaire/Rathdown Co. Co.	3.50	4.14	5.14	5.96	6.54	87
Fingal Co. Co.	2.60	3.04	3.65	4.90	5.96	106
Dublin City Council	3.77	4.14	4.55	5.23	5.73	52
Limerick City Council	2.29	2.41	2.85	4.25	5.41	136
South Dublin Co. Co.	2.74	3.66	4.14	4.67	5.08	85
Limerick Co. Co.	2.54	2.54	3.26	4.75	5.09	100
Wexford Co. Co.	3.01	3.30	4.20	4.70	4.94	64
South Tipperary Co. Co.	N/A	2.92	3.10	4.55	4.93	69
Donegal Co. Co.	2.97	2.97	2.97	3.75	4.78	61
Galway City Council	2.03	2.22	2.60	3.75	4.75	134
Waterford Co. Co.	2.67	2.86	3.17	4.00	4.41	65
Laois Co. Co.	N/A	3.54	3.90	4.30	4.46	N/A
Mayo Co. Co.	2.20	2.30	3.10	4.09	4.29	95
Kerry Co. Co.	3.17	3.43	3.70	4.06	4.27	38
Kildare Co. Co.	2.60	2.70	3.68	3.96	4.24	63
Offaly Co. Co.	2.35	2.54	3.00	4.00	4.14	76
Westmeath Co. Co.	1.96	2.05	2.05	4.10	4.10	109
Meath Co. Co.	2.29	2.79	3.20	3.60	4.00	75
North Tipperary Co. Co.	2.30	2.42	3.30	3.63	4.00	74
Roscommon Co. Co.	2.86	2.98	3.18	3.66	3.92	37
Wicklow Co. Co.	3.43	3.62	3.81	3.81	3.81	11
Clare Co. Co.	2.72	2.91	3.12	3.74	3.74	38
Louth Co. Co.	N/A	2.00	2.273	2.73	3.64	N/A
Cork City Council	2.79	3.01	3.18	3.63	9.23	230
Kilkenny Co. Co.	2.79	3.05	3.30	3.50	3.61	29
Carlow Co. Co.	N/A	2.79	3.00	3.30	3.50	N/A
Galway Co. Co.	2.54	2.54	2.54	2.54	3.30	30
Monaghan Co. Co.	2.92	3.05	3.05	3.05	3.27	11
Cavan Co. Co.	3.17	3.17	3.17	3.17	3.17	0
Leitrim Co. Co.	N/A	N/A	2.92	2.92	2.92	N/A
Sligo Co. Co.	2.54	2.54	2.54	2.79	2.79	10
Cork Co. Co.	2.48	2.67	2.85	3.15	2.77	11

Source: IBEC

We believe there is a need to widen the number of users who pay for water charges and this could have a significant impact on efficiencies, even if principal private residences were excluded at this time.

### 9.5.4 Contribution from domestic and commercial properties

At present most domestic properties and some commercial properties do not make any contribution to local authority general expenditure in key areas such as local roads, sewage services and locally provided services such as parks and libraries. This is related to the historical decision to abolish rates.

Most of the previous reviews of local government funding have recommended the introduction of measures to secure a contribution from domestic and all commercial properties, and most recommend a local property tax.

The Commission on Taxation examined this issue in detail and proposed a tax with the following features:

- ❑ it would be levied on all land and buildings;
- ❑ it would include agricultural land;
- ❑ it would be based on the capital value of the land or building;
- ❑ the valuation would be decided by local valuers and/or a base index updated by purchase prices;
- ❑ it would be linked to a rebate system linked to income levels with a sliding scale;
- ❑ it would be centrally determined and funded, but locally administered.

While the economic advantages of a property tax are well documented, we have concerns over the acceptability of such a tax in current circumstances and believe that making recommendations which are correct in principle but which are not capable of being implemented does a disservice to the need to reform the system of local government funding. We accept, however, that such taxes score highly on certain evaluation criteria and if local authorities had the power to vary rates their introduction could lead to more accountable and representative local government. They also have the advantage of extending the overall revenue base.

The disadvantages relate to the issue of acceptability. While a local property tax levied on all residences and commercial buildings has significant economic benefits we do not see it as currently feasible.

We also examined the issue of securing a contribution from non-principal private residences. This has many of the advantages and disadvantages identified with a general property tax, but have additional benefits in terms of equity and feasibility. This could involve a contribution from owners of investment properties and owners of second houses (or third or fourth homes) and persons, where their principal residence is either in Ireland or overseas.

On the assessment criteria, we believe that this scores very highly in terms of accountability, efficiency and equity. At present, owners of such properties currently benefit from services provided locally which are funded from

general taxation. Ensuring that these property owners make a contribution to these services is accordingly an equitable measure.

It is also efficient as it ensures that such property owners pay the economic cost of owning premises, including external environmental costs, thus ensuring that prices accurately reflect their cost to society. This could also moderate demand in certain areas and improve housing affordability for first-time buyers in areas where they have been pushed out of the local market by investors. This would be consistent with the Government's current social and affordable housing policy.

By changing the relative cost of second homes this measure would over time also release resources currently in this sector that could be used to provide housing for first-time buyers or those renting. The second home holiday market is accounting for a significant amount of building activity and given the supply constraints in the market this had led to an increase in building costs and prices in all segments of the market. This has particularly affected first-time buyers and the rental market. Accordingly, we believe that this measure could increase supply in those parts of the market contributing to an easing of price pressures.

We accept however that securing a contribution for local services in investment properties represents an additional cost which must be considered in the context of the overall costs faced by investors in the market. However, it is appropriate that such investors pay a contribution towards local authority services. Overall, we believe that due to the impact on holiday homes securing a contribution from non principal private residences will not damage housing affordability. However, the introduction of measures in this area need to be carefully designed and should reflect wider housing market issues.

Accordingly, we recommend the introduction of mechanisms to secure a contribution to local authorities funding from non-principal private residences. There are a number of options that could assist in achieving this objective of gaining a greater contribution from these sources, including the extension of rates to such properties. This could be achieved by the application of rates to such properties or alternatively through an element of locally determined stamp duties. Any changes to locally determined stamp duties would require adjustments to national levels. One local authority has suggested to us that the extension of rates to rented and other non-principal private residences could be structured to exempt rented accommodation for family units and this adjustment may merit consideration.

We also recommend a contribution to local authorities funding from commercial buildings not currently covered by commercial rates, including government buildings.

### 9.5.5 Local income tax

Local income taxes have also been proposed in a number of submissions received and they have been examined in previous reports that reviewed local government funding. The suggested benefits of a local income tax appear to be mainly focused on their revenue generation impacts.

The disadvantages of a local income tax, particularly for a small geographical area such as Ireland, are well documented. Variations in local income rates could lead to so-called fiscal migration between different areas. There is also the issue of complexity for employers where different employees in the same establishment could be levied at different rates of tax. More importantly, there is the issue of taxpayers' residence and the determination of residency for tax purposes.

More fundamental problems relate to the impact on national employment policies and other national economic objectives.

The difficulties with a local income tax include administrative complexities, equalisation issues and inconsistencies with national policy. We do not believe that locally determined income taxes are consistent with national employment policies and do not believe they have merit as a new source of revenue for local authorities.

### 9.5.6 Local sales tax

Local sales taxes have also been proposed, either in the form of adjustments to VAT rates or some form of locally based excise duties. We believe that while these have a potential role in large countries, their suggested benefit appears to be largely based on a belief that they would provide a significant source of revenue.

The disadvantages are that they would not extend the current tax base given the significant share of Exchequer receipts accounted for at present by indirect taxes. VAT receipts are projected to amount to €11,625 million in 2005, with excise duties bringing in €5,075 million. Together, this amounts to 28.9% of total taxes. These taxes already account for a large part of the Exchequer's tax base.

There are also significant EU compliance issues, given the single market rules governing indirect taxes. These rules were designed to avoid market distortions caused by differential pricing due to tax charges. This can create cross-border trade distortions, which could arise in an Irish context with the introduction of different indirect tax rates across county boundaries. There is also the additional issue that indirect taxes feed through into inflation with implications for competitiveness and future social partnership agreements.

We believe that local sales taxes score poorly on the agreed assessment criteria.

## 9.6 Local Corporate or Business Taxes

There are various proposals for the introduction of additional taxes on businesses. However, there are concerns that business is already bearing a significant burden of the funding requirement of local authorities. The table below presents data on trends in commercial rates and, in particular, the rate of the valuation multiplier. The data indicate a significant upward trend over the period.

<b>Table 9.9: Rates (Rate of Valuation Multiplier)</b>						
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>% Increase</b>
Carlow County Council	42.17	45.96	49.18	52.62	55.25	31.02
Cavan County Council	36.69	38.89	41.81	44.53	46.76	27.45
Clare County Council	44.42	47.48	51.04	54.62	57.83	30.19
Cork County Council	48.25	50.70	53.50	57.50	61.75	27.98
Donegal County Council	52.38	55.52	58.30	61.51	64.59	23.30
Dun Laoghaire/Rathdown County Council	51.56	54.58	58.67	62.72	64.44	24.98
Fingal County Council	47.27	49.63	52.11	54.72	56.83	20.22
Galway County Council	37.99	41.41	44.52	51.54	54.12	42.46
Kerry County Council	54.92	57.12	60.53	63.56	66.73	21.50
Kildare County Council	43.51	47.43	50.98	54.80	58.36	34.13
Kilkenny County Council	31.08	33.88	36.42	40.61	43.04	38.48
Laois County Council	39.67	43.24	46.48	51.13	54.20	36.62
Leitrim County Council	43.34	45.50	48.46	51.37	53.42	23.27
Limerick County Council	40.08	43.69	46.96	50.67	53.16	32.63
Longford County Council	46.00	48.00	51.19	55.80	59.70	29.78
Louth County Council	36.43	38.25	41.12	43.18	45.34	24.46
Mayo County Council	49.13	51.09	54.28	57.54	60.13	22.39
Meath County Council	39.88	43.46	46.51	49.76	53.25	33.52
Monaghan County Council	38.21	40.35	43.22	46.46	48.94	28.08
North Tipperary County Council	43.21	46.23	49.70	53.68	56.17	29.99
Offaly County Council	34.98	37.08	39.30	43.23	45.39	29.77
Roscommon County Council	47.24	50.78	54.33	59.22	63.37	34.14
Sligo County Council	44.98	47.23	50.77	54.32	56.87	26.43
South Dublin County Council	48.90	52.23	55.36	58.13	61.04	24.83
South Tipperary County Council	36.62	39.18	41.93	44.86	47.11	28.64
Waterford County Council	44.75	47.88	51.46	55.55	58.33	30.35
Westmeath County Council	35.36	37.13	39.00	41.93	44.87	26.89
Wexford County Council	44.67	48.69	52.34	56.27	59.08	32.26
Wicklow County Council	45.68	49.79	53.53	57.71	61.17	33.91
Cork City Council	50.75	54.30	57.56	61.44	64.52	27.13
Dublin County Council	40.54	43.99	46.86	49.90	52.59	29.72
Galway County Council	42.14	45.51	48.70	51.27	54.96	30.42
Limerick County Council	57.44	61.46	65.46	69.78	73.06	27.19
Waterford County Council	42.73	45.29	48.69	53.07	55.72	30.40

*Source: Department of the Environment, Heritage and Local Government*



Changes to overall corporate or business taxation would also be inconsistent with national policies, which are focused on retaining a low corporate/business taxation environment.

One other business-related tax is a proposed bed tax. This is a tax on consumption of an aspect of Ireland's tourism product. We understand the rationale for this tax, as local authorities provide significant services and infrastructure for tourists. In the absence of alternative funding mechanisms we understand why local authorities might propose such a tax. However, we would highlight the fact that there are currently significant concerns over the competitiveness of the Irish tourism product and such a tax could have significant implications for this important labour intensive sector. The tourism sector also currently makes a significant contribution to national government funding via VAT, excise duties and aid to local government funding via commercial rates paid by the hotel sector.

## 9.7 Other Taxation Initiatives

We also considered a wide range of other local government taxation initiatives, including a poll tax or community tax on dwellings or households to contribute to the cost of local authority general services. This would equate to a charge on properties, where each property, irrespective of size, value or number of occupants, would be charged the same rate in each local authority area. A variant of this would be to introduce a banding system, where properties are placed in a specific valuation band. This is not a pure poll tax and depending on the number of bands can become a property tax of the type that now operates in the UK. While such taxes have economic and other advantages and would improve local accountability, we believe they raise very significant equity and implementation issues and we do not believe they are currently feasible.

## 9.8 Conclusions on Funding Options

In common with all previous reviews, we believe that there is a need for a reform of the current local government funding system. We believe that preserving the current system status quo, with no change in the funding system, is not appropriate for the reasons discussed in this chapter, namely that it would not address concerns over misalignment between costs and demands for services, would not address the issue of the financial adequacy and would not help in maximising expenditure efficiencies. It would also not address the fundamental issue of local accountability.

Our analysis suggests the merits of reform of charging policy and the introduction of mechanisms to secure a contribution from non-principal private residences, and from commercial properties currently exempted from rates. This option also includes the introduction of new charges in respect of water and planning fees or more effective charging in cases where charging

may already apply. Changes to charging policies on their own will not, however, be sufficient to meet the funding requirements of local authorities and will not be sufficient to address key issues of accountability and the alignment between local demand for service improvement and the willingness of local communities to fund such services.

We therefore believe there are strong grounds for the introduction of selected targeted sources of local taxation. These, however, need to represent an efficient and simple means of collection, and not be in conflict with national economic policies and reflect the realities of political constraints. We therefore believe there are arguments for confining any such initiatives to one or two targeted areas. Specifically we believe that a contribution should be obtained from all non-principal private residences and from any commercial properties excluded from commercial rates. These are discussed in more detail in the recommendations chapter which follows.

## 10 Recommendations

Our recommendations are based on our detailed examination of the current system of local government financing and our assessment of the need for a change in the method of funding local government. In examining programme expenditures, we highlighted the misalignment between costs and benefits at the local level due to the centralised nature of the current funding system. We believe that additional local funding sources, which we discuss subsequently, would assist in addressing this key issue. We recommend a move away from the current dependence on central government funding, the inevitable command and control approach, and the introduction of a new system, which would involve a number of reforms including:

- ❑ Greater devolution of expenditure responsibility to local authorities;
- ❑ A new relationship between central and local government, where local government charges central government the full economic cost of the services it provides on their behalf;
- ❑ Full assessment of the cost implications for local authorities of decisions taken at central level and an examination of the implications for local authorities' funding of such decisions;
- ❑ The introduction of economic charging for services to a much greater extent than under current practice;
- ❑ Greater local authority responsibility for raising a proportion of funding from locally decided taxation to replace part of funding secured centrally and paid by national taxation; and
- ❑ An increase in the share of local authority expenditure funded by local taxation and local charges, which will provide more effective mechanisms to align demand for services with the cost of providing these services.

In addition to proposed changes in the methods of funding local government, we believe that this needs to be accompanied by new approaches to securing additional efficiencies. We understand that reforms in delivery mechanisms have taken place, but further efficiencies could be secured through provision of certain services on a shared basis, on a regional or national basis or via private sector supply. We believe there is merit in an on-going review of alternative delivery mechanisms and periodic reviews to establish the scope for efficiency gains. The recommendations build on the initiatives and updated responsibilities, powers and objectives in the Local Government Act 2001 in relation to the Act's central aim to "modernise Local Government legislation and provide the framework for new financial management systems and other procedures to promote efficiency and effectiveness". Many of the principles in this Act in terms of securing the most efficient use

of resources, co-operation to maximise efficiency and raising contributions from local communities, are supported by the analysis undertaken by Indecon for this review.

Over time our recommendations have the potential to raise much needed finance for local government and we believe will also lead to cost savings that can be used for further service improvements. This will assist local authorities to meet on-going expenditure needs.

We recognise that a planned timescale will be needed to implement a number of our recommendations. For example, reforms in the area of service delivery may require the re-location of staff involving local negotiation within the context of social partnership. Recommendations in respect of charging raise issues around acceptability and phasing that need to be addressed. In addition, we recognise that the local government system will require additional funding in the short-term to deal with non-discretionary expenditure increases as outlined in chapters 6 and 7. This points to the need for on-going Exchequer funding and, where feasible, increases in locally-based funding within the context of the existing system.

<b>SUMMARY OF MAIN RECOMMENDATIONS ON FUNDING OF LOCAL AUTHORITIES</b>	
<b>Funding Recommendations</b>	
1.	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.
2.	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.
3.	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.
4.	We recommend that local authorities should charge the full economic costs of providing services on behalf of central government.
5.	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.
6.	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.
7.	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.
<b>Expenditure Recommendations</b>	
8.	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.
9.	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).
10.	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.
11.	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).
12.	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.
13.	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.
14.	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

#### RECOMMENDATION NO. 1: INCREASE IN LEVEL OF RESOURCES AVAILABLE TO LOCAL AUTHORITIES

**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 resources in nominal terms 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.**

Our analysis suggests that the expenditure requirements to meet current and emerging demands of local authorities will require current expenditure in nominal terms to increase from around €3,616 million in 2004 to between €4,700 and €5,800 million by 2010. While future estimates of funding requirements will need to take account of local demands and the costs of providing services, it is clear that increases in the level of nominal resources will be needed, unless there is a reduction in service levels. We recommend that plans be implemented to ensure that these requirements are taken account of in considering specific funding and expenditure options.

**RECOMMENDATION NO. 2: MOVE TOWARDS MORE LOCALLY BASED FUNDING**

**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.**

Our recommendation for a significant change in the current system of local government financing is not dependent on any assumptions regarding the precise level of additional resources needed. The need for a change is related to the more fundamental issue of the deficiencies in accountability and flexibility present within the current system. Of equal or greater importance is the need to facilitate an acceleration of efficiency measures, and we believe the full potential in this area cannot be achieved within existing funding systems.

Specifically, there is a need to ensure a radical realignment between the cost of providing services and the demand for such services. The disconnection between demand and costs is one of the most remarkable features of many local authority services, and represents a powerful rationale for a move towards more locally based funding.

**RECOMMENDATION NO. 3: INCREASING THE SHARE OF LOCAL AUTHORITY EXPENDITURE THAT IS FUNDED LOCALLY. KEY ELEMENTS: LOCAL CHARGES AND SELECTED LOCAL TAXATION**

**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.**

Our assessment of potential funding options takes account of the following principles:

- ❑ Administrative simplicity and efficiency;
- ❑ Local accountability, decision making and flexibility;
- ❑ Equity, including ability to pay and the breadth of the revenue base;
- ❑ Equalisation;
- ❑ The polluter and user pays principle; and
- ❑ Compatibility with national economic and social policies, in particular, national taxation strategies.

Based on our analysis, we also believe that, in evaluating funding options, a high priority should be given to facilitating an improvement in efficiency and the provision of correct incentives for users. The two main areas where reform of the current funding of system is needed relates to charging policy and the introduction of selected targeted local taxation. This will require the introduction of new charges or more effective charging in cases where charging may already apply. Charging can bring many benefits such as efficiency, transparency and consistency with the polluter pays principle. Acceptability is an issue with the introduction of new charges to fund services that were previously subsidised or provided at zero price. However, there is greater acceptability of charging where there is a clear link between the level of payment and consumption. There are equity issues concerning persons on lower incomes, but we believe that appropriate targeting, waiver schemes or other initiatives can address these concerns.

In relation to the introduction of selected local taxation, our analysis does not support the provision of widespread taxation powers for local authorities in areas such as local sales taxes, local income taxes or local corporation taxation. We believe that some of these proposals are not feasible, while others would damage national competitiveness.

We believe, however, that there are clear advantages in the introduction of selected targeted funding sources by securing a greater contribution from non-principal private residences and from certain commercial buildings that are exempt from rates at present. We believe that the leadership will be required to facilitate such a move. The specific design of charging mechanisms and the phasing of implementation will be important.

There is also a requirement to ensure the efficient collection of taxation. Motor taxation is a key element in the funding of local government having contributed some €747m to the Local Government Fund in 2004. Clearly, any evasion of motor taxation results in a reduction in the amount of funding available to the Fund and it is accordingly important that evasion is tackled in a determined fashion at all levels and by all the relevant authorities. There is an obvious role for An Garda Síochána in this. We support moves to examine the motor tax code with a view to establishing a new system based around the concept of continuous registration which was introduced in Great Britain and Northern Ireland in 2004. We believe that this warrants examination in the Irish context.

As in the case of Recommendation 2 above, we note the resistance to certain local charges and we believe that leadership will be required to facilitate such a move. Again, the specific design of charging mechanisms and the phasing of implementation would be an important element.



**RECOMMENDATION NO. 4: FULL ECONOMIC COSTING OF GOVERNMENT SERVICES**

**We recommend that local authorities should charge the full economic costs of providing services on behalf of central government.**

Local authorities currently act as the service provider for a wide range of central government services. These should be charged at full economic costs to enable central government to identify the costs of service delivery and, where appropriate, to consider alternative delivery mechanisms. This is consistent with a government decision on local government funding which accepted the principle that the allocation to local authorities of any additional or expanded functions must be matched by the necessary resources from the Government Department concerned.

The Government decision stated: "One of the central problems which has contributed to the decline in local authority finances over the years has been the conferral of additional functions on local authorities without complementary resources to carry them out. The Minister seeks the approval of Government to the principle requiring that the allocation to local authorities of any additional or expanded functions coming within the ambit of other Government Departments must be matched by the necessary resources."

It should be noted the services in this context do not include devolved services such as waste collection and water service which are assigned by legislation to local authorities. Instead, it refers to areas such as higher education grants where local authorities are acting as an agent for Central Government in providing the service locally.

**RECOMMENDATION NO. 5: INCREASE IN CURRENT CHARGES**

**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.**

Local authorities currently charge for a range of services and we would be against charging above economic costs for these services. There are, however, a number of areas where current charges are below full economic costs and where there is no reason for such under-pricing. The charging of services below economic cost inevitably results in excess demand, which uses resources that could otherwise be more effectively targeted on key community needs.

An example where an increase in current charges would be appropriate relates to fees for selected planning services. Central government currently places a cap on the charges that can be levied and we recommend that this cap should be removed.

A wide range of services provided by planners, including pre-planning consultations, should be charged at full economic cost. Planning fees should not, however, be a source of taxation for local authorities, and there is also a need to ensure public access to planning decisions via the internet or other means. In addition, establishing the cost of an efficiently run planning service may warrant further review perhaps from the Local Government Audit Service.

We also believe that reforms in this area need to be combined with means of encouraging greater efficiencies in the system. Given that users of planning services must go to the planning authority for the area in which their land is situated, there is limited opportunity for applicants to shop around. We therefore believe that regulations on the setting of planning fees should require planning authorities to ensure that fees are not set in excess of costs.

Other areas where increases in charges may be appropriate relate to fire services, and where domestic residences are insured or where commercial premises are involved there should be full economic costing of such services. Similar issues apply to charges for the use of landfill sites and other local authority services.

Another area, which over time represents a potential source of increased revenues, relates to local authority housing rents. Deciding on the optimal level of local authority rents given local market trends and the need for an appropriate social subsidy is difficult. The research undertaken for this review suggests marked differences in rents across local authorities. Some of these may reflect differing market conditions. For example, rents in Dublin city are the highest among the local authorities reviewed. However, across the board differences in rents may not necessarily reflect local housing market conditions or explicit decisions in respect of the current level of social subsidy. A recent report by the National Economic and Social Council (NESC) indicated that local authority housing rents in Ireland receive a larger subsidy than public housing in other European countries. We also recognise that ability to pay and the differential rent scheme has elsewhere been highlighted as an important tool in improving social inclusion. This is an issue that should be examined as part of the on-going review of housing policy arising from the preparation of the Social and Affordable Housing Plans 2004-2008. It is important, however, that any adjustments are phased in and are reviewed on an annual basis.

Our proposal is designed to ensure that the full economic cost of infrastructure and local authority services serving such residences should be charged to the property owners.

Indecon believes that, in a situation where local authorities are increasingly moving towards economic charging for service provision, or where there is movement towards contracting out of service provision, there is a need for a system where inability to pay would not deprive the less well-off in society of key services. Accordingly, we believe that this should be addressed by the social welfare system and/or by a waiver system.

Changes to charging policies will not on their own, however, be sufficient to meet the funding requirements of local authorities and will not be sufficient to address key issues of accountability and the alignment between local demand for service improvement and the willingness of local communities to fund such services. We therefore believe there are strong grounds for the introduction of selected new charges and targeted sources of local taxation. These, however, need to be efficient, simple and consistent with national economic policies and reflect the realities of political constraints. We therefore believe there are arguments for confining such initiatives to one or two targeted areas, which are discussed below.

Indecon, however, believe that charges above the economic cost of providing services should not be levied for services. The existing level of charges imposed on non-domestic users of water services, for example, which is required to be on the basis of full recovery of costs, has become an issue among non-domestic customers in some areas and would correctly become a much bigger issue if charges above the cost of the services were levied.

#### **RECOMMENDATION NO. 6: EXTENSION OF WATER CHARGES ON AN EQUITABLE BASIS**

**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 the introduction of water metering on all commercial properties.**

Local authorities have been increasing the range of services that are subject to charging. Nevertheless, we believe that there are areas where charges should be introduced or extended. The most significant single area relates to water charges. At present domestic consumers do not pay for any water services regardless of their income or usage of such services. We recognise the resistance to the universal introduction of water charges even though we accept that on economic and environmental grounds such a policy has strong merits. However, we do not believe that the introduction of charging for all consumers is feasible in the short term and would recommend a targeted approach that is more realistic.

In particular, we recommend the introduction of water charges on non-principal private residences to be paid by the property owners. Tax residents in Ireland are required to identify one property as their principal private residence and non-principal private residences relates to ownership of all other non-commercial properties. There is an increasing number of non-principal private residences and we do not believe that owners of these premises should benefit from exemptions which have an Exchequer cost. The owners of such properties are obliged to pay service charges for the management of buildings, for on-going maintenance and other charges and there is no reason why such buildings should be exempt from an appropriate water charge. Initially this could be levied on a flat fee basis but over time we believe that metering could be considered.

We also recommend that water metering be introduced on all commercial properties. The water pricing policy framework already requires the metering of all non-domestic users of water services by 2006. Local authorities are also required to identify all non-domestic users by that date and are in the process of implementing these aspects of the framework.

We believe that this recommendation is consistent with the water pricing policy framework insofar as it applies to non-domestic users, where the existing framework requires full cost recovery in line with the polluter pays principle. The existing framework however does not permit local authorities to impose any charge for water services provided to households for domestic use.

The current position is that there is a charge for such services in respect of any part of a building used for the provision, for the purposes of a reward, with a view to profit or otherwise in the course of business, of accommodation other than accommodation provided in a private residence unless the person uses the accommodation as his or her principal place of residence. Thus, the owner of accommodation let on a short-term basis, such as for holiday breaks, is liable for water charges. However, where accommodation is leased on a longer-term basis, as in the case of typical investment properties on the private rental market for use as a residence, such accommodation is not subject to such a charge. In the case of the category of 'non-principal private residence', a second or subsequent residence used by a person for holiday or weekend breaks or for any other purposes is not currently subject to water charges and this does not make sense on equity, economic or environmental criteria.

#### **RECOMMENDATION NO. 7: CONTRIBUTION FROM NON PRINCIPAL PRIVATE RESIDENCES AND COMMERCIAL BUILDINGS**

**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 achieve this objective including the extension of rates to such properties or an element of locally determined stamp duties.**

A contribution to local authorities services such as local roads, libraries, parks and other services should be secured from owners of investment properties and all other residential properties that are not principal private residences. It would apply to second houses (or third or fourth homes) for individuals where their principal residence is outside of Ireland as well as to holiday homes and investment properties.

On the assessment criteria, we believe that this scores very highly in terms of accountability, efficiency and equity. At present, owners of such properties currently benefit from services provided locally which are funded from general taxation. Ensuring that these property owners make a contribution to these services is accordingly an equitable measure.

It is also efficient as it ensures that such property owners pay the economic cost of owning premises, including external environmental costs, thus ensuring that prices accurately reflect their cost to society. This could moderate demand in certain areas and improve housing affordability for first-time buyers in areas where they have been pushed out of the local market by investors. This would be consistent with the Government's current social and affordable housing policy.

By changing the relative cost of second homes this measure would over time also release resources in this sector that could be used to provide housing for first-time buyers or those renting. The second home holiday market is accounting for a significant amount of building activity and given the supply constraints in the market this had led to an increase in building costs and prices in all segments of the market. This has particularly affected first time buyers and the rental market. Accordingly, we believe that this measure could increase supply in those parts of the market contributing to an easing of price pressures.

We accept however that securing a contribution for local services in investment properties represents an additional cost which must be considered in the context of the overall costs faced by investors in the market. However it is appropriate that such investors pay a contribution towards local authority services. Overall, we believe that due to the impact on holiday homes securing a contribution from non principal private residences will not damage housing affordability but that the introduction of measures in this area need to be carefully designed and should reflect wider housing market issues.

Accordingly, we recommend the introduction of mechanisms to secure a contribution to local authorities funding from non-principal private residences. There are a number of options that could assist in achieving this objective of gaining a greater contribution from these sources, including the extension of rates to such properties. This could be achieved by the application of rates to such properties or alternatively through an element of locally determined stamp duties. Any changes to locally determined stamp duties would require adjustments to national levels. One local authority has suggested to us that the extension of rates to rented and other non-principal private residences could be structured to exempt rented accommodation for family units and this adjustment may merit consideration.

We also recommend a contribution to local authorities funding from commercial buildings not currently covered by commercial rates, including Government buildings.

**RECOMMENDATION 8: FUNDING CHANGES TO ACCELERATE EFFICIENCY IMPROVEMENTS**

**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.**

Achieving efficiency in the provision of a wide range of diverse and labour intensive service provision is a major challenge, and we are aware that achieving significant savings in the short-run will be difficult. We also recognise that local authority Managers and Heads of Finance have achieved efficiencies in a number of areas (including road maintenance, housing maintenance, waste disposal etc.) and are focused on pursuing on-going improvements. We believe, however, that over time measures can be taken to facilitate local authorities to accelerate efficiency, particularly if this is combined with reforms in the methods of funding local authorities. In considering potential efficiency gains, it is important to realise the constraint implied by an over-dependence on central funding and that regardless of the wisdom and energy of central government officials, there is on-going difficulty in central government attempting to monitor and promote efficiency in local government.

The problem is ultimately bound up with decisions about the balance of local and centrally provided finance. As long as central government provides a significant share of the finance, it will understandably continue to seek a central planning and control function. But information asymmetry will severely impair its ability to carry out such a role. The long-term solution lies in increasing the proportion of local finance for local government and delegating part of the performance management issue to local electorates.

Given the funding requirements of local government, the potential for efficiencies to contribute in some way to the projected funding gap must be rigorously explored in addition to identifying new sources of revenue. In many cases maximising efficiencies may result in the need to reallocate staff or budget lines to other programmes rather than reductions in expenditures. We accept that there are on-going initiatives by Councils, Managers, Heads of Finance and others as well as by the Department of the Environment, Heritage and Local Government and the Department of Finance to maximise efficiencies. However, there needs to be an on-going programme to accelerate efficiency savings, which is given high priority and which is facilitated by changes in the methods of funding.

In examining the programme expenditures, we have highlighted the misalignment between costs and benefits at a local level due to the centralised funding system. We believe that more effective charging and additional local funding sources would assist in addressing this issue.

#### **RECOMMENDATION 9: RADICAL CHANGE IN INCENTIVES FACING USERS**

**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. A wide range of measures is needed to ensure that costs are reflected in user decisions.**

There is a need for a radical change in incentives facing users to provide efficiency. One example relates to the incentives facing local authority tenants to minimise maintenance costs. Expenditures on housing maintenance and repair are significant. There is scope to minimise these costs if users face appropriate incentives. In particular, we would support new initiatives to tenants who minimise the on-going costs of repair and maintenance. One potential option is to provide tenants with a discount of a certain percentage a year if maintenance costs are zero or set below a certain level. This is not to suggest that differentials in maintenance costs are primarily due to inappropriate incentive signals as it is influenced by varying stock ages, the extent of remedial works and planned maintenance. Appropriate incentives should, however, be part of policy but this needs to be carefully planned.

Another example is the need to implement differential pricing to direct users to lower cost delivery mechanisms through, for example, utilising the Internet rather than direct meetings to check planning information. The use of differential pricing and other measures to alter the pattern of usage between alternative distribution channels and different type of services has been extensively used in the private sector but despite its potential has not been widely used in local authorities.

Another example is to ensure that the pricing mechanism provides the correct incentives to users to reduce excess demand. For example, non-commercial domestic users in non-principal private residences face zero costs for all water consumption and there are no incentives on users to minimise use of wastage. The same issue applies to many local authority services and was addressed in our revenue recommendations. We would emphasise, however, that any new measures in this area would need to be carefully planned and accompanied by a clear communication strategy at local level.

**RECOMMENDATION 10: ALTERNATIVE DELIVERY MECHANISMS**

**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.**

The need for local authorities to facilitate or finance certain services does not necessarily justify direct provision by local authorities. Traditionally governments at local level have financed and directly provided a range of services but in recent years there has been a move towards more cost effective service delivery options. There is a need to continue and to accelerate the use of alternative delivery mechanisms.

We understand that on the general question of contracting and direct provision, it may not always come down to a simple choice between the two. For some services, it may be important for a Local Authority to maintain some direct labour capacity for responding to emergencies, for example, even if the greater part of the service in question is contracted out.

While it is of course not the case that private sector supply is always more competitive, the variance in the degree of contracting between local authorities may in part reflect historical factors rather than a rigorous assessment of the most cost efficient option. There is also a need for an intensification of initiatives to share services between local authorities where appropriate.

An example relates to maintenance of local authority housing, which should be provided on the basis of the most efficient mechanism and on-going and rigorous benchmarking of this is required. In other areas such as street cleaning and ownership and management of landfills, there may be scope for moving to different delivery mechanisms. For street cleaning, a contracted out model has provided cost savings where it has been implemented. This is based on a detailed review of a case study in one local authority, the international evidence and discussions with local authorities. There may be scope for further extension of this across local authorities. The introduction of full economic charging in the area of landfill offers scope for further policy changes. Local government has responsibility for meeting the costs of maintaining old landfills and this is a role that we believe they should continue to perform. In respect of new landfills, there is a role for private sector provision as there is no obvious reason why local authorities should necessarily be involved in the management of landfills although tight environmental regulation is essential. The main policy issues relate to charging and regulation to ensure that environmental and health regulations are met. We believe that local authorities should focus primarily on the planning and regulation of landfills, and we doubt whether ownership is necessarily a core function for local authorities.



Of course, where a private sector operator becomes dominant in an area there may also be a need for price regulation.

Many recreation and amenities are merit goods where there is a clear rationale for local government involvement. Also, the services are of a clear local nature where local preferences are a key factor in delivery. However, local authority services such as swimming pools, recreation centres and art galleries/museums are in many cases best delivered on a contracted out basis. We believe that there may be further scope for extending these approaches on a case-by-case basis. There may also be opportunities for increased joint venture activities with the private sector.

Another example relates to financial management and the collection of local authority revenues. An analysis of income collection activities shows a very heavy dependence on direct provision and very little sharing of activities with other local authorities and little use of outside contract provision. We very much doubt that collection of income is always appropriately organised on a local authority structure basis or that the skills to undertake these activities always most efficiently reside with local authorities. We also believe that many of these activities are subject to significant economies of scale, and that alternative delivery mechanisms are needed. It should also be noted that this recommendation in part reflects some existing moves in this direction. We are aware that contracting out has industrial relations implications which would need to be carefully considered.

#### **RECOMMENDATION 11: REGULATION OF PRIVATE MONOPOLIES**

**We recommend that where local authority services are contracted to private sector local monopolies, an appropriate regulatory framework be established to protect consumer interests and to prevent monopoly rents being generated (i.e. excessive profits)**

In assessing the activities of local authorities it is important to identify whether there is a financing, delivery or regulatory role for government. There may be cases where central or local authorities' role or that of a separate agency, should focus on service regulation rather than more traditional financing or delivery role. The issue of appropriate regulation is particularly relevant in areas where local authorities have withdrawn from service provision and where private suppliers are now filling the gap. This is a particular issue in the market for refuse collection, where a number of different delivery mechanisms are now in operation. These include direct provision by local authorities, contracting out/franchising out, and where local authorities have exited totally from provision and the service is now provided by a private operator. It is this latter case where appropriate price and quality regulation is required to ensure that service standards are maintained and that consumers are not paying excessive prices. These developments, pose questions for regulatory authorities and the optimal manner in which local authorities should withdraw or contract out services.

Waste management is an example of one area where regulation is needed. In cases where a competitive tendering process for a franchise arrangement is implemented additional regulation may not be necessary.

**RECOMMENDATION 12: PROVISION OF COST EFFECTIVE GEOGRAPHIC SERVICE PROVISION**

**We recommend that the provision of local authority services should be delivered on the most cost effective geographic basis, which due to the presence of economies of scale, may not in many cases be aligned with 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.**

There are a large number of local authorities in Ireland and while this could result in some increase in administrative costs a much more fundamental issue is the impact of economies of scale of service provision. This is primarily a question of information and economies of scale. The local authority structures have a potential benefit of closely matching provision of local public goods to local preferences. Such efficiencies can be secured by decentralising decision-making about local public goods to local government units that are approximate in size to the benefit areas of the local public goods they provide. However, unless new approaches are implemented this may prevent gains from economies of scale. For services where there is scope for local initiative and variety and where the level and quality of services differs between areas, the benefits of local delivery may have significant advantage but the unit cost implications can be critical. It is therefore essential that if we are to retain a large number of local authorities, economies of scale issues are identified and the scope for efficiency gains by local authorities sharing services or, more radically, transferring responsibility for a service to a regional or national provider (subject to existing legislation), are investigated.

An example relates to planning services. It is well established that land use and development and planning is a public good activity where there are significant externalities. It is also accepted that there is a local aspect to planning, as decisions need to reflect local preferences and choices as well as national objectives. This is a central responsibility for local government where there are clear benefits in ensuring that decisions that affect communities are taken locally. While accepting the local nature of these activities, there may be scope to share some of the administration costs between local authorities.

Another example relates to revenue and rent collection costs. Rent collection costs within local authorities are high relative to rental income and we believe are subject to significant economies of scale. The costs involved are high and different payment options and procedures need to be explored. This could involve contracting out this function on a regional or national basis and there is a need for mechanisms to be put in place to secure economies of scale in revenue collection.

Similar issues apply to other service areas such as water, although Indecon notes that there are no plans for a national body to provide water services. We also recognise that there are already examples of some local authorities combining to jointly provide water services on a regional basis, most notably in the Dublin area where Dublin City Council provides water supply for other authorities in the area. Similar arrangements apply between Limerick City Council and Limerick and Clare County Councils. The Water Services Bill currently before the Dáil includes provision for water services to be provided jointly by 2 or more local authorities for their functional areas or one authority providing such services for one or more neighbouring authorities. We understand that there is also provision in the Bill requiring each major local authority to make a water services strategic plan for its functional area. This also enables 2 or more authorities to jointly make such a plan for their functional areas. In addition, where a local authority is undertaking a number of smaller water services schemes within its functional area, it is the policy of the Department of the Environment, Heritage and Local Government to require the authority to bundle such schemes for tendering purposes so that a single contract for these bundled schemes may achieve maximum economies of scale.

In general, we believe that the delivery of, in contrast to responsibilities for local authority services should only be organised on a local authority basis where this coincides with the most economic geographic service delivery option. As in the case of Recommendation 10 above, it should also be noted that this recommendation in part reflects some existing moves in this direction.

#### **RECOMMENDATION 13: STRUCTURAL AND INFORMATION CHANGES**

**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 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 comptroller and auditor general functions to local authorities.**

Local authorities need clearer incentives and improved information to secure additional efficiencies. This could involve the roll out of multi-annual budgeting with provision to ensure that under-spends in any year can be carried forward. Savings could be ring-financed and be used to fund on-going service improvements. We understand that this happens to some extent at present in areas such as housing and roads. However, we believe that there is a need for a greater focus on this and that these reforms should be implemented alongside attempts to intensify a culture at all levels of local government of giving a high priority to achieving cost efficiencies.

There is a need to review the standardisation and presentation of data on local authority expenditures. As part of this Review we have examined in detail the available information on expenditure. We recognise that there are difficulties in collecting and collating data at the centre based on returns from a large number of bodies. There are a number of data sources that provide very valuable information, but there is a need to implement changes to assist policy makers at local and central government in achieving their policy objectives and in securing expenditure efficiencies. This, at a minimum, would include details on the costs of services by delivery mechanisms and by local authority. Information on the costs of delivering services would provide the necessary benchmarking information to help in deciding on the most cost effective delivery option. We understand that a costing system is being developed. We would recommend that this be introduced as a priority.

The current system includes detailed expenditure data on a programme basis, but there is a lack of detail on expenditure broken into, for example, pay and non-pay. We believe that changes could be made to provide a more detailed breakdown of the types of expenditure incurred. A useful model is the information provided in the annual Estimates Volume for Central Government expenditure.

We are also concerned about the fact that not all local authorities have audit committees. Professionally resourced audit committees focused on identifying potential efficiency savings could provide a valuable support to managers and elected representatives. In addition, we are concerned that current legislation prevents the appointment of outside specialists to local authority audit committees.

The local government Director of Audit is undertaking valuable work in identifying on-going value for money issues. We have reviewed the value for money reports and had detailed discussions with a number of local authority officials about the work being undertaken. There is general agreement that this work is valuable in ensuring value for money but that it should be intensified. We believe that the merits of either expanding this role or extending the function of the Comptroller and Auditor General into local authority expenditures should be examined.

#### **RECOMMENDATION 14: ASSESSMENT OF APPROPRIATE FUNCTIONS**

**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 only appropriate functions are undertaken by local authorities.**

There is a need to ensure that the functions placed on local authorities are appropriate and that local authority provision minimises costs.

One example where the functions of local authority merit consideration relates to water services. Unlike other services provided by local authorities, we do not believe that water services are necessarily a local service.

Given the various directives in respect of water quality, and consumers' expectations, the product being delivered is increasingly standardised: there is not much scope for local discretion or variety. At present, there are a large number of bodies involved in this service, which may be leading to higher costs and a failure to maximise economies of scale suggesting the need for regional or national provision or provision of water services on a shared basis. Indecon accepts that, in the case of water services, this point has been recognised, and attempts to address this in terms of cooperation between local authorities, joint provision and strategic planning are being pursued. Accordingly, we support the provision of water services on a shared basis with other local authorities.

Another example of an area that requires review relates to the Disabled Persons Grant Scheme, which assists with house adaptations for disabled persons and is subject to an assessment of need by Occupational Therapists. We believe there is merit in reviewing which body has responsibility for this scheme.

Another potential area for review of the functions of local authorities relates to economic and social development. This involves providing supports at a local level and the delivery of a range of initiatives financed through central Exchequer resources and their own resources. In parallel with local government structures there are a large number of local development bodies. These include County/City Development Boards, County/City Enterprise Boards, ADM Partnership, Community Groups and Leader groups. These agencies provide a range of supports and are designed to focus on promoting social and economic developments in their areas.

It is notable that Ireland adopted an approach in the early 1990s with the support of the EU that saw the local development sector operate outside the local government system. In addition, the year 2000 saw the creation of the broadly representative and local government led County/City Development Boards (CDBs). The local development sector is represented on the CDBs. The Boards' role is to co-ordinate all publicly funded services at local level and to bring greater integration of the local government and local development systems. The CDBs have made some progress on this objective. Indecon understands that the CDBs are currently engaged in a review of their strategies for the economic, social and cultural development of their areas. The main focus of this review process is to identify a limited number of key priorities and integrative actions to be delivered on by their member agencies over the next three years. The CDBs are a collegiate approach at local level to tackling better service integration across the State agencies and local development bodies. To succeed they need the active participation and support of their member agencies. Critically they require the backing of Government Departments and State agencies. In this context the Ministers for the Environment, Heritage and Local Government, Community, Rural and Gaeltacht Affairs and Justice, Equality and Law Reform have been, *inter alia*, jointly working together to promote the co-ordinating role of the CDBs as part of the current review of community and local development schemes.

This work is also being supported by the Department of Education and Science and the Office of Social Inclusion.

We believe that it is highly desirable that the local development and local government sectors co-ordinate and integrate their activities to ensure maximum efficiencies, and a more effective and accountable delivery of local services to communities. The CDBs were established to, *inter alia*, bring about such an approach. It is essential that the CDBs proactively work towards achieving this objective and that Government Departments and relevant agencies support them in this. The joint initiative by the Ministers for the Environment, Heritage and Local Government, Community, Rural and Gaeltacht Affairs and Justice, Equality and Law Reform in utilising the CDBs to improve service delivery under community and local development programmes is illustrative in this context. We believe that the CDBs should accelerate their efforts in the process of integration of local government and local development services.

The key point, however, is that there is a need for an on-going assessment of the appropriate functions for local authorities, which may result in adjustments to secure efficiencies.

## CONCLUSIONS

This report has highlighted the importance of local government and the need for significantly increased resources over the period to 2010 to fund existing and emerging demands. Our analysis also emphasised the critical need to accelerate efficiency measures to ensure resources are being directed to improving much needed local authority services. The evidence also indicated fundamental concerns over the absence of local accountability for much of the funding requirements and a worrying misalignment between the demands for local authority services and the costs of providing these services. All of these issues have been highlighted in previous reports over the past two decades and unless decisions are now taken, ongoing concerns over value for money, adequacy of service provision, and local accountability and flexibility will remain unaddressed.

In relation to funding requirements, there are no simple solutions and increasing existing charges will not be sufficient in the absence of a widening in the range of services covered (particularly in relation to water services) and the securing of a local contribution to general local authority funding. We regard reform of the funding system as being essential to accelerate efficiencies within local authorities. Changes are also needed to information and structural incentives to secure efficiency gains. Fundamental changes over time are needed to delivery mechanisms and, in particular, to the geographic location of service provision for services where economies of scale exist.

There is an understandable and widespread frustration among local authorities in relation to the absence of reforms in funding local government systems, despite the unanimous call for reforms in all major previous reviews. We accept, however, that some previous solutions to the evident deficiencies in local government funding may have given insufficient attention to what is feasible. It is critical that policymakers recognise that without reform, the existing system will fail to deliver the necessary improvements in efficiency and accountability.

Implementation of the recommendations in this report will provide a move towards the type of incentives that will enable local authorities to more effectively fulfil their important role in Irish economic and social life. Implementation of these recommendations represents one of the most important challenges facing Irish policymakers.





## Annex 1 Details of Consultation Programme

IBEC  
Dublin City Council  
Cork County Council  
Kerry County Council  
Kildare County Council  
Cork City Council  
Waterford City  
Waterford County  
Fingal County Councils  
Limerick City Council  
Limerick County  
Monaghan County Council  
Monaghan Town Council  
Galway County Council  
Galway City Council  
Athlone Town Council  
Longford County Council  
Leitrim County Council  
Donegal County Council  
Sligo County Council  
Chambers of Commerce of Ireland  
Association of Municipal Authorities of Ireland  
Irish Home Builders Association, CIF  
General Council of County Councils  
City and County Managers Association  
Group of Dublin City Councillors  
Cllr. Catherine Murphy, Kildare County Council

## **Annex 2 List of Submissions Received**

Irish Hotels Federation  
Retail Ireland  
Kilkenny County Council  
Chambers of Commerce of Ireland  
Birr Town Council  
Comhar, The National Sustainable Development Partnership  
Management Services Unit  
IMPACT  
Irish Planning Institute  
Ard Rúnaí Shinn Féin  
County Rate Collector for Cork County, Cork County Council  
Daisyhouse Housing Association  
Tralee Town Council  
R.B.Haslam, University College Cork, Department of Government  
Kathleen's Country House  
Cork County Council  
Irish Home Builders Association  
Offaly County Council  
Irish Rural Link  
Boyle Town Council  
Passage West Town Council  
County and City Managers' Association  
Louth Local Authorities  
INOUE  
Dublin City Council  
Waterford City Council  
Waterford County Council  
Dun Laoghaire-Rathdown County Council  
Donegal County Manager  
Westmeath County Council

Cllr. Catherine Murphy, Kildare County Council

Macroom Town Council

Athlone Town Council

Management Team of Sligo County Council and Sligo Borough Council

ICTU

Galway City Council

Association of Municipal Authorities of Ireland

Kildare County Council

St Vincent de Paul

Listowel Town Council

Kerry County Council

Head of Finance, Meath County Council

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## Annex 5 Details on Refuse Collection

Domestic refuse charges tend to vary considerably across counties and cities and details of the charges are set out in the table. In some cases the charge is per 240-litre bin, while other councils charge per branded bag. Some councils operate tag systems, while others charge quarterly. Furthermore, councils impose two-part tariffs with standing charges and unit charges by weight or by bin. Private operators are evident in a number of counties.

Table A5.1: Domestic Refuse Charges - 2004		
		Charge
Carlow	Private Operator	€ per 240 Litre Bin
Cavan		€4.45 per branded bag. Includes Town Councils at Belturbet, Cavan & Cootehill
Clare	Private Operator	€199/6 months/240 litre bin up to 400 kg. 17.5c/kg above or below
Cork		Proposed standing charge: €120 charge. 46c per kg. Quarterly billing. All town councils
Dun Laoghaire/Rathdown		€80 standing charge. Lifting charge: €4/140 or 240 litre bin. Weight charge: 20c per kg
Donegal	Private Operator	Between €240 & €360 pa. Volume system
Fingal		Tag System: €6 & €3.35 per tag based on size
Galway	Private Operator	€350 per 240 litre bin & €275 for 120 litre bin
Kerry		€200 flat fee for a disc & €6 per black bin lift. Dry recycling bags: €5 for 4
Kildare		€185/240 litre bin + €7 per lift. €140/140 litre bin + €5 per lift. Tag system in Newbridge & Leixlip
Kilkenny	Private Operator	€395/240 litre bin, €295/120 litre bin & €240/90 litre bin. Bags: €5 ea. Recycling bags: €1.50 ea.
Laois	Private Operator	Flat fee €300 pa/140 litre bin & €366 pa 240 litre bin. Mountmellick & Portlaoise included.
Leitrim	Private Operator	€9 per lift of 240 litre bin, €6 per lift of 240 recycling bin; 140/€6/lift; €5/140/lift.
Limerick	Private Operator	240 litre bin/6 months/€199 up to 400 kg & 17.5c for each kg above or below
Longford	Private Operator	€140 flat fee, 17c per kg
Louth	Private Operator	€13/lift/240 litre bin. Monthly recycling lift: €3
Mayo		€355/240 litre bin. €300/140 litre bin proposed
Meath		€360 pa/240 litre bin, €300 pa/140 litre bin. Recycling: €60 pa.
Monaghan	Private Operator	€178 + €11.50/100kg thereafter. Includes recycling.
North Tipperary	Private Operator	€380/240 litre bin, €300/140 litre bin, €250/120 litre bin.
Offaly	Private Operator	€25 per month/140 litre bin, €30 per month/240 litre bin.
Roscommon	Private Operator	€350/240 litre bin, €275/120 litre bin. Separate Operator charges as Leitrim
Sligo	Private Operator	€9/lift/240 litre bin, €5 per bag, Recycling bags: €1.50

<b>Table A5.1: Domestic Refuse Charges - 2004</b>		
		<b>Charge</b>
South Tipperary		€200 flat fee, €6 per wheelie bin tag, 50c for dry recycling bag. Also applies: Carrick-on-Suir, Cashel & Tipp councils.
South Dublin		€6 & €3 tag/ standard & small wheelie bin
Waterford		€13/lift/240 litre bin, €7.50/ brown bin food waste. €2.25/ dry recycling per bag. Also applies: Lismore & Tramore.
Westmeath		€8/lift/240 litre bin, €4/240 litre recycling bin, €5/lift/120 litre bin. Also applies: Mullingar Town Council.
Wexford		€466/240 litre bin, €329.20/140 litre bin, €235.30/80 litre bin. Also applies: Enniscorthy, Gorey, Wexford town.
Wicklow	Private Operator	Flat fee: €392/240 litre bin. Weight charges to be determined.
Cork City		Flat fee: €255+ €5 per tag/240 litre bin, €3 per tag/140 litre bin
Dublin City		Flat fee: €80 + lifting fee of €5/ 240 litre bin. €65 + lifting fee of €3/140 litre bins. Bag Tags: €2.50
Galway City		Flat fee: €351. Pay by use scheme to be introduced in Knocknacarra-fees to be determined.
Limerick City		€190/6mths/240 litre bin up to 400kg, 17.5c/kg above or below.
Waterford City		€80 pa, €4.50/lift of a grey bin, €1.50/brown/green bins
Clonmel Borough		€200 standard charge, €6/bin, 50c/tag (recycling bin)
Drogheda Borough	Private Operator	Panda Waste: €265 pa/240 litre bin or €10/lift. Oxygen: €324/240 litre bin, €264/140 litre bin.
Kilkenny Borough		€5 standard bag. Recycling bag: €1.50
Sligo Borough	Private Operator	€9/240 litre bin, €5 per standard bag. Recycling bags: €1.50.
Wexford Borough		€466/240 litre bin, €329.20/140 litre bin, €235.30/80 litre bin
<i>Source: Local Authorities.</i>		

## Annex 6 Expenditure Trends at Programme Group Level

<b>Table A6.1: Local Authority Expenditure - Housing and Building - 1996 to 2004 - Euro, Millions</b>									
	1996	1997	1998	1999	2000	2001	2002	2003	2004
Local Authority Housing	98.0	109.6	117.4	131.8	144.4	164.4	185.5	201.2	219.3
Assistance to Persons Housing Themselves	136.2	127.4	122.2	116.2	107.7	118.6	137.4	148.7	104.5
Assistance to Persons Improving Houses	8.1	8.2	8.0	8.6	10.4	12.5	20.3	26.4	13.2
Administration and Miscellaneous	57.0	60.6	68.7	86.7	93.4	124.6	158.9	192.3	65.3
<b>Total</b>	<b>299.3</b>	<b>305.8</b>	<b>316.3</b>	<b>343.3</b>	<b>356.0</b>	<b>420.0</b>	<b>502.2</b>	<b>568.6</b>	<b>402.3</b>
<i>Source: Indecon analysis of Local Authority and Department of the Environment, Heritage and Local Government data.</i>									

<b>Table A6.2: Local Authority Expenditure - Road Transportation and Safety - 1996 to 2004 - Euro, Millions</b>									
	1996	1997	1998	1999	2000	2001	2002	2003	2004
Road Upkeep	189.8	206.7	222.4	241.4	267.4	303.6	328.6	355.5	379.7
Road Improvement	136.9	148.5	160.5	194.3	236.6	262.2	324.8	321.8	302.4
Road Traffic	21.5	22.9	38.8	55.4	70.9	66.1	68.0	79.8	70.3
Administration and Miscellaneous	107.7	115.1	122.6	133.2	144.4	174.4	199.6	226.4	248.2
<b>Total</b>	<b>455.9</b>	<b>493.1</b>	<b>544.3</b>	<b>624.3</b>	<b>719.3</b>	<b>806.3</b>	<b>921.0</b>	<b>983.5</b>	<b>1000.6</b>
<i>Source: Indecon analysis of Local Authority and Department of the Environment, Heritage and Local Government data.</i>									

<b>Table A6.3: Local Authority Expenditure - Water Supply and Sewerage - 1996 to 2004 - Euro, Millions</b>									
	1996	1997	1998	1999	2000	2001	2002	2003	2004
Public Water Scheme	118.0	122.6	129.2	140.0	152.1	168.0	182.3	200.0	214.4
Public Sewerage Scheme	51.0	53.8	57.9	67.6	80.2	90.9	109.0	132.7	168.1
Private Installations	0.6	0.9	3.9	4.4	4.8	6.4	8.7	9.9	11.1
Administration and Miscellaneous	34.9	33.9	40.9	45.7	51.1	60.2	70.6	81.9	93.1
<b>Total</b>	<b>204.5</b>	<b>211.2</b>	<b>231.9</b>	<b>257.8</b>	<b>288.2</b>	<b>325.5</b>	<b>370.5</b>	<b>424.4</b>	<b>486.7</b>
<i>Source: Indecon analysis of Local Authority and Department of the Environment, Heritage and Local Government data.</i>									

<b>Table A6.4: Local Authority Expenditure - Development Incentives and Controls - 1996 to 2004 - Euro, Millions</b>									
	1996	1997	1998	1999	2000	2001	2002	2003	2004
Land Use Planning	22.8	24.5	26.8	32.2	40.1	52.4	61.4	66.4	78.5
Industrial Development	2.5	5.3	3.8	4.1	4.9	6.0	6.2	5.6	5.1
Other Development/ Promotion	10.8	12.2	13.0	16.4	19.1	24.1	24.4	26.3	27
Representational Functions	0.1	0.2	0.2	0.2	0.2	0.4	0.4	0.5	0.699
Promotion of Interest of the Local Community	2.7	3.2	3.3	3.7	10.9	15.5	19.7	25.7	30.4
Twinning of Local Authority Areas	0.3	0.3	0.4	0.4	0.5	0.6	0.7	1.0	0.823
Administration and Miscellaneous	14.5	15.8	20.8	23.7	28.4	34.8	41.4	42.3	52
<b>Total</b>	<b>53.8</b>	<b>61.5</b>	<b>68.2</b>	<b>80.8</b>	<b>104.2</b>	<b>133.9</b>	<b>154.1</b>	<b>168.0</b>	<b>194.5</b>
<i>Source: Indecon analysis of Local Authority and Department of the Environment, Heritage and Local Government data.</i>									

<b>Table A6.5: Local Authority Expenditure - Environmental Protection - 1996 to 2004 - Euro, Millions</b>									
	1996	1997	1998	1999	2000	2001	2002	2003	2004
Waste Disposal	92.0	104.6	128.9	157.8	188.1	246.2	310.9	368.0	399.4
Burial Grounds	7.3	7.7	8.4	9.5	10.8	12.6	14.2	15.1	16.1
Safety of Structures/ Places	8.1	8.4	8.7	8.3	9.1	10.7	11.2	11.5	12.1
Fire Protection	110.4	116.9	123.6	134.9	160.8	183.4	203.7	227.3	252.1
Pollution Control	7.4	8.0	8.5	9.8	12.4	14.8	17.2	20.8	21.5
Administration and Miscellaneous	25.1	27.1	30.2	34.2	43.2	51.7	61.9	73.5	84.7
<b>Total</b>	<b>250.3</b>	<b>272.7</b>	<b>308.3</b>	<b>354.6</b>	<b>424.4</b>	<b>519.3</b>	<b>619.3</b>	<b>716.4</b>	<b>785.9</b>
<i>Source: Indecon analysis of Local Authority and Department of the Environment, Heritage and Local Government data.</i>									

<b>Table A6.6: Local Authority Expenditure – Recreation and Amenities – 1996 to 2004 – Euro, Millions</b>									
	1996	1997	1998	1999	2000	2001	2002	2003	2004
Swimming Pools	10.1	10.5	11.0	11.8	12.4	16.1	17.3	17.4	19.6
Libraries	43.6	46.2	49.8	53.6	59.7	69.6	79.8	87.1	94.5
Parks, Open Spaces Etc.	88.2	91.7	79.7	78.1	81.2	87.2	91.3	98.6	102.7
Other Recreation/ Amenity	25.2	25.3	36.3	39.3	43.2	52.0	58.2	46.8	54.3
Administration and Miscellaneous	15.4	17.0	18.2	19.9	21.7	25.5	29.6	32.7	36.7
<b>Total</b>	<b>182.4</b>	<b>190.6</b>	<b>194.9</b>	<b>202.7</b>	<b>218.1</b>	<b>250.4</b>	<b>276.2</b>	<b>282.5</b>	<b>307.8</b>
<i>Source: Indecon analysis of Local Authority and Department of the Environment, Heritage and Local Government data.</i>									

<b>Table A6.7: Local Authority Expenditure – Agriculture, Education, Health and Welfare – 1996 to 2004 – Euro, Millions</b>									
	1996	1997	1998	1999	2000	2001	2002	2003	2004
Agriculture	6.7	7.1	7.4	7.9	9.2	12.4	15.0	9.2	9.3
Education	130.6	128.4	126.3	127.8	129.7	134.0	150.9	168.9	186.7
Health/Welfare	0.8	0.8	0.8	0.9	0.9	1.0	1.1	1.0	1.0
Administration and Miscellaneous	9.1	9.8	10.0	11.3	12.0	13.7	14.3	15.0	17
<b>Total</b>	<b>147.3</b>	<b>146.2</b>	<b>144.5</b>	<b>147.9</b>	<b>151.9</b>	<b>161.1</b>	<b>181.1</b>	<b>194.1</b>	<b>214.0</b>
<i>Source: Indecon analysis of Local Authority and Department of the Environment, Heritage and Local Government data.</i>									



<b>Table A6.8: Local Authority Expenditure – Miscellaneous Services – 1996 to 2004 – Euro, Millions</b>									
	1996	1997	1998	1999	2000	2001	2002	2003	2004
Land Acquisition/Development	1.5	1.1	0.8	1.1	0.9	1.0	1.2	3.6	3.9
Plant/Materials	0.2	0.3	0.6	0.3	0.4	0.4	3.0	4.0	6.5
Financial Management	27.9	28.8	30.0	31.3	32.3	35.8	37.6	54.5	47
Elections	2.8	2.7	4.6	6.1	3.5	3.5	4.1	4.7	6.7
Administration Justice/Consumer Protection	11.6	12.1	14.7	16.4	17.0	18.1	19.4	18.8	19.6
Property Damage	1.8	2.4	1.7	2.4	2.3	1.7	2.5	1.4	2.6
Markets, Fairs and Abattoirs	1.8	1.9	2.2	2.2	2.4	2.6	2.8	4.1	3.6
Administration and Miscellaneous	35.6	36.6	40.4	45.3	49.4	64.8	82.8	85.4	99.9
Chairman's Allowance	0.8	0.8	0.9	1.1	1.2	1.4	1.6	3.2	1.9
Entertainment and Associated Expenses	0.5	0.5	0.6	0.8	0.8	1.0	1.3	1.1	1.1
Expenses of Members of L.As at Conferences	6.4	6.7	7.2	19.9	10.9	11.8	16.1	23.8	28.8
Expenses of Members Attending Conferences Abroad	0.6	0.6	0.7	0.7	0.8	0.9	0.9	1.2	1.2
<b>Total</b>	<b>91.5</b>	<b>94.6</b>	<b>104.4</b>	<b>127.8</b>	<b>122.1</b>	<b>143.0</b>	<b>173.2</b>	<b>205.8</b>	<b>222.8</b>
<i>Source: Indecon analysis of Local Authority and Department of the Environment, Heritage and Local Government data.</i>									

## Annex 7 Expenditure Trends at Sub-Programme Group Level

### Housing and Building

Table A7.1: Details on Local Authority Housing Expenditure: 1996-2001 - € Million							
Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Maintenance, repair and improvement	55.2	61.5	65.7	72.5	82.5	89.0	61.1%
Rent and annuity collection	14.9	14.4	13.6	14.2	14.5	15.6	4.9%
Other housing estate management	12.9	16.6	20.7	27.5	28.2	33.8	161.8%
Land acquisition	0.5	0.5	0.5	0.5	0.8	1.1	114.7%
Construction (incl. site development)	2.8	3.0	3.1	3.3	3.3	3.6	29.6%
Loan charges	2.1	3.1	2.8	2.9	3.0	3.4	62.5%
Miscellaneous	10.6	10.8	12.1	12.3	12.3	18.2	72.3%
Programme Total	98.9	109.8	118.5	133.3	144.6	164.6	66.4%
<i>Source: Department of the Environment, Heritage and Local Government.</i>							

<b>Table A7.2: Details on Assistance to Persons Housing Themselves: 1996-2001 - Euro, Millions</b>							
<b>Expenditure Area</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>% Change</b>
Loan charges S.D.A loans	85.0	79.9	77.3	56.4	47.2	58.8	-30.9%
Loan charges H.F.A	24.2	26.4	23.1	28.6	38.0	29.2	20.9%
H.F.A agency (Gross)	10.4	8.8	7.8	5.1	4.3	7.2	-30.5%
Loan charges L.R.M	5.1	0.7	0.7	8.2	0.8	0.8	-83.7%
Loan charges on supplementary grants	2.7	2.5	2.3	1.9	1.6	1.7	-39.3%
Loan charges on private sites	0.6	0.6	0.6	0.6	0.5	0.4	-27.5%
Loan charges on voluntary housing	2.3	1.3	3.2	6.3	5.0	5.6	141.8%
Contribution to voluntary groups	0.4	0.3	0.2	1.1	1.1	0.1	-69.0%
Miscellaneous	5.8	6.9	6.9	8.2	9.3	16.2	177.0%
<b>Programme Total</b>	<b>136.7</b>	<b>127.5</b>	<b>122.1</b>	<b>116.3</b>	<b>107.8</b>	<b>120.1</b>	<b>-12.1%</b>

*Source: Department of the Environment, Heritage and Local Government.*

<b>Table A7.3: Details on Assistance to Persons Improving Houses Expenditure: 1996-2001 - Euro, Millions</b>							
<b>Expenditure Area</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>% Change</b>
Reconstruction grants	0.2	0.5	0.7	0.7	1.2	0.4	70.3%
Loan charges on loans	1.9	2.1	1.7	1.2	1.0	1.3	-31.4%
Essential repair grants	1.0	1.1	1.6	1.9	2.2	5.3	428.0%
Loan charges on supplementary grants	1.4	1.4	1.5	1.3	1.7	1.8	30.4%
Loan charges on loans	1.6	1.6	1.6	2.0	1.8	1.4	-12.9%
Miscellaneous	1.9	1.5	0.9	1.5	2.6	2.3	19.9%
<b>Programme Total</b>	<b>8.1</b>	<b>8.1</b>	<b>8.1</b>	<b>8.6</b>	<b>10.5</b>	<b>12.5</b>	<b>55.1%</b>

*Source: Department of the Environment, Heritage and Local Government.*

<b>Table A7.4: Details on Administration and Miscellaneous Expenditure: 1996-2001 - Euro, Millions</b>							
<b>Expenditure Area</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>% Change</b>
Direct administration and overheads	19.0	19.1	21.9	22.1	24.7	29.6	55.6%
Central Management Charge	24.4	26.1	27.9	30.8	34.6	38.2	56.5%
Enforcement of standards	0.3	0.7	0.5	0.5	0.5	2.6	932.9%
Itinerant rehabilitation loan charges	0.4	0.0	0.1	0.1	0.0	0.0	-95.3%
Itinerant rehabilitation other	5.0	6.6	7.1	7.7	8.5	9.9	96.4%
Agency services	0.3	0.6	0.6	0.6	0.5	0.6	86.1%
Miscellaneous	6.2	7.3	9.5	23.3	24.1	41.9	572.8%
<b>Programme Total</b>	<b>55.7</b>	<b>60.3</b>	<b>67.6</b>	<b>85.1</b>	<b>92.9</b>	<b>122.8</b>	<b>120.7%</b>
<i>Source: Department of the Environment, Heritage and Local Government.</i>							

## Road Transportation and Safety

**Table A7.5: Details on Road Upkeep: 1996-2001 - Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
National primary roads	16.6	16.2	17.5	16.7	20.3	19.5	17.4%
National secondary roads	22.3	12.8	13.3	12.4	18.2	15.1	-32.2%
Major urban roads	5.5	15.3	15.0	24.0	12.9	15.1	176.7%
Other main roads	10.5	16.7	24.5	21.3	24.6	27.8	165.7%
Minor urban roads	16.1	20.8	19.4	24.1	29.5	39.6	146.4%
Public lighting	25.7	27.3	28.4	30.1	32.3	34.0	32.3%
Loan charges	0.7	1.0	1.0	1.2	1.1	1.5	129.0%
Miscellaneous	5.9	5.6	6.4	6.3	8.2	31.6	431.7%
Co. Roads Maintenance	65.6	70.1	75.7	81.7	95.5	94.2	43.7%
Regional Roads	19.4	17.9	19.2	21.8	23.0	24.2	24.2%
L.I.S.	1.9	2.2	2.8	2.4	4.1	4.6	140.5%
Bridges	0.0	0.7	0.8	0.0	0.0	0.0	-36.2%
Programme Total	190.2	206.4	224.0	242.0	269.7	307.2	61.5%

*Source: Department of the Environment, Heritage and Local Government.*

<b>Table A7.6: Details on Road Improvement: 1996-2001 - Euro, Millions</b>							
<b>Expenditure Area</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>% Change</b>
National primary roads	0.7	1.6	1.1	0.8	5.7	6.3	838.4%
National secondary roads	0.0	0.0	3.4	4.3	11.3	17.1	-
Major urban roads	11.7	22.0	13.5	19.7	16.2	16.8	43.7%
Other main roads	18.4	8.4	14.4	23.8	34.9	33.6	82.8%
Regional Roads	47.4	45.0	43.9	45.8	52.6	75.4	59.1%
Minor urban county road	6.9	10.8	4.0	3.4	18.4	7.1	2.5%
Bridges	0.9	2.1	2.3	2.1	0.5	2.8	211.5%
Co. Roads	39.2	43.4	57.5	80.9	81.1	86.6	120.9%
Non public roads	1.9	1.4	7.3	1.6	2.7	2.9	53.8%
Miscellaneous	9.4	13.9	11.7	10.6	10.7	9.5	0.8%
Programme Total	136.5	148.4	159.0	193.0	234.1	258.1	89.2%
<i>Source: Department of the Environment, Heritage and Local Government.</i>							

<b>Table A7.7: Details on Road Traffic: 1996-2001 - Euro, Millions</b>							
<b>Expenditure Area</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>% Change</b>
Operation, maintenance, traffic management	8.1	10.7	11.0	12.0	16.9	16.0	97.9%
Improvement, traffic management	8.2	7.3	20.6	34.3	46.6	40.2	389.1%
Safety education propaganda	3.2	3.5	3.7	4.2	3.7	5.0	56.1%
Loan charges	0.4	0.2	0.2	0.4	0.5	1.2	188.3%
Miscellaneous	1.6	1.4	3.4	4.6	3.4	4.1	153.0%
Programme Total	21.5	23.1	39.0	55.5	71.0	66.5	208.8%
<i>Source: Department of the Environment, Heritage and Local Government.</i>							

**Table A7.8: Administration and Miscellaneous: 1996-2001 - Euro, Millions**

<b>Expenditure Area</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>% Change</b>
Direct administration overheads	48.1	48.1	48.8	51.2	54.2	65.5	36.0%
Central Management Charge	33.3	37.0	39.9	45.5	52.2	64.3	92.9%
Motor taxation	17.6	19.2	21.4	23.3	25.2	29.1	64.9%
Agency	7.0	7.2	9.3	9.4	7.6	11.9	69.5%
Miscellaneous	1.6	3.7	3.3	3.7	5.2	3.7	129.2%
<b>Programme Total</b>	<b>107.7</b>	<b>115.1</b>	<b>122.6</b>	<b>133.1</b>	<b>144.3</b>	<b>174.5</b>	<b>61.9%</b>

*Source: Department of the Environment, Heritage and Local Government.*

## Water Supply and Sewerage

**Table A7.9: Details on Public/Sewage Schemes: 1996-2001 - Euro, Millions**

<b>Expenditure Area</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>% Change</b>
Operation/Maintenance of Network	32.3	34.4	38.2	41.9	50.1	58.2	80.5%
Operation/Maint of Treatment Works	8.5	9.0	9.4	12.9	16.1	16.4	93.8%
Operation/Maint of Public Conveniences	3.7	3.6	4.0	4.4	4.6	5.2	43.0%
Provision/Improv of Drainage Network	1.7	1.8	2.0	2.6	2.9	3.6	104.9%
Provision/Improv of Treatment Works	0.0	0.1	0.1	0.0	0.0	0.2	-
Provision/Improv of Public Conveniences	0.3	0.4	0.5	0.4	0.2	0.4	44.0%
Loan Charges	0.2	0.2	0.3	0.3	0.5	0.5	201.5%
Miscellaneous	4.5	4.5	4.6	5.0	5.7	6.5	43.8%
<b>Programme Total</b>	<b>51.1</b>	<b>53.9</b>	<b>59.1</b>	<b>67.6</b>	<b>80.1</b>	<b>91.1</b>	<b>78.2%</b>

*Source: Department of the Environment, Heritage and Local Government.*



<b>Table A7.10: Details on Private Installation: 1996-2001 - Euro, Millions</b>							
<b>Expenditure Area</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>% Change</b>
Loans for Individual Installations	0.0	0.0	0.1	0.1	0.1	0.1	-
Loans for Group Schemes	0.0	0.0	0.1	0.1	0.0	1.1	-
Grants for Individual Installations	0.0	0.0	0.1	0.1	0.1	1.4	-
Grants for Group Schemes	0.0	0.0	0.5	0.9	2.1	1.6	-
Other Contributions to Group Schemes	0.1	0.1	0.0	0.8	0.2	0.0	-40.0%
Loan Charges Loans	0.0	0.0	1.0	0.0	0.0	0.0	-
Loan Charges on Supplementary Grants	0.0	0.0	0.0	0.0	0.0	0.0	-95.8%
Miscellaneous	0.6	0.8	2.2	2.7	2.2	2.2	284.4%
<b>Programme Total</b>	<b>0.6</b>	<b>0.9</b>	<b>3.9</b>	<b>4.7</b>	<b>4.7</b>	<b>6.4</b>	<b>894.3%</b>

*Source: Department of the Environment, Heritage and Local Government.*

<b>Table A7.11: Details on Administration and Miscellaneous: 1996-2001 - Euro, Millions</b>							
<b>Expenditure Area</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>% Change</b>
Direct Administration Overheads	13.6	14.2	16.2	17.9	19.6	22.8	67.1%
Central Management Charge	18.7	19.9	21.3	24.0	27.1	30.9	65.1%
Agency	1.7	2.2	2.9	3.1	3.8	5.6	223.4%
Miscellaneous	0.5	1.6	0.6	1.0	0.8	0.9	78.3%
<b>Programme Total</b>	<b>34.6</b>	<b>37.9</b>	<b>41.0</b>	<b>45.9</b>	<b>51.3</b>	<b>60.2</b>	<b>74.0%</b>

*Source: Department of the Environment, Heritage and Local Government.*

## Development Incentives and Controls

**Table A7.12: Details on Land Use Planning: 1996-2001 - Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Planning Control	15.8	16.8	18.4	22.3	24.8	34.3	116.9%
Statutory Development Plans	3.9	3.9	4.4	5.2	7.3	9.3	136.9%
Other Plans	0.4	0.8	0.7	1.0	3.6	2.7	554.8%
Compensation	0.1	0.2	0.2	0.2	1.3	1.7	1,515.7%
Land Acquisition	0.0	0.0	0.0	0.0	0.1	0.1	-
Building Bye-Laws	2.0	2.3	2.5	2.8	2.7	3.2	57.2%
Loan Charges	0.0	0.0	0.0	0.0	0.0	0.0	-16.3%
Miscellaneous	0.5	0.5	0.6	0.8	0.8	1.1	126.1%
Programme Total	22.8	24.5	26.8	32.3	40.6	52.5	130.0%

*Source: Department of the Environment, Heritage and Local Government.*

**Table A7.13: Details on Industrial Development: 1996-2001 - Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Management of Industrial Estates	1.0	1.3	1.2	1.4	1.0	1.8	76.4%
Provision of Industrial Sites	0.2	0.3	0.4	0.3	0.8	0.3	79.4%
Loan Charges	0.2	0.2	0.3	0.3	0.3	0.5	183.0%
Promotion Work	0.6	0.8	1.1	0.8	0.8	1.5	156.5%
Miscellaneous	0.2	0.3	0.3	0.9	1.4	1.4	702.7%
Programme Total	2.1	3.0	3.3	3.9	4.3	5.5	160.4%

*Source: Department of the Environment, Heritage and Local Government.*

<b>Table A7.14: Details on Other Development and Promotion: 1996-2001 - Euro, Millions</b>							
<b>Expenditure Area</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>% Change</b>
Management Commercial Facilities	1.3	1.7	1.1	1.2	1.4	1.2	-9.7%
Provision Commercial Facilities	0.0	0.0	0.0	0.1	0.1	0.1	-
Loan Charges	0.2	0.2	0.2	0.2	0.3	0.3	59.1%
General Promotion Work	3.0	3.5	3.9	5.1	7.2	12.0	295.9%
R.D.O.	1.0	0.9	1.3	1.3	0.9	1.1	7.4%
Tourist Promotion	1.9	2.2	2.3	3.8	2.6	3.2	70.8%
Voluntary Development Agencies	1.4	1.1	1.3	1.6	2.6	1.0	-27.4%
Miscellaneous	2.4	2.9	3.3	3.0	7.9	5.6	130.1%
<b>Programme Total</b>	<b>11.2</b>	<b>12.6</b>	<b>13.5</b>	<b>16.3</b>	<b>22.9</b>	<b>24.5</b>	<b>117.8%</b>
<i>Source: Department of the Environment, Heritage and Local Government.</i>							

<b>Table A7.15: Details on Representational Functions: 1996-2001 - Euro, Millions</b>							
<b>Expenditure Area</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>% Change</b>
Miscellaneous	0.1	0.2	0.2	0.2	0.2	0.4	186.5%
<b>Programme Total</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.4</b>	<b>186.5%</b>
<i>Source: Department of the Environment, Heritage and Local Government.</i>							

**Table A7.16: Details on Promotion of Interest of the Local Community: 1996-2001 – Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Miscellaneous	2.7	3.2	3.3	3.7	10.1	15.2	461.1%
Programme Total	2.7	3.2	3.3	3.7	10.1	15.2	461.1%

Source: Department of the Environment, Heritage and Local Government.

**Table A7.17: Details on Twinning of Local Authority Errors: 1996-2001 – Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Miscellaneous	0.3	0.3	0.4	0.5	0.6	0.6	137.3%
Programme Total	0.3	0.3	0.4	0.5	0.6	0.6	137.3%

Source: Department of the Environment, Heritage and Local Government.

**Table A7.18: Details on Administration and Miscellaneous: 1996-2001 – Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Direct Administration Overheads	6.9	7.2	8.7	10.6	12.6	14.9	114.4%
Central Management Charge	6.0	6.4	7.0	7.8	8.8	11.6	93.2%
Agency Services	0.3	0.3	0.3	0.4	0.7	0.5	109.3%
Miscellaneous	1.3	3.9	4.7	5.2	3.3	8.1	541.0%
Programme Total	14.5	17.8	20.8	23.9	25.5	35.1	142.6%

Source: Department of the Environment, Heritage and Local Government.

## Environmental Protection

**Table A7.19: Details on Waste Disposal: 1996-2001 - Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Operation of Dumps	21.0	26.6	35.3	49.5	57.6	72.0	243.3%
Provision	1.6	3.3	6.9	4.5	14.9	27.0	1634.1%
Domestic Refuse	38.5	39.4	43.6	48.6	51.1	63.6	65.0%
Street Cleaning	20.8	23.2	26.3	31.7	34.8	44.2	112.3%
Trade and Other Waste	1.0	1.1	1.3	1.6	3.7	5.4	421.3%
Litter Prevention Service	0.6	1.0	1.1	1.7	2.0	2.2	272.2%
Loan Charges	2.7	3.1	5.0	10.0	12.5	11.4	325.0%
Miscellaneous	5.8	7.0	9.4	10.3	11.7	20.3	248.5%
Programme Total	92.0	104.7	128.9	157.9	188.3	246.1	167.4%

*Source: Department of the Environment, Heritage and Local Government.*

**Table A7.20: Details on Burial Grounds: 1996-2001 - Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Upkeep	5.6	5.7	6.5	6.7	8.8	10.0	77.6%
Provision	0.7	1.2	0.9	1.5	1.2	1.4	102.0%
Loan Charges	0.6	0.6	0.6	0.8	0.5	0.8	21.1%
Miscellaneous	0.4	0.3	0.4	0.5	0.3	0.6	42.7%
Programme Total	7.3	7.7	8.4	9.5	10.8	12.7	73.0%

*Source: Department of the Environment, Heritage and Local Government.*

**Table A7.21: Details on Safety of Structures and Places: 1996-2001 - Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Civil Defence	3.2	3.2	3.4	3.5	3.4	4.0	26.3%
Dangerous Buildings/Places	1.1	1.2	1.2	1.4	1.4	1.4	24.3%
Water Safety	1.4	1.5	1.5	1.9	2.1	2.6	83.9%
Flood Relief Protection	0.7	0.7	1.2	0.5	0.6	0.8	10.1%
Loan Charges	0.3	0.3	0.2	0.2	0.2	0.2	-39.1%
Miscellaneous	1.3	1.5	1.3	0.9	1.4	1.8	37.9%
Programme Total	8.1	8.4	8.7	8.3	9.1	10.8	34.4%

Source: Department of the Environment, Heritage and Local Government.

**Table A7.22: Details on Fire Protection: 1996-2001 - Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Fire Fighting	84.5	108.0	107.1	114.8	148.4	158.3	87.4%
Provision of Buildings	0.1	0.1	0.2	0.1	1.8	0.3	162.5%
Provision of Equipment	1.8	1.8	2.1	2.1	2.1	2.9	65.9%
Fire Prevention	2.5	2.6	9.3	3.4	3.2	3.3	30.6%
Ambulance	0.6	0.8	1.0	1.2	1.2	1.2	87.3%
Loan Charges	0.7	0.6	0.5	1.0	1.0	0.9	27.5%
Miscellaneous	20.2	2.9	3.3	12.3	3.2	16.6	-17.7%
Programme Total	110.5	116.9	123.6	134.9	160.8	183.6	66.2%

Source: Department of the Environment, Heritage and Local Government.

**Table A7.23: Details on Pollution Control: 1996-2001 - Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Monitoring Enforcement (incl. Air Pollution)	6.5	7.0	7.4	8.2	10.9	12.2	88.0%
Provision of Equipment	0.3	0.3	0.5	0.6	0.5	0.5	58.3%
Oil Pollution Clearance	0.1	0.1	0.1	0.1	0.1	0.1	52.0%
Loan charges	0.0	0.0	0.0	0.1	0.1	0.1	-
Miscellaneous	0.6	0.6	0.8	1.1	0.5	1.7	215.7%
Programme Total	7.5	8.0	8.8	10.0	12.2	14.8	97.5%

Source: Department of the Environment, Heritage and Local Government.

**Table A7.24: Details on Administration and Miscellaneous: 1996-2001 - Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Direct Administration Overheads	5.1	5.7	6.8	7.4	8.2	11.0	114.8%
Central Management Charge	18.5	20.2	21.8	24.7	32.4	37.4	102.3%
Agency Services	0.2	0.4	0.3	0.4	0.5	0.3	99.9%
Miscellaneous	1.2	0.8	1.0	1.3	2.2	2.6	111.7%
Programme Total	25.0	27.1	29.9	33.9	43.3	51.3	105.3%

Source: Department of the Environment, Heritage and Local Government.

## Recreation and Amenities

**Table A7.25: Details on Swimming Pools: 1996-2001 - Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Operation	9.2	7.6	7.4	8.8	9.1	10.5	14.1%
Provision/Improvement	0.3	0.8	0.8	0.8	0.5	0.6	120.8%
Contribution to Other Bodies	0.8	0.9	0.8	0.9	0.9	0.9	9.2%
Loan Charges	0.7	0.7	0.7	0.7	0.6	1.1	49.8%
Miscellaneous	0.6	0.5	0.5	0.6	0.7	1.7	187.3%
Programme Total	11.6	10.5	10.2	11.7	11.8	14.8	27.1%

Source: Department of the Environment, Heritage and Local Government.

**Table A7.26: Details on Libraries: 1996-2001 - Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Operation	33.6	33.6	35.7	41.5	46.2	52.9	57.4%
Provision/Improvement	1.0	2.8	3.5	1.3	1.5	1.6	50.4%
Purchase of Books	5.4	5.8	6.5	5.8	7.3	9.8	79.8%
Contribution to Comhairle Leabharlanna	0.5	0.9	0.6	0.7	0.7	0.7	42.0%
Contribution to Joint Library Committee	0.9	1.0	1.1	1.7	1.4	1.7	91.3%
Contribution to Other Bodies	0.3	0.4	0.3	0.5	0.5	0.5	61.7%
Loan Charges	0.6	0.5	0.5	0.5	0.6	0.6	3.8%
Miscellaneous	1.2	1.3	1.5	1.6	1.5	2.2	81.6%
Programme Total	43.6	46.2	49.8	53.6	59.8	70.0	60.6%

Source: Department of the Environment, Heritage and Local Government.



<b>Table A7.27: Details on Parks, Open Spaces, Recreation Centres: 1996-2001 - Euro, Millions</b>							
<b>Expenditure Area</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>% Change</b>
Operation of Parks/Open Spaces	29.2	26.6	33.5	38.0	43.9	50.7	73.7%
Operation of Recreation Centres	5.1	12.0	8.4	8.2	6.1	7.6	49.2%
Provision improvement of facilities	4.4	4.4	5.0	5.1	8.5	8.5	92.7%
Contribution to Other Bodies	0.9	1.1	1.5	1.1	0.7	0.9	-5.0%
Loan Charges	1.0	1.2	1.2	1.4	1.3	1.0	-6.4%
Social Employment Schemes	52.5	50.3	36.9	35.1	21.3	16.4	-68.7%
Miscellaneous	4.4	5.0	5.0	5.1	5.2	6.8	53.7%
<b>Programme Total</b>	<b>97.5</b>	<b>100.6</b>	<b>91.6</b>	<b>94.0</b>	<b>87.0</b>	<b>91.9</b>	<b>-5.8%</b>
<i>Source: Department of the Environment, Heritage and Local Government.</i>							

<b>Table A7.28: Details on Other Recreational Amenities: 1996-2001 - Euro, Millions</b>							
<b>Expenditure Area</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>% Change</b>
Maint/Oper. of Art Galleries/Museums etc	3.8	4.8	5.6	6.8	9.0	9.8	161.3%
Prov/improv Art Galleries/Museums etc.	0.7	1.1	0.6	1.1	1.4	3.3	390.9%
Conservation/Improv of other amenities	3.7	4.1	5.5	6.7	10.2	7.7	109.9%
Contribution to Other Bodies	3.5	3.6	4.5	4.5	4.8	5.8	67.8%
Loan Charges	0.3	0.4	0.5	1.1	1.0	1.5	459.6%
Miscellaneous	2.7	2.7	8.2	5.3	11.6	20.4	654.4%
<b>Programme Total</b>	<b>14.5</b>	<b>16.6</b>	<b>24.8</b>	<b>25.5</b>	<b>38.1</b>	<b>48.4</b>	<b>233.8%</b>
<i>Source: Department of the Environment, Heritage and Local Government.</i>							

<b>Table A7.29: Details on Administration and Miscellaneous: 1996-2001 - Euro, Millions</b>							
<b>Expenditure Area</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>% Change</b>
Direct Administration/Overheads	1.6	3.6	3.9	4.0	2.2	3.1	97.0%
Central Management Charge	13.5	12.8	13.5	15.0	18.6	21.5	59.6%
Agency	0.1	0.1	0.3	0.1	0.2	0.3	188.5%
Miscellaneous	0.1	0.2	0.5	0.6	0.5	0.5	217.4%
<b>Programme Total</b>	<b>15.3</b>	<b>16.7</b>	<b>18.2</b>	<b>19.7</b>	<b>21.5</b>	<b>25.4</b>	<b>65.9%</b>
<i>Source: Department of the Environment, Heritage and Local Government.</i>							

## Agriculture, Education, Health and Welfare

**Table A7.30: Details on Agriculture: 1996-2001 - Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Superannuation of C.C.A.	0.6	0.6	0.8	0.6	0.6	0.6	-
Disease of Animals	0.6	0.6	0.8	0.7	0.8	1.6	176.8%
Land Drainage	3.3	3.3	3.4	3.0	3.1	3.5	6.0%
Piers and Harbours	1.3	1.7	1.6	2.4	3.0	5.0	282.6%
Loan Charges Land Drainage	0.0	0.0	0.1	0.0	0.0	0.0	-
Loan Charges Other	0.5	0.3	0.3	0.3	0.4	0.5	9.8%
Miscellaneous	0.3	0.4	0.4	0.8	1.4	1.2	254.3%
Programme Total	6.6	6.9	7.5	7.8	9.3	12.4	88.3%

*Source: Department of the Environment, Heritage and Local Government.*

**Table A7.31: Details on Education: 1996-2001 - Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Contribution to V.E.C.	1.1	1.1	1.1	1.1	1.2	1.6	45.8%
Superannuation of V.E.C.	29.6	32.7	34.9	38.7	45.6	52.0	75.8%
Higher Education Grants	95.7	90.5	85.7	83.5	78.2	75.4	-21.3%
School Attendance	1.4	1.5	1.5	1.6	1.7	1.9	32.8%
School Meals	2.4	2.1	2.2	2.2	2.3	2.3	-2.0%
Residential Homes and Special Schools	0.4	0.4	0.4	0.4	0.4	0.4	-7.3%
Loan Charges	0.0	0.0	0.0	0.0	0.0	0.0	-
Miscellaneous	0.1	0.1	0.2	0.2	0.4	0.5	319.6%
Programme Total	130.7	128.4	126.0	127.8	129.7	134.0	2.6%

*Source: Department of the Environment, Heritage and Local Government.*

**Table A7.32: Details on Health/Welfare: 1996-2001 - Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Contribution to Health Board	0.3	0.1	0.2	0.2	0.2	0.5	89.9%
Maintenance of Health Board	0.0	0.0	0.0	0.0	0.0	0.0	-
Unemployment Assistance Fund	0.0	0.0	0.0	0.0	0.0	0.0	-
Public Assistance	0.0	0.0	0.0	0.0	0.0	0.0	-
Public assistance/contb to Health Boards	0.1	0.2	0.2	0.2	0.1	0.0	-
Rates Waiver Scheme	0.0	0.0	0.0	0.0	0.0	0.0	-
Cheap Fuel Scheme	0.0	0.0	0.0	0.0	0.0	0.0	-
Miscellaneous	0.4	0.4	0.4	0.4	0.7	0.4	-
Programme Total	0.9	0.8	0.8	0.9	0.9	1.0	12.5%

Source: Department of the Environment, Heritage and Local Government.

**Table A7.33: Details on Administration and Miscellaneous: 1996-2001 - Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Direct Administration and Overheads	0.5	0.4	0.6	0.5	1.7	0.5	11.4%
Central Management Charge	8.6	9.3	9.2	10.7	10.2	13.1	51.8%
Agency Services	0.1	0.1	0.1	0.1	0.1	0.1	-
Miscellaneous	0.0	0.0	0.0	0.0	0.1	0.1	-
Programme Total	9.1	9.8	9.9	11.3	12.0	13.7	50.2%

Source: Department of the Environment, Heritage and Local Government.

## Miscellaneous Services

**Table A7.34: Details on Land Acquisition and Development: 1996-2001 - Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Acquisition	1.0	0.4	0.2	0.7	0.0	0.0	-98.1%
Development	0.0	0.0	0.0	0.1	0.0	0.0	-
Loan Charges	0.8	0.9	0.7	0.3	1.2	1.3	66.1%
Miscellaneous	0.0	0.1	0.2	0.0	0.0	0.0	-
Programme Total	1.7	1.4	1.1	1.1	1.2	1.3	-24.9%

Source: Department of the Environment, Heritage and Local Government.

**Table A7.35: Details on Plant and Materials: 1996-2001 - Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Operation/Maintenance	0.0	0.0	0.3	1.5	1.8	0.7	-
Purchase of Plant	0.0	0.0	0.0	0.1	0.1	0.1	128.9%
Hire of Plant	0.0	0.0	0.0	0.0	0.0	0.0	-
Purchase of Materials	0.0	0.0	0.0	0.1	0.1	0.0	-
Stores	0.0	0.0	0.1	0.0	0.0	0.0	-
Loan Charges	0.0	0.0	0.0	0.0	0.1	0.0	155.6%
Miscellaneous	0.2	0.3	0.2	-1.4	-1.7	-0.4	-299.0%
Programme Total	0.2	0.3	0.6	0.3	0.4	0.4	54.8%

Source: Department of the Environment, Heritage and Local Government.

**Table A7.36: Details on Financial Management: 1996-2001 – Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Rate collection	11.5	11.8	12.2	13.0	13.4	14.5	26.1%
Refund of rates	4.4	4.8	5.3	5.2	5.3	5.2	17.0%
Irrecoverable Rates	4.7	5.0	5.1	5.4	5.5	6.4	35.4%
Overdraft Interest	3.0	3.3	2.9	2.4	2.3	2.1	-29.8%
Bank Charges	1.5	0.9	0.9	1.1	0.8	0.8	-44.0%
Miscellaneous	2.4	2.5	2.6	4.3	4.5	5.9	139.9%
Programme Total	27.6	28.2	29.0	31.4	31.8	34.8	26.5%

Source: Department of the Environment, Heritage and Local Government.

**Table A7.37: Details on Elections: 1996-2001 – Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Register of Electors	2.8	2.7	2.9	3.2	2.9	3.3	19.7%
Local Elections	0.0	0.0	1.7	3.0	0.3	0.1	-
Miscellaneous	0.0	0.0	0.0	0.0	0.3	0.1	-
Programme Total	2.8	2.7	4.6	6.2	3.6	3.6	26.5%

Source: Department of the Environment, Heritage and Local Government.

**Table A7.38: Details on Administration of Justice/ Consumer Protection:  
1996-2001 – Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Courthouses	3.7	3.6	3.7	4.6	3.9	3.6	-1.0%
Coroners Inquest	1.2	1.5	2.4	3.0	3.3	4.0	230.8%
Weights and Measures	0.8	0.8	0.3	0.2	0.2	0.1	-86.1%
Slaughterhouses and meat	2.8	3.0	3.8	3.4	4.0	4.3	50.2%
Milk and Dairies	0.7	0.7	0.7	0.8	0.7	0.8	6.0%
Weighbridges	0.2	0.2	0.2	0.2	0.2	0.2	3.9%
Loan Charges	0.1	0.0	0.2	0.0	1.1	1.4	1,028.9%
Pounds/Dogs Warden Service	2.0	2.3	3.3	3.8	3.4	3.4	69.5%
Miscellaneous	0.1	0.1	0.2	0.2	0.3	0.4	177.5%
Programme Total	11.7	12.2	14.9	16.2	17.0	18.1	55.0%

Source: Department of the Environment, Heritage and Local Government.

**Table A7.39: Details on Property Damage: 1996-2001 – Euro, Millions**

Expenditure Area	1996	1997	1998	1999	2000	2001	% Change
Politically Motivated	0.2	0.8	0.2	0.2	0.3	0.3	17.6%
Other Malicious Damage	1.4	1.4	1.4	2.1	0.8	1.1	-20.8%
Miscellaneous	0.2	0.2	0.1	0.2	1.1	0.3	59.0%
Programme Total	1.8	2.4	1.7	2.4	2.3	1.7	-8.2%

Source: Department of the Environment, Heritage and Local Government.

<b>Table A7.40: Details on Markets/Fairs/Abattoirs: 1996-2001 - Euro, Millions</b>							
<b>Expenditure Area</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>% Change</b>
Operation of Markets	1.2	1.2	1.2	1.3	1.3	1.4	14.2%
Provision/improvement of Markets	0.0	0.0	0.0	0.0	0.0	0.0	204.0%
Regulation of Market/Fairs	0.1	0.1	0.1	0.1	0.3	0.5	582.9%
Operation of Abattoirs	0.5	0.5	0.6	0.8	0.5	0.6	20.1%
Provision/Improvement of Abattoirs	0.0	0.0	0.0	0.0	0.1	0.0	-
Loan Charges	0.0	0.0	0.0	0.0	0.0	0.0	-
Miscellaneous	0.1	0.1	0.2	0.2	0.1	0.1	-
<b>Programme Total</b>	<b>1.8</b>	<b>1.9</b>	<b>2.2</b>	<b>2.5</b>	<b>2.4</b>	<b>2.6</b>	<b>42.2%</b>
<i>Source: Department of the Environment, Heritage and Local Government.</i>							



<b>Table A7.41: Details on Administration and Miscellaneous: 1996-2001 - Euro, Millions</b>							
<b>Expenditure Area</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>% Change</b>
Direct Administration Overheads	8.1	7.8	9.6	7.8	9.1	13.6	68.1%
Central Management Charge	8.5	8.7	9.9	10.9	12.1	14.4	69.0%
Office Expenses	4.2	4.3	4.2	4.2	4.5	6.8	61.1%
Management of Corporate Estate	2.2	2.6	2.1	3.5	3.4	3.1	40.3%
Loan Charges	2.9	4.7	4.6	4.5	4.9	5.6	89.7%
Agency	2.9	3.4	4.2	4.4	5.6	6.2	113.2%
Miscellaneous	6.7	5.3	6.3	15.0	11.1	16.0	139.1%
Chairman's allowance	0.8	0.8	0.9	1.0	1.1	1.3	69.1%
Entertainment and associated expenses	0.5	0.6	0.7	1.1	1.0	1.3	142.5%
Exps. of members of I.a's & repr at conference	6.3	6.7	7.3	13.0	10.4	11.3	78.8%
Exps. of members attending conferences abroad	0.6	0.6	0.7	1.1	0.9	0.9	47.9%
<b>Programme total</b>	<b>43.8</b>	<b>45.6</b>	<b>50.6</b>	<b>66.6</b>	<b>64.1</b>	<b>80.5</b>	<b>83.7%</b>
<i>Source: Department of the Environment, Heritage and Local Government.</i>							

## Annex 8 Miscellaneous Tables

<b>Table A8.1: Total Employment - Management/Clerical/Administrative 1996 - 2001</b>							
	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>% 2001-1996</b>
- Whole Time	6,760	6,855	7,077	7,702	8,426	9,921	46.8%
- Part Time	319	309	350	515	582	659	106.6%
- Total	7,079	7,164	7,427	8,217	9,008	10,580	49.5%
- Whole Time Equivalents	6,882	6,981	7,221	7,890	8,661	10,233	48.7%
<i>Source: Department of the Environment, Heritage and Local Government</i>							

<b>Table A8.2: Total Employment - Professional/Technical 1996 - 2001</b>							
	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>% 2001-1996</b>
- Whole Time	3,098	3,163	3,405	3,654	3,973	4,116	32.9%
- Part Time	15	15	11	33	31	110	633.3%
- Total	3,113	3,178	3,416	3,687	4,004	4,226	35.8%
- Whole Time Equivalents	3,106	3,171	3,410	3,662	3,983	4,128	32.9%
<i>Source: Department of the Environment, Heritage and Local Government</i>							

<b>Table A8.3: Total Employment - Other - 1996 - 2001</b>							
	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>% 2001-1996</b>
- Whole Time	15,401	15,256	15,445	15,297	15,456	16,242	5.5%
- Part Time	4,322	4,382	4,367	3,863	3,635	3,568	-17.4%
- Total	19,723	19,638	19,812	19,160	19,091	19,810	0.4%
- Whole Time Equivalents	16,503	16,345	16,538	16,313	16,446	17,264	4.6%
<i>Source: Department of the Environment, Heritage and Local Government</i>							

## Annex 9 Additional Details on Water Projections

### Galway City<sup>22</sup>

<b>Table A10.4: Projected Costs of Water Services by Local Authorities - € Million</b>				
	<b>2002</b>	<b>2005</b>	<b>2008</b>	<b>% Percentage</b>
Galway City Co.	4.41	10.00	10.00	126.8%
Source: Report of Local Authority / Department of the Environment, Heritage and Local Government Interface Sub-Group, October 2002.				

Approved expenditure was €9.1 million in 2004 – close to projected level for 2005

New schemes, the efficiency of these schemes, the extent of replacement of old schemes and the type of build, operate, manage and finance arrangements will affect costs

There are over 50 schemes in construction or planning that will affect costs

Key for Galway City are:

- Galway Main Drainage Knocknacarra Integration
- Carna/Kilkieran Water
- Galway Main Drainage Stage 3
- Galway City Water Supply Scheme

➤ Investment Programme is set out below:

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<sup>22</sup> Given sharing of services some of these schemes are shared with Galway County Council

<b>Table A10.5: Water Services Investment Programme 2004 – 2006 – Galway € Million</b>	
Schemes at Construction	11,742,000
Schemes to start 2004	90,134,000
Schemes to start 2005	127,280,000
Schemes to start 2006	128,332,000
Serviced Land Initiative	18,676,000
Rural Towns & Villages Initiative	14,115,000
Water Conservation Allocation	13,830,000
Existing Programme Total	404,109,000
Schemes Approved to Enter Planning	41,100,000
Programme Total	445,209,000
<i>Source: Department of the Environment, Heritage and Local Government</i>	

## Donegal

<b>Table A10.6: Projected Costs of Water Services by Local Authorities - € Million</b>				
	2002	2005	2008	% Percentage
Donegal Co.Co.	12.01	16.14	28.54	137.6%
<i>Source: Report of Local Authority / Department of the Environment, Heritage and Local Government Interface Sub-Group, October 2002.</i>				

- Approved expenditure was €15.8 million in 2004 – close to projected level for 2005
- Costs increasing to:
  - New Treatment Plant at Stranorlar;
  - New Treatment Plant at Carndonagh;
  - New Treatment Plant at Pollan Dam;
  - Transfer of group schemes to network;
  - Higher overall standards.

- New cost control procedure being put in place to review costs of the large number of water supply and treatment schemes
- Key projects are:
  - Donegal Bay Waste Water Management Scheme - Group A (DBO Contract - incorporating part of Donegal, Ballyshannon and Rossnowlagh Sewerage Schemes)
  - Letterkenny Sewerage Scheme
  - Ballyshannon Water Supply Scheme
  - Bundoran Sewerage Scheme
  - Gweedore Sewerage Scheme
  - Lough Mourne/Letterkenny Water Supply Scheme
- Investment Programme is set out below:

<b>Table A10.7: Water Services Investment Programme 2004 - 2006 - Donegal - € Million</b>	
Schemes at Construction	68,900,000
Schemes to start 2004	149,000,000
Schemes to start 2005	26,700,000
Schemes to start 2006	32,200,000
Serviced Land Initiative	3,327,000
Rural Towns & Villages Initiative	8,600,000
Water Conservation Allocation	25,253,000
Existing Programme Total	313,980,000
Schemes Approved to Enter Planning	4,000,000
Programme Total	317,980,000
<i>Source: Department of the Environment, Heritage and Local Government</i>	

## Fingal

**Table A10.8: Projected Costs of Water Services by Local Authorities - € Million**

	2002	2005	2008	% Percentage
Fingal Co.Co.	21.58	25.58	29.38	36.1%

*Source: Report of Local Authority / Department of the Environment, Heritage and Local Government Interface Sub-Group, October 2002.*

- Approved expenditure was €25.1 million in 2004
- Significant developments include leakage programme and new schemes
- Key schemes include:
  - Balbriggan/ Skerries Sewerage
  - Ballycoolen Storage Reservoirs
  - Balbriggan Water Supply
  - Blanchardstown Foul Sewer Network
- Investment Programme is set out below:

**Table A10.9: Water Services Investment Programme 2004 - 2006 - Fingal € Million**

Schemes at Construction	55,697,000
Schemes to start 2004	138,766,000
Schemes to start 2005	26,735,000
Schemes to start 2006	9,972,000
Existing Programme Total	231,170,000
Schemes Approved to Enter Planning	20,650,000
Programme Total	251,820,000

*Source: Department of the Environment, Heritage and Local Government*

## Cork County<sup>23</sup>

**Table A10.10: Projected Costs of Water Services by Local Authorities - € Million**

	2002	2005	2008	% Percentage
Cork Co.Co.	23.28	33.40	43.70	87.7%

*Source: Report of Local Authority / Department of the Environment, Heritage and Local Government Interface Sub-Group, October 2002.*

- Approved expenditure was €34.9 million in 2004 – above projected level for 2005
- Higher expenditure due to same factors as elsewhere in addition to transfer of water and waste water function from Town Councils
- Higher expenditure and revenue due to this factor
- New and replacement schemes will add further to costs including major schemes such as:
  - Cork Main Drainage (Treatment)
  - Cork Lower Harbour Sewerage Scheme
  - Skibbereen Sewerage Scheme
  - Youghal Sewerage Scheme

**Table A10.11: Water Services Investment Programme 2004 – 2006 - Cork County**

Schemes at Construction	100,740,000
Schemes to start 2004	103,300,000
Schemes to start 2005	97,400,000
Schemes to start 2006	43,670,000
Schemes Approved to Enter Planning	42,900,000
Serviced Land Initiative	34,884,400
Rural Towns & Villages Initiative	29,240,000
Water Conservation Allocation	25,235,000
Programme Total	542,519,400

*Source: Department of the Environment, Heritage and Local Government*

<sup>23</sup> Given the sharing of services, some of the same schemes are undertaken by both City and County.

## Kildare

<b>Table A10.12: Projected Costs of Water Services by Local Authorities - € Million</b>				
	<b>2002</b>	<b>2005</b>	<b>2008</b>	<b>% Percentage</b>
Kildare Co.Co.	14.20	17.56	18.80	32.4%
<i>Source: Report of Local Authority / Department of the Environment, Heritage and Local Government Interface Sub-Group, October 2002.</i>				

- Approved expenditure was €15.5 million in 2004, an increase of 10 % on 2003
- Budget is expected to continue to increase due to higher maintenance costs associated with enlarged investment programme
- Key for Kildare are:
  - Kildare WS Strategy, Phase 1 -North East Kildare Regional Water Supply Scheme
  - Kildare WS Strategy, Phase 1 -Trunk Watermains
  - Kildare WS Strategy, Phase 1 -Wellfield Contract
- Investment Programme is set out overleaf:



<b>Table A10.13: Water Services Investment Programme 2004 - 2006 - Kildare - € Million</b>	
Schemes at Construction	200,000
Schemes to start 2004	84,300,000
Schemes to start 2005	58,000,000
Schemes to start 2006	45,000,000
Serviced Land Initiative	3,672,000
Rural Towns & Villages Initiative	20,500,000
Water Conservation Allocation	1,300,000
Existing Programme Total	212,972,000
Schemes Approved to Enter Planning	4,000,000
Programme Total	216,972,000
<i>Source: Department of the Environment, Heritage and Local Government</i>	

## **Annex 10 Impact of Funding System on Local Authorities**

### **Impact of funding system on local authorities**

It is useful to examine the impact of the funding system on the resources available to local authorities. In this section the sources of funding for selected local authorities are reviewed.

### **Transfers to local authorities**

The table presents data on total transfers from central government to local authorities. Total transfers per capita are presented in column 2. The counties receiving the highest total transfers per capita are Leitrim (€927 per capita), Longford (€783 per capita), and Roscommon (€631 per capita). The counties receiving the lowest total transfers per capita are Kildare (€216 per capita), DL/Rathdown (€196 per capita), and South Dublin (€158 per capita). Data is also presented on general purposes transfers per capita (i.e. allocations from the Local Government Fund) and total transfers and general purposes transfers per household.

<b>Table A10.14: Transfers from Central Government to County Councils</b>				
	<b>Total Transfers per Capita</b>	<b>General Purposes Transfers per Capita</b>	<b>Total Transfers per Household</b>	<b>General Purposes Transfers per Household</b>
Carlow	338	159.2	1,037	489
Cavan	557	202.1	1,714	622
Clare	332	90.5	1,013	276
Cork	292	114.8	902	354
Donegal	489	166.8	1,501	512
Dun Laoghaire/Rathdown	196	145.7	585	435
Fingal	262	116.5	845	375
Galway	519	167.9	1,642	531
Kerry	354	128.6	1,083	393
Kildare	216	92.4	702	300
Kilkenny	368	157.6	1,157	495
Laois	372	185.7	1,177	588
Leitrim	927	370.0	2,629	1,050
Limerick	329	136.4	1,040	432
Longford	783	298.7	2,349	896
Louth	617	76.2	1,876	232
Mayo	464	181.0	1,384	540
Meath	293	132.3	942	425
Monaghan	493	174.5	1,553	550
Offaly	339	141.1	1,072	446
Roscommon	631	282.3	1,872	837
Sligo	433	181.0	1,282	536
S. Dublin	158	73.3	516	239
North Tipperary	437	180.6	1,321	546
South Tipperary	408	178.7	1,225	536
Waterford	518	226.1	1,584	692
Westmeath	343	168.9	1,057	521
Wexford	302	117.5	927	360
Wicklow	299	106.1	937	333

*Source: Department of the Environment, Heritage and Local Government and Indecon Calculations.*

The table below presents data on transfers from central government to city councils. Again, total transfers per capita are presented in column 2. The cities receiving the highest total transfers per capita are Galway (€406 per capita), Dublin (€369 per capita), and Waterford (€298 per capita). The cities receiving the lowest total transfers per capita are Cork (€236 per capita) and Limerick (€266 per capita). The average for all cities is €340. Data is also presented on general purposes transfers per capita and total transfers and general purposes transfers per household.

<b>Table A10.15: Transfers from Central Government to City Councils - €</b>				
	<b>Total Transfers per Capita</b>	<b>General Purposes Transfers per Capita</b>	<b>Total Transfers per Household</b>	<b>General Purposes Transfers per Household</b>
Cork	236	143.4	680	414
Dublin	369	120.7	1,010	330
Galway	406	95.8	1,267	299
Limerick	266	134.2	758	383
Waterford	298	111.4	869	324
Average	340	122.6	954	344
<i>Source: Department of the Environment, Heritage and Local Government and Indecon Calculations</i>				

The needs and resources model allocates resources based in an assessment of each local authorities needs and resources. These transfers are likely to be correlated with some measure of income per household at county level. The table overleaf ranks local authorities by allocations from general purposes per household with income per household. Overall counties that receive the highest transfers per household tend to have the lowest incomes per household. The relationship is not however exact with some notable exceptions e.g. Waterford, DL/Rathdown. There are also anomalies with faster growing counties not benefiting by as much as others.

<b>Table A10.16: Transfers from Central Government to County Councils</b>				
	<b>General Purposes Transfers per Household - €</b>	<b>Ranking Highest Transfers per Household</b>	<b>Income Per Household</b>	<b>Ranking Lowest Income per Household</b>
Leitrim	370	1	Laois	1
Longford	299	2	Roscommon	2
Roscommon	282	3	Donegal	3
Waterford	226	4	Mayo	4
Cavan	202	5	Carlow	5
Laois	186	6	South Tipperary.	6
Sligo	181	7	Kerry	7
Mayo	181	8	Wexford	8
North Tipperary	181	9	Sligo	9
Tipp.South	179	10	Longford	10
Monaghan	174	11	Kilkenny	11
Westmeath	169	12	Leitrim	12
Galway	168	13	Cavan	13
Donegal	167	14	Clare	14
Carlow	159	15	Monaghan	15
Kilkenny	158	16	Westmeath	16
Dun Laoghaire/ Rathdown	146	17	Meath	17
Offaly	141	18	Waterford	18
Limerick	136	19	Offaly	19
Meath	132	20	Wicklow	20
Kerry	129	21	Cork	21
Wexford	118	22	Louth	22
Fingal	116	23	North Tipperary	23
Cork	115	24	Galway	24
Wicklow	106	25	Limerick	25
Kildare	92	26	Kildare	26
Clare	91	27	D.Laoire/R..down	27
Louth	76	28	Fingal	28
S. Dublin	73	29	South Dublin	29

*Source: Department of the Environment, Heritage and Local Government and Indecon Calculations*

The table overleaf presents general purposes allocations per household per local authority. Leitrim receives the highest allocation per household (€1,050) and Louth the lowest (€232).

<b>Table A10.17: General Purposes Allocations per Household per Local Authority - €</b>	
Leitrim	1,050
Longford	896
Roscommon	837
Waterford	692
Cavan	622
Laois	588
Monaghan	550
North Tipperary	546
Mayo	540
Sligo	536
South Tipperary	536
Galway	531
Westmeath	521
Donegal	512
Kilkenny	495
Carlow	489
Offaly	446
Dun Laoghaire/Rathdown	435
Limerick	432
Meath	425
Cork city	414
Kerry	393
Limerick city	383
Fingal	375
Wexford	360
Cork	354
Wicklow	333
Dublin city	330
Waterford city	324
Kildare	300
Galway city	299
Clare	276
South Dublin	239
Louth	232
<i>Source: Department of the Environment, Heritage and Local Government and Indecon Calculations</i>	

Specific grants per households per Local Authority are presented in the table below. Louth receives the highest specific grants per household (€1644) while DL/Rathdown receives the lowest (€151).

<b>Table A10.18: Specific Grants per Household per Local Authority - €</b>	
	<b>Amount</b>
Louth	1,644
Leitrim	1,579
Longford	1,453
Galway	1,111
Cavan	1,092
Roscommon	1,035
Monaghan	1,003
Donegal	989
Galway city	968
Waterford	892
Mayo	844
North Tipperary.	776
Sligo	745
Clare	737
Kerry	690
South Tipperary	689
Dublin city	680
Kilkenny	662
Offaly	626
Limerick	608
Wicklow	604
Laois	589
Wexford	567
Cork	548
Carlow	548
Waterford city	544
Westmeath	536
Meath	517
Fingal	470
Kildare	402
Limerick city	375
South Dublin	277
Cork city	267
Dun Laoghaire/Rathdown	151
<i>Source: Department of the Environment, Heritage and Local Government and Indecon Calculations</i>	

This presents charges per household per local authority. Charges are highest in Dublin city (€1001) and lowest in Louth (€267).

<b>Table A10.19: Charges per Household per Local Authority - €</b>	
	<b>Amount</b>
Dublin city	1,001
Cork city	997
Galway city	971
Waterford city	936
Limerick city	805
Fingal	793
South Dublin	717
Limerick	700
Waterford	640
Laois	627
Mayo	613
Cork	577
Longford	569
Kerry	561
Westmeath	539
South Tipperary	529
Clare	524
Monaghan	505
Dun Laoghaire/Rathdown	498
Donegal	474
Carlow	470
Kilkenny	468
Wexford	449
Kildare	438
Roscommon	431
Cavan	430
Meath	425
Leitrim	424
North Tipperary	418
Wicklow	412
Offaly	389
Sligo	368
Galway	328
Louth	267
<i>Source: Department of the Environment, Heritage and Local Government and Indecon Calculations</i>	



The following table presents a ranking of expenditure per household per local authority. Leitrim spends the most per household (€3354) of all councils and Kildare the least (€1562).

<b>Table A10.20: Expenditure per Household per Local Authority- Euro</b>	
Leitrim	3,354
Dublin city	3,218
Longford	3,183
Galway city	2,948
Limerick city	2,673
Cork city	2,622
Roscommon	2,579
Fingal	2,525
Waterford city	2,514
Waterford	2,461
Cavan	2,434
Monaghan	2,375
Louth	2,332
South Dublin	2,310
Donegal	2,307
Mayo	2,296
Galway	2,190
Limerick	2,176
Clare	2,173
Laois	2,074
North Tipperary	2,071
Kerry	2,035
South Tipperary	2,032
Cork	1,986
Dun Laoghaire/Rathdown	1,924
Sligo	1,923
Kilkenny	1,908
Westmeath	1,816
Carlow	1,789
Offaly	1,741
Wexford	1,683
Meath	1,650
Wicklow	1,644
Kildare	1,562
<i>Source: Department of the Environment, Heritage and Local Government and Indecon Calculations</i>	

The impact on discretionary expenditure of the current system for some local authorities is striking. Expenditure on Recreation and Amenities 2002 varies by local authority.

**Table A10.21: Expenditure on Recreation and Amenities 2002**

	Expenditure - €	Population	Expenditure per capita - €
Carlow County Council	410,097	32,657	12.6
Cavan County Council	992,278	52,919	18.8
Clare County Council	1,351,006	81,678	16.5
Cork County Council	3,364,773	288,082	11.7
Donegal County Council	2,268,561	124,176	18.3
DL Rathdown County Council	3,252,943	191,389	17.0
Fingal County Council	11,494,923	196,223	58.6
Galway County Council	511,935	137,075	3.7
Kerry County Council	818,928	99,023	8.3
Kildare County Council	2,007,184	139,625	14.4
Kilkenny County Council	567,426	71,827	7.9
Laois County Council	667,834	58,732	11.4
Leitrim County Council	347,980	25,815	13.5
Limerick County Council	825,851	121,471	6.8
Longford County Council	282,661	24,228	11.7
Louth County Council	9,615	46,095	0.2
Mayo County Council	1,528,886	98,820	15.5
Meath County Council	426,744	126,442	3.4
Monaghan County Council	605,868	41,625	14.6
Offaly County Council	332,806	49,869	6.7
Roscommon County Council	1,073,915	53,803	20.0
Sligo County Council	997,988	39,749	25.1
South Dublin County Council	10,895,466	239,887	45.4
North Tipperary County Council	339,639	45,927	7.4
South Tipperary County Council	427,961	50,988	8.4
Waterford County Council	327,984	49,736	6.6
Westmeath County Council	1,932,182	64,548	29.9
Wexford County Council	332,827	98,546	3.4
Wicklow County Council	925,199	71,534	12.9
<b>Average County Councils</b>	<b>1,700,740</b>	<b>93,879</b>	<b>15</b>
<b>Average Borough Councils</b>	<b>449,313</b>	<b>16,099</b>	<b>30</b>
<b>Average City Councils</b>	<b>7,500,351</b>	<b>156,567</b>	<b>54</b>
<i>Source: Department of the Environment, Heritage and Local Government and Indecon Calculations</i>			

## Annex 11 Elasticity Estimates – Residential Water Services

### *Introduction*

The literature and research looking at the own-price elasticity of demand for residential water is extensive, and estimates are primarily based on econometric models. Estimates exist from a wide range of countries, and studies have tended to utilise a variety of models, assumptions, data and estimation strategies. Thus the range of price elasticity estimates across studies is wide.

The most extensive recent review of the literature on water demand elasticities was undertaken by Dalhuisen et al. (1993).<sup>24</sup> This study presented a meta-analysis of variations in price elasticities of residential water demand<sup>25</sup> and is discussed below. This section also presents findings from a number of other recent relevant studies.

### *Dalhuisen et al. (1993)*

Dalhuisen et al. (1993) reviewed water price elasticity of demand estimates across 64 studies, which included a total of 314 price elasticity estimates. The sample mean across these studies was -0.41. The median across all studies was -0.35. This median value is a better measure of the true average for the purposes of this study as it is resistant to the presence of outliers. For example, a number of studies presented estimates of the price elasticity of demand which were either implausibly low or implausibly high. Using the median estimate as a measure of the average across the sample of elasticity estimates is preferable in this situation. The standard deviation of estimates across all studies was 0.86. The study found that in line with theoretical expectations, most of the elasticity estimates were negative. The study also found substantial evidence across the research that water demand is price inelastic.

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<sup>24</sup> Price and Income Elasticities of Residential Water Demand: A Meta-Analysis, by Dalhuisen J.M.; Florax R.J.G.M.; de Groot H.L.F.; Nijkamp P., *Land Economics*, 1 May 2003, vol. 79, no. 2, pp. 292-308(17).

<sup>25</sup> Meta-analysis is a tool used to synthesize research results by analysing the variation in estimates across studies.

The study also presented a meta-analysis of variations in price elasticities of residential water demand across studies. Variation in estimated elasticities were linked to differences in:

- Theoretical microeconomic choice approaches;
- Differences in spatial and temporal dynamics;
- Differences in research design of the underlying studies.

The study found that variation in estimated elasticities were associated with differences in the underlying tariff system e.g. relatively high price elasticities were found in studies which looked at water demand under an “increasing block rate pricing” schedule.

After undertaking their meta-analysis, the authors concluded that residential water demand is relatively price-elastic and income elasticities are relatively inelastic, under some pricing schedules e.g. increasing block rate pricing.

### ***London Economics (2002)***

In this study<sup>26</sup>, a mixed-effects residential demand model for potable water was developed using a longitudinal data set. The data set comprised 1,065 households from the Sydney Metropolitan and Wollongong areas in Australia, covering sixteen quarters from 1990 to 1994. The purpose of developing the demand model was to use it as a base model to forecast water demand changes in response to changes in the tariff structure. The empirical results show that consumers do respond to the marginal price while faced with a multipart tariff structure. Therefore price can be considered as an influential tool in the implementation of demand management strategies. The study concluded however that the magnitude of price elasticity suggests that substantial increases in price would be required to influence demand.

The results under IV\ML estimations were found to be supportive of past theory. The estimated coefficient of price elasticity was -0.21, which is inelastic with negative sign as expected. (Since water is a necessity the degree of responsiveness of water with respect to price is less than unity.) The study also cited a range of estimates from previous studies – see overleaf.

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<sup>26</sup> OLS and Instrumental Variable Price Elasticity Estimates for Water in Mixed-Effect Models Under Multipart Tariff Structure, Nadira Barkatullah, London Economics, 2002.

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**Table A10.22: Elasticity Estimates of Various Studies**

Study	Marginal Price Elasticity Estimate
LE (2002)	-0.21
Billing and Agthe (1980)	-0.27
Jones and Morris (1984)	-0.18
Chicoine, Deller and Ramamurthy (1986)	-0.22
Nieswisdomy and Molina	-0.86
Source: London Economics (2002).	

***Renwick et al. (1998)***

In a report prepared for the California Department Of Water Resources, by Renwick et. al (1998)<sup>27</sup>, the coefficient on the marginal price of water was found to be negative and statistically significant. The estimated own-price elasticity of demand was -0.16, implying a 10 percent increase in price will reduce the aggregate quantity demanded by 1.6 percent. Isolating seasonal own-price elasticities indicated that the own-price elasticity of demand for the summer months (June - August) equals -.20.

The study points out that these own-price elasticity estimates are within the order of magnitude of previous studies: “these estimates range from -0.15 to -0.52 (Nieswiadomy (1992); Nieswiadomy and Molina (1989), Billings (1987), Moncur (1987), and Agthe et al. (1986)). The estimated own-price elasticities are slightly less than those previously estimated for urban areas in California, which range from -.22 to -.37 (Renwick (1996), Renwick and Archibald (1998) and Berk et al. (1980)).”

***World Bank (2003)***

A recent presentation by the World Bank<sup>28</sup> on a cost benefit analysis of a water supply project in the Baltics assumed that the price elasticity of demand for water by households was -0.5.

<sup>27</sup> Measuring The Price Responsiveness Of Residential Water Demand In California’s Urban Areas, Mary Renwick, Richard Green And Chester Mccorkle, May 1998.

<sup>28</sup> Cost Benefit Analysis of a Water Supply Waste Water Project in the Baltics: Lessons Learnt, Presentation to the “True Cost of Water” Seminar, Barcelona, June, 2003, Prepared by Anil Markandya, World Bank, ECSSD.

### Other Studies

A range of other studies were identified by Indecon which presented slightly lower estimates than the average presented in Dalhuisen et al. (1993). There are presented below and all relate to short-run price elasticity estimates.

<b>Table A10.23: Elasticity Estimates of Other Studies</b>	
<b>Study</b>	<b>Price Elasticity Estimate</b>
Carver and Boland (1969)	-0.1
Agthee and Billings (1974)	-0.18
Martin et al. (1976)	-0.26
Hanke and de Mare (1971)	-0.15
Gallagher et al. (1977)	-0.26
Boistard (1985)	-0.17
Thomas and Syme (1979)	0.18
Veck and Bill (1998)	-0.17
Source: Indecon Literature Review.	

### Conclusion

The literature and research looking at the own-price elasticity of demand for residential water is extensive. Econometric estimates exist from a wide range of countries, and studies have tended to utilise a variety of models, assumptions, data and estimation strategies. Thus the range of price elasticity estimates across studies is wide.

The most extensive recent review of the literature on water demand elasticities was undertaken by Dalhuisen et al. (1993). This study reviewed water price elasticity of demand estimates across 64 studies, which included a total of 314 price elasticity estimates. The median estimate across all studies was -0.35. This is slightly higher (in absolute terms) than estimates from a number of other studies considered in this section but nonetheless represents a prudent and plausible estimate of the responsiveness of water demand to price in Ireland.

## Annex 12 Elasticity Estimates – Residential Waste Services

### *Introduction*

The literature on the responsiveness of the demand for waste collection services to price is less extensive than for water demand, though some research does exist. This is presented in this section.

### *Estimates*

Morris (2003)<sup>29</sup> found that “the garbage collection fee elasticity for solid waste generation is estimated to be -0.22, while the garbage collection fee elasticity for garbage collection quantity is estimated at -0.34. The garbage collection fee elasticity for yard debris collection quantity is 0.52. The corresponding yard debris collection fee elasticities are -0.12 for solid waste generation, -0.74 for yard debris collection quantity, and 0.10 for garbage collection quantity.”

Overall Morris concludes that “these estimates all indicate that demand for solid waste generation and collection quantity are inelastic with respect to collection fees.”

Choe and Fraser (1998) review the economic literature that has addressed household waste management. They find from the empirical data that the reaction of households to kerbside charges is as expected: of the various elasticities, the own price elasticity of demand for household waste disposal services is generally very low. However, they point out that these low elasticities might reflect a low level of charging.

Albrecht<sup>30</sup> points out that a University of California study estimated the price elasticity of demand for solid waste service at 0.44, and an analysis by the City of Chicago found that waste production had a per capita income elasticity of 0.53.

Efaw<sup>31</sup> et al. conducted case studies of five communities in the US. They concluded that while choices between types and levels of sanitation service may be sensitive to price, the quantity of waste generated at the household level may not be sensitive to price. They found in one region that the price elasticity of garbage production was not significantly different than zero.

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<sup>29</sup> Sound Resource Management.

<sup>30</sup> Albrecht, Oscar W. "An Evaluation of User Charges for Solid Waste Collection and Disposal." Resource, Recovery and Conservation. Vol. 2. 1976/1977.

<sup>31</sup> Efaw, Fritz and Lanen, William. Impact of User Charges on Management of Household Solid Waste. Report prepared by Mathtech, Inc. August, 1979.

***Conclusion***

The literature on the price responsiveness of the demand for waste collection services is less extensive than for water demand, though some research does exist. Most studies tend to conclude that demand for solid waste generation and collection quantity are inelastic with respect to collection fees.