LOCAL DEMOCRACY RESEARCH CENTRE

Multiple grants and limited local discretion:

Local government finance in Ireland

LGiU

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1. Introduction

This publication forms part of a collaborative research project between Northumbria University and the Local Government Information Unit that is analysing international local government finance systems. Previous publications have considered Germany, Japan, Italy and Scotland, while forthcoming publications will consider Australia, France, Spain, South Africa and Sweden. In the context of international struggles to finance and efficiently govern sub-national service and policy objectives, the intention of the research project is to first consider what works best in international practice and then to transfer this knowledge so that policymakers can create more informed, effective and resilient policies tailored to unique national circumstances. The underpinning philosophy of the project is that greater international cooperation and knowledge sharing will enable countries, policy advisors and practitioners to adopt and adapt proven policies from other jurisdictions, reducing trial-and-error and even leap-frogging mistakes seen elsewhere. Similarly, by studying unsuccessful policies in other countries, governments can avoid wasting resource. More importantly, exposure to diverse policy approaches can foster innovation. Countries can learn from international practice and modify or enhance their existing policies in line with own cultural, political and economic contexts.

Investigations into local government finance typically focus on single aspects of a given system. For example, solvency, borrowing, equalisation, or various types of income-generating instruments. This analysis presents an alternative perspective, analysing local government in Ireland from a system perspective – the government structure, role, regulatory environment, capital financing, sources of income and spending, methods of relative needs assessment, and equalisation between location and the socio-political context within which the local government finance system sits. All of these aspects, and the multiple agents that influence, inform, and govern the local government finance system, create a whole that is more than the sum of its parts. It is this complex system of actors, regulations, and institutions that simultaneously enables and constrains local government finance in Ireland.

It would not be valid to argue that meaningful research into local government finance in Ireland does not exist, there is a rich tradition, among others. Turley and McNena (2016; 2019) have considered policy change and local government challenges in the 2010s; Quinlivan (2017) and Callanan (2020) have considered local government finance reform; Callanan (2018) has described the local government system while Reeves (2011) provided a historical perspective; Turley and Flannery (2013) and Robbins, Turley, and McNena (2014) have examined the impact of economic performance on local government budgets; Turley, Robbins, and McNena (2015) have speculated on the re-design of methods of financial performance measurement; Turley, Flannery, and McNena (2015) outline an alternative needs assessment framework; and Turley (2022a) has considered the evolution of property tax.

The objective of this research paper is to bring this research up to date and to give a fresh perspective situated in a complex-system-based understanding of local government finance. The complexity perspective considers the world to be dynamic, changing, and inherently uncertain, and is underpinned by the assertion that you cannot understand complex systems by looking at their individual parts or prioritising one agent or factor (Muldoon-Smith et al, 2025). To apply this perspective to local government finance in Ireland, the project examined the following features in each country:

- The structure of sub-national governance.
- Local authority functions.
- Local authority expenditure.
- Legal requirements regarding financial management.
- Sources and quantum of revenue, including central transfer grants.
- Powers concerning capital finance.
- Systems of equalising funding between territories.

This paper first locates local government finance in Ireland in its political and economic context. It finds that the financing of local government is shaped primarily by the Country's national political structures and the economic conditions of the day – these characteristics directly influence and constrain the potential for revenue generation, patterns of fiscal expenditure, and the need for fiscal autonomy. The paper then charts the sub-national government structure in Ireland, its relationship with the central government, and powers and responsibilities that the Irish local government holds. In recent decades, particularly since the mid-2010s, the system has evolved into a sector of enhanced centralisation and grant-based funding through repeated cycles of policy reform (Callanan, 2018; Turley & McNena, 2016). It then considers the regulatory environment in Ireland, finding that while Ireland has an embedded system of scrutiny and performance monitoring for local government, its wider public administration and arm's length contracted bodies can lack transparency and consistency. Having set out the structures of government and the regulatory framework, the research paper then considers capital financing and the sources of revenue available to respective local authorities.

The research finds that capital, and in effect, revenue (or day-to-day) spending is constrained within an environment of central authorisation and EU budgeting principles and while there has been a degree of enhanced decentralisation of financial powers in recent years, through reform of the local residential property tax (LPT), this exists within a broader context of local service and funding responsibility being centralised. In terms of spending and degree of own budgeting, the main spending area concerns housing and building, roads, and environmental services but with a significant loss in spending on water services in recent years. This is quite different from other international examples where it is more common to find social care, health, and education dominating local needs and spending.

This is because of the centralisation of these same services in Ireland since independence which largely continued up to the early 000s. However, a central finding of the research is that this reveals a tension between the traditional economic view (particularly the benefit-taxation model) that services are best allocated at the scale within which they are provided (Musgrave, 1959) and an alternative narrative that centralising some large services enables local government to then have more successful autonomy in other service areas. The contention within this alternative viewpoint is that the sheer financial weight of funding social care and education especially, constrains local authority autonomy elsewhere. However, the contrary argument is that local discretion is correspondingly reduced pro-rata if you have an overall smaller budget.

The contention in this research is that such centralisation has left local government underpowered in international terms and subservient to higher levels of government – reducing the capacity of local governments to adapt to local circumstances. The research then concludes with a consideration of the methods for territorial equalisation in Ireland, detailing the evolution from a system of vertical and horizontal reallocation to one of vertical allocation only. Like in most international locations, methods of financial equalisation are deployed in Ireland because of variable resource demand and local collection rates of commercial and property tax – the aim being to ensure broad levels of public service delivery across the country.

2. Originality and significance

In adopting the complex system perspective, this research introduces a novel theoretical framework for analysing local government finance, offering a fresh perspective that challenges traditional economic models – one that has not been applied to Ireland before. The perspective challenges the traditional analysis of central-local relations that tend to exist in a static and often adversarial policy perspective. The examination reveals a new tension between the call for local allocation of resources and respective autonomy. Moreover, by leveraging interviews with policy experts in Ireland the research reveals inefficiencies in the allocative practice of administering central government grants. While Ireland has gone through a process of centralisation of public finance, there are now several hundred centrally controlled bespoke grant schemes that local government typically must bid for. Many are delivered on a yearly budgetary cycle. This bidding process is a significant resource drain on local governments (that are struggling to employ and retain their workforce). This contrasts with more common and less splintered block grants seen in other jurisdictions. In addition, the research includes one of the first critical examinations of the local property tax (LPT) reform, as it interacts with the wider national system of local government finance.

The research provides a significant contribution to both academic scholarship and public policy debate by providing the first comprehensive empirical investigation of Ireland's local government finance system in the post-LPT reform era by offering new insights into financial sustainability, equity, and efficiency. The findings should have practical implications for policymakers, local authorities, politicians, and public finance practitioners, offering evidence-based findings to inform the management of local government finance in Ireland and associated policy debate and parliamentary discussion. By identifying weaknesses and ambiguities in current models of local government funding, the research informs ongoing debates around residential and commercial property tax and intergovernmental transfers and grants – directly informing the potential design of more resilient and equitable fiscal systems. Furthermore, this research advances international research on local government finance – for those studying the subject and for those considering policy-based reform.

3. Methodology

To examine this situation, a mixed research methodology has been developed. Taken together, the empirical and secondary information products lay the foundation for creating a system-based perspective of Ireland rarely seen in international literature. The empirical research is based on expert interviews with local government finance stakeholders and academics. Respondents were identified based on their expert knowledge (derived from experience in various tiers of Government, oversight organisations, and academia) of

local government finance in Ireland. Identifying respondents was not straightforward due to the relative dearth of stakeholders with system-wide knowledge and the generally hidden nature of the sector. To overcome this issue, the research made use of the Local Government Information Unit member network.

The interview process included:

- Initial scoping interviews to provide context for the research and direction toward relevant resources and information on practice within the local government finance system in Ireland.

- The research team then returned to the respondents in the respective study locations with findings, to cross-reference and sense-check the evidence leading to a valuable process of draft refinement and gap analysis.

This rigorous process of cross-referencing was essential in gaining consensus around the explicit technical detail and implicit nuance of the inner workings of local government finance in Ireland. Alongside interaction with the stakeholders in each location, the research examined information from secondary academic literature, government documentation, and legislation regarding the legal structures and institutions underlying local government finance systems in Ireland. Concurrently, data was sourced from Government ministries and allied organisations to reflect the quantity and proportion of income sources in Ireland. This secondary information was a vital source of two-way triangulation and cross-verification with the findings from the interview respondents.

4. Political economy in Ireland

Ireland's economy is relatively liberal, it has comparatively low corporate tax policies and a pro-business regulatory environment. Low corporation tax (and the general business environment) has enticed several major technology, pharmaceutical, and finance-based multinationals in recent years – Dublin, in nominal terms, is one of Europe's richest cities. Economic buoyancy has not been a permanent feature of Irish public finances, there is clear cyclicality. During 2008-2013 revenue from developer contributions declined sharply while government grants were cut under conditions of austerity. In addition:

- There are significant pockets of deprivation, social unrest, and appeals for urban renewal. But it should be noted that alongside the pro-business environment, Ireland also has a robust welfare state.

- Characteristic of most international local government finance systems, there are economic disparities between respective locations. Larger cities (for example Dublin and Cork) can generate more commercial rates and property tax while less buoyant locations (for example many rural areas) rely on the redistribution of public finances through equalisation (Turley & McNena, 2016).

- While the Irish Government operates with a fiscal surplus, local government is under-resourced and faces difficulty administering the myriad grants on offer from the central government. In addition, the budget process has been criticised previously for its length and fragmentation (Association of Irish Local Government, 2019).

- The implication is that while the central government in Ireland has available several hundred separate funding grants, they are very difficult to bid into, may require co-financing thus reducing local discretion generally, and given the focus on annual allocations, resources can be unspent.

In contrast to other nations, regional government has little significance or authority in the governance and administration of local public services. The regional level aims to act as a facilitating and coordinating body for areas of supra-local and national interest. They have a limited range of powers. This recognition of local government as the primary delivery arm of local services can be seen in contrast to the current situation in England where there is considerable confusion and ambiguity in the role and power between local and combined authorities.

5. Ireland: Subnational governance structure

Ireland is a parliamentary democracy and a highly centralised but hugely disaggregated (Siloed) unitary country. Responsibility, power, and funding are largely set out in legislation – primarily the Local Government Act 2001 and the Local Government Reform Act 2014. The subnational governance structure is relatively small on the international scale in terms of its functions and relative fiscal capacity. However, in its own right, Ireland is buoyant in fiscal capacity, an enviable position in international terms. The central state exercises a significant degree of influence in local authority governance in the form of the Department of Housing, Local Government and Heritage.

While, more recently the Local Government Act 2019 set out proposals for directly elected mayors in Cork City Council, Limerick City and County Council, and Waterford City and County Council[1] (Local Government Information Unit, 2023), there is no recognised regional level of governance, and local government is heavily subordinate to the national government. There is a set of regional public organisations subordinated to the central level comprising three major Regional Assemblies: Northern & Western, Eastern & Midlands, and Southern, established under the Local Government Reform Act 2014. The Regional Assemblies primarily administer European Structural and Investment Funds, coordinate regional planning and economic development and develop associated regional spatial and economics strategies – to link local development plans with national policy objectives.

The system of local government in Ireland can be considered across two tiers of administration: 1) local authorities and 2) municipal districts. There are thirty-one authoritative entities which comprise: twenty-six County Councils (administering rural and regional areas), two City and County Councils (Limerick and Waterford administering cities and their surrounding rural areas, and three City Councils (Dublin, Galway, and Cork). While these constitute three different types of entities, they all function as a unitary authority with councils, generally, fulfilling the same set of functions relating to housing and community, road and transportation, urban planning and development, and recreational and cultural activities (see Section 6 for more detail). Each county is typically divided into several municipal districts, administering governance at the town and rural scale on matters including local infrastructure and community services. In the

1. The proposal for a directly elected mayor in Limerick City and County was passed. In 2021, the Irish Government approved draft legislation for the directly elected mayor with executive responsibilities currently held by the local authority's chief executive. A subsequent Bill passed in 2023 (Local Government Information Unit, 2023) and John Moran was elected as Mayor in June 2024.

Dublin Authorities of Dublin City, Fingal, South Dublin, and Dun Laoghaire Rathdown the authorities are organised on an area basis. This is also the case in Cork City while in Galway City a ward framework is in place. The Health Service Executive (HSE) administers healthcare at regional levels (under the oversight of the Department of Health). Ireland comprises nine Community Healthcare Organisations that administer community health and social services. The national executive administers primary care, mental health, social care, and public health. Public hospitals are managed within six regional networks to facilitate coordination.

Education and Training Boards (ETBs) deal with education and training at the regional level (under the oversight of the Department of Education). Each is overseen by a board that is made up of local authorities, teachers, parents, and the voluntary sector. In contrast to European neighbours, where health, education, and at times policing-based administration and expenditure is a sub-national concern, they remain a central concern in Ireland.

The administrative structure of government in Ireland is shown in Figure 1.

Figure 1: Sub-national governance structure in Ireland

The role of local government was granted constitutional recognition in 2001 with the introduction of Article 28a in the Irish Constitution. Until 2014, local government constituted a two-tier structure of city or county councils at the upper level and subordinate town councils. The structure was reformed following the "Putting People First" government programme in 2012 (Environment, Community and Local Government) in which town councils were abolished and the number of local authority bodies was reduced from 114 to 31 councils. Rather than seeking to expand the functions of local government, the new structure was intended to simplify local government administration whilst attaining efficiency and democratic accountability (Geisler, 2019). This process led to an amalgamation of local governments and, in some cases, the merging of urban and rural local authority administrations, such as the merger of Waterford City Council and Waterford County Council into a single council (now Waterford City and County Council).

There are 95 municipal districts in Ireland. Such districts do not have corporate standing, being a part of the relevant local authority. At local elections, the councillors elected to a county or city and county council (plenary council) are initially elected as councillors of the municipal districts that are contained within the local authority area. The locally elected councillors are therefore responsible for performing a number of reserved functions at the municipal district level (though these are relatively limited) as well as monitoring the implementation of public programmes (Institute of Public Administration, 2020). The municipal district members act, in this case, as a decision-making sub-formation of the overall council concerning their municipal district area (Department of Housing, Local Government and Heritage, 2021).

The regional level has little significance or authority in the governance and administration of local public services. This is due to the relatively small size of the country and the recognised role of local authorities as the principal means of delivering local public services (albeit with far fewer powers than comparable local government systems in other European Countries). As noted earlier, the regional level aims to act as a coordinating body for areas of supra-local interest. Their function is to co-ordinate, promote, or support strategic planning and sustainable development and promote effectiveness in local government and public services – this reflects their limited range of powers which exist mostly in areas such as spatial planning and economic development. These assemblies were created under the Local Government Reform Act 2014, in which the previous eight Regional Authorities and two Regional Assemblies were dissolved and replaced with the 3 current regional assemblies. Membership of a regional assembly consists of elected representatives from the local authorities within each region (Department of Housing, Local Government and Heritage, 2021) while the financing of the Regional Assemblies is typically borne by the constituent local authorities (European Committee of the Regions, 2020a).

6. Responsibilities (shared and exclusive)

As a centralised unitary state, the central government takes a major role in local levels of governance. The Government in Ireland retains full legislative powers and exercises the majority of administrate powers with, as noted earlier, the sub-national government having a low level of autonomy compared to other European countries overseen by strict oversight mechanisms from the relevant central government (European Committee of the Regions, 2020a). These powers are often exercised by the Department of Housing, Local Government and Heritage, or other relevant Government Departments and Agencies. The relationship between local and central government can be considered as centralised oversight, policy guidance, and funding dependency to maintain consistency in administration and governance and align local and national policy.

Within this heavily centralised but severely siloed framework, local authorities provide a range of services to residents and the local community (European Committee of the Regions, 2020a; Department of Housing, Local Government and Heritage, 2021):

- Housing and building: the enforcement of minimum standards, and assistance with provision of housing for those unable to house themselves.

- Planning permission and development control: Local authorities decide whether to grant or refuse planning permission for building and development. Each local authority also creates a Development Plan, which under the recently approved Planning and Development Act 2024, sets out the relevant Council's planning

policies on a ten-yearly cycle. However, such plans must be proofed against national objectives under the aegis of the Planning Regulator.

- Essential services such as roads and bridges, fire services, and drainage. Uisce Éireann (Irish Water) is now responsible for public water and wastewater services.

- Environmental protection concerning pollution control and animal control: Local authorities issue licenses for waste disposal and emissions into the air from plants. It collects or arranges for the collection of domestic and other waste, and it monitors the environment for signs of pollution. It also issues licenses for keeping dogs and licenses for horses within its area. Local authorities also control dangerous places and buildings and maintain graveyards and burial grounds.

- Recreation, artistic and cultural amenities facilities, and services, including the provision of swimming pools, greenways, parks, open space, library service, community centres, and civic improvement such as monuments.

Local authorities are the main social housing providers and manage housing accommodation stock for tenants eligible for social housing. Additional support is provided through the Housing Assistance Payment (HAP), which is managed by Limerick City and County Council as a shared local government service alongside enforcement of minimum standards in private rented accommodation. Local authorities also oversee policy decision-making in planning permission and development, including building control, change of uses, and outlining the future development plan of the relevant local government jurisdiction. Maintenance services are provided to roads and drainage, fire services, etc., and enforcement roles for environmental protection and recreational services (Department of Housing, Local Government and Heritage, 2021) while there are also related advisory and policy-making roles.

The democratically elected local council fulfils an additional fundamental role, which is to represent local communities, voice local concerns and respond to local needs. The role is underlined by the principle of subsidiarity in the European Charter for Local Self Government, that is the provision of services should be undertaken at the lowest possible level, which was signed by Ireland in 1997. The actual application of the principle of subsidiarity at the local level is limited as the authorities have the very limited power to control only a select few services. By way of comparison, many local authorities in other OECD countries have responsibility for a much broader range of public services in the local community interest – Reflecting this context Ireland scores lowest in the EU Decentralisation Index, 27th out of 27 member states (European Committee of the Regions, 2020b).

The functions of local government are divided into two categories: reserved functions and executive functions. With the exception of Limerick, reserved functions are the responsibility of the elected council, whereas executive functions are the responsibility of the chief executive. In the case of Limerick an executive mayor holds many of the responsibilities of the chief executive with remaining executive functions being in the hands of a director-general. Councillors (and the Limerick Mayor) are elected in local elections that take place every 5 years and the number of members of each local authority is fixed by law – this depends mostly on the population of the local authority territory. Decisions on reserved policies (resolutions) are passed by a majority vote of the elected councillors during council meetings and include areas such as annual budgeting, housing

policy decisions, and environmental protection. On the other hand, the chief executive/director general is appointed by the Council on the recommendation of a central independent appointment process called the Public Appointments Service. They are appointed to make decisions on executive functions and remain in office for a term of 7 years (which can be extended by an additional 3 years). With the assistance of a senior management team, the chief executive/director general manages the local authority on a day-to-day basis and makes decisions on policy areas including transport, social housing, economic development, and local authority governance.

Decisions on reserved functions may be made at the full council (plenary level) and the municipal district level. Schedule 3 of the Local Government Reform Act 2014 stipulates the functions that may be decided by each level of local government. In practice, the municipal district members act as a decision-making sub-formation of the overall council with respect to their municipal district area and perform some of the elected councillors' reserved functions (Department of Housing, Local Government and Heritage, 2021). The local authority may also pass byelaws in areas they are empowered to do so by the Oireachtas (Irish Parliament) following a two-month notice period to the local community. Byelaws are often exercised to regulate policy areas such as parking zones and parking fines, litter control and the control of horses and dogs.

7. The regulatory regime

Ireland is a constitutional republic with its fundamental rules on legislation and execution of powers set out in a written constitution. The Irish Parliament (the Oireachtas) is the national legislature of Ireland. It is made up of two houses, the House of Representatives (Dáil Éireann) and the Senate (Seanad Éireann) alongside the largely ceremonial President of Ireland. The Irish Constitution confers that the power of the State comes from the Irish people and the power to govern is divided between the Legislature, the Executive and the Judiciary. The Constitution sets out how these state powers should work and puts in place checks and balances to prevent institutions from having too much power. The institutional regulatory regime is divided into three separate branches:

- **The Legislature** holds the powers to make laws which are attributed to the Irish Parliaments under Articles 15 to 27 of the Constitution. The main function of the Oireachtas is to make such laws and amend existing laws. Bills are debated by the Dáil and Seanad and must be passed by both before the President can sign the bill into law. Any member of the Dáil or Seanad can publish a Bill, but the Bill must have the support of the government if it involves spending public money. Members of the Dáil are elected in general elections (held at least every 5 years) and members of the Senate are either appointed by the Taoiseach or elected in Seanad elections which take place after a general election. The Seanad electorate includes the elected members of each local authority.

- **The Executive** includes the power to execute or carry out laws with the assistance of the civil service, police force and military. Article 28 of the Constitution gives executive power to the Government. The Government was usually formed by the largest party in the Dáil after a general election. In recent decades two or more parties have formed a coalition government, with the head of Government (a Taoiseach) nominated by the Dáil. The Government is answerable to the Dáil and, in practice, requires the support of the majority of its members to function as intended.

- **The Judiciary** oversee the interpretation and application of the law to disputes and conflicts that arise between the State and the individual or amongst individuals. Articles 34 to 37 of the Constitution give this power to the courts (there are 5 in total). Judges are appointed by the President, who is advised by the Judicial Appointments Advisory Board on suitable candidates.

Counties are the historical administrative divisions that form the basis for the Irish local government system. While the Irish Constitution was adopted in 1937, local governments were only recognised in the Twentieth Amendment of the Constitution Act 1999 following approval by the electorate in a national referendum. In addition to the 2001 law and 2014 reforms, the operation of local authorities is conferred by a range of legislation that often deals with specific services such as housing, roads, planning and waste (Local Government Information Unit, 2023).

While the respective local government acts define the structure, role and financial management of local authorities, the National Oversight and Audit Commission (NOAC), established under the Local Government Reform Act 2014, scrutinises the performance of local authorities and their finances. The NOAC is complemented by the Local Government Audit Service (LGAS). The LGAS is part of the Department of Housing, Local Government and Heritage and conducts annual audits of local authority accounts in line with the statutory Code of Audit Practice. It publishes subsequent audit reports that assess compliance with financial standards alongside areas for improvement.

This aspect is often further underpinned by the local councillors who have the power to approve budgets at the local level. In addition, a local authority audit committee reviews the statements issued by the local government auditors and the consequent chief executive response. More broadly the committee in each authority reviews financial and budgetary processes and controls within the respective local authority. While NOAC/LGAS/local audit committees play different roles, they complement each other to form a system-wide process of scrutiny and accountability.

Within this system of accountability and oversight, local authorities must prepare annual budgets that are approved by the previously mentioned elected councils. They must maintain balanced budgets without planned expenditures exceeding available revenue and publish financial statements to be audited annually by the LGAS. Ultimately, budget adoption is a reserved function of the local authority. The budget format follows the process set out by the Accounting Code of Practice (ACOP) and the General Accounts Working Group (GAWG), appointed by the Public Accounts Committee (PAC).

In addition, to budget documentation (part of the annual budget-setting process), local authorities must also publish Annual Financial Statements on an accrual basis. These statements should include a Statement of Comprehensive Income (income and expenditure account), a Statement of Financial Position (balance sheet), a Statement of Funds Flow (funds flow statement) and a Statement of Accounting Polices (Association of Irish Local Government, 2019). The LGAS then audits these statements and sends the completed audit to local authority members for consideration. The relevant local government auditor is assigned a district and when carrying out their duties are independent of the Department of Housing, Local Government and Heritage.

Following the completion of an audit, three statements are issued:

- The Audit Opinion: indicates whether the Annual Financial Statement presents fairly the financial position of the relevant local authority.
- The Audit Report: the auditor details any issues that should be considered further – the local authority chief executive must respond to this formally.
- The Management Letter: an auditor can issue a management letter highlighting problems with financial procedures and controls and make recommendations for improvement.

While devising budgets is a reserved function of the local council, due to the structure of local government and high reporting demands there is close collaboration with the central level. Despite a formal scrutiny process, if the budgeting process fails, central governments have very few sanction mechanisms available and rely on negotiating corrective measures with local authorities. As a last resort, the Department of Housing, Local Government and Heritage can assume control over local budgeting in cases of extensive failure from the local council, but this is a rare occurrence in practice (Geisler, 2019).

8. Capital finance

In Ireland, capital expenditure is defined as the acquisition, construction or enhancement of significant fixed assets including land, buildings, and equipment that will be of use or benefit for more than one financial year (Department of Public Expenditure and Reform, 2012). Capital expenditure is typically funded through capital grants, development levies, and loans, with additional support from internal funds and other income sources, including revenue generated from property sales. In 2024, the Department of Housing, Local Government and Heritage (2024a) estimated that local authorities will have spent €6.39 billion on capital expenditure (alongside €7.4 billion on revenue expenditure).

Following a period when capital spending fell quite significantly, between 2003 and 2013, there has been a steady increase coincident with the National Development Plan 2021-2030, which includes €165 billion of capital investment to 2030 (Parliamentary Budget Office, 2023) The largest areas of expenditure included housing, roads, environmental, recreation, and development.

Capital expenditure is typically funded through capital grants, development levies and loans and other local income sources – for example, property sales. Illustrating this situation, the Dublin City Council €2.4 billion Capital Development Programme 2022-24 was funded on the following basis:

- 71.7% of central government grants
- 10.7% from loans
- 9.3% for levies
- 2% from development income
- 6.3% other income.

(Dublin City Council, 2021)

The borrowing powers of local authorities are very limited – they are only able to finance capital expenditures using debt which must be approved by the Department of Housing, Local Government and Heritage (the legislation for which is covered under the Local Government Act, 2021) while the EU fiscal rules and oversight, particularly under the Stability and Growth Pact, limits the borrowing potential for local authorities (European Committee of the Regions, 2020c, Turley & McNena, 2019). Subject to this permission from the central government, local authorities in Ireland borrow either from financial institutions or, more likely, from state agencies such as the National Treasury Management Agency or the Housing Finance Agency or an international lender such as the European Investment Bank or the Council of Europe Bank. Given these restrictions and the very limited spending responsibilities for local authorities (a factor generally applying to all local government systems within the European Union), the level of outstanding debt of the Irish local government sector is small, relative to central government debt but also local government debt in many other countries (Turley & McNena, 2019).

9. Sources of revenue

As one of the most fiscally centralised countries in the EU, the Irish local government has been criticised for having a relatively small basket of income sources, little capacity for local revenue generation and generally little discretion in decision-making, as it relates to the spending of local revenue (European Committee of the Regions, 2020). Instead, local authorities in Ireland are heavily reliant on the central government for grant income (often myriad), with significant ring-fencing and constraints on nationally defined income sources.

Local government expenditure is financed through four main sources:

- **Government Grants/Subsidies**: In recent years, government grants have made up an increasing share of local government income, accounting for 45% of income in the 2024 budget. Grants can be split into two distinct categories: general grants, given to local authorities without any restrictions on how they can be spent and, specific grants, ringfenced for a specific service and typically used to finance national policy objectives. General grants are provided through the Local Government Fund (LGF), established in 1999 under the Local Government Act 1998. The primary source of revenue for the LGF is the local property tax (LPT).

  Specific grants are generally paid by various government departments to the local authority in respect of particular services and schemes, such as housing and road maintenance (Department of Housing, Local Government and Heritage, 2024b). It is in this latter area, ring-fenced grants, that local government currently finds challenging. While Ireland has not been immune from austerity in recent decades, in international terms available grant income in Ireland (both tied and untied) has significantly increased. However, it is notable that ringfenced grants have grown exponentially – following analysis of local authority annual estimates which are produced by the Department for Housing, Local Government and Heritage each year and the government's own webpages there are many hundreds of existing grants.

- **Commercial Rates**: Commercial rates make up the second biggest source of income, accounting for €1.8 billion (25%) in 2024. In Ireland, the rate of commercial tax can vary between locations. A form of property tax, commercial rates are

levied on commercial and industrial property. Local authorities are obliged by law to levy rates on commercial property that have been entered into the valuation list by the independent Commissioner of Valuation. The taxation value of commercial property is decided independently by the Valuation Office (with the right of tribunal appeal) and the Annual Rate of Valuation (ARV) is then applied which is decided by local authority councillors as part of the budgetary process.[2]

The Irish Government has recognised the need to improve the administration of commercial tax following the Local Government Rates and Other Matters Act 2019. The bulk of the new provision came into effect in early 2024, including movement to a new single annual bill, amendments to the valuation list (e.g. due to addition, removal or building change) will be immediate, and the provision for pro-rata liability (Department of Housing, Local Government and Heritage, 2024b). There have been recent calls for commercial tax reform, considering alternative collection methods (involving turnover, profits or income) but there has been little progression because of the stability of the property-based tax and the perceived volatility of the alternative methods (Turley and McNena, 2019).

In addition, a recent report by the Irish Government Commission on Tax and Welfare (Foundations for the Future) has also recommended the replacement of the existing property-based tax with a site value tax (SVT) based on the principles of land value tax (Foundations for the Future, 2022). However, while arguments in favour of land value tax are regularly made the tax model itself is rarely utilised in other international local government finance systems. This is because of valid concerns associated with the pragmatic method of valuation and consistency in collection (Muldoon-Smith, 2019).

- **Goods/Services**: Charges for goods and services accounted for 25% (€1.8 billion) of budgeted income in 2024. Local authorities have powers to charge for services they provide, such as housing rents, waste charges, parking charges, and planning application fees. In the majority of cases, the fee is set locally although some may be fixed at the national level (Department of Housing, Local Government and Heritage, 2024b).

- **Local Property Tax (LPT)**: LPT comprised 7% (€504 million) of local government funding in 2024. The tax was introduced in 2013 (Local domestic rates were abolished in 1978) and is one of only two tax revenues available to local authorities alongside commercial rates (above). LPT is unusual in that it is a self-assessed charge on the market value of residential properties. Taxpayers submit a tax return stating the self-assessed value as of 1st November 2021 which falls into one of 19 valuation bands with a corresponding charge basic rate (Revenue, 2024). In levying rates, local authorities have the power to vary the basic rate upwards or downwards by 15%[3]. While this power exists, it was initially rarely used and typically only downward. However, in 2024 twenty-

2. It is important to note that commercial rates are a local tax, the rate is set locally, and the proceeds are retained locally. This is in contrast to a jurisdiction like England where the rate for commercial rates (business rates) is set nationally and in large part still collected nationally – in this sense business rates at least in part can be considered a financial transfer in England.
3. After initial budget setting, local authorities must hold a public consultation for 30 days if they intend to vary the basic rate and must then consider the findings of consultation before completing the budget process.

two local authorities varied this rate upward[4], four made no change and only four varied it downward – typically those in the dominant Dublin area[5].

Traditionally, local authorities levied and collected LPT but is now collected on behalf of the local government system by the Revenue Commissioners. Collected funds were then transferred to the Local Government Fund. Until 2023, 80% of a local authority's LPT receipts were retained locally and the remaining 20% was transferred to an equalisation fund (see Section 11). However, latterly 100% of the estimated receipts are retained locally (Department of Housing, Local Government and Heritage (2024a). However, Turley and McNena (2019) highlight criticisms of the LPT that coalesce around its yield and rate. The current formulation of the LPT does not yield much revenue (7% of total revenue).

The breakdown of local government revenue between 2021-2024 is shown in Table 1.

Table 1: Breakdown of local government revenue between 2021-2024

Overall Local Government Revenue Income								
	2021 Budget		2022 Budget		2023 Budget		2024 Budget	
	€'m	% of income	€'m	% of income	€'m	% of income	€'m	% of income
Government Grants/ Subsidies	2,217	38	2,454	40	2,764	42	3,269	45
Commercial Rates	1,671	29	1,713	28	1,768	27	1,838	25
Goods/ Services	1,486	26	1,537	25	1,598	24	1,614	22
Local Property Tax	422	7	415	7	426	6.5	504	7
"The Local Property Tax (LPT)figure of €504m shown in the table above is in relation to 'own use' or discretionary LPT only, as shown in Table A of the local authority's revenue budget. An additional €167.4m of the overall €671m LPT allocation is ring-fenced for the provision of housing and/or road services in certain Local Authority areas (self-funding)."								

(Figures derived from Local Authority Budgets 2023 and 2024 documents, published by the Department of Housing, Local Government and Heritage.)

4. With an upward range between +5 - +15% with twelve authorities increasing by the maximum 15% and a downward range between -7.5 and -15%.
5. The Dublin local authorities typically plan to raise this tax each year, but a coalition of local councillors vote for the tax to be reduced.

10. Degree of own budgeting and accounting

Table 2 describes the breakdown of local authority spending in Ireland. Housing and Building accounted for the biggest proportion of spend, followed by Road, Transportation and Safety, Environmental Services, Development Management, Recreation and Amenities, Water Services, Agriculture, Food and Marine and Miscellaneous Services. This is notably different to many other countries in Europe where social care, health and education tend to be the biggest expenditures at the local level – these matters are not local responsibilities in Ireland.

Table 2: Breakdown of local government revenue expenditure

Spending Type	Spend	Proportion
Housing and Building	2,739,973,917	37.2%
Road, Transportation and Safety	1,351,552,586	18.6%
Environmental Services	889,063,230	12.2%
Development Management	696,147,342	9.5%
Recreation and Amenity	636,498,359	8.8%
Water Services	424,608,695	5.8%
Miscellaneous Services	470,591,555	6.4%
Agriculture, Food and Marine	55,311,630	1%
Total	7,263,747,313	100%

(Figures derived from local authority budget estimates 2024 published by Department of Housing, Local Government and Heritage.)

The research indicates that one of the biggest challenges in the funding and payment of service and local demands is the fragmentary nature of the national approach to grant funding. Successive governments have introduced so many be-spoke funding schemes that it is difficult to align the national system of grants with on-the-ground local needs. It is also worth noting that these central grant schemes allow the Minister of the day the discretion to achieve their own objectives in accordance with the Programme for Government e.g. Active Travel. The result is a local financial strategy that is heavily reliant on the time horizons and stipulations of government grants, rather than local demand.

11. Territorial equalisation methodology

A tension regularly exists between the decentralisation of responsibility (spending) and revenue (the ability to spend) resources (Turley and McNena, 2019). While responsibility is regularly devolved in line with central policy priorities the local ability to pay for these responsibilities is inevitably variegated – the result is horizontal fiscal imbalances. While imbalance in local spending needs and local resources creates horizontal imbalances (Turley and McNena, 2019). This situation is apparent in Ireland and demands a system of intergovernmental grants to fill the resource gap and even out resource disparities between locations.

The territorial equalisation methodology in Ireland, first implemented in 2000, is implemented through a system of gap-filling. Vertical transfers are made from the Local Government Fund via general grants, which are designed to perform equalisation of resources accounting for local authority expenditure and revenues (Turley and McNena, 2021). While based on a system of relative needs assessment it has been criticised for its lack of transparency and methodological ambiguity. Until 2023, equalisation involved significant horizontal transfers funded through the Local Property Tax (LPT). As introduced in Section 9, 80% of the LPT proceeds were retained locally, with 20% pooled in the equalisation fund and redistributed to make up the shortfall between retained LPT and the minimum amount of funding available to local authorities (the LPT baseline).

The reform of the LPT means that equalisation funding will now be met entirely by the Central Government in Ireland (Turley, 2022b). The reform has also led to an increased surplus for local authorities with an LPT income consistently above their baseline – they can retain this surplus up to a maximum of 22.5% of the pre-variation yield. The remainder of the surplus is used to fund housing and road provision in local areas. In 2025 the estimated LPT yield of €552 will be supplemented by €144 million equalisation funding from the Exchequer (Department of Housing, Local Government and Heritage, 2024c). Following the outcome of a review into the operation of equalisation in 2023 (Department of Housing, Local Government and Heritage, 2024d) a further €75.4 million was added into baseline funding to ensure no local authorities would receive a reduction in baseline funding (a no reductions rule).

The limited autonomy of local government in terms of their functions means that equalisation funds are comparatively lower in Ireland than internationally. The increasing centralisation of services, starting with healthcare in the 1970s up to the more recent nationalisation of water, has resulted in a reduction in local government expenditure and, thus, less need to redistribute funds. Whilst the centralisation of certain services pragmatically reduces the expenditure burden of local authorities, it is in direct contrast to the principle of subsidiarity set out in the European Charter. While there is some economic justification in international literature for the central government to manage the overall distribution of income and ensure stability of the overall local government finance system (Musgrave, 1959; Turley and McNena, 2019) there is less consensus around the validity of central government controlling the allocation of resources. Considered on the basis of economic efficiency, local government is considered best placed to match public needs with resource and service delivery – linking tax paid with benefit received (Turley and McNena, 2019).

12. Conclusion

Local government spending in Ireland is one of the smallest in international terms. In large part, this is because public spending is heavily centralised, with significant responsibility (around health, social care, education and water) held by central government and government agencies. This is part of a general trend in recent decades that has seen power and responsibility removed from local government. Perhaps due to the generally buoyant economic conditions in Ireland (that underpins substantial government grants to local government) there has been very little outcry about this situation.

In contrast to other international countries that have called for and then moved towards more decentralised methods of working over recent decades, Ireland has evolved differently with powers and funding typically moving from local to central government

with local authority boundaries being consolidated and rationalised. This new local-central relationship that has been designed to simplify and create efficiency has several consequences:

- Centralised funding systems lack transparency and democratic accountability – spending discretion is far removed from the people most likely to receive such funding.
- This displays a lack of trust in the local government's competence to carry out significant local functions typically seen in other international locations.
- Not only are local authorities reliant on government grants for their basic functions, but they are also dependent on central government budgeting processes and time frames – often culminating after the beginning of the financial year.
- Heavy centralisation coupled with a buoyant economy and political intention to spend these proceeds of strong economic growth has led to multiple central grants for local government that are difficult to administer and bid for – an allocative inefficiency. Inevitably those local authorities with the most employment-based resources and expertise are best placed to succeed in the bidding process.

However, there is a competing narrative that centralising these major funding pressures removes the most significant funding pressures at the local level, enabling local authorities to spend what little funding they do have at their discretion on more place-based activity. They also have considerable confidence that they will receive enough funding to cover their local service demands. This is a relevant argument in other countries, particularly for the UK where local government is currently grappling with disproportionate social care and education costs that are preventing spending on non-statutory services.

While local government in Ireland is certainly underpowered in comparative international terms, there is clarity around its role in sub-national governance. The regional government in Ireland has few powers compared to local government (more of a secondary coordinating tool for centralised functions) which is seen as the primary means of local working. However, local government is significantly underpowered in international terms which limits its ability to manage and adapt to local concerns. These same conclusions were reflected in the recent Congress of Local and Regional Authorities investigation (2023) into Ireland's alignment with the European Charter of Local Self-Government. This investigation found that local government in Ireland has:

- A limited share of public affairs and own financial resources.
- A lack of formalised and regular consultation with central government.
- Has extensive and detailed administrative supervision.

And, in line with the findings in this research, recommended that:

- Irish authorities transfer additional functions to local authorities.
- Introduce a system of formal and regular consultations between central and local government.

- Reduce centralised supervision of local authorities to enhance trust.
- Increase the number of own resources that can be used at the discretion of local government.
- Increase the share of non-earmarked grants.

In particular, this final recommendation, relating to the reduction of earmarked grants would go some way to responding to the central finding in this research – improving the currently fragmented grant system.

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Contact

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