Submission to Stakeholder Consultation on Local Government Funding

July 2018

1. Introduction

Dublin Chamber welcomes this opportunity to make a submission to the Department of Housing, Planning & Local Government in respect of its review of Local Government funding and thanks Department officials for their regard for business concerns.

As the representative body for businesses in the Greater Dublin Area, Dublin Chamber is the largest Chamber of Commerce in Ireland. The Chamber's cross-sectoral membership base comprises 1,300 firms, spanning the spectrum from micro-enterprises to multinationals, and supporting 300,000 jobs nationally. This gives the Chamber a keen insight into the needs of both businesses and their employees, informing a holistic view of the commercial environment in which economic competitiveness and quality of life are complementary.

Dublin Chamber will take this opportunity to demonstrate that Ireland's capital city has suffered from severe underinvestment relative to other regions of the country, negatively affecting both business competitiveness and social cohesion. Dublin Chamber wishes to highlight a number of concerns with respect to local authority funding, and the use of Local Property Tax specifically; and requests that these concerns be taken into full account by the review group as it presents recommendations to the Minister.

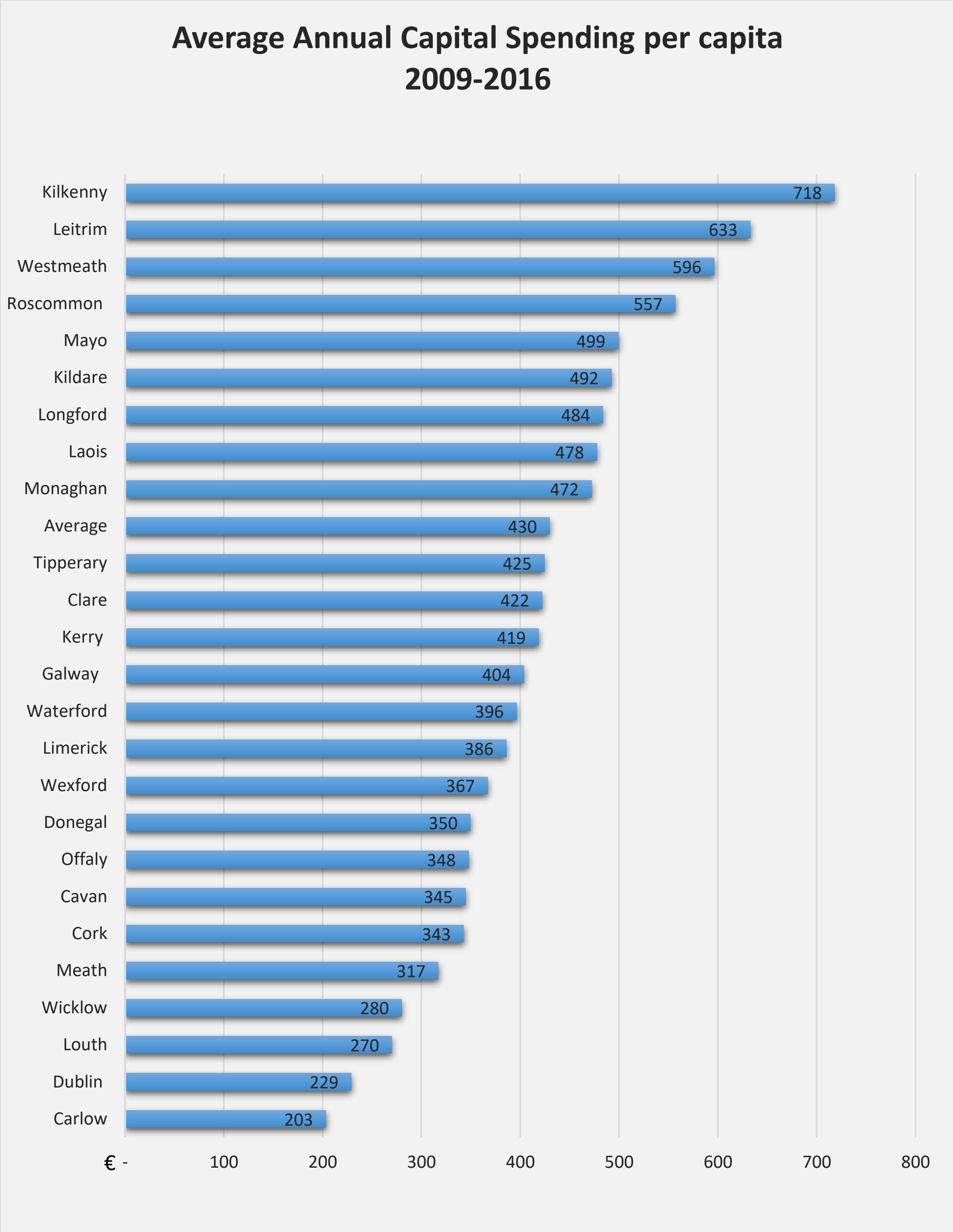
2. Underfunding in Ireland's Capital City

The Greater Dublin Area is the engine of the Irish economy and the largest population hub on the island, home to over 40% of the population of the State.[1] Dublin's success is critical to Ireland's success; and this reality should inform fiscal policy at both national and local level. However, analysis conducted by Dublin Chamber demonstrates that, far from being a favoured location for Government investment as is popularly thought, the four Dublin Local Authorities receive significantly less than everywhere else in the country on a per resident basis. Overall, the capital city region has received far less investment in its productive infrastructure than is required for it to remain a competitive location in the long-term.

Despite the considerable demographic pressure on its productive and social infrastructure, Dublin received the second lowest level of capital investment per head from central government of any county from 2009-2016. Dublin received less than half of the national average over the period, and less than a third of the amount received by higher per capita recipients such as Kilkenny, Mayo, and Sligo.

[1] CSO Press Statement 14 July 2016, Census 2016 Preliminary Results

Table 1: Average Annual Capital Spending per capita 2009-2016[2]



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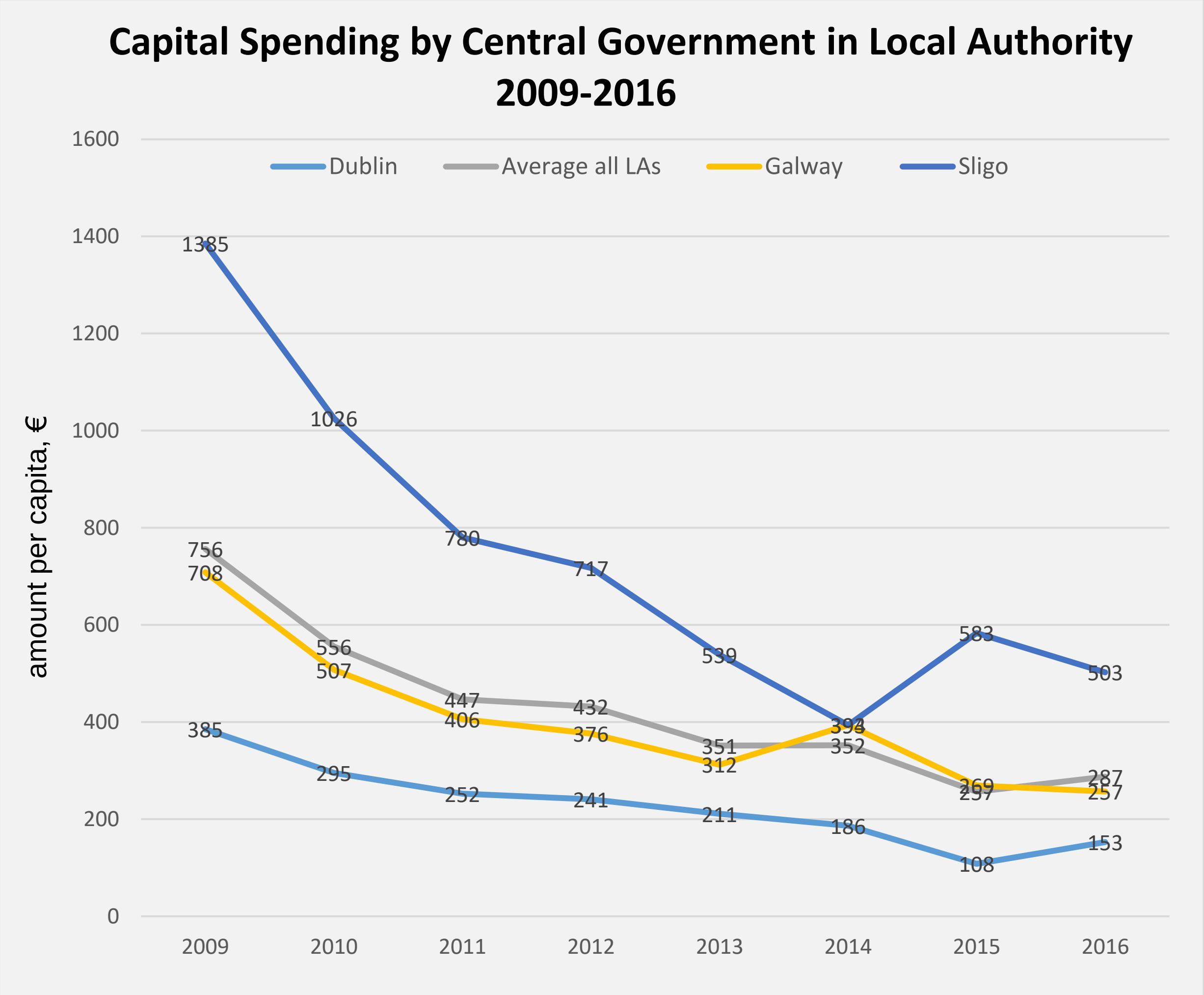
[2] Includes 1) Income Received by Local Authorities for Capital Spending in Six Budget Service Categories including transport (37%), housing and urban regeneration programmes (34%) and general purpose grants (16%); 2) allocations from Transport Infrastructure Ireland for National Roads in each county. Does not include: 1) One-Off Capital Spending on National Infrastructure Projects (such as Hospital Buildings and Primary Care Centres) that is difficult to geographically localise and mainly takes the form of availability payments on PPPs.

As illustrated in Table 2 below, the pattern of underfunding has been consistent over period examined.

Table 2: Capital Spending by Central Govt. in Local Authority 2009-2016



Severe levels of underinvestment have occurred in Dublin’s local infrastructure and capital maintenance, including in Transport, Environment, Development Management, Education and Employment Services, Recreation and General Purpose Grants. Dublin also received below-average current funding for local services and below-average total spending by central government in the 2009-2016 period.

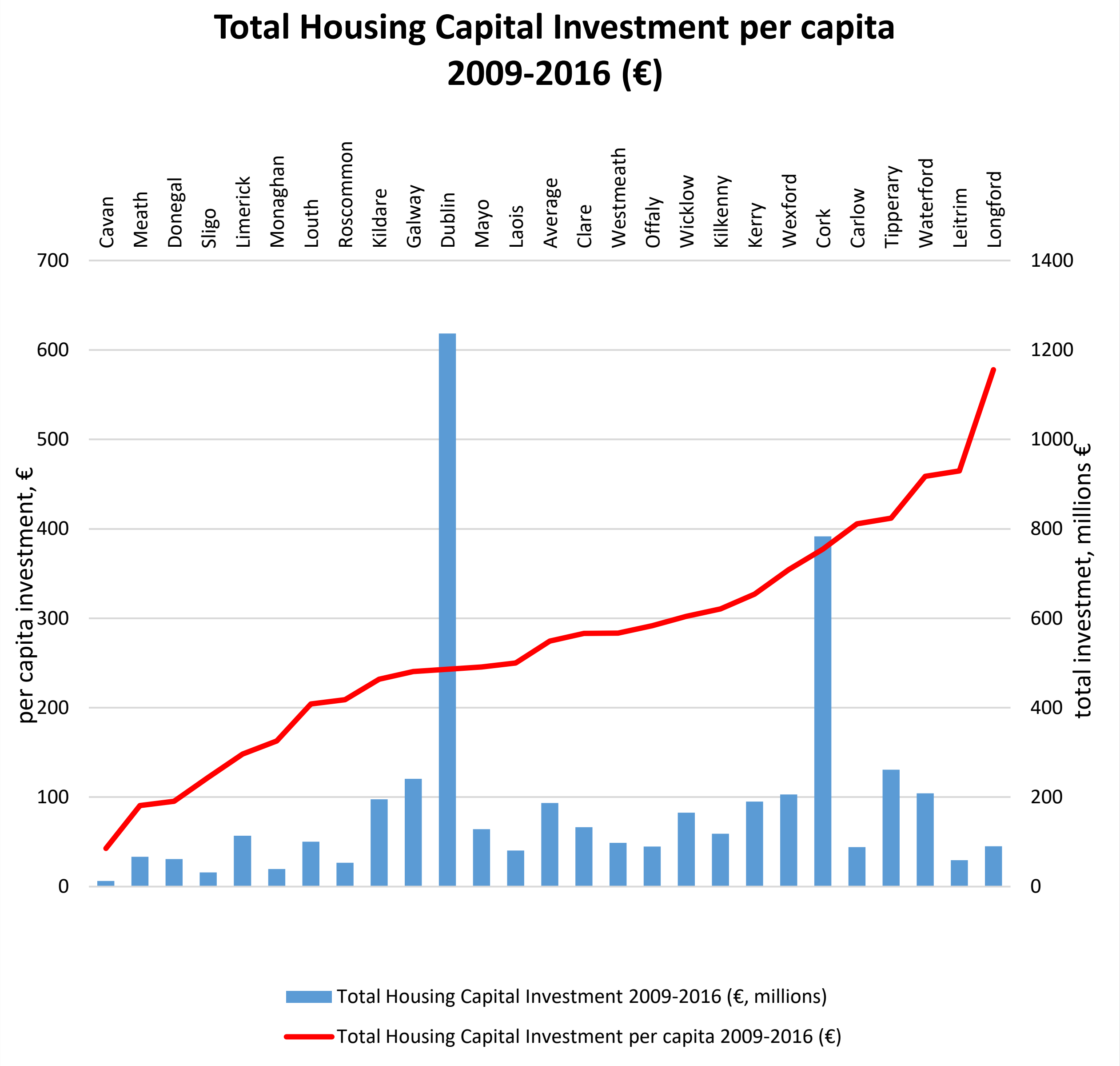
It must be noted that this analysis is based solely on Dublin’s resident population. It does not take account of those resident outside of Dublin who utilise Dublin’s infrastructure every working day. A further 116,000 people commute into Dublin to work on a daily basis, and many more travel into the city for education and public services.[3] Moreover, the capital city is the reception point for the overwhelming majority of Ireland’s tourist population, with Dublin Airport receiving 82% of overseas visitors to Republic of Ireland,[4] and 68% of holidaymakers

[3] Analysis of CSO Census 2016 data privately supplied to Dublin Chamber.
[4] Dublin Airport, *North Runway: Potential to connect, compete and grow*, p. 4, https://www.dublinairport.com/docs/default-source/North-Runway-Docs/potential-to-connect-compete-and-growd6ad438b73386836b47fff0000600727.pdf?sfvrsn=0#page=4

spending time in Dublin before travelling on to other parts of the country.[5] Taking these additional pressures into account, it is clear that the abovementioned spending figures are merely a conservative representation of the inadequacy in funding for Dublin.

Perhaps the most egregious example of underinvestment has been in the Housing category. Dublin is the epicentre of the accommodation crisis. It has proportionally the highest social housing waiting lists in Ireland, and the highest number of households reliant upon social housing supports such as HAP or Rent Supplement. Yet despite having the greatest housing needs in the country, Dublin has received one of the lowest capital investments in housing by the Central Government over the 2009-2016 period.

Table 3: Total Housing Capital Investment per capita 2009-2016 (€)



[5] Tourism Ireland, Facts & Figures 2016, p. 4, https://www.tourismireland.com/TourismIreland/media/Tourism-Ireland/Press%20Releases/Press%20Releases%202017/Facts-and-Figures-2016.pdf?ext=.pdf#page=4

This anomaly is both socially inequitable and economically unsound. If sustained, it will exacerbate existing social problems and undermine Dublin's international competitiveness as a city in which to live, work, invest, and do business.

Whilst the present consultation is focussed primarily on the allocation of non-infrastructure funding, the situation outlined above must be taken into consideration during the review.

Dublin Chamber considers this review of Local Government funding an important opportunity to begin to redress the situation outlined above. The Chamber requests that the urgent need to ameliorate the situation in the capital city should be fully considered by the review group and reflected in its recommendations to the Minister.

3. Local Retention of Local Revenue

In our recent policy paper on the review of Local Property Tax[6], Dublin Chamber broadly welcomed the findings of the 2015 Don Thornhill report. Whilst acknowledging the complexities involved in determining the appropriate yield from LPT, the Chamber agreed that policy should aim for 'relative stability' in LPT liabilities over both the short and medium terms.[7]

Dublin Chamber particularly welcomes the Thornhill report's focus on establishing a clearer connection between Local Property Tax and local services, a theme discussed in Chapter 5,[8] and itemised in the Executive Summary as follows:

> **Recommendation 8**: Local authorities should be more engaged in supporting the Office of the Revenue Commissioners in the LPT process and also to provide the general public and individual households with programmatic and other useful information on how they spend the public funds available to them and the proportionate contribution made by the LPT.
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> **Recommendation 9**: Over the medium term, the Government should consider moving to a system whereby local authorities retain 100 percent of the LPT revenues raised in their areas. Authorities with weaker tax bases would consequently need to receive supplementary Exchequer funding.
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> **Recommendation 10**: In line with the retention of 100 percent of LPT revenues by individual local authorities, LPT should be re-designated as the Local Council Tax (LCT) to emphasise that it is a tax raised to pay for local council services.

Dublin Chamber has long argued that revenues raised locally should be spent locally. This is vitally necessary to address the aforementioned underfunding issues in Dublin, and also to improve popular 'buy-in' of local government. The experience of commercial ratepayers is instructive in this regard. Despite the scale of the business contribution to local services

[6] Dublin Chamber Submission to Department of Finance re Review of the Local Property Tax, May 2018, https://www.een-ireland.ie/eei/assets/documents/uploaded/general/Dublin%20Chamber%20LPT%20Review%20Submission%20May%202018.pdf

[7] Don Thornhill, Review of the Local Property Tax (LPT), July 2015, http://www.budget.gov.ie/Budgets/2016/Documents/Review_of_Local_Property_Tax_pub.pdf

[8] Don Thornhill, Review of the Local Property Tax (LPT), July 2015, p. 48, http://www.budget.gov.ie/Budgets/2016/Documents/Review_of_Local_Property_Tax_pub.pdf#page=48

through commercial rates, just 1 in 4 businesses report knowing what their commercial rates are used to pay for.[9] Unsurprisingly, in this context, only a third of businesses (34%) believe that they get value for money in return for their commercial rates.[10] This points to a wider 'disconnect' between taxpayers and local government, which is unlikely to be limited to the business community.

The implementation of Recommendations 9 and 10, relating to a transition towards 100% retention of LPT revenues in each local authority in the medium-term, would represent an important step in the right direction. The Chamber concurs with the Thornhill assessment that this would enhance accountability at local level and thereby strengthen local democracy.[11]

In recent times, the Finance Strategic Policy of Dublin City Council has also argued for local control over locally generated taxes, and has called for this in its submission to the Commission on Taxation.[12]

Dublin Chamber asks that the review group recognise the urgent need to allow the capital city to reinvest locally generated revenue, both to improve local services and local infrastructure. The Chamber strongly endorses Recommendation 9 of the Thornhill report and support for this proposal be given serious consideration by the review group, and by Government, along with Recommendations 8 and 10.

4. Factors to Guide Allocation of Local Government Funding

The consultation document released by the Department of Housing, Planning & Local Government names a number of general indicators and data sources that could be applied across the local government sector to review baselines and guide the allocation of non-infrastructure funding.

It suggests that possible indicators could include;
- Demographics such as population, population change and/or make-up of the population;
- Physical characteristics such as size/area, the physical environment, the rural - urban divide and population density;
- Socio-economic indicators such as deprivation or unemployment rates;
- Income generating capacity such as the commercial rate base or recourse to other charges.

Basic demographic factors, namely population and projected population growth should be foundational in determining allocation of funding to local authorities. The new methodology must ensure that non-infrastructure funding is allocated in such a way that respects and reflects where Irish people live in their greatest numbers, and where demographic growth

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[9] Dublin Chamber Quarterly Business Trends Survey Q4 2016
[10] Dublin Chamber Quarterly Business Trends Survey Q4 2017
[11] Don Thornhill, Review of the Local Property Tax (LPT), July 2015, p. 48, http://www.budget.gov.ie/Budgets/2016/Documents/Review_of_Local_Property_Tax_pub.pdf#page=48
[12] Dublin City Council, *Funding the Dublin City Region: Issues, Strategic Options & Implications*, p. 63, http://www.dublincity.ie/sites/default/files/content//YourCouncil/AbouttheCouncil/CouncilSpendingRevenue/Documents/FundingtheDublinCityRegion.pdf#page=65

should be directed in order to meet Ireland's spatial development goals in line with the National Planning Framework. 'Project Ireland 2040 – The National Planning Framework' (NPF) aims to achieve effective regional development in Ireland by encouraging the development of cities as regional growth centres.[13]

Dublin Chamber is particularly concerned by the potential impact of 'income generating capacity' from commercial rates being selected as a factor for funding allocation. The adoption of this criterion has the potential to damage both business competitiveness and quality of life, while also undermining the National Planning Framework.

Dublin Chamber supports a responsible fiscal policy. We recognise that maintaining a diverse range of Government revenue streams is a key marker of the fiscal prudence that underpins long-term economic stability and success. For example, the requirement for institution of a property tax as part of the EU/IMF Programme of Financial Support for Ireland was appropriate in this context.

However, the Chamber notes with regret the tendency amongst local authorities towards overreliance on the collection of commercial rates revenue as a means of balancing accounts. The manner in which the discretionary variation in LPT has been exercised by Local Authorities since January 2015 is indicative of the attitude prevalent among local representatives, with three out of four Local Authorities in the Dublin Region choosing to reduce LPT by the full 15% permitted last year, without announcement of a concomitant proportional reduction in commercial rates obligations.[14] Meanwhile, commercial rates paid by the business community accounted for over a third (37%) of revenue last year in the Dublin City Council area, for example, and over 40% of income the previous year.[15] This policy trend likely owes more to electoral concerns than to a disinterested regard for budgetary prudence and the economic environment.

The inclusion of 'income generating capacity from commercial rates' as an allocating factor would almost certainly lead to a relative decline in funding for Irish cities, at precisely the moment when Government has declared its intention to pursue a policy of intelligent urbanisation through the NPF. There is evidence that social well-being in Ireland's urban areas has already been negatively affected by the lack of a clear urban policy and the well-documented underfunding of Dublin. Both among high-income and low-income groups, levels of life satisfaction are lower in Irish cities than in rural areas.[16] Other research has found that Dublin has one of the lowest levels of self-reported life satisfaction in Ireland.[17]

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[13] Government of Ireland, Project Ireland 2040 National Planning Framework, http://npf.ie/wp-content/uploads/Project-Ireland-2040-NPF.pdf

[14] Fingal County Council was the exception, reducing LPT obligations by 10%.

[15] Dublin City Council, Financial Statements 2016-2017, http://www.dublincity.ie/sites/default/files/content/YourCouncil/AbouttheCouncil/CouncilSpendingRevenue/Documents/Dublin%20City%20Council%20AFS%202016%20Audited.pdf; http://www.dublincity.ie/sites/default/files/content/YourCouncil/AbouttheCouncil/CouncilSpendingRevenue/Documents/Full%20Unaudited%20Accounts%202017.pdf

[16] Eurostat, Statistical Books, Urban Europe: Statistics on Towns, Cities & Suburbs 2016 Ed., p. 267

[17] UCD Briefing Paper for Comhar, Clinch et al, Understanding & Measuring Quality of Life in Ireland: sustainability, happiness and well-being, p. 56.

The decline in funding would, in turn, exacerbate the abovementioned tendency among local authorities by encouraging an even greater reliance on commercial rates revenues to meet the growing social needs of Ireland’s cities.

As large population centres, cities offer a high degree of market access by definition, and are more likely to have larger concentrations of businesses than less densely populated areas. Penalising urban businesses will only damage national economic performance. Therefore, it is vital that areas with a large potential revenue base from commercial rates do not lose out under the new system. Any update to the methodology should be informed by the need to meet social needs while maintaining business cost competitiveness in Ireland’s capital.

In light of the above, Dublin Chamber strongly advises that the existence of a potential large revenue base from commercial rates should not be used as a basis for determining allocation of local government funding. The Chamber recommends that basic demographic indicators, namely population and projected population growth, should be the overarching guide to allocation of Local Government funding in Ireland, in line with the National Planning Framework.