



**Circular Fin 05/2016**

Head of Finance,

5 September 2016

**Re: 2017 Budget meeting and other budget matters**

Dear Head of Finance,

Further to the Local Government Act 2001 (as amended), the Local Government (Financial and Audit Procedures) Regulations 2014 and the Local Government (Financial and Audit Procedures) (Amendment) Regulations 2015, I am directed by the Minister for the Housing, Planning, Community and Local Government to refer to the 2017 Budget meeting and other budgetary matters.

**1. Budget 2017 - Prescribed Periods**

The prescribed periods that apply for the holding of 2017 Budget meetings are as follows:

**All local authorities and joint bodies:** 1 November 2016 to 30 November 2016.

The prescribed periods that apply for the holding of a meeting of a municipal district to consider the draft budgetary plan are as follows:

**All local authorities:** 12 October 2016 to 18 November 2016

As set out in the Local Government (Financial and Audit Procedures) (Amendment) Regulations 2015 the meeting with a municipal district must conclude no later than 10 days prior to the local authority budget meeting.

**2. Consultation on main budget at Municipal District/local area level and Schedule of Municipal District Works**

**2.1 Consultation on main budget at Municipal District/local area level**

While the Municipal District system has only been in operation for a short time, there are already clear indications of significant benefits being achieved. The elected members perform a wide range of important reserved functions at Municipal District level including consideration of draft budgetary plans for the district and amendment of same; adoption of a schedule of works for the district and; adoption of statements on the economic elements and the community elements of the Local Economic and Community Plan for the consideration of the local authority.

The Municipal District system seeks to maximise efficiency while retaining a high degree of local community-focussed decision making and democratic representation, thereby respecting the principle of subsidiarity. Municipal districts now cover the entire territory of each county, reflecting European norms. As well as creating a more rational and comprehensive structural arrangement, the system is resulting in more effective and community-focussed decision making and implementation.

## **2.2 General Municipal Allocation and Draft Budgetary Plan**

In keeping with these principles, and as required by Section 102(4A)(a) of the Local Government Act 2001 (as amended), local authorities are required, as part of the budgetary process, to ensure there is formal consultation with municipal district members for each municipal district in the council's functional area in the preparation of the draft local authority budget. It is open to each local authority (in consultation with the relevant municipal district) to agree the precise format this consultation may take (e.g. Budget Workshops; Budget Strategy Meetings etc). The consultation should afford members the opportunity to input to the development of the local authority budget and identify particular priorities for that municipal district for the year ahead for consideration within that overall budget, informed, where possible, by data in relation to the expenditure levels in each municipal district in the current year.

This consultation should also apply to equivalent sub-structures (local area level) within the city authorities, Cork, Dublin and Galway, and the 3 county authorities within the Dublin area, Dún Laoghaire-Rathdown, Fingal and South Dublin, again leaving the exact format to individual authorities in consultation with the relevant members.

Local authorities are also requested to ensure that the consideration of the draft budgetary plan at municipal district level be appropriate and meaningful, having due regard to role of the municipal district. Your attention is drawn to the template for the draft budgetary plan (Appendix 3 of Circular Fin 05/2014) which should be customised or amended as appropriate.

## **2.3 Schedule of Municipal District Works**

Section 103A of the Local Government Act 2001 (inserted by section 58 of the Local Government Reform Act 2014) provides that, following the adoption of the annual budget, a schedule of proposed works of maintenance and repair to be carried out during the financial year in each municipal district shall be prepared, for adoption by the municipal district members. The Schedule of Municipal District Works (SMDW) is, in effect, a plan of works that prioritises and apportions the use within each municipal district, of funding provided in the overall local authority revenue budget for particular purposes. Consideration should also be given to replicating this approach in the city authorities and the 3 county authorities within the Dublin area.

In the case of local authority areas which do not have municipal districts it is considered that it would be good practice to prepare a schedule of works in any event to identify where works will be prioritised in the local authority area during the year.

Local authorities are reminded that:

- Preparation and adoption of the SMDW is a mandatory requirement.

- The SMDW must be prepared under the direction of the Chief Executive.
- The SMDW is to be prepared as soon as may be following the adoption of the annual budget, for consideration and adoption by resolution, with or without amendment, by the municipal district members.
- If not adopted by the municipal district members, the SMDW reverts to the full council for the elected members consideration and adoption, with or without amendment.

By virtue of being adopted at district level, the SMDW represents an important enhancement of subsidiarity in local government. The provision is fundamentally important to the new system of governance at sub-county level, giving effect to measures set out in the *Government's Action Programme for Effective Local Government, Putting People First*. The SMDW is among the most important new reserved functions introduced by the Reform Act 2014.

Detailed guidance on the preparation and adoption of the SMDW was issued in Circular LG 27/2014 (FIN 21/2014) which local authorities are requested to adhere to. Please note that the Department intends to review this guidance in the near future.

### **3. Report to the Department of Finance - Preliminary estimate of capital and current income and expenditure for the forthcoming financial year: Requirement for Expenditure Benchmark purposes**

Fin 05/2014 and Fin 08/2015 set out the requirement that each local authority provide a report to the Department setting out its preliminary estimate of current and capital income and expenditure for the forthcoming financial year. This requirement remains in place for 2017. However the reporting template has been amended with an earlier return date of 23<sup>rd</sup> September to the Department. The local government sector data will then be consolidated by the Department of Finance with information from all parts of general government. As the date of preparation of this report predates the budget meeting, it should include the best estimate of revenue and capital income and expenditure to the end of the current year and for the next financial year 2017. Any known policy changes impacting on the income and expenditure categories between 2018 and 2021 should be noted on the template.

**This report assumes additional importance for 2017 as it will form the basis of assessing the sector's impact on the Expenditure Benchmark rule as required under the Stability and Growth Pact.**

#### ***Implications for expenditure management of the local government sector***

*The Local Government Sector is subject to the public expenditure rules set out as part of the management of the Stability and Growth Pact similar to the rules applying to all Government Departments by way of Ministerial ceilings. Local authorities are included in General Government Expenditure and therefore expenditure can only grow beyond the rates set if extra revenue raising measures are taken (e.g. Government raise taxes or local authorities increase local charges).*

*Under the Expenditure Benchmark component of the fiscal rules, unplanned expenditure giving rise to the need for a proposed increase to expenditure ceilings cannot be funded by cyclical (i.e. non-permanent) revenues but, rather, through expenditure savings and efficiencies elsewhere or via discretionary revenue measures. The overall allocation of expenditure ceilings by sector remains a matter for Government as part of the budgetary process.*

***Own resource** expenditure at local government level will impact on these expenditure rules, however any revenue raising measures taken by the sector can be kept and spent within the sector.*

*Own resource expenditure can be broadly defined as expenditure arising from income generated from a local authorities own sources; this includes income generated from commercial rates, goods and services, income from Local Property Tax (excluding any self-funding element) and any non- mortgage borrowing that may be availed of by the local authority.*

*Grants to local authorities from a Government Department or agency (or the EU) are accounted for in that Department's expenditure ceiling and therefore not accounted for as own resource expenditure by the local authority.*

The table to be completed as per Appendix 1 is attached in a spreadsheet accompanying this Circular, and should be sent to [vincent.potter@housing.gov.ie](mailto:vincent.potter@housing.gov.ie) and [niamh.kinsella@housing.gov.ie](mailto:niamh.kinsella@housing.gov.ie) no later than **23rd September 2016**.

#### **4. Statutory Budget Book**

##### Format of 2017 statutory budget book

The following changes will be made in the 2016 statutory budget book:

##### Table A changes

- Labels for rates amended for the sake of clarity
  - “Net Amount of Rates to be Levied (C)=(A)-(B)” becomes “Net Amount of Rates to be Levied (A)-(B)”

Calculations, including the treatment of the Base Year Adjustment (Table C), remain unchanged.

##### Table F Change

- A new line will be included for General Municipal Allocation (GMA) as H0909.

The budget pack is currently being tested by pilot sites and will issue once testing has been completed.

##### Reminders

- Table A Commercial rates should be presented gross
- Table A ‘Amount of Rates to be Levied (Gross of BYA)’ plus ‘Value of Base Year Adjustment’ = ‘Net Amount of Rates to be Levied’
- Table C should set out the Annual Rate of Valuation (ARV) and the Base Year Adjustment (BYA) to apply to each of the dissolved rating authorities
- Table C - Note that the ‘Base Year Adjustment 2017’ column (iii) is the sum of column (ii) minus column (i) i.e. a general local authority ARV of 70 with an effective ARV in a rating area of 65 shows as a BYA of -5
- Totals of BYA and Net Effective Valuation (NEV) in Table C should be consistent with those in Table A (the NEV for all former rating areas should be listed in Table C in order to present the total NEV)

- Section 32 penalty income should be shown in Division H, Other income, account element 'Other fines'
- Any change in approach to vacancy refunds will be reflected in a cost increase or reduction (Regulation 29 of Local Government (Financial & Audit Procedures) Regulations 2014 and Circular Fin05/2014)
- Transactions between legal entities within the local government sector should be shown as 'Inter-authority transactions'
- Income from services provided on an agency basis for entities outside the local government sector should be shown as 'agency services & repayable works'
- Cost drivers to be in L1 for budget allocations

Local authorities are requested to exercise restraint in adopting the ARV and, where appropriate, the BYA for 2017. Furthermore, local authorities should seek to provide to the greatest extent possible, certainty for commercial ratepayers in terms of the impact harmonisation may have on their rates bills in future years.

## 5. Submission of budget information

A CSV file and one hard copy of the budget must be submitted to Niamh Kinsella ([niamh.kinsella@housing.gov.ie](mailto:niamh.kinsella@housing.gov.ie)) at Department of Housing, Planning Community and Local Government, Newtown Road, Wexford. The submission of information to the Department is required by Friday 30 December 2016.

To reduce the level of queries, the following checks should be completed prior to submission:

- All checks on the soft copy budget check sheets are at 0
- CSV files should be checked for format errors, such as incorrect line errors, commas, etc.
- Soft copy budget files should be submitted with each CSV file
- All soft copy budget files should be compared to hard copy budget books submitted to ensure no inconsistencies
- All CSV figures should be rounded to whole numbers; and
- All submissions to be checked and submitted by the contact person for the local authority's budget files in event of any queries arising

Is mise le meas,



Lorraine O'Donoghue  
Principal  
Local Government Finance

## Appendix 1 - Report to Department of Finance - Preliminary estimate of capital and current income and expenditure

Table A		Category Description	Revenue / Capital	Own Resource / Central Govt	2016	2017	2018 to 2021 - Please note any known policy changes expected in the years 2018 to 2021
Income	1	Rates	Revenue	Own Resource			
	2	NPPR	Revenue	Own Resource			
	3	LGF - LPT Allocation					
		of which					
		LPT Allocation - Own Use	Revenue	Own Resource			
		LPT Allocation - Self Funding	Revenue				
		LPT Allocation - Self Funding	Capital				
	4	Pension Related Deduction	Revenue			N/A	
	5	Goods & Services					
		of which					
		Rents from Houses	Revenue	Own Resource			
		Housing Loans Interest & Charges	Revenue	Own Resource			
Expenditure		Other Goods & Service Income	Revenue	Own Resource			
		Irish Water	Revenue				
	6	Revenue Grants & Subsidies	Revenue				
	7	Capital Grants & Subsidies	Capital				
	8	Non Mortgage Borrowing	Revenue				
	9	Non Mortgage Borrowing	Capital				
	10	Other capital income	Capital				
		Total Income					
	11	Payroll Costs	Revenue				
		of which					
		Salary & Wages					
		Pensions					
		Other payroll costs					
	12	Financial Expenses	Revenue				
		of which					
		Bad debt Provision (including irrecoverable rates)					
		Interest paid to central government (NTMA & OPW)					
		Interest paid to HFA					
		Interest paid to other financial institutions					
	13	Other Revenue Expenses	Revenue				
		of which					
		Maintenance/Improvement of LA Housing					
		RAS Programme / HAP					
		Expenditure on behalf of Irish Water					
		Other					
	14	Capital Expenditure	Capital				
		of which					
		grants					
		gross fixed capital formation					
		Other					
		Total Expenditure					
Table B		Transfer to Reserves	Revenue / Capital	Own Resource / Central Govt	2016	2017	
	(a)	Net Transfers to Reserves (from /to Revenue to/from Capital)					
	(b)	Transfers to Reserves (direct to Balance Sheet - principal on repayment of non mortgage Loans)					

### Notes

- (I) Report to be completed based on the current year and taking into account any known policy changes for the forthcoming and future years.
- (II) The overall report should balance.

- (III) Budgeted transfers between Revenue and Capital should be included in the relevant section of Table A Income & Expenditure. Table B separately identifies Transfers to Reserves included in Table A to facilitate statistical analysis required by DoF and CSO.
- (IV) Other Revenue Expenses - Other includes principal amounts to be repaid on non- mortgage loans. Principal amounts to be repaid on mortgage loans not included in report as included directly to the Balance Sheet. See separate note on Transfers to Reserves.
- (V) Capital Expenditure - Other to include agency services and other non-capital formation or grant expenditure.
- (VI) Capital Expenditure - Gross capital formation to include WIP / Preliminary Expenses and Purchased Assets.