BUDGET 2022 SPECIFIC COSTING REQUEST FROM THE RURAL INDEPENDANT TDs

Department of Housing, Local Government and Heritage

1. The cost of introducing a new district council model with devolved functions and capping the number of members to 850 Paid at 80 % the level of County Councillors), and where an Oireachtas member or Councillor would be allowed to claim for one salary only**.**

RESPONSE:

Background

It is unclear from the request if the new district council model with devolved functions is intended as a replacement for the current municipal district system, with 100% of the country and population included inside a district, or if it is intended to introduce the new model in specific areas only, similar to the old town council model.

A municipal district is a division of a local authority which can exercise certain powers of the local authority. Municipal districts form a key tier of local governance at sub-county level. Government policy is focussed on strengthening of the existing 95 municipal district structures, although the introduction of additional councillors is not being considered at this time.

The Local Government Reform Act 2014 saw the dissolution of 80 town councils, 54 of which were rating authorities

Representational costs

From 1 October 2021 councillors will have a salary of €26,138 per annum. Costs for "district councillors" based on a remuneration rate of 80% of serving city/county councillors is calculated as follows

Representational Payment:	80% of €26,138 = €20,910 x 850 = €17,773,500 Vouched expenses:		80% of
€5,160 = €4,128 x 850 =	€3,508,800		
Travel/subs allowance:	80% of approx. €3,850 = €3,080 x 850 =	€2,618,000	
TOTAL		€23,900,300	

Therefore, the costs in salary and expenses alone, based on an 80% salary rate for 850 "district councillors", however they might be defined, would be almost €24m per annum.

Overall costs

It is not possible at this stage to accurately determine the costs involved in establishing a new district council model. Such a change would require Government decision, consultation with the relevant local authorities and amendment to legislation.

However, a preliminary examination of the potential costs of reintroducing district councils was carried out as part of the report "Municipal Governance – Districts, Districts and Local Electoral Areas" which was approved by government in February 2018.

The report modelled costs associated with the reintroduction of 72 town councils, based on CSO population figures at the time, and indicated that the costs of reintroducing town/district councils along a similar model as previously existed is in the order of €28 million to €38 million per annum.

NB: These calculations are based on historic costs associated with town councils, and do not take account of

- any increases in overall administrative costs since 2013,
- any increases in populations which could impact the number of agglomerations/ towns to which council would apply or
- changes to representational payments and allowances for councillors as outlined above.

Other costs

However, any exercise at calculating the true cost of creating a new district council model must factor in not only the cost of establishing the structures but also the costs of unwinding the reforms carried out since their introduction in 2014 and the likely financial impact the creation of such a structure would have on the city or county (or city and county) councils.

Rates

For example, the re-introduction of rating district councils would require an unwinding of the positive progress in achieving a single Annual Rate on Valuation for each of the existing 31 local authorities. This would involve re-introducing duplication of what is now a single process of the making of a rate for local authorities. In the event of the establishment of district councils, each county and city council, and rating district council would be required to produce an annual budget which involves inter alia the process of adopting an Annual Rate on Valuation, the production of a rate book (with its associated publication and rights of inspection of the book), and the making of the rate. In parallel there has been a streamlining on the valuation side for the Valuation Office in respect of providing valuation lists for each rating authority.

LPT

Since 2015, annual Local Property Tax (LPT) allocations are decided on a 'local authority at large' basis rather than at any individual town or municipal district level. The establishment of district councils would likely result in re-balancing of revenue resources, almost certainly to the detriment of rural areas since these new district councils would, presumably, have full "fiscal" jurisdiction. In relation to LPT; the ring-fencing of LPT revenue within defined districts could lead to a significant revenue deficit in the non-district council areas.

A question would also arise as to whether the new district councils would have a decision-making role in relation to the LPT adjustment factor. If each council is the 'local authority of its town/district' then it would follow that the power to vary the LPT rate would rest with each district, which might require significant amendment to other legislation governing LPT. District councils would be required to make such variation decisions on an annual basis. A district council may decide to apply a reduced LPT rate whereas the authority responsible for the wider hinterland may apply a higher rate, for instance.

LPT is a relatively new income source for local authorities and is generally accepted as a necessary source of funding for Local Government. If there are widely differing LPT rates being applied in district and rural areas within the one County, the danger is that this could lead to general dissatisfaction with the tax itself and perceived unfairness in the liabilities for individual homeowners.

Borrowing

Local Authority Borrowing would be negatively affected since Local authorities occasionally roll loans up together to avail of improved interest rates. It is likely that smaller authorities would not be able to avail of the most favourable interest rates. In addition district councils may be too small in scale to avail of investment opportunities in terms of match-funding requirements.

Other

Finally there is a potential cost to Exchequer. As is the case currently, the Exchequer makes up any funding gap between LPT retained locally and the minimum funding baseline required. This could lead to a significant increased cost to the Exchequer to bridge the funding gap to meet the minimum funding level required in areas with lower property bases.

Dual mandate

It is worth noting that the dual mandate was abolished in 2003, reflecting the then Government's commitment to have the best possible level of representation at both local and national level. The abolition of the dual mandate underpinned the complimentary but very distinct and separate roles of local and national government.

It's not clear if the proposal is to replace the existing local government system or if these would be new or additional posts. Neither can we tell how many of these 850 would be serving Oireachtas members or councillors. It is therefore impossible to judge if there might be savings made elsewhere with this proposal, or indeed calculate how much they might be.

Department of Environment, Climate and Communications

2. The income from a situation where the State grants planning permission for major offshore energy wind farms, but conditions that 10% of the energy produced be given as electricity credits to low income and vulnerable families who will suffer most from the increase in carbon taxes.

Response:

- It should first be noted that the carbon tax does not apply to the electricity sector or to consumer electricity bills. Therefore, consumer electricity costs do not increase as a result of increases in the carbon tax rate. Climate and renewable energy policy targets in the electricity sector are generally achieved via participation the EU Emission Trading Scheme and support schemes such as the Renewable Electricity Support Scheme (RESS), which is financed via a consumer levy, the Public Service Obligation (PSO) levy, which on domestic electricity bills, is a flat charge without exception. The cost impact outlined below primarily affects the PSO levy, which is not an Exchequer fund, and therefore the proposal, while implying additional cost to the majority of electricity consumers, has no Exchequer impact. It should be noted that any increase in the PSO levy will disproportionately impact low energy consuming households, which may be less well off than other consumers. This would appear to be in conflict with the objective of this proposal. Lastly, it should be noted that the first major offshore wind project is not expected to operationalise until at least 2026 and that the proposed measure would not result in significant electricity credits becoming available until closer to 2030, as the installed capacity target of 5GW is approached.

- All new offshore wind farms in Ireland, in the short- to medium-term, are expected to be supported via the RESS. This scheme comprises of a series of competitive auctions to award two-way contracts for difference (strike prices) to the lowest bidding projects.

- While the levelised cost of offshore wind continues to fall globally, the sector remains nascent in Ireland, and while strike prices cannot be known until after the first offshore auction, ORESS 1, it is likely that the lowest-cost bids will remain a significant premium over the wholesale single electricity market (SEM) price. In this case, the difference is paid from the PSO levy charged to household and businesses electricity bills, which is calculated by the Commission for Regulation of Utilities (CRU) according to methodology set out in legislation.

- Like other renewable energy projects, offshore wind projects will therefore receive two revenue streams:
  - Variable revenue for energy sold via the SEM as the price received is function of the supply and demand at the time of sale; and
  - PSO difference payments accounting for the difference in SEM price received and strike price secured at auction.

- If an offshore wind project were obligated to provide 10% of energy produced without either SEM or PSO revenue, both of these revenue streams would need to be recovered for a project to remain viable. This cost recovery would most likely need to be made through the RESS auction process, which would in turn lead to an increase in the PSO levy, which would disproportionately affect potentially less well-off consumers that consume less energy.

- It is not clear how the 10% of energy produced, once made freely available on the single electricity market would be allocated to low income and vulnerable households, which would be supplied by an array of retail electricity suppliers. As such a mechanism is without known precedent in the Irish electricity market, it would likely involve an Exchequer cost to establish and operate. Further detailed analysis would be required to provide an estimate of these.