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Local government finance in Ireland: The four pillars of fiscal decentralisation

Gerard Turley
J. E. Cairnes School of Business and Economics, University of Galway, Ireland

Abstract

This article outlines Ireland's system of local government finance using a conceptual framework drawn from the fiscal federalism and municipal finance literature. Commonly referred to as the four pillars of intergovernmental fiscal relations, the four pillars are expenditure assignment, revenue assignment, intergovernmental transfers and local borrowing. After presenting the economic case for local government based on the decentralisation of the allocative function of the public sector, the theory underlying each of the four building blocks is outlined and applied to local public finance in Ireland. Differences between theory and practice are evident, as are differences with practices in other countries, confirming the no-one-size-fits-all approach to intergovernmental finance and fiscal decentralisation. Future reforms in the area of local government finance in Ireland should be cognisant of this framework and the good principles of public finance that follow, in addition to the historical, institutional, and political factors that also determine practices and outcomes.

Keywords: expenditure assignment, intergovernmental transfers, local borrowing, municipal finance, revenue assignment

Introduction and background

This article addresses the expenditure and revenue powers and decisions of local government, both in theory and in practice as applied to the Republic of Ireland. Using a systems approach to the topic of intergovernmental finance, the theoretical or conceptual framework used is the four pillars or building blocks of intergovernmental fiscal relations commonly used in the fiscal federalism, fiscal decentralisation and municipal finance literature (Bird & Vaillancourt, 2006; Bahl, 2008).

While Ireland is a unitary country with two tiers of government, the fiscal powers of local government are limited. An indication of the centralised nature of Ireland's intergovernmental fiscal system is given by the local autonomy index (Ladner et al., 2020). Although a broad measure of local autonomy and self-rule that encompasses political, organisational and legal dimensions, the eleven-variable index includes fiscal autonomy, the financial transfer system, financial self-reliance and borrowing autonomy. In 2020, Ireland's local autonomy index score (on a scale of 0 to 37) was 16.2, compared to a mean for fifty-seven countries of 21.5, with only seven countries (and only one European Union (EU) member state) having a lower local autonomy index than Ireland.

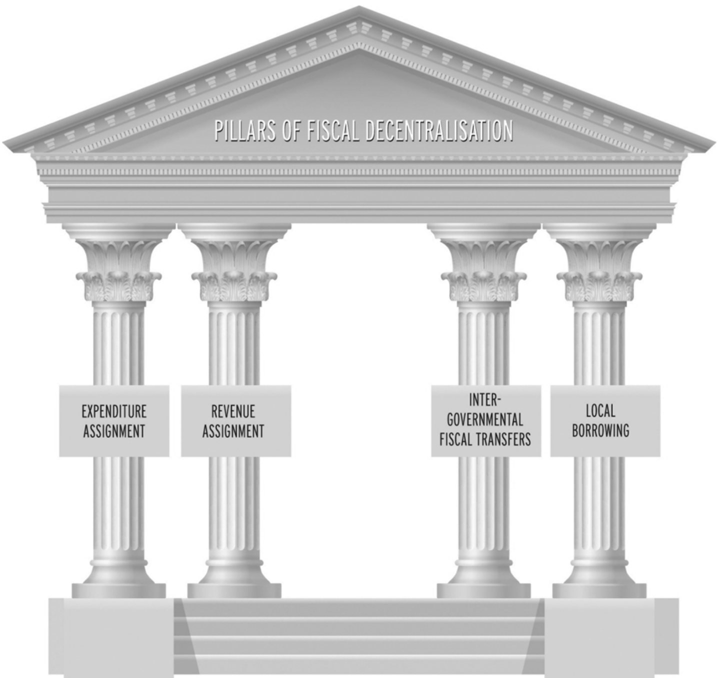
Our overly centralised system of government is partly due to the inherited British tradition, but also a general disdain by successive Irish national governments for the local authorities, which were often perceived as inefficient and corrupt. In the early days of independence, there was a preference for central control, with national regulation and monitoring of local government that has not diminished over time (Callanan, 2018; Turley, 2022).

The application of the four-pillars framework to Ireland's intergovernmental fiscal system illustrates a long-held preference for central government over local government, and a strong reluctance to devolve expenditure responsibilities and taxing powers to the local authorities. In outlining the case for greater decentralisation, it is hoped that the Local Democracy Taskforce as promised in the *Programme for Government 2025* will address some of these issues, and by doing so, enhance local government and strengthen local democracy (Government of Ireland, 2025).[1]

[1] Of the eleven themes outlined in the *Programme for Government 2025*, the goal of political reform includes a commitment to strengthen local democracy. More specifically, it promises to establish a Local Democracy Taskforce that will, among others, consider devolving more powers to local authorities for local services; granting councillors greater input and control over the development and implementation of the local authority budget; enhancing fiscal autonomy; and ensuring fairness and stability in local property tax payments and continue to retain revenue collected locally in the same local authority (Government of Ireland, 2025).

In the traditional theory of fiscal federalism and public finance, it is generally recognised that there are four main pillars of a country's fiscal architecture.[2] As in Figure 1, they are expenditure assignment, revenue assignment, intergovernmental transfers, and borrowing and debt. These four pillars frame the intergovernmental fiscal system, with the first three of these – expenditures, revenues and transfers – forming the key instrumental components of any decentralised fiscal framework (Bird, 2000; Bahl, 2008).

Figure 1: The pillars of intergovernmental finance



Source: Adapted from Bird (2006).

These four pillars of intergovernmental finance address the fundamental questions in fiscal federalism (Ebel, 1999; Bird, 2003).

[2] What is often called a fifth pillar, namely the institutional and territorial arrangements, is not discussed here. The expenditure assignment pillar is the only one that deals with the functions of local government. Although treated separately, the revenue assignment, intergovernmental transfers, and local borrowing pillars all relate to the funding of local government.

They are as follows:

- What functions should be assigned to local government? That is which government does what?
- What revenues should be assigned to local government? That is which government levies what taxes?
- How to use intergovernmental transfers to 'close the gap'? That is how should vertical fiscal imbalances and horizontal fiscal imbalances be addressed?
- Can local government borrow, and if so, under what conditions? That is what, if any, rules and regulations should pertain to local government borrowing and debt?

Before I begin to address these questions, an outline of the economic rationale for local government is presented. A discussion on the four pillars follows, with a summary and some concluding remarks to finish. As for the paper's main contribution, it is in the application of the intergovernmental finance four-pillars conceptual framework to the issue of local government finance in Ireland, and to any future fiscal reforms thereof. Consistent with the four-pillars framework and an underlying philosophy of more local autonomy, a devolution of fiscal powers to the local authorities would involve the following (under the four blocks): (a) greater functional responsibilities, possibly as outlined in the *Report of the Dublin Citizens' Assembly* (Citizen's Assembly, 2022); (b) more taxing powers (for example, on property – commercial, residential, government, vacant/derelict, on motor vehicles, on visitors/beds); (c) a rebalancing of transfers between specific-purpose and general-purpose aimed at granting local councils more discretion; and (d) a relaxation of borrowing rules (in a prudent and disciplined way) that would give local authorities more options and flexibility when borrowing (Citizens' Assembly, 2022; Turley & McNena, forthcoming).

Returning to the underlying theory, the following perspective on local government is based on the traditional theory of fiscal federalism, rather than fiscal federalism's second-generation theory or the alternative theories from public choice or new institutional economics (Oates, 1972; Shah, 2006).[3] The theoretical rationale for decentralisation is enhanced allocative efficiency in the face of

[3] For the second-generation fiscal federalism literature, see Oates (2005) and Weingast (2009). More generally, for a more comprehensive account of the different theoretical and real-world models of local government, including more non-traditional and citizen-centred approaches, see Shah (2006).

different local preferences for local public goods (Musgrave, 1959; Oates, 1972). This allows local governments to tailor outputs that match the demands of their constituencies. The implication of this is that on allocative grounds – as opposed to distributive or stabilisation grounds where a unform provision is preferred – the only services that should be provided centrally are in the case of (a) national public goods where there are spillover effects and (b) the presence of economies of scale. Thus, local governments should provide goods and services characterised by (a) limited spillovers of benefits to other jurisdictions and (b) limited economies of scale.

A more detailed case for local government follows, beginning with Paul Samuelson's theory of public expenditure and Richard Musgrave's theory of public finance.

Economic rationale for local government

As previously outlined in Turley (2022), although there are different theoretical strands to the economics of local government, the seminal works are Wallace Oates's model of fiscal decentralisation (1972), Charles Tiebout's hypothesis of local choice (1956), and Mancur Olson's principle of fiscal equivalence (1969), which were all published in a sixteen-year period between 1956 and 1972.

A society that uses its scarce resources to maximise total welfare has a mix of expenditures on privately and publicly provided goods and services (Samuelson, 1954). With respect to private goods and services, the competitive market system and its pricing mechanism allocates society's scarce resources. In cases of market failure, outcomes can be improved by government intervention. When goods and services are provided by the public sector, policymakers need to determine the appropriate level of government to provide them, whether that is central, provincial or local.

Unlike political scientists, who emphasise the political or democratic role of local government, economists focus on achieving efficiency through local public service delivery. Using the traditional three branches structure of government (see Table 1), the main economic functions of government are resource allocation, income distribution and macroeconomic stabilisation (Musgrave, 1959).[4]

Income distribution and macroeconomic stabilisation are best undertaken by central government. Resource allocation should

[4] Regulation is often regarded as the fourth branch or function of government.

primarily be delivered by subnational government, and, where the benefits are geographically limited and localised, by local government. Welfare gains accrue by moving government closer to its constituencies and ensuring that citizens get what they want. Local policymakers should decide what public services are provided and how much to provide, and local taxpayers should pay, wherever possible, for the services delivered. This is the allocative efficiency case for local government and dominates the economic debate in favour of decentralisation (Bird & Vaillancourt, 2006; Oates, 2010).

Table 1: Musgrave's three-branch framework

Policy objective	*Efficiency*	*Equity*	*Stability*
Functions of government	Resource allocation	Income distribution	Macroeconomic stabilisation
Tier of government	Local*	Central	Central
Policy instruments	Local taxes and local public goods	Income taxes and welfare spending	Annual budget

Source: Adapted from Musgrave (1959).
Note: *Primarily, where benefits are localised (with no external effects) and no economies of scale exist.

Viewed through the lens of local public finance, the argument in favour of local government over national government provision of uniform services is that, given the spatial considerations, local government facilitates, to the extent possible, the matching of public service outputs with local preferences, and in doing so, promotes economic efficiency. Applying the benefit model of local finance, it is desirable that those who benefit from local government expenditures should pay for them, and by doing so, maintain the link between taxes paid and benefits rendered. Where benefits do not extend beyond local boundaries, allocative efficiency can be best achieved by providing public services at the lowest level of government possible. Where public goods and services are provided by the lowest level of

[5] Based on the principle of subsidiarity, Article 4.3 of the European Charter of Local Self-Government states that 'public responsibilities shall generally be exercised, in preference, by those authorities which are closest to the citizen' (Council of Europe, 1985). As for the financial resources of local authorities, see Articles 9.1–9.8.

government that can do so efficiently, it is commonly referred to as the subsidiarity principle.[5]

Where there are different preferences for the outputs of local public goods and different costs in local public service delivery, there are welfare gains from fiscal decentralisation. Formalised by Oates (1972), this decentralisation theorem presents the economic case for local government. Given its importance to the economic rationale for local government, Oates's original statement is worth reproducing here.

> For a public good – the consumption of which is defined over geographical subsets of the total population, and for which the costs of providing each level of output of the good in each jurisdiction are the same for the central or for the respective local government – it will always be more efficient (or at least as efficient) for local governments to provide the Pareto-efficient levels of output for their respective jurisdictions than for the central government to provide *any* specified and uniform level of output across all jurisdictions. (Oates, 1972, p. 35).[6]

An earlier and rather different perspective was espoused by Tiebout in his theoretical model of consumer-voter choice. If citizens are faced with areas of different types and levels of public services, as consumers they will choose the local area that best reflects their preferences, by 'voting with their feet'. In this case, based on assumptions of perfect residential mobility, absence of spillovers, and identical preferences within each area, a political solution is not required to provide the optimal level of public goods, as the competitive market is considered efficient (Tiebout, 1956).

Not altogether dissimilar but more focused on the design of jurisdictions, Olson's principle of fiscal equivalence assigns revenue-generation powers to central and local governments commensurate with expenditure responsibilities and, where possible, aims for a close match between benefit area, tax area and electoral area. Because citizens live in overlapping jurisdictions (central, provincial/state,

[6] Oates (2010, p. 10) summarises the argument for local government and fiscal decentralisation: 'By tailoring the outputs of local public goods to the particular tastes and costs of specific jurisdictions, the decentralised provision of local public goods promises higher levels of social welfare than a centralised regime with more uniform levels of outputs across all jurisdictions'. Furthermore, 'From a purely economic perspective, the basic role of local government is to enhance the performance of the overall public sector by allowing variation in the outputs of local services in accordance with differing local tastes and costs' (Oates, 2010, p. 23).

local/municipality), they should pay taxes to each level corresponding to the benefits that they receive from each jurisdiction (Olson, 1969).

In summary, applying the argument about externalities and economies of scale used to favour centralised governments, functions should be assigned to the level of government whose jurisdiction most closely matches the geographical area of benefits provided by the function. For example, national defence, foreign affairs, immigration and monetary policy should be provided by central government as the benefits and costs are national in scope. In contrast, fire protection, parks and recreation, road maintenance, street lighting and cleaning, for example, should be provided by local government as the benefits and costs are local affairs.[7]

The paper begins with the assignment of expenditure responsibilities.

Expenditure assignment

The division of expenditures among levels of government constitutes the expenditure assignment pillar in intergovernmental fiscal relations. The first step in a well-designed system of intergovernmental finance should be a clear and stable assignment of expenditure functions among different levels of government. As stated above, expenditure functions should be assigned to the lowest level of government that can efficiently provide the goods and services. Once expenditures are assigned, revenues can then be assigned. Known in the literature as the 'finance follows function' rule, this is to ensure fiscal discipline and a hard budget constraint (Bahl, 2002).

Table 2 presents one possible assignment of expenditures between levels of government, as outlined in Shah (1994). Actual expenditure assignment in Ireland is listed in the final column.

The position in Ireland is very different, where the remit and powers of local government are narrow and limited. With central government responsible for, for example, justice and defence, industry and agriculture, public transport, education, health and social care, local government in Ireland is limited to providing municipal services such as in the areas of local authority housing, local and regional roads, planning and development, local community and enterprise supports, fire and library services, and recreation and amenities

[7] Potential costs of decentralisation, including the effect on the macroeconomy and national fiscal policy, on corruption, on distributional equity and regional disparities, are outlined in Prud'homme (1995) and Tanzi (2001). A good summary of both the benefits and the costs of fiscal decentralisation is given in Loughlin and Martin (2008).

Table 2: Expenditure assignment – theory and practice

Expenditure	*Policy, standards & oversight*	*Provision & administration*	*Rationale*	*Assignment in Ireland*
Defence	F	F	Benefits and costs national in scope	Central
Foreign affairs	F	F	Benefits and costs national in scope	Central
International trade	F	F	Benefits and costs national in scope	Central
Monetary policy, currency, banking	F	F	Benefits and costs national in scope	Central
Transfer payments to individuals	F	F	Redistribution	Central
Subsidies to business and industry	F	F	Regional development, industrial policy	Central
Immigration	F	F	Benefits and costs national in scope	Central
Unemployment insurance	F	F	Benefits and costs national in scope	Central
Airlines and railways	F	F	Benefits and costs national in scope	Central
Fiscal policy	F, S	F, S, L	Coordination is possible	Central
Regulation	F	F, S, L	Internal common market	Central, Local
Natural resources	F	F, S, L	Promotes a common market	Central
Environment	F, S, L	S, L	Benefits and costs national, regional or local in scope	Central, Local
Industry and agriculture	F, S, L	S, L	Significant interjurisdictional spillovers	Central
Education	F, S, L	S, L	Transfers in kind	Central
Health	F, S, L	S, L	Transfers in kind	Central
Social welfare	F, S, L	S, L	Transfers in kind	Central, Local (housing)

Table 2: Expenditure assignment – theory and practice (Contd.)

Expenditure	*Policy, standards & oversight*	*Provision & administration*	*Rationale*	*Assignment in Ireland*
Police	S, L	S, L	Primarily local benefits	Central
Water, sewage, refuse collection	L	L	Primarily local benefits	Central
Fire protection services	L	L	Primarily local benefits	Local
Parks and recreation	F, S, L	F, S, L	Primarily local responsibility, but national and provincial governments may establish own parks	Local
Roads				
– National	F	S, L	Internal common market	Central
– Regional	S	S, L	Inter-regional benefits and costs	Local
– Local	L	L	Local benefits and costs	Local

Source: Adapted from Shah (1994).
Abbreviations: F = federal; L = local or municipal, S = state, region or province.

(Advisory Expert Committee (Barrington Report), 1991; Callanan, 2018; Houses of the Oireachtas, 2024).

As a share of total public expenditure, local government spending in Ireland is one of the lowest in the EU or Organisation for Economic Co-operation and Development (OECD). Table 3 reports the local government expenditure share of general government expenditure for a sample of unitary countries in the EU, and the United Kingdom, for 2023. The contrast is stark, with the share in Ireland second lowest, behind only Greece. The contrast is equally evident when compared to OECD countries, or federal countries where subnational expenditure includes spending by both local governments and regional/state governments.

Table 3: Local government expenditure as a share of general government expenditure, 2023

Country	*% share*	*Country*	*% share*
Denmark	64.3	United Kingdom	19.8
Sweden	50.7	France	19.1
Finland	41.1	Slovak Republic	17.6
Netherlands	29.1	Portugal	15.2
Poland	29.1	Hungary	11.4
Italy	24.7	**Ireland**	**10.4**
Latvia	24.3	Greece	8.3

Source: Organisation for Economic Co-operation and Development (2025).

As for a breakdown of expenditure responsibilities, Table 4 reports local government spending classified by expenditure functions for a sample of European OECD countries, for 2022. As evident from the table, Ireland's pattern of spending is different to other countries, with local government functions and spending in Ireland primarily in physical-related areas (housing and transport, for example) as opposed to person-related areas (health and education, for example). Although there is no one-size-fits-all approach to expenditure assignment, the Irish local government sector is an outlier compared to municipalities in most other OECD countries in not having any role in the provision of health, education, or social care to local residents.

This level and composition of expenditure assignment has implications for revenue assignment, which will now be addressed.

Revenue assignment

As already stated, once expenditures are assigned, revenue assignment can follow (Bahl & Martinez-Vazquez, 2013). As funding can come in

Table 4: Functional classification of local government expenditure 2022, share of total

Function	*Austria*	*Czechia*	*Denmark*	*Finland*	*Greece*	***Ireland***	*Italy*	*Lithuania*	*Netherlands*	*United Kingdom*
General public services	0.15	0.11	0.05	0.18	0.21	**0.09**	0.16	0.06	0.05	0.08
Defence	0.00	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00	0.00	0.00
Public order and safety	0.02	0.02	0.00	0.01	0.00	**0.04**	0.02	0.01	0.03	0.09
Economic affairs	0.12	0.18	0.03	0.07	0.31	**0.24**	0.13	0.09	0.11	0.09
Environmental protection	0.02	0.06	0.01	0.00	0.20	**0.02**	0.06	0.04	0.10	0.04
Housing and community amenities	0.01	0.04	0.00	0.01	0.06	**0.12**	0.02	0.05	0.03	0.08
Health	0.24	0.14	0.26	0.27	0.00	**0.00**	0.49	0.19	0.03	0.02
Recreation, culture and religion	0.05	0.07	0.02	0.04	0.15	**0.07**	0.02	0.07	0.07	0.02
Education	0.17	0.30	0.08	0.16	0.05	**0.01**	0.06	0.36	0.31	0.24
Social protection	0.21	0.10	0.54	0.25	0.02	**0.41**	0.05	0.13	0.27	0.33

Source: Organisation for Economic Co-operation and Development (2025).
Note: Economic affairs include spending on transport. Social protection includes spending on housing supports.

different forms – taxes, user charges, transfers, loans – they are treated separately, beginning with revenues in the form of tax revenues and non-tax revenues (i.e. charges and fees). Notwithstanding the latter, revenue assignment is often defined as simply the division of taxing powers among levels of government (McLure, 2001).

Whereas the argument for expenditure assignment is relatively clear-cut (as outlined above), the case for revenue assignment is much less straightforward. A general rule in public finance is to charge, using user fees, for services wherever possible (Bird, 2000, 2003). A user fee is a charge per unit of output. User fees are appropriate where: (a) the direct beneficiaries can be identified; (b) the taxpayer has the choice about the extent to which he or she can use the service; (c) it is possible to collect at a reasonable cost; and (d) equity concerns can be addressed. In this case, services with private good characteristics (e.g. water, waste collection) could be paid for, at least partly, by user fees. In contrast, services with public good characteristics (e.g. fire service, public parks), where benefits cannot be easily assigned to individual beneficiaries, local taxes are more appropriate (United Nations Human Settlements Programme, 2009).[8] However, as is often the case, the theory and practice of user charges diverge, that is while user charges are a good idea in principle, they are often difficult to implement and less common in practice. In Ireland, the main user fees levied by local government are social-housing rents, housing loan repayments, parking, charges for use of amenities, planning fees, fire charges and landfill charges.

From the intergovernmental finance literature, some basic criteria for assigning revenues are reported in Table 5, with some specific examples of taxes assigned to different tiers of government, central or local. A more detailed account of tax assignment and specifically subnational (regional/state and local/municipal) taxes is outlined in Table 6. Actual tax assignment in Ireland is listed in the final column.

[8] See Figure 2 in United Nations Human Settlements Programme (2009) for the different types of municipal services and the most suitable funding mechanisms. In summary, services with private good characteristics to be financed by user fees, services with public good characteristics to be financed by property taxes, services with redistributive effects to be financed by income taxes, and services with spillovers to be financed by transfers. Of course, in the real world it may be different with political, financial, and administrative constraints accounting for some of the variation between theory and practice.

Table 5: Tax assignment

Criterion	*Tax assignment*
Administrative feasibility Economic efficiency Equity Political acceptability Revenue potential	Progressive redistributive taxes should be centralised Taxes suitable for economic stabilisation should be centralised Unequal tax bases between jurisdictions should be acceptability centralised Taxes on mobile factors of production should be centralised Taxes on immobile factors should be levied by local authorities

Source: Adapted from Musgrave (1983); Shah (1994).

The taxes assigned to local government should meet certain criteria. As set out in Ter-Minassian (1997) and Bird (2006), the characteristics of a good local tax are as follows:

- relatively immobile tax base, otherwise taxpayers will relocate to a low-tax jurisdiction;[9]
- visible or salient, as this ensures local government accountability;
- borne mainly by local residents;
- not easily exportable to non-residents, as this weakens the link between taxes paid and services received;
- should not be unevenly distributed across jurisdictions;
- perceived as reasonably fair;
- relatively easy to administer efficiently and effectively;
- a tax yield that is adequate to meet local needs and sufficiently buoyant over time as expenditures increase;
- relatively stable and predictable.

[9] With respect to the immobile tax base, an alternative to the conventional public economics literature is the public choice literature best espoused by Brennan and Buchanan (1980), who argue that subnational taxes be levied on mobile factors so that interjurisdictional competition restrains the size and growth of government. On a more general point, thanks to one of the paper's reviewers for reminding the author that this list is not indisputable, with some contentious characteristics and policy implications (for example, in Ireland the visible nature makes the LPT unpopular, the non-exportability rules out a tourist tax).

Table 6: Tax assignment – theory and practice

Type of tax	*Determination of base*	*Determination of rate*	*Collection & administration*	*Rationale*	*Assignment in Ireland*
Customs	F	F	F	International trade taxes	Central
Corporate income	F	F	F	Mobile factor, stabilisation tool	Central
Resource tax	F	F	F	High unequally distributed tax bases	Central
Personal income	F	F, S, L	F	Redistributive, mobile factor, stabilisation tool	Central
Wealth taxes	F	F, S	F	Redistributive	Central
Payroll taxes	F, S	F, S	F, S	Benefit charge, e.g. social security coverage	Central
Multi-stage sales tax (VAT)	F	F	F	Harmful inter-state tax competition	Central
Single-stage sales taxes	F	S	F	Harmonised	NA
Excise on alcohol and tobacco	F, S	F, S	F, S	Healthcare a shared responsibility	Central
Excise on motor fuels	F, S, L	F, S, L	F, S, L	Tolls on federal, provincial and local roads	Central
Carbon taxes	F	F	F	To combat pollution	Central
Motor vehicles	S	S	S	State responsibility	Central
Business taxes	S	S	S	Benefit tax	NA
Property and land	S	L	L	Immobile factor, benefit tax	Local

Source: Adapted from Shah (1994).
Abbreviations: F = federal, L = local or municipal, NA = not applicable, S = state, region or province, VAT = value-added tax.

Taxes with these characteristics help to facilitate efficient budgetary decision-making and promote good local fiscal outcomes. Given these characteristics combined with the practice of assigning the major taxes to central government, local governments will inevitably have a limited tax base, often depending on no more than one or two taxes. The tax that best meets these characteristics and is widely used by local governments worldwide is the property tax. Other local taxes include local personal income tax (or a surtax on the national income tax), local business taxes, and motor vehicles taxes.

Local revenues can be evaluated using a number of different criteria. Some of these local revenues across a range of these criteria are given in Table 7.

Table 7: Evaluation of local revenues

Criterion	*User charges*	*Property tax*	*Personal income tax*	*Sales tax*	*Business tax*
Revenue adequacy	Yes, for some activities; not in general	Yes, for local govern-ment	Unlikely	Yes	Not likely
Revenue buoyancy	No	Not much	Yes	Yes	May be adequate
Correspondence of payers and beneficiaries	Excellent if well-designed	Fair if properly done	Not high	Depends on mobility	Depends on design
Local accountability	Excellent	Low	Low (depends on rate discretion)	May be adequate	Usually low
Administrative cost	Sometimes high	Fairly high	Reasonable if imposed as a regional surcharge	Moderate	Some-times high
Compliance costs	Irrelevant, in principle	Vary, but not high	Medium	Moderate	Often high
Latitude for corruption	Low	Moderate	Probably high in most countries	Moderate	High

Table 7: Evaluation of local revenues (Contd.)

Criterion	*User charges*	*Property tax*	*Personal income tax*	*Sales tax*	*Business tax*
Political acceptability	Not high in most countries	Moderate	Low	Perhaps	High
Distortionary impact	None	Moderate	Moderate	Moderate	Usually high
Progressivity	Irrelevant	Possibly	Largely unknown	No	Usually unknown
Reduces regional disparities	May do so to some	No	No	No	No

Source: Adapted from Bird (2006).

As regards the issue of tax autonomy, there are different levels depending on whether the local government has the power to levy the tax, decide the tax base (including reliefs/allowances and credits), set the rate (with or without limits), administer the tax, retain the revenues collected, or share the tax or revenues. For local autonomy, the most important element of these is rate-setting powers, at the margin.

Table 8 reports local government tax revenue as a share of general government tax revenue in 2023 for a sample of OECD countries, both unitary and federal. Given the centralisation of taxing powers in Ireland, with only recurrent taxes on property – with separate tax regimes for residential and commercial properties, as outlined in Turley (2022) – assigned to local government, not surprisingly the local government tax revenue share is very low in Ireland, at less than 2 per cent.

Table 8: Local government tax revenue as a share of general government tax revenue, 2023

Country	*Share*	*Country*	*Share*	*Country*	*Share*
Switzerland	15.6	Spain	7.9	Netherlands	3.2
France	14.3	Portugal	6.9	Austria	3.1
Finland	11.2	New Zealand	6.5	Greece	2.2
Italy	10.7	Hungary	5.8	**Ireland**	**1.6**
Germany	8.9	United Kingdom	4.8	Czechia	1.0
Canada	8.3	Belgium	4.7	Estonia	0.6

Source: Organisation for Economic Co-operation and Development (2025).

With tax revenue in the Irish system of local government limited to property taxes – local property tax on residential properties and rates on commercial and industrial properties – the local authorities rely on intergovernmental transfers for a sizeable portion of their revenue income (Coughlan & de Buitléir, 1996; Turley & McNena, 2019). Now to turn to the issue of these transfers, from central to local government.

Intergovernmental transfers

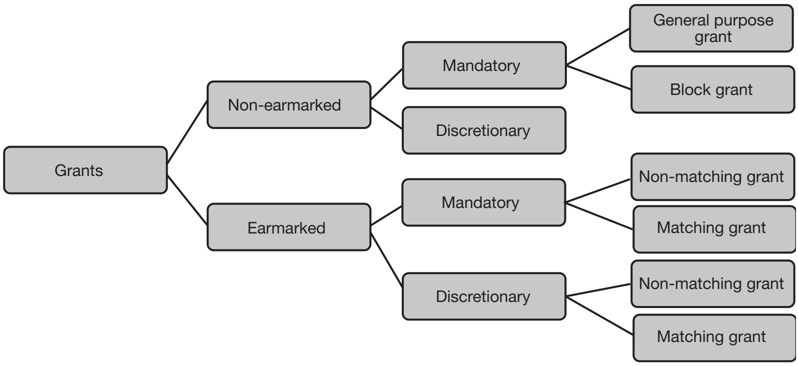
Transfers or grants from higher levels of government are an important source of revenue for local government. The rationale for such transfers is the existence of fiscal imbalances and the presence of externalities. For the latter, when services spill over municipal boundaries, any likely under-allocation of resources to this service can be offset by a transfer from a higher level of government, in the form of, for example, a conditional matching grant. Such transfers can incentivise local government to increase their spending on functions with external benefits.

Given the likely assignment of expenditures and revenues as previously outlined, local governments are also likely to find themselves with fiscal imbalances, vertical and/or horizontal. A vertical fiscal imbalance is where (own-source) revenues are less than expenditures of different levels of government. Given that central government is assigned many of the major taxes, while a country's allocative branch expenditure responsibilities are assigned to local government, it is inevitable that the local government sector will find itself in a shortfall, with revenues less than expenditures. A horizontal fiscal imbalance is where there is an imbalance between revenues and expenditures across governments – municipalities, for example – of the same level of government. Given the differences in expenditure needs and fiscal capacities of local governments, undoubtedly there will be fiscal imbalances between different jurisdictions at the local government level. These fiscal imbalances can be addressed by intergovernmental transfers (Bird, 2003).

A well-designed system of intergovernmental transfers needs to address three key issues in this regard, namely the size of the distributional pool (based on a specified share of a tax, an ad hoc decision, or reimbursement of approved expenditures), the allocation mechanism and formula (likely based on some estimates of expenditure needs and fiscal capacity), and any conditions attached to transfers.

Here a classification of intergovernmental grants is presented as there are many different types, with different objectives. An OECD typology of grants is given in Figure 2.

Figure 2: Organisation for Economic Co-operation and Development taxonomy of grants



Source: Organisation for Economic Co-operation and Development/Korea Institute of Public Finance (2012).

Terminology can vary, as, for example, earmarked grants are also called specific-purpose or conditional grants whereas non-earmarked grants are called general-purpose or unconditional grants. There are also current versus capital grants, open-ended versus closed-ended grants, equalisation grants, and output-based grants. Tax or revenue-sharing arrangements can also be considered a grant as the local government recipient has no control over the tax or revenue shared.

It is important that the grant type is matched with the grant objective. So, for example, if the objective is to address externalities, a matching grant is appropriate. If the objective is to address a horizontal fiscal imbalance, an equalisation grant is the best match. If the objective is to fund national priorities and ensure minimum standards of public services, a conditional grant is appropriate.

Problems can arise if transfers are not properly designed. They can distort local decision-making and create perverse incentives, leading to, for example, overspending by local governments. They can reduce local accountability as local governments are not responsible for raising own-source revenues. They can also create a dependency culture or syndrome that undermines sound fiscal behaviour.

According to the United Nations Development Programme (2007), lessons of good grant design include the following:

- focus on a single transfer objective;
- match the grant with the objective;
- keep transfers and formula simple, predictable and transparent;
- use sunset clauses;
- consider an appropriate institutional arrangement such as an independent commission or forum to allow for broad-based consultation and expert inputs.

In summary:

> since circumstances and objectives differ from country to country, no simple, uniform pattern of transfers is universally appropriate but experience around the world makes it clear that if services are to be efficiently provided, transfers must be designed so that those receiving them have a clear mandate, adequate resources, sufficient flexibility to make decisions and are accountable for results. (Bird & Smart, 2002, p. 899).

With respect to transfers in the Irish system of local government finance, the vast majority of (current and capital) grants are specific-purpose in nature, primarily to fund two categories of expenditure, namely, housing and regeneration, and transportation and roads expenditures. There is a small unconditional equalisation grant.

Although these central government grants come primarily from the Department of Housing, Local Government and Heritage, many other central government departments allocate grants to the local authorities. Indeed, of the eighteen central government departments, a dozen or so departments provide grant funding to the local authorities with three departments (Transport; Enterprise, Trade and Employment; Rural and Community Development) accounting for the majority of the funding. In addition, a number of state agencies provide grant funding, including Transport Infrastructure Ireland, the National Transport Authority, the Office of Public Works, and Enterprise Ireland (Office of the Comptroller and Auditor General, 2023). The involvement of such large numbers of central government departments in the business of local government affairs is both unwieldy and unnecessary, and needs to be streamlined in any future reform of local government funding (Muldoon-Smith et al., 2025).

Table 9 reports the euro amounts of central government grants to local government, both current and capital, and specific-purpose and general-purpose, for a sample of years between 2008 and 2022. The grants share of total local government income fell during the austerity years, but subsequently increased before and during the coronavirus-2019 (Covid-19) years when central government grants to local government peaked at approximately 50 per cent of operating revenues.

Table 9: Central government transfers to local government in Ireland, in millions of euros

	2008	*2011*	*2014*	*2018*	*2022*
Current income					
Total revenue	5,165	4,942	4,122	4,949	6,556
of which central government grants					
– specific-purpose grants	1,192	1,195	872	1,581	2,752
– general-purpose grants*	997	705	281	42	34
Capital income					
Total revenue	5,833	2,496	983	2,324	3,499
of which central government grants	3,724	1,511	632	1,663	2,607

Source: Department of Housing, Local Government and Heritage.
Note: *The general-purpose grant was replaced by the local property tax (LPT) in 2014. The (post-variation) LPT allocations for 2018 and 2022 were €504 million and €524 million, respectively. For the link between the LPT and central government general-purpose grants, see www.localauthorityfinances.com/blog-posts/

Borrowing and debt

The final pillar of intergovernmental finance is borrowing and debt, and relates to the ability, or otherwise, of local governments to borrow. As a necessary element of any local public finance system, borrowing permits local governments to finance capital expenditure and infrastructural projects. By spreading the repayments over time, they can match the streams of expected costs and benefits. Known as the golden rule in debt finance, borrowing for capital purposes meets both efficiency and equity criteria. On the other hand, the dangers of local government borrowing are well documented, and include risks to macroeconomic stability and the fear of defaults, bailouts, and municipal bankruptcies (Ter-Minassian, 1997; United Cities and Local Governments, 2010).

Given the hierarchal nature of intergovernmental relations, a regulatory framework is often employed, ranging from the most market-friendly of regimes (where local government borrowing is simply disciplined by market forces) to the other end of the spectrum where local government borrowing is prohibited, and in between where there are different forms of control, either a rules-based system or administrative controls. The rules-based system is common in many countries, both unitary and federal. Then, the questions that remain are the purpose of the fiscal rules, the type, the design features, and the evidence of impact.

Ongoing debates in relation to local government borrowing include domestic versus foreign sources of funding, the use of ex ante versus ex post controls, stocks or flows in the use of fiscal rules, and the prevalence of government guarantees (implicit or explicit).

In general, there are different sources of borrowed funds. They are intergovernmental loans, borrowing from domestic state agencies, loans from commercial banks and other financial institutions, direct borrowing from external organisations or borrowing on capital markets using municipal bonds.

In Ireland, local authorities are statutorily required to balance operating budgets, where budgeted income equals budgeted expenditure. Borrowing is only permitted for capital expenditure (the aforementioned golden rule) and must be approved by central government. Subject to this permission, local authorities in Ireland borrow either from financial institutions, but more likely from domestic state agencies such as the Housing Finance Agency. In more recent times, a small number of local authorities have applied to the European Investment Bank to borrow for large infrastructural projects (Turley & McNena, 2019). Furthermore, any new borrowing is limited by the requirement that the local government sector remain neutral in terms of the General Government Balance, as part of the Medium-Term Budgetary Framework and the EU fiscal architecture. This means that the annual amount of local government non-mortgage borrowing is limited to the value of the principal that is repaid on non-mortgage loans in that year. For example, for 2024 the annual borrowing envelope for non-mortgage loans was €118 million.

Compared to other sources of capital income, borrowing accounts for only a small percentage. In 2022, the shares were as follows: capital grants (76 per cent), development contributions (9 per cent), miscellaneous (7.5 per cent), asset disposals (3 per cent), with loans at only 4.5 per cent. Amounting to, on average, €8 billion (the majority of which is owed to central government) in the years 2021–2, local government debt levels in Ireland are low, relative to central government debt or municipal debt in most other jurisdictions.

Summary and conclusions

Table 10 presents a summary of the four pillars, both in theory and practice as applied to Ireland.

Table 10: Summary of the four pillars – theory and practice

Pillar	*What does the **theory** say?*	*What is the **practice** in Ireland?*
Expenditure assignment	Assign expenditures to local government where benefits are localised and there are no economies of scale.	Municipal services such as local roads, parks, fire and library services, and social housing. A focus on physical-related activities (roads, housing, environment) rather than person-related services (education, health, social care).
Revenue assignment	Charge for services where beneficiaries can be identified. Otherwise, impose local taxes (e.g. real property taxes).	Charges on tenants of local authority housing, car parking, planning applications, recreation facilities. Recurrent taxes on commercial and residential properties.
Intergovernmental transfers	Design to address fiscal imbalances and externalities.	Primarily specific-purpose grants to pay largely for housing and roads spending. A small equalisation grant.
Borrowing and debt	Local government to borrow for capital purposes only.	A balanced budget rule. Central government approval for borrowing.

Recent reforms to the system of local government finance in Ireland accelerated in the mid-2010s, culminating in the Local Government Reform Act 2014 (Government of Ireland, 2014). Although the major changes were in relation to territorial reforms – namely, the abolition of town and borough councils, mergers of certain neighbouring councils, creation of municipal districts – there were also changes, albeit minor, in the assignment of expenditures and revenues. Categorised by our pillars of intergovernmental finance, these reforms are analysed in Turley and McNena (2016, forthcoming).[10]

In Ireland, as elsewhere, there are differences between the theory and practice of local government finance, and also differences with practices in other countries, reflecting the no-one-size-fits-all nature of intergovernmental fiscal relations and municipal finance. What matters for the design and implementation of a decentralised fiscal framework is not only the application of economic theory and sound principles of public finance as outlined above, but also non-economic factors such as history, politics, institutions, and other country-specific circumstances (Rodden et al., 2003; Bahl, 2008).

This is the case in Ireland where the current structure of expenditure and revenue assignments is greatly influenced by the country's political, economic, and social history and institutions, first as part of the British empire and then as an independent state since 1922, with very little devolution of powers by central government departments. Belonging to the Anglo–Saxon tradition of local government system, this partly explains the limited expenditure responsibilities at the local government level (with a focus on housing and roads), and the heavy reliance on user fees and property taxes, in addition to extensive ministerial controls and supervision, not only in relation to intergovernmental transfers and borrowing, but in all aspects of local government finance, and public administration in general (Schwab et al., 2017; Callanan, 2018).[11]

[10] As Oates (2006, p. 30) concludes, 'There is, however, no detailed, universal blueprint for the optimal system. As we have seen, the construction of a viable and efficient structure involves a delicate balancing act…. The right balance is likely to vary somewhat from nation to nation depending on the particular history and character of the country'.

[11] As recently as October 2023, when monitoring Ireland's application of the European Charter of Local Self-Government, the Congress of Local and Regional Authorities of the Council of Europe concluded that Ireland 'remains one of the most centralised countries in Europe', and specifically in relation to expenditure assignment and its funding, it recommended that '…Irish authorities transfer additional functions to local authorities,… increase the amount of own resources that can be used at the discretion of local government and increase the share of non-earmarked grants' (Congress of

Continued overleaf

As stated in the introduction, the value of this contribution is in the application of the conceptual framework to the issue of local government finance in Ireland, and by doing so, confirms the highly centralised nature of Ireland's intergovernmental fiscal system, and prompts much needed institutional and fiscal reforms. The Local Democracy Taskforce established in the summer of 2025 gives policymakers an opportunity to consider these issues and recommend changes that would see the benefits of fiscal decentralisation accrue to local communities and residents.

I end this article with the subtitle of a paper by the late Richard Bird that succinctly and aptly summaries the nature of local government finance in theory and practice, namely, 'universal principles, local applications' (Bird, 2000).

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[11] *Continued:* Local and Regional Authorities, 2023, p. 1). Over a decade earlier, the Irish government in its *Putting People Firs*t report admitted that '…the range of functions being discharged by local authorities in Ireland is extremely narrow by international comparison…' (Department of Environment, Community and Local Government, 2012, p. 13).

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