

MAY YOU LIVE IN INTERESTING TIMES...

The 20-year story of the Irish economy seen through the lens of local authority income data



Dr Gerard Turley, J.E. Cairnes School of Business and Economics, University of Galway¹

Table 1: Local Authority Income

	I BOOM			II BUST			III AUSTERITY			
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1.0 Revenue Income	4,200	4,662	5,042	5,165	5,096	5,053	4,942	4,926	4,714	4,122
1.1 %change on previous year	n.a.	11.0	8.2	2.4	-1.3	-0.8	-2.2	-0.3	-4.3	-12.6
2.0 Specific-purpose Grants	954	1,108	1,171	1,192	1,136	1,225	1,195	939	850	872
2.1 %change on previous year	n.a.	16.1	5.7	1.8	-4.7	7.8	-2.4	-21.4	-9.5	2.6
3.0 General-purpose Grants	817	877	949	997	837	761	705	636	640	281
4.0 Total Current Grants	1,771	1,985	2,120	2,189	1,973	1,986	1,900	1,575	1,490	1,153
5.0 current grants/revenue income	0.42	0.43	0.42	0.42	0.39	0.39	0.38	0.32	0.32	0.28
6.0 Capital Income	n.a.	5,704	6,765	5,833	4,171	2,888	2,496	1,800	1,313	983
6.1 %change on previous year	n.a.	n.a.	18.6	-13.8	-28.5	-30.8	-13.6	-27.9	-27.1	-25.1
7.0 Capital Grants	n.a.	n.a.	n.a.	3,724	2,977	2,057	1,511	1,243	959	632
8.0 capital grants/capital income	n.a.	n.a.	n.a.	0.64	0.71	0.71	0.61	0.69	0.73	0.64
9.0 Total Income (Revenue & Capital)	n.a.	10,366	11,807	10,998	9,267	7,941	7,438	6,726	6,027	5,105
9.1 %change on previous year	n.a.	n.a.	13.9	-6.9	-15.7	-14.3	-6.3	-9.6	-10.4	-15.3
10.0 Total Grants (Current & Capital)	n.a.	n.a.	n.a.	5,913	4,950	4,043	3,411	2,818	2,449	1,785
10.1 %change on previous year	n.a.	n.a.	n.a.	n.a.	-16	-18	-16	-17	-13	-27
11.0 total grants/total income	n.a.	n.a.	n.a.	0.54	0.53	0.51	0.46	0.42	0.41	0.35
Economic data										
12.0 Inflation rate, CPI	2.5	5.0	4.6	1.1	-5.0	1.4	2.4	1.1	0.2	-0.2
13.0 GDP, real growth rate	5.7	5.0	5.3	-4.5	-5.1	1.7	1.6	-0.4	2.2	9.3

Source: Department of Housing, Local Government and Heritage; Central Statistics Office; Central Bank of Ireland.

The past 20 years has been a truly tumultuous period for the world economy. We have witnessed the greatest financial crisis and economic crash since the Great Depression of the 1930s, a once-in-a-generation global pandemic caused by the coronavirus disease, and a period of inflation not seen since the oil crises of the 1970s. Given how globalised the Irish economy is, it is not surprising to see adverse impacts on the domestic economy, both nationally and locally.

By reporting and analysing aggregate local authority income data, we can identify the shocks to the Irish economy during the past 20 years and the response of policymakers. The data are reported in Table 1 (in millions of euros).

Let's begin by explaining the data, and see what they tell us about changes in local and central government revenues, and how that reflects the bigger picture of developments in the Irish and global economy.

Using data primarily from the amalgamated Annual Financial Statements (AFS) of the 31 local authorities, we report revenue income (row 1.0), capital income (row 6.0) and total income (row 9.0). We also report annual percentage changes in these income flows (rows 1.1, 6.1 and 9.1). These annual changes can be compared to the annual inflation rate (row 12.0), to measure real or inflation-adjusted changes in income.

The other item that we report is local authority income that comes from central government grants or transfers. We report current grants (row 4.0), both specific-purpose (row 2.0) and general-purpose (row 3.0); capital grants (row 7.0); and total grants (row 10.0). We also report annual percentage changes in the specific-purpose grant (row 2.1) and the total grant income (row 10.1).

The grant/income ratio is reported in rows 5.0 (current), 8.0 (capital) and 11.0 (total). What is missing from the table, but can be easily inferred (and calculated), is the other broad source of local authority income, namely own-source revenues, both charges/fees for goods and services, and local taxes (Local Property Tax and commercial rates).

We also report the annual growth rate of the economy, as measured by annual changes in real GDP (row 13.0).

Colours are used in Table 1 to broadly reflect the different periods witnessed in the Irish economy for the 20 years 2005-2024. Using the data, we can identify six distinct periods. They are outlined here in chronological order.

¹ My thanks to Stephen McNena for comments on this piece. Our latest blog, on the elections and changes in the operation of the Local Property Tax, can be read on our website, www.localauthorityfinances.com

	IV RECOVERY					V COVID-19		VI INFLATION		
	2015	2016	2017	2018	2019	2020	2021	2022	2023b	2024b
1.0 Revenue Income	4,065	4,307	4,515	4,949	5,306	7,197	6,651	6,556	6,603	7,264
1.1 %change on previous year	-1.4	6.0	4.8	9.6	7.2	35.6	-7.6	-1.4		
2.0 Specific-purpose Grants	878	1,120	1,251	1,581	1,839	3,638	2,979	2,752	2,764	3,269
2.1 %change on previous year	0.7	27.6	11.7	26.4	16.3	97.8	-18.1	-7.6		
3.0 General-purpose Grants	2.5	13.6	43.6	41.8	41.1	37.5	35.1	34.3	118	149.1
4.0 Total Current Grants	881	1,134	1,295	1,623	1,880	3,676	3,014	2,786	2,882	3,418
5.0 current grants/revenue income	0.22	0.26	0.29	0.33	0.35	0.51	0.45	0.43	0.44	0.47
6.0 Capital Income	1,094	1,441	1,686	2,324	2,759	2,618	2,791	3,499		
6.1 %change on previous year	11.3	31.7	17.0	37.8	18.7	-5.1	6.6	25.4		
7.0 Capital Grants	686	885	1,074	1,663	2,079	2,011	2,103	2,607		
8.0 capital grants/capital income	0.63	0.61	0.64	0.72	0.75	0.77	0.75	0.75		
9.0 Total Income (Revenue & Capital)	5,159	5,748	6,201	7,273	8,065	9,815	9,442	10,055		
9.1 %change on previous year	1.1	11.4	7.9	17.3	10.9	21.7	-3.8	6.5		
10.0 Total Grants (Current & Capital)	1,567	2,019	2,369	3,286	3,959	5,687	5,117	5,393		
10.1 %change on previous year	-12	29	17	39	20	44	-10	5		
11.0 total grants/total income	0.30	0.35	0.38	0.45	0.49	0.58	0.54	0.54		
Economic data										
12.0 Inflation rate, CPI	0.1	0	0.4	0.6	1.3	-0.9	5.6	8.1	4.6	2.0f
13.0 GDP, real growth rate	24.6	1.2	10.0	7.5	5.0	7.2	16.3	8.6	-5.5	-0.9f

Notes: b = budget data for 2023 and 2024, so data for these years not comparable with previous years' actual outturns data. f = forecast data, for 2024.

I Boom [-2007]

The story of the Celtic Tiger years is well documented. One of the effects of the economic boom was the increase in government revenues, at both the national and local levels. Local authority revenue income had soared to over €5bn by 2007, and with capital income at over €6.7bn, total local authority income was €11.8bn. In the Local Government Fund (LGF), the general-purpose grant had reached almost €1bn. However, all changed in 2008.

II Bust [2008-2010]

Triggered but not ultimately caused by the financial crisis and property crash in the US, Ireland's home-grown economic boom turned to bust in 2008. What followed was a multi-dimensional economic crisis, of a property, banking, fiscal and social nature. One result of the collapse in economic and commercial activity was a big decline in central and local government revenues. This is reflected in the 2008-2010 local authority income data, albeit with a lag in revenue income and a large reduction in capital income and central government grants to the local authorities.

III Austerity [2011-2014]

What followed the economic crisis, the bank guarantee and the Troika bailout was a period of austerity, with increases in taxes combined with cuts in expenditure. Local government was not immune from this era of fiscal retrenchment. With sluggish economic growth combined with austere fiscal measures imposed by the authorities (at home and abroad), the result was that total local authority income had fallen to €5bn by 2014/15, and of that capital income was only €1bn; it was over €6.7bn in 2007. As part of the austerity and public sector reform agenda, the Department's *Putting People First: Action Programme for Effective Local Government* 2012 policy document was followed by the Local Government Reform Act 2014, which resulted in an abolition of town councils and mergers of certain neighbouring councils. In 2013 a new local residential property tax was introduced as a way to broaden the tax base and fund, albeit only very partially, local government.

IV Recovery [2015-2019]

The economy and government finances began to recover in the mid-2010s, and this was reflected in the local public finance data. Both revenue income and capital income rebounded, and by 2019 total local authority income was €8bn, of which half was in the form of central government grants. Whereas general price inflation was just over 20% for the period 2017-22, revenue income for the same period increased by 45%. Once again, all changed in the early months of 2020.

V COVID-19 [2020-2021]

In 2020 the global economy, governments and billions of people worldwide were affected by a pandemic caused by

the coronavirus. Unlike the previous economic crisis, when governments withdrew and austerity prevailed, this time governments intervened with huge supports to businesses and households. Central government grants to the local authorities increased massively in 2020, to €3.6bn, taking the grant share of revenue income to over 50%. Another unforeseen shock followed shortly thereafter.

VI Inflation [2022-2024]

Global prices increased rapidly in 2022/23 due to a number of factors, including the energy crisis arising from the Russian invasion of Ukraine, but also some legacy issues such as the COVID-19 bounce in spending and the era of cheap money and quantitative easing. For the first time in over 40 years, inflation and a cost-of-living crisis became the number one economic challenge, with the result that Central Banks increased interest rates to levels not seen in decades. Irish local authorities were confronted with increasing demands and cost pressures, but fortunately not to the same extent as local governments in other jurisdictions, including the UK, where councils have more extensive responsibilities, resulting in some municipalities showing signs of financial distress and possible bankruptcy.

We often hear that we live in extraordinary times. Although the term 'extraordinary' tends to be greatly misused, we think it is appropriate for the times we have recently lived through. In modern economic history a period of two decades has not often witnessed such dramatic and tumultuous events. Policymakers, at all levels of government - supranational, national, regional and local - have had to respond to events and shocks of historic proportions. It is hard to believe that the next 20 years will be as dramatic. Then again, we simply don't know.

What we do know is the importance of learning from previous experiences, both here and abroad. During the austerity years, cuts in local government expenditure exceeded cuts in central government expenditure. At the general government level, capital spending reductions far exceeded current spending reductions. One negative but foreseen consequence of the austerity era and the cuts in capital expenditure is the infrastructural deficits at local and national levels that confront us today and will confront us for many years to come.

In summary, although the profile of the Irish economy is rather different to many other economies, the options available to policymakers are well known and extensively studied. In the face of great uncertainty and enormous challenges, evidence-based research and expert policy advice are needed as much as ever.