

**PUBLIC FINANCE
REPUBLIC OF IRELAND**

Diploma stage examination

12 December 2007

From 2.00pm to 4.00pm
plus ten minutes reading time from 1.50pm to 2.00pm

Instructions to candidates

*There are **four** questions on this question paper*

*Answer **three** questions in total*

One compulsory question from Section A

Two of the three questions from Section B

The question in Section A carries, in total, 40 marks

The questions in Section B each carry a total of 30 marks

Where a question asks for a specific format or style, such as a letter, report or layout of accounts, marks will be awarded for presentation and written communication.



SECTION A (Compulsory)

1

Grassington University is in considerable financial difficulty as Jim Graham, the newly appointed Finance Director, is rapidly finding out. Jim left his post at Grassington County Council three months earlier attracted by a new challenge and expecting to finish his career at the university.

However, he is now confronted with major financial difficulties, which appear to grow more significant as time passes. Poor budgetary control has meant that costs have failed to fall in line with the declining student numbers, particularly in the area of overseas students, which Grassington has experienced for many years. Not surprisingly, morale has fallen in many areas of the university's activities – this has been reflected in poor assessments of the university's research activity with corresponding reductions in research related income; and also in major problems in the university's office responsible for grant applications.

Jim had been told that his experience in administering Grassington County Council's procedures for the Local Government Fund had been a major reason for his appointment to the university post. However, Jim finds it difficult to see much parallel between the chaos he has inherited at the university and the systems he left at the council. Having identified the grants office as a priority, Jim is dividing his time between seeking to improve systems for the administration of existing grants and trying to encourage applications for new sources of funding, particularly from the European Union (EU).

Much of the university estate is in poor repair as a result of planned maintenance falling behind schedule and another priority facing Jim is to consider the most appropriate way of addressing this. He has asked the head of the grants office to investigate the availability of grant income for building new accommodation, whether that be from the Department of Education and Science or elsewhere. He is also considering whether an arrangement under Public Private Partnership might be an appropriate way forward.

• **Requirement for question 1**

- (a) What principles of good practice would assist Jim in his attempts to improve the application and administration of grants at the university? 10
- (b) Explain briefly what the EU structural funds are and outline the steps which the grants office would need to take in order to successfully access such funding. 8
- (c) While at the County Council Jim would have been familiar with the formula based approach of the Local Government Fund needs and resources component. Identify both the advantages of such an approach to the allocation of central government grants to local authorities and the conditions necessary for formula based allocation to operate effectively. 8
- (d) Explain your understanding of the term Public Private Partnership and set out the advantages and limitations to the university associated with this model of funding. 8
- (e) In recent years it has been suggested that the off-balance sheet status of PPP projects makes their use more attractive to governments. Outline your understanding of this argument. 6

(40)

SECTION B (Answer two from three questions)

2

Notwithstanding the conclusions of the various reports and studies into local government finance conducted in this country, local authority funding is still dominated by the central government element. This issue will become more pertinent in future years if the projected shortfall in local authority funding as predicted in the recent Indecon Review is to materialise.

• **Requirement for question 2**

- (a) Given the continuing significant reliance on central government funding of local authority expenditure, set out the arguments for and against greater local autonomy in raising local revenue. 8
- (b) Evaluate local authority rates against the following criteria: 12
- (i) Equity
 - (ii) Accountability
 - (iii) Buoyancy
 - (iv) Efficiency
- (c) In the context of central government grants to local authorities, explain the following terms: 6
- (i) Vertical equalisation
 - (ii) Horizontal equalization
- (d) When is it appropriate to use matching grants? 4

(30)

3

All commentators agree that the immediate future will see lower rates of increase in government expenditure than has been the case for some time. This will require some hard decisions concerning their spending priorities, since the demand for government financial provision is likely to remain high. In addition it is likely to remain necessary to implement further supply side reforms to the delivery of government funded provision.

• **Requirement for question 3**

- (a) Outline the main factors that supply side theories of government expenditure growth suggest could lead to greater efficiency and effectiveness in the delivery of government funded goods and services. 7
- (b) What are the main demand side factors that drive increases in the demand for government expenditure? 10
- (c) Reduced growth in government expenditure should, other things remaining equal, lead to reduced long term borrowing by government and possibly reduced rates of taxation. Trace out the economic implications of:
 - (i) reduced long term borrowing by European governments on the European economy 5
 - (ii) reduced rates of income tax on the Irish economy 3
- (d) Explain the impact of reduced long term government borrowing upon the achievement of the government's fiscal rules under the *Stability and Growth Pact*. 5

(30)

4

In the future, certain governments will seek to move beyond the tolling of roads to a comprehensive system of national road charging, both for cars and lorries.

- **Requirement for question 4**

- (a) Using economic theory as appropriate, outline the rationale for road charging. 5
- (b) Economic theory states that user charges can only be imposed on private goods and not public goods. Explain what is meant by a public good and why it is not possible to levy user charges on such goods. 5
- (c) Public goods, as an example of market failure, are an accepted rationale for raising taxation by government. Identify two other rationales for government economic intervention involving taxation and discuss the way in which government typically seeks to achieve its objectives under each rationale. 10
- (d) Identify the major criteria by which national taxes can be evaluated. Describe each criterion and evaluate income tax against each criterion. 10

(30)
