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# NATIONAL FISCAL POLICY AND LOCAL GOVERNMENT DURING THE ECONOMIC CRISIS

VOLUME 2: COUNTRY PROFILES

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# NATIONAL FISCAL POLICY AND LOCAL GOVERNMENT DURING THE ECONOMIC CRISIS

## VOLUME 2: COUNTRY PROFILES

URBAN POLICY PAPER SERIES

MAY 2014

Harold (Hal) Wolman<sup>1</sup> and Diana Hincapié<sup>2</sup>

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# 1 OECD COUNTRIES LOCAL GOVERNMENT FISCAL CONTEXT

**H**ere we present a contextual overview of local government finance in the OECD countries. The overview consists of a set of tables (see below) and discussion of the role of local government in the public sector, the extent of local government autonomy in each of the countries, and the functional assignment of responsibility of the various local government systems (who does what?). The six countries that are the focus of our study are thus placed within the broader context of all OECD countries for which relevant data are available. A more complete discussion of the local government context of the six countries is then included.

Tables for OECD Countries (see Appendix)

- Table 1: Local tax revenue as a percentage of all government tax revenue, 2010
- Table 2: Local public expenditure as a percentage of all non-defense public expenditure, 2010
- Table 3: Local government expenditure as percentage of GDP, 2010
- Table 4: Revenue by source as a percentage of total local revenue, 2010
- Table 5: Own-source local revenue as a percentage of GDP, 2010
- Table 6: Local expenditures on key public services as a percentage of all general government spending on that service, 2010

## Role of Local Government in the Public Sector

Local government varies dramatically in the importance of its role relative to other governmental levels across the OECD countries. Appendix Tables 1 and 2 provide two measures of local government importance relative to other levels of government, one related to tax-raising and the other to public expenditure. The first table displays each OECD country's local government tax revenue as a percentage of tax revenue raised by all levels of

government (national, state, and local in federal systems; national and local in unitary systems). The second table displays local government direct general expenditure as a percentage of all levels of government direct general expenditure, excluding defense expenditures (direct general expenditure excludes grants provided to another level of government). Note that local governments may play a relatively small role in tax-raising but a relatively larger role in spending if local governments receive substantial amount of grant funds from higher levels of government.

The range with respect to both taxing and spending is enormous. Local government taxes as a percentage of all public sector taxes range from 1.2% in Greece to 43.9% in Japan. Local government public spending as a percentage of all public spending ranges from 6.6% in Greece to 65.9% in Denmark.

Below we group countries for which there are data for both local revenues and expenditures into five categories. The six countries in our study are **bolded**. The categories relate the country's rank for each of the two measures relative to the overall median. Countries with values five or more percentage points above the median on both measures are termed "high local government importance." Countries with values five or more percentage points below the median on both measures are deemed "low local government importance." Countries within five percentage points of the median on both measures are deemed "average local government importance." Countries that are within five percentage points of the median on either the revenue or expenditure category, but are more than five percentage points from the median (either above or below) are termed "mixed."

Countries with high local government importance are, with one exception, countries with highly centralized unitary systems of government. It is not surprising that local governments in federal

**Countries with high relative local government importance**

- Denmark
- Finland
- **Italy**
- Japan
- Korea
- Sweden
- **United States**

**Countries with low relative local government importance**

- Australia
- Austria
- Belgium
- Greece
- Ireland
- Israel
- Portugal

**Countries with average or mixed relative local government importance**

- Canada
- Czech Republic
- Estonia
- France
- **Germany**
- Hungary
- Iceland
- Netherlands
- Norway
- **Poland**
- Slovak Republic
- Slovenia
- **Spain**
- **United Kingdom**

systems generally play a smaller role with respect to both taxes and spending since in federal countries there is an intermediary level of government with taxing and spending powers.<sup>1</sup> The one exception is

<sup>1</sup> A much higher role in expenditure than in revenue raising may mean either that local government is receiving large amounts of grant funding to assist in providing local government services or that local government is simply serving as an administrative mechanism for a higher level of government in providing services of the higher level government, with the funds for those services passing through the local government budget.

the United States, where localism is culturally and politically embedded, even if it is not institutionally so.

However, while local government may play an important role relative to other levels of *government*, our assessment of local government's overall importance may differ depending on the role local government plays in the national economy relative to the private sector. Appendix Table 3 provides data on the local public sector expenditure relative to the nation's overall economy.

Inspection of the data in Appendix Table 3 does not change our ranking of local government importance. All of the countries that ranked high in terms of the importance of local government relative to the other governmental levels also rank above the median in terms of local government's share of the national economy. Similarly, all of the countries whose local government system ranked low in terms of importance relative to the rest of the public sector also ranked below the median with respect to local government importance in the national economy.

### **Local Autonomy**

We conceive a country's local government system to have local autonomy if it has available to it a substantial amount of resources that can be used in any manner it wishes, i.e., subject to local government discretion. In general, revenue raised from local sources (taxes and fees and charges) is available for the local government to use for any legal purpose. Grant revenue available from other levels of government is constrained either by legal use, if it is a categorical or conditional grant, or, more generally, by the possibility of future year reductions if a general grant. Thus, percentage of local government revenue resulting from grants from higher level of governments is generally viewed as one indicator of local discretion, with a low percentage indicating relatively high local discre-

#### High Local Autonomy

- Austria
- Czech Republic
- Estonia
- Finland
- Iceland
- Sweden
- Switzerland
- United States

#### Medium (Mixed) Local Autonomy

- Denmark
- France
- Germany
- Israel
- Italy
- Norway
- Poland
- Portugal
- Spain

#### Low Local Autonomy

- Belgium
- Canada
- Hungary
- Ireland
- Luxembourg
- Netherlands
- Slovenia
- United Kingdom

tion and a high percentage indicating relatively less local discretion.

Appendix Table 4 ranks OECD countries on the degree to which their local government systems have local discretion as measured by own-source local revenue as a percentage of total local revenue (i.e., 100 — grants as a percentage of local revenue). The ranking is from high local discretion to low.

Iceland has the highest degree of local discretion on this measure, while the United Kingdom has the lowest. Of the six countries that are the focus of our study, the United States, Germany, and Spain have relatively high levels of local discretion, while Italy,

Poland, and the United Kingdom have relatively low levels.

However, having substantial discretion may be rather meaningless if there is not much revenue available. Local autonomy is thus best conceived as a substantial *amount* of revenue available for discretionary use. In terms of comparing the OECD countries, we measure *amount* of local revenue as own-source local revenue as a percentage of GDP. We measure discretion as above, i.e., percentage of local revenue raised through own-sources as a percentage of GDP. These data are reported in Appendix Table 5.

We term countries above the median on both of these measures as characterized by high local autonomy, those below the median on both as low local autonomy, and those below the median on one of the measures and above on the other as mixed or medium local autonomy. Below we present the resulting classification of local government system autonomy of OECD countries for which data are available on both measures.

#### Who Does What?

Local government systems perform different functions in different countries. These differences are due to national government assignment of service responsibilities to different levels of government, to the amount of “home rule” local governments have to undertake activities not assigned to them, to the amount of local autonomy they have (see prior section), and to differences in local preferences across countries.

We use the International Monetary Fund’s public service categories and data from their *Government Statistics Yearbook, 2011* to compare local government systems across countries. Table 6 presents local government direct general spending as a percentage of all government direct general spending (i.e., exclusive of grants provided to other levels of government) for each of the IMF catego-

ries. Those functions for which the local government system is responsible for more than 25% of all government direct general spending we designate as functions for which the local government system plays an important role and are bolded.

Although there are important exceptions in each case, local governments in most of the countries play an important role in environmental protection, housing and community development, recreation, and education. However, while the median country's local government system spends nearly 50% of all public sector funds spent on education, the Spanish, Australian, and Greek systems all account for less than 10 percent of all government education spending. With the exception of the Scandinavian countries (particularly Sweden and Denmark) and Korea, few local government systems are responsible for social protection and welfare spending. In health, the median local government system spends less than 5% of all government spending, but the Scandinavian countries, some eastern and central European countries (Estonia, Hungary, and Poland), Korea, and Italy all spend more than 25% of total government spending on that function. Belgium, Canada, the Netherlands, the United Kingdom, and the United States are the only countries in which local governments spend more than 25% of all public spending on public order and safety.

The functions for which the six countries in our study play an important role (i.e., account for more than 25% of all government spending) are listed below:

- Germany: economic affairs, environmental protection, housing and community amenities, recreation, and education
- Italy<sup>2</sup>: general public services, economic affairs, environmental protection, housing and community amenities, health, recreation, and education
- Poland: economic affairs, environmental protection, housing and community amenities, health, recreation, and education
- Spain: general public services, environmental protection, housing and community amenities, and recreation
- United Kingdom: public order and safety, economic affairs, environmental protection, housing and community amenities, recreation, and education
- United States: public order and safety, recreation, and education

<sup>2</sup> This is somewhat misleading since the IMF treats Italian intermediary levels of government as local government.



## 2 UNITED STATES STRUCTURAL CONTEXT PROFILE

### U.S. Governmental Structure and the Constitutional Role of Local Government

The United States is a federal system with 50 states. The federal government has a set of enumerated powers, some of which are very broad (e.g., provide for the general welfare) as well as the power to enact laws “necessary and proper” for carrying out these powers (U.S. constitution, Article 1, Section 8). The constitution also specifies via the 10<sup>th</sup> amendment that all powers not enumerated as federal powers or not prohibited by it to the states remain with state governments.

The federal constitution does not establish or recognize local governments. Instead local governments are creatures of the state governments. In practice, this means that the United States has 50 different systems of local governments. Local government structure, powers, and degree of autonomy thus vary from state to state. At one end are “Dillon’s Rule” states (named after a state court decision) in which, at the extreme, local governments are permitted to do only what is set forth in the state constitution or legislation. At the other end are “home rule” states in which, at the extreme, local governments are permitted to do anything

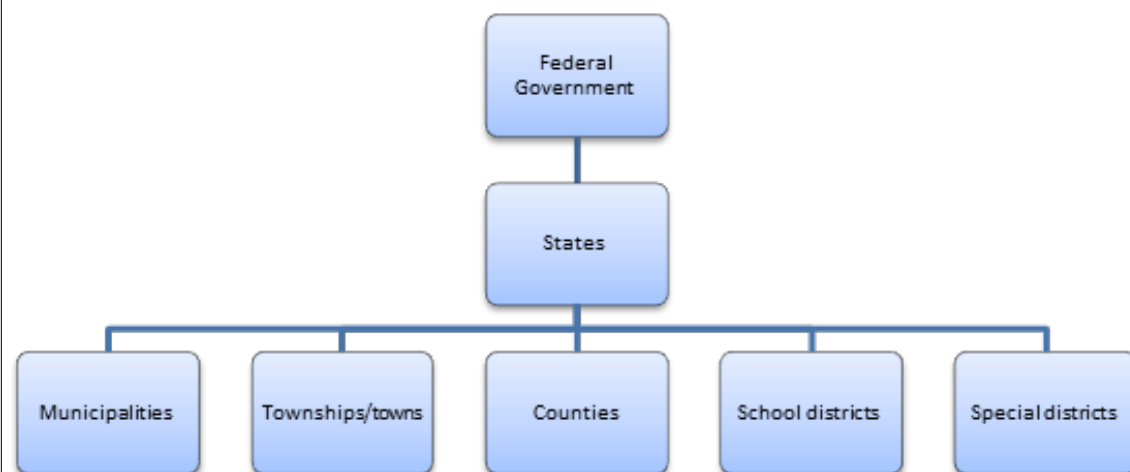
that is not explicitly prohibited by state constitution or legislation. Most states are positioned somewhere between these two extremes.

### Importance of Local Government

To get a sense of the importance of a country’s system of local government we can examine both its role with respect to the national economy and its role in the overall public sector. Local government sector expenditure accounted for 11.5% of U.S. GDP in 2010, 1.4 percentage points higher than the OECD median of 10.1% (see Appendix Table 3). Local governments in the United States accounted for 24.1% of all public sector tax revenue in 2010, 7.4 percentage points above the median for all OECD countries (see Appendix Table 1). They accounted for 31.5% of all public sector non-defense spending, nearly double the median for federal countries and 7.5 percentage points above the median for all OECD countries (see Appendix Table 2).

The U.S. local government system ranks at the top of the six countries that are the subject of this report in terms of taxes raised as a percentage of all public sector tax revenue and is very near the

Figure 1: United States Government Structure





top as well with respect to local expenditures as a percentage of all public expenditures. While it ranks third, its percentage is only slightly less than Poland and Italy, the top two countries. However, because the public sector as a whole plays a smaller role in the United States than in many countries, it ranks only fourth among the six countries in terms of local government expenditure as a percentage of GDP (see Table 1).

### Local Government and the Intergovernmental System: Who Does What?

Local government in the United States consists of:

- *Municipalities*: Municipalities are incorporated under state law. They are the dominant form of general purpose of local government in most states.<sup>3</sup> Municipal council members are in most cases directly elected through a plurality

system, although in some cases the winner is elected after a “run-off” of the top two vote getters if no candidate receives a majority. Most metropolitan areas consist of many municipalities. There is no general purpose metropolitan government in the United States.

In a majority of municipalities, elections are “non-partisan,” i.e., party labels cannot be listed on the ballot. In some municipalities, mayors are directly elected and have substantial powers (mayor-council systems). In other municipalities, the city council appoints a city manager to administer the city and the mayor, usually chosen from among the council members, has mostly ceremonial powers (council-manager system).

**Table 1**

Local government expenditure as a percentage of GDP, 2010			Local tax revenue as a percentage of all government tax revenue, 2010		Local expenditures as a percentage of all non-defense public expenditure, 2010	
Country	Percent	Ranking	Percent	Ranking	Percent	Ranking
Germany	7.59	5	12.85	5	17.1	5
Italy	15.69	1	21.33	2	33.1	2
Poland	14.88	2	19.47	3	34.1	1
Spain	6.26	6	14.93	4	16.1	6
United Kingdom	13.98	3	6.21	6	29.5	4
United States	11.5	4	24.10	1	31.5	3
Mean	11.65		16.48		26.9	
Median	12.74		17.20		30.5	
Source: OECD fiscal decentralization database. Note: Ranking from highest percentage to lowest.			Source: IMF Government Statistics Yearbook 2011. Note: Ranking from highest percentage to lowest.		Source: IMF Government Statistics Yearbook 2011; Data for the United States: Office of Management and Budget, 2010.	

<sup>3</sup> Although in a few states in the mid-Atlantic and South, e.g., Maryland and Virginia, counties are the dominant form.

- *Townships/towns*: Townships are also general purpose units of government, usually located in areas that are not incorporated as municipalities and with powers more limited than those of municipalities. Townships and towns exist in less than half of the states.

- *Counties*: Counties are also general purpose units of local government. Municipalities are part of counties but are not responsible to them.<sup>4</sup> Counties cover an entire state. However, in most states, municipalities do not cover an entire county. As a result there are non-incorporated areas in each county. In these areas, services normally provided by a municipality are provided by either (or both) a county or by townships.

County councils are directly elected through a plurality system. County executives are directly elected in some counties and appointed in other counties.

- *School districts*: School districts are responsible for providing elementary and secondary education. In most cases, these districts are independent entities under state law and are not responsible to cities or counties. While independent of municipalities, they often (but not always) coincide with municipal boundaries. In a few cases, a city or county will also be responsible for elementary and secondary education and will be the local school district. School districts are governed by a school board whose members are directly elected through a plurality system.
- *Special districts*: Special districts are, in all but a very small number of cases, single-purpose authorities charged with providing a specific service for a defined geographic area that does

not necessarily coincide with municipal or county boundaries. In most (but not all) cases, special districts are governed by appointed officials.

The number of these different types of local government differs enormously from state to state, both in absolute and in per capita terms. Nationally, as of 2012, the totals were:

• Municipalities	35,886
• Townships	16,364
• Counties	38,917
• School districts	12,884
• Special districts	37,203
• Total	89,004

All of these types of local government are elected, with the exception of most special districts, whose officials are usually appointed.

The local government system in the United States shares sub-national responsibilities with state governments. The intergovernmental system in the United States has been likened to a marble cake: financing and service provision, often for the same service, are mingled among the three levels of government. In addition, patterns differ across the 50 states. However, in general, major responsibility for service provision is divided as follows:

- *State government* (often these services are financed to a substantial extent with federal government grant funds):
  - Highways
  - Income support (cash and in-kind, particularly health care for the poor through Medicaid)
  - State prisons
  - State parks
  - State economic development

<sup>4</sup> In a small number of cases, cities are not part of counties, but instead serve both city and county functions. However, this small number of city-counties includes several large cities such as New York, Philadelphia, San Francisco, St. Louis, Denver, and Baltimore.

- Higher education
- *Local government:* The various types of local governments described above each has somewhat different service responsibilities (often these services are financed to a substantial extent with federal and/or state government grant funds):
  - Municipalities
    - Police and fire protection
    - Sanitation and waste disposal
    - Local street construction and maintenance
    - Public transportation
    - Parks and recreation
    - Libraries
    - Local land use and zoning
    - Housing (code enforcement, zoning, etc.) and urban development
  - Counties
    - Income support and social services
- Public hospitals
- Corrections
- County streets and highways
- County economic development
- Provision of municipal public services to areas within the county not incorporated as municipalities or townships
- School districts
  - Elementary and secondary education
- *Special districts:* While there are many different kinds of special districts (e.g., public transportation districts, recreation and park districts, water and sewer districts, mosquito abatement districts, and many others), the largest in terms of expenditure are:
  - Hospital districts
  - Sewer districts
  - Housing districts
  - Airport districts

**Table 2: Local government share of federal-state-local direct general expenditure,<sup>1</sup> 2010**

Function	Local percent of state-local general expenditure
Fire protection	100.0
Elementary and secondary education	98.6
Sewerage	97.8
Libraries	95.8
Solid waste/sanitation	90.3
Parks and recreation	87.8
Police protection	87.0

Source: U.S. Census of Governments State and Local Government Finances by Level of Government and by State: 2009-10

<sup>1</sup> Excludes federal government direct general expenditure, which, in nearly all of these functions, is very small.

Local governments play a major role in direct general expenditure (direct expenditure by the government excludes grants to other levels of government that in turn provide the final expenditure) in the areas shown in Table 2.

Using the IMF's public expenditure categories, the three local government tiers account for more than 25% of all general government spending, the baseline for which we consider local governments playing an important role, on public order and safety (52.6%), economic affairs (45.1%), environmental protection (83.3%), recreation and culture (69.4%), and education (51.5%), (see Appendix Table 6<sup>5</sup>).

<sup>5</sup> Note: the last year for which the United States provided these data to the IMF using the IMF template was 2001. However, it is unlikely that the data have changed much from that time.

### Local Government Revenue by Major Sources

Local government revenue consists of locally raised taxes, grants from the federal and state government, and fees and charges. Since the data for local governments include revenues for counties, school districts, and other special districts as well as municipalities, the dominant local government in the United States, we present data for both all local governments and solely for municipal governments. For all local governments, own-source revenue (taxes, fees and charges, and miscellaneous) comprises 61% of local revenue, while grants account for 38.9% (see Table 3). For municipal governments alone, own-source revenue comprises 73.9% of municipal revenue, while grants account for 26.1%<sup>6</sup> (see Table 4).

### Own-Source Revenue

#### Local Taxes

The taxes local governments are permitted by their state governments to raise vary from state to state. They may also vary by size or type of local government. The most common taxes are:

*Property tax* on both residential and business property. All states permit local governments to raise a local property tax, for which the tax base is the market value of the land and structure upon it. In general, the property tax is the only tax available to all local governments regardless of type. General purpose local governments may also be allowed to utilize the other taxes described below. The property tax is thus the dominant form of local taxation, accounting for 75.2% of locally raised tax revenue in 2010 and 29.7% of all general local revenue. For municipal governments (i.e., excluding counties, school districts, and other special districts), property tax accounted for 48.0% of all tax revenues and 21.9% of own-source general revenues.

<sup>6</sup> U.S. municipal revenue by source is available only every five years through the Census of Government Finance. The 2012 Census is not yet available.

**Table 3: Local Government Revenue by Major Source, 2010**

Sources	Percentage of Total
Own Source	61.1
Local taxes	40.6
User fees and charges	17.1
Misc.	3.4
Grants	38.9
Total	100.0

Source: U.S. Census of Governments State and Local Government Finances by Level of Government and by State: 2009-10

**Table 4: Municipal Government Revenue by Major Source, 2007**

Sources	Percentage of Total
Own Source	73.9
Local taxes	45.6
User fees and charges	18.2
Misc.	10.1
Grants	26.1
Total	100.0

Source: U.S. Census of Governments State and Local Government Finances by Level of Government and by State: 2009-10

*Sales tax.* 37 states allow some general purpose local governments to impose a sales tax on goods sold within their boundaries. Sales tax revenues accounted for 27.7% of municipal tax revenue in 2010 and 12.6% of all general municipal revenue.

*Local income tax.* Only 13 states<sup>7</sup> permit some municipal governments to impose an income tax on their residents and, in most cases, this right is granted only to the largest urban governments (e.g., Baltimore, Denver, Detroit, New York, Philadelphia, and San Francisco). Personal and corporate local tax revenues accounted for 14.0% of municipally raised tax revenue in 2010 and 6.4% of all general municipal revenue.

<sup>7</sup> Alabama, California (San Francisco only), Colorado, Delaware (Wilmington only), Kentucky, Maryland, Michigan, Missouri (Kansas City and St. Louis only), New Jersey (Newark only), New York (New York City and Yonkers only), Ohio, Pennsylvania, and West Virginia (Henchman and Sapia, 2011).

A few states permit these large urban governments to impose a wage tax, often known as a “commuter tax.” A wage tax taxes the earnings of those who work within the jurisdiction, even if they do not live within it.

#### **Fees and Charges**

Local governments impose fees and charges on a variety of services that they provide. As the rate of increase of property tax revenues has fallen as a result of tax limitations (see below) and erosion of the property tax base, fees and charges have increased. In 2010 they accounted for about 16.7% of total local revenues. For comparison, in 1990, they accounted for about 13.8% of total general revenues.

#### **The Grant System**

Local governments receive grants from both the federal and state governments. Total grants from the federal and state government accounted for 38.9% of all local government general revenue in 2010 and 26.1% of all municipal revenue.

#### **Federal Grants**

Direct federal grants to local governments account for 12.6% of all local government grant revenue in 2010 and 4.8% of all local government general revenue. At the municipal level, federal grants accounted for 20.2% of all grant revenue and 5.3% of total revenue.

*General grants.* There is no federal unconditional general grant (or equalization grant) to either local or state governments. All federal grants are for specific purposes, although some (termed block grants) provide wide latitude within specific functions. For local governments the largest federal block grant is the Community Development Block Grant (CDBG). CDBG can be used by local government for a wide variety of community development, economic development, and housing purposes. Block grants are provided to eligible

state and local recipient governments by formula as provided in the federal legislation authorizing the grant program. CDBG grants, for example, are provided to all general purpose municipal governments with populations of 50,000 or greater and to urban county governments with populations greater than 200,000 on the basis of criteria that include the extent of poverty, population, housing overcrowding, age of housing, and population growth lag in relationship to other metropolitan areas.

*Categorical grants.* Most federal government grants to local governments (and to state governments as well) are categorical, i.e., they can be used only for specific relatively narrowly defined purposes. Categorical grants may be distributed by formula or they may be discretionary. Discretionary grants are usually competitive. Local governments present an application to the federal government and the federal agency administering the grant chooses what it deems the best proposals to be funded.

#### **State Grants to Local Government**

State grants accounted for 87.4% of all local government grant revenue in 2010 and 33.1% of all local government general revenue. At the municipal level, state grants accounted for 71.7% of all grant revenue and 18.7% of total revenue. However, in some cases, states simply act as the vehicle for distributing federal grants to local governments as their ultimate destinations. Unfortunately, it is not possible to sort these “pass-through” grants from other federal grants to state governments. The federal government registers these funds as going to the state government and does not track them in a systematic way after that.

State grants to local governments vary from state to state. While most state grants are categorical in nature, some states do make general grants to local governments. Grants may be distributed to local governments either by formula or by state government discretion.

**Table 5: U.S. Local Government General Revenue by Source, 2010 (millions \$)**

Source	Amount	Percent of total
Own Source	856.1	61.1
Taxes	568.6	40.6.6
Property Tax	427.1	30.5
Sales Tax	89.1	6.4
Local Income Tax	30.4	2.2
Other Taxes	22	1.5
Fees and Charges	239.8	17.1
Misc.	47.7	3.4
Grants	544.2	38.9
From Federal Govt.	68.4	4.9
From State Govt.	475.8	34.0
Total	1400.3	100.0

Source: U.S. Census of Governments State and Local Government Finances by Level of Government and by State: 2009-10.

**Table 6: U.S. Municipal Government General Revenue by Source, 2007 (million \$)**

Source	Amount	of total
Own Source	287.5	73.9
Taxes	177.4	45.6
Property Tax	85.2	21.9
Sales Tax	49.2	12.6
Local Income Tax	24.9	6.4
Other Taxes	17.6	4.5
Fees and Charges	70.9	18.2
Misc.	39.2	10.1
Grant	101.6	26.1
From Federal Govt.	20.5	5.3
From State Govt.	72.8	18.7
Total	389.2	100.0

Source: U.S. Census of Government, 2007.

*Equalization grants.* While there is no explicit federal equalization grant to state or local governments, some states do have equalization grants to local government, although in no case is complete equalization achieved. The most common “equalization grant” by far is in the form of state aid to local school districts. In many states this results from court cases that have successfully challenged or threatened to challenge under the state’s constitution the state’s system of local education finance. Local education is in nearly all states financed primarily through the local property tax. Since the property tax base varies substantially across local school districts, some school districts are able to provide educational funding at a relatively modest tax rate, while poorer districts are unable to provide the same resources without burdening their residents with a much higher and politically unsustainable rate. State education grant systems are designed to reduce these disparities between rich and poor districts.

*Tax Sharing:* There is no federal tax sharing with either local or state governments. However, many states do have tax sharing<sup>8</sup> with their local governments. The details, including type or tax and amount shared, vary from state to state.

### Fiscal Rules and Limitations on Subnational Governments

Fiscal rules and limitations are rules established by state governments in the United States that limit the fiscal choices of local government. Such rules may include the type of taxes that local governments can impose, the discretion of local governments in setting rates, ceilings on taxes, expenditures, and debt that can be issued, prohibitions or limits on budget deficits, and conditions on raising taxes or issuing debts (such as requiring approval of the

<sup>8</sup> Tax sharing occurs when a specified portion of a state tax is set aside for local governments and is distributed to the jurisdiction from which the tax was incurred. Local governments have no control over either the base or the rate of the tax.



citizenry through a referendum or requiring the approval of a higher level of government).

The federal government does not impose any fiscal limitations on either state or local governments. However, state governments impose a variety of important limitations on local government fiscal action. The nature and details of these rules vary from state to state.

#### **Tax and Expenditure Limitations (TELs)**

All but four states<sup>9</sup> impose some kind of limitation on local taxes and/or expenditures, and many states have multiple types of limitations. There are a variety of approaches, including limitations on the percentage change in revenue raised from a specific (usually property) tax (42 states as of 2011) or in total expenditures from year to year (7 states<sup>10</sup>), limits on the amount in which property tax value assessments can increase in a single year (15 states, including California's famous Proposition 13, which limits assessment increases to 2.5% per year with an increase to full market value only upon sale), limits on property tax rates (45 states), and requirements that local governments can only increase taxes through a referendum, sometimes with a supermajority vote required.<sup>11</sup>

#### **Borrowing Requirements**

Many states require local government debt issues to be approved through local voter referendum. Some states place limits on the amount of local government borrowing.

<sup>9</sup> The states that have no explicit limits on property taxes are Hawaii, New Hampshire, Tennessee, and Vermont.

<sup>10</sup> Arizona, California, Colorado, Maine, Michigan, Nebraska, and New Jersey.

<sup>11</sup> Data from Lincoln Institute of Land Policy and George Washington Institute of Public Policy (2013) *Significant Features of the Property Tax*. <http://www.lincolnst.edu/subcenters/significant-features-property-tax/>

## **Summary and Conclusion**

The United States is a federal system with 50 state governments and local governments that are creatures of state government. There are thus 50 different systems of local government in the United States. Local government consists of general purpose governments (municipalities, townships, and counties) and special purpose governments (local school districts and other special districts). Local government structure, powers, and degree of autonomy vary from state to state. The importance of the different types of local government varies from state to state as do the types of services for which local government is responsible.

Compared to other OECD countries, local government in the United States play an important role, both in terms of the percentage of general government expenditure and in terms of share of revenue raised. The local government system as a whole in the United States accounts for more than 25% of all general government spending, the baseline for which we consider local governments playing an important role, on public order and safety (52.6%), economic affairs (45.1%), environmental protection (83.3%), recreation and culture (69.4%), and education (51.5%).

U.S. local governments also have a high degree of local autonomy compared to those in other OECD countries. Own-source revenues, which can be used for any purposes, comprise more than 60% of total local government revenues. The primary local tax source is the local property tax, although local governments in some states also are able to impose a sales and/or income tax. These taxes in aggregate account for only a small portion of local government tax revenue. Local government grants are received primarily from state governments, with federal government grants accounting for less than 5% of local government revenue. Most of the grant funds are in the form of specific (categorical)



grants, although some states do provide some general revenue funding.

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# 3 SPAIN

## STRUCTURAL CONTEXT PROFILE

### Spanish Governmental Structure and the Constitutional Role of Local Government

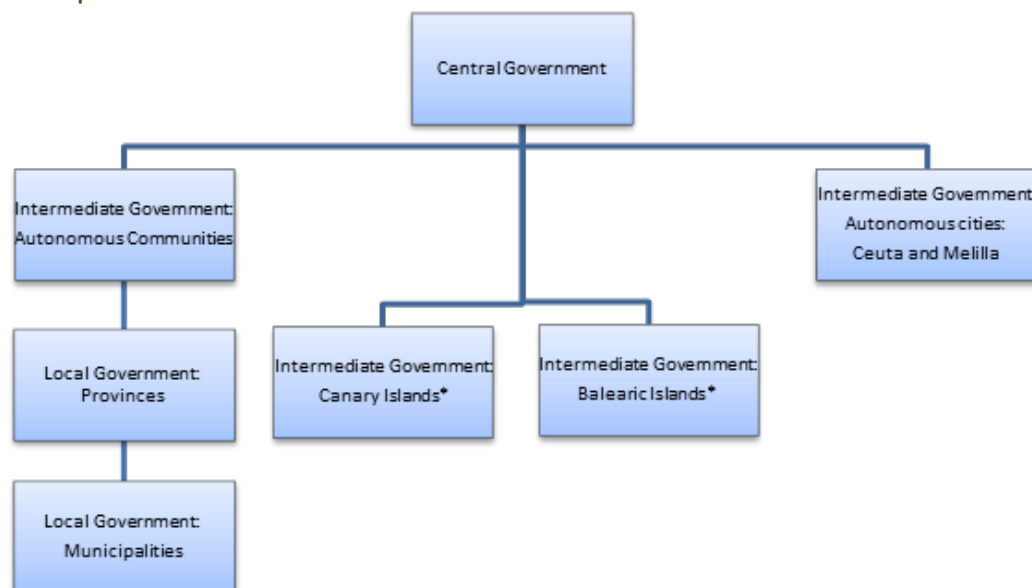
Spain is “a unitary country with most of the features of a federation” (Lopez-Laborda, Martinez-Vasquez and Monasterio, 2007 p. 288). The Spanish constitution recognizes both an intermediate level of government (17 autonomous communities — see map on next page — and two autonomous cities: Ceuta and Melilla) and two levels of local government (municipalities and provinces). Municipalities are parts of provinces, and provinces form parts of autonomous communities (though there are some single-province autonomous communities). For example, Barcelona is a city in the province of Barcelona. Together with the provinces of Girona, Lleida, and Tarragona, they constitute the autonomous community of Catalunya. Madrid is a city in the Madrid Community, a single-province autonomous community. Valencia is a city in the Valencia Province. Together

with the provinces of Castellon and Alicante, they constitute the Valencia Community, an autonomous community.

The intermediate level of government (autonomous communities) has real power, nearly akin to that of states or provinces in a federal system. As specified by the constitution and national legislation, autonomous communities can impose taxes (except those on a base already taxed by the central government). They also receive revenues in the form of shared national government taxes (upon which they can impose a surcharge). In addition, they receive grants from the central government, including a large equalization grant that takes into account both fiscal capacity and expenditure need.

The existence of local governments is recognized in the Spanish constitution. However, while the constitution provides for “local autonomy” to local governments, this is an “institutional guarantee”

Figure 2: Spain



\*Although the Canary Islands and Balearic are considered “autonomous communities,” they have an insular level of government that has the competences of other local governments (CEMR, 2012).

Figure 3: Map of Spain's Autonomous Communities



Source: Wikipedia. Accessed: <http://en.wikipedia.org/wiki/File:Ccaa-spain.png>

that serves as a protection (Puig, 2013) of the *existence* of local level government as a reflection of the local interest rather than as a general scope of power.

The constitution also permits the national government to establish “fundamental regulations” with respect to local governments, while the autonomous communities can establish “non-fundamental” regulations. Within this constitutional framework, the national government thus specifies the form and organization of local government, the services for which local governments must provide minimum levels (the autonomous communities can require local governments to provide higher levels of these services), the taxes that a local government may impose, and the regulation of contracting, property, services, and local employ-

ment. The constitution also specifies that autonomous communities *must* confer powers to local governments in a wide range of additional activities affecting the local interest.<sup>12</sup> In addition, autonomous communities may grant additional powers to local governments so long as they do not conflict with national law.

### Importance of Local Government

To get a sense of the importance of a country’s system of local government, we can examine both its role with respect to the national economy and its role in the overall public sector. Local government sector expenditure accounted for 6.3% of Spanish GDP in 2010, 3.8 percentage points lower than the OECD median of 10.1% (see Appendix

<sup>12</sup> This section is drawn largely from Fossas and Velasco, 2005.

Table 3). Local governments play a modest role in the Spanish governmental system, accounting for slightly less than 15% of all public sector tax revenues in 2010, about two percentage points less than the median for OECD countries (see Appendix Table 1). They account for 16.1% of all public sector non-defense spending, about eight percentage points less than the OECD median (see Appendix Table 2).

The Spanish local government system ranks at or near the bottom in terms of indicators of importance of local government when compared to the other five countries in our six country comparison, probably a result of the importance of the autonomous communities as intermediate levels of government (see Table 7). It ranks last in local expenditures as a percentage of all non-defense spending, last in local government expenditure as a percentage of GDP and fourth in local tax revenue as a percent of all public sector tax revenue.

### Local Government and the Intergovernmental System: Who Does What?

Local government consists of municipalities and provinces, the Canary Island county councils, and the Balearic island county councils. Municipalities are parts of provinces and they are governed through a parliamentary type system, i.e. city councils. Council members are directly elected through a proportional representation system. The mayor is appointed by the council from among its members (in effect, the leader of the governing council party or coalition). The executive body is composed of elected municipal councilors appointed by the mayor. As of 2012, there were 8,117 municipalities (*municipios*).

Provinces are governed by a council consisting of deputies indirectly elected by municipal councils rather than directly elected by the citizenry. The president of the council is elected by the council from amongst its members. There are 50 prov-

Table 7

Local government expenditure as a percentage of GDP, 2010			Local tax revenue as a percentage of all government tax revenue, 2010		Local expenditures as a percentage of all non-defense public expenditure, 2010	
Country	Percent	Ranking	Percent	Ranking	Percent	Ranking
Germany	7.59	5	12.85	5	17.1	5
Italy	15.69	1	21.33	2	33.1	2
Poland	14.88	2	19.47	3	34.1	1
Spain	6.26	6	14.93	4	16.1	6
United Kingdom	13.98	3	6.21	6	29.5	4
United States	11.5	4	24.10	1	31.5	3
Mean	11.65		16.48		26.9	
Median	12.74		17.20		30.5	
Source: OECD fiscal decentralization database. Note: Ranking from highest percentage to lowest.			Source: IMF Government Statistics Yearbook 2011. Note: Ranking from highest percentage to lowest.		Source: IMF Government Statistics Yearbook 2011; Data for the United States: Office of Management and Budget, 2010.	

inces, 10 of which are single-province autonomous communities.

In addition, there are municipal commonwealths (*mancomunidades*), associations of municipalities to which metropolitan areas delegate functions in order to carry out projects or provide local services such as sanitation or sewage. These bodies are similar to special districts.

Service responsibilities are divided among the different types of “local” government.<sup>13</sup> However, while Spain is a unitary state, the 17 autonomous communities have an increasing degree of independence and now occupy a position similar in some degree to that of states or provinces in federal systems. Autonomous communities include, among others, Catalonia, Andalusia, Basque Country, Castille, and Navarre.

- Intermediate Level of Government: Autonomous Communities
  - Education at all levels
  - Urban and regional spatial planning
  - Economic development
  - Regional infrastructure and transport (regional roads, waterways, and local railways)
  - Environmental management
  - Social services (health and education)
  - Housing
  - Agriculture
- Local Government
  - Provinces
    - Co-ordination of municipal services and provision of services across municipalities

- Legal, economic, and technical assistance, particularly to the smaller municipalities
- Funding for infrastructure and public services for smaller municipalities
- Municipalities over 50,000 in population<sup>14</sup>
  - Water supply, sewer systems, and waste management
  - Public health
  - Transportation
  - Public lighting and street paving and maintenance
  - Firefighting and prevention
  - Local police
  - Environmental protection
  - Personal social service
  - Culture and recreation
  - Sporting facilities

Using the IMF’s public expenditure categories, local governments (municipalities and provinces) account for more than 25% of all general government spending, the baseline for which we consider local governments playing an important role, on general public services (43.7%), environmental protection (69.7%), housing and community amenities (75.7%), and recreation, culture, and religion (52.3%) (see Appendix Table 6).

#### Local Government Major Revenue Sources

As of 2011, own-source revenue (local taxes, user fees and charges, and miscellaneous) accounted for 65.4% of local revenue for all local governments and grants, and tax sharing accounted for the remaining 34.6% (See Table 8). For municipal governments alone, own-source revenue and grant revenue were nearly equally divided (see Table 9).

<sup>13</sup> From Lopez-Laborda et al., 2007; CEMR, 2012; and Kim and Vammalle, 2011.

<sup>14</sup> Municipalities of less than 50,000 people have fewer responsibilities.

**Table 8: Local government general revenue by major sources, 2011**

Source	Amount (€ million)	Percentage of Total
Local taxes	31,874	49.9
User fees	6,493	10.2
Grants*	22,096	34.6
Other	3,417	5.3
Total	63,880	100.0

Source: OECD Fiscal Decentralization Database, <http://www.oecd.org/ctp/federalism/oecdiscaldecentralizationdatabase.htm>, Accessed on May 30, 2013.

\* According to the IMF's Government Finance Statistics, local governments received €227 million in 2010 from international organizations. We assume that most (if not all) of these grants come from the EU, because only EU member countries reported receiving grants from international organizations. EU grants to local government are included in the grant total.

**Table 9: Municipal Government General Revenue by Source (€ thousand), 2009**

	Amount	Percent of total
Own revenue	28,706,162	50.8
Tax Revenue	17,438,972	60.7
Fees and Other Revenue Sources	9,064,288	31.6
Asset Revenues (Ingresos patrimoniales)	2,202,901	7.7
Transfers /Grants	27,804,068	49.2
From Central Government	17,380,078	62.5
From Autonomous Communities	6,692,571	24.1
From County Councils (provinces)	2,587,873	9.3
Other Transfers	1,143,546	4.1
Total Revenue	61,997,290	100

Source: Finance Minister of Spain, 2009.

## Own-Source Revenue

### Local Taxes

Of the two levels of local government, only municipalities are permitted to raise tax revenues. There are five separate taxes available to municipal governments, and they are allowed to establish the rates of these taxes within a minimum and maximum range set by the autonomous community and central government (Morata and Etherington, 2010; Kim, Lotz, and Mao, 2010). Local governments, whether municipalities or provinces, do not have the power to introduce new taxes. The five taxes municipalities can levy are divided into compulsory taxes and optional taxes.

- *Compulsory taxes*, to be collected by all local councils
  - *Property tax (IBI)*: tax paid on the assessed value of land plots and structures owned by both residents and businesses. The property tax accounts for nearly 60% of all local tax revenues (see table below for local government tax revenue raised by individual taxes).
  - *Motor vehicles tax (IVTM)*: paid by residents owning a vehicle; the tax base depends on horsepower and age.
  - *Local business tax (IAE)*: presumptive tax charged on all firms doing business in the municipality; the tax rate is proportional and the tax base is estimated using objective parameters related to the use of production factors (surface areas, electricity power, number of workers, and sector of activity).
- *Optional taxes*
  - *Construction tax (ICIO)*: paid by owners of structures currently being built in the jurisdiction of the municipality; charged a proportional tax on the project's budget.

- *Land transaction tax (IIVTNU)*: paid by the seller of a plot of land (empty or built-on) on the capital gains received as a result of the sale; the tax base is estimated on the assessed value of the property and the number of years since purchasing.
- *Fees or user charges* on municipal services
  - Sewage
  - Building work
  - Other local services

### The Grant System

For municipal governments in 2009, nearly 63% of total grants came from the central government, 24% from autonomous communities, and 9% from provincial governments (see Table 9). An additional 1% came from European Union grants (see Table 8).

#### Grants from Central Government

*Revenue-sharing grants (Participacion en los tributos del Estado-PTE)*: This is the main unconditional grant received by the municipalities. It is universal, automatic, and allocated by formula. Municipalities

and local government and provinces receive grants from the central government that can be used for any purpose (general grant). Most provinces and municipalities with 75,000 inhabitants or more, or that are capitals of a province or an Autonomous Community, are funded by tax-sharing from the central government and a lump sum fund (*Fondo complementario de financiación*). The rest of municipalities and provinces are funded by a share of revenues determined by their population, fiscal effort, and fiscal capacity, with those local governments having lower fiscal capacity — i.e., the value of their tax base — receiving proportionately more funds.

The size of the fund is pegged to the development in central revenues. The amount of money is fixed every five years and then updated every subsequent year using the growth rate recorded by central taxes. A certain amount is set aside for Barcelona and Madrid (and also for the municipalities in the metropolitan areas of Barcelona). The remainder of the money is allocated to municipalities and provinces based on three variables. The main variable used is the weighted resident population (75%), with increasing weight according to population size. The second variable is fiscal effort (ratio between local tax revenues from the three main taxes (property, business, and vehicle) and potential local tax revenues (12.5%). The third variable is the inverse of the fiscal capacity (12.5%). The PTE constitutes 92.2% of grants from central government to municipalities.

Two other special grants are those subsidizing public transport in big cities (0.6% in 2006), and compensation provided by the central government to make up for the loss of revenue from the local business tax when it was abolished by the central government in 2006 (6.7% in 2006).

#### Transfers from Autonomous Communities

Most current transfers from the autonomous communities to local governments are earmarked

**Table 10: Local tax revenue, 2009**  
(in € thousand)

	Revenue	Percent
Property tax (IBI)	10,003,978	57.37
Motor vehicle tax (IVTM)	2,452,054	14.06
Land transaction tax (IIVTNU)	1,237,765	7.10
IAE (local business tax)	1,536,630	8.81
Construction tax (ICIO)	1,212,239	6.95
Other indirect taxes	22,937	0.13
Other taxes	973,370	5.58
Total tax revenue	17,438,972	100

Source: Finance Minister of Spain, 2009



competitive grants. The overall amount of funds is allocated yearly in the course of the budget process. To gain access to this money, the municipality needs to apply first.

Most autonomous communities also assign certain non-earmarked current transfer in the form of revenue sharing grants or special grants to ensure that certain municipalities receive sufficient funding. But they do not provide substantial funds to these programs (the central government does it through the PTE).

All capital grants, irrespective of the tier of government allocating them, are earmarked. The most important programs of this type are in the hands of the autonomous communities and the provincial councils. They both have local public works programs to cooperate in the provision of facilities and services of municipal competence. The design of most of these programs is very similar. First, the amount of money made available typically depends on the annual budget decisions. Second, sometimes municipalities are allocated a minimum amount of funding to be received over the year and/or the planning horizon. Third, the municipalities need to present projects in response to regular open invitation, which are published at the beginning of each planning horizon.

#### **Fiscal Rules and Limitations on Local Governments**

Fiscal rules and limitations are established by higher level governments to limit the fiscal choices of local government. Such rules may include the type of taxes that local governments can impose; the discretion of local governments in setting rates; ceilings on taxes, expenditures, and debt that can be issued; prohibitions or limits on budget deficits; and conditions on raising taxes or issuing debts (such as requiring approval of the citizenry through a referendum or requiring the approval of a higher level of government).

The General Act on Budgetary Stability (2001) established the principles that govern budgetary policy in Spain: budgetary stability (a balanced budget, or where appropriate a budget surplus, calculated on a national basis); multiannual planning, which aims to achieve the realistic planning of public sector budgets; transparency, which requires that the information which is important be publicly available; and efficiency in the allocation and use of public resources (Pedreja-Chaparro, Salinas-Jimenez, and Suarez-Pandislo, 2006, p31).

The central government restricts municipal governments to five taxes (provincial governments are not permitted to levy taxes) and imposes maximum and minimum rates for each of the taxes. Municipal governments can set the rate within the range.

Many provisions of the fiscal consolidation plan adopted by the central government in 2010 apply to all levels of government, including local government. Thus, there are limits placed on local government revenue, spending, and debt. Local governments do not require prior approval in order to borrow for long-term financing unless they are in violation of central government imposed deficit rules. Short-term borrowing to cover temporary cash-flow problems must be cancelled at the end of each year.

#### **Summary and Conclusion**

Spain is a unitary country, although it has strong intermediate levels of state-like governments (autonomous communities) as well as two different levels of local governments, municipalities, and provinces. Municipalities are parts of provinces, and provinces form parts of autonomous communities. These local government units play a relatively modest role in the Spanish governmental system compared to those of the average OECD country. Local governments in Spain play a particularly important role (at least 25% of all general government spending) in housing and community ameni-

ties; environmental protection; recreation, culture, and religion; and general public services.

In terms of revenue, own-source revenue (local taxes and fees) account for about 60% of local government revenue and grants and tax sharing from higher levels of government comprise another 35%. The property tax is the major source of local tax revenue, although the base is set nationally and fiscal rules set by higher levels of government establish the minimum and maximum rate. The major central government grant to local governments is a revenue sharing grant that is universal, automatic, and allocated by formula. The grant can be used for any purpose.

Local governments in Spain have a moderate amount of local autonomy relative to other OECD local government systems (as measured by the extent to which they raise revenue from local sources and thus spend it as they wish). However, given the size and importance of revenue sharing and tax sharing, both of which provide revenue to local governments for general purposes, the actual degree of autonomy is substantially greater.

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# 4 U.K. (ENGLAND) STRUCTURAL CONTEXT PROFILE

## U.K. Governmental Structure and the Constitutional Role of Local Government

The United Kingdom<sup>15</sup> is a unitary government system<sup>16</sup> consisting of England, Scotland, Wales, and Northern Ireland. All local governments (local authorities) are creatures of the central government and historically have only been permitted to undertake activities authorized by the national government through law (known as the doctrine of ultra vires). However, the Localism Act of 2011 introduced for the first time a general power of competence for local governments.

### Importance of Local Government

To get a sense of the importance of a country's system of local government, we can examine both its role with respect to the national economy and its role in the overall public sector. Local government sector expenditure accounted for 14.0% of U.K. GDP in 2010, 4.1 percentage points higher than the OECD median of 10.1% (see Appendix Table 3). In 2010, local government tax revenues accounted for 6.2% of all U.K. public sector revenues compared to an OECD median of 16.7% (see Appendix Table 1). However, local government expenditures constituted 29.5% of all public sector non-defense expenditures, about four percentage points greater than the median OECD country (see Appendix Table 2). Thus, despite its relatively limited role in tax revenue-raising, local government in the U.K. plays an important role in service delivery.

The U.K. local government system ranks in the middle of the six profiled countries in terms of two of the indicators of importance of local government (local government expenditures as a percentage

of GDP and local expenditure as a percentage of public spending). However, as a result of efforts by a succession of governments to control local government fiscal policy so that it is consistent with national fiscal policy, it ranks at the bottom in terms of local tax revenue as a percentage of all public sector tax revenue (see Table 11).

### Local Government and the Intergovernmental System: Who Does What?

Within England, there are several systems of local government, depending upon geographic area:

- In London
  - London Assembly (covering all of Greater London)
  - 32 general purpose borough governments within Greater London
  - 4 single purpose authorities (for waste disposal) in four different parts of Greater London
- In the six large metropolitan<sup>17</sup> areas other than London
  - A total of 36 district governments within the six metropolitan areas
  - A total of 20 area-wide single purpose authorities (police, fire, public transport, waste disposal)
  - No government for the entire metropolitan area
- Non-metropolitan ("shire") counties
  - 56 counties with unitary governments (i.e., no district general purpose governments within the county)
  - 55 single purpose authorities (police and fire authority for each unitary county)

<sup>15</sup> Because the U.K. local government system consists of four separate set of local government structure and finance arrangements — one each for England, Scotland, Wales, and N. Ireland — and the relationship of central government to each of these is also quite different, we focus solely on England.

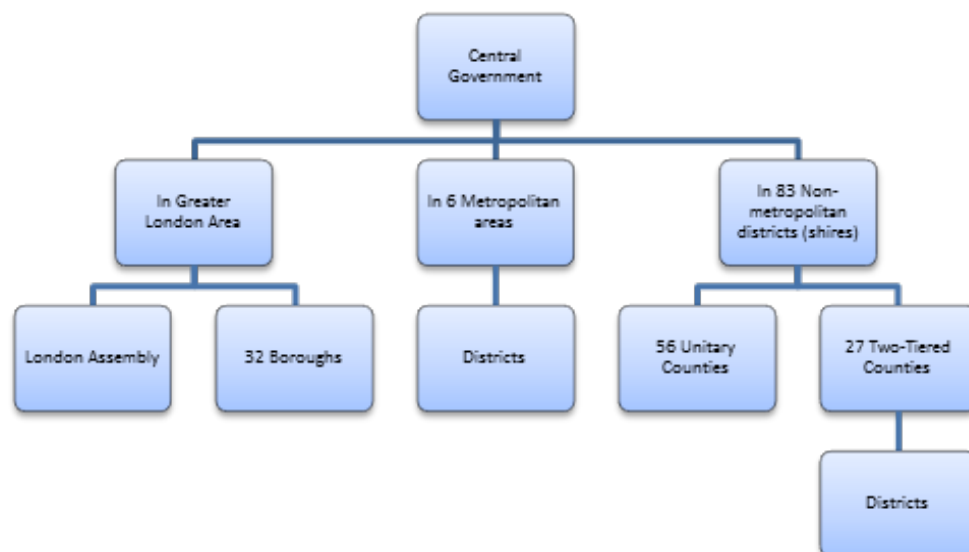
<sup>16</sup> Although it has delegated varying powers to Scotland, Wales, and Northern Ireland.

<sup>17</sup> Greater Manchester, Merseyside (Liverpool), South Yorkshire (Sheffield), Tyne and Wear (Newcastle), West Midlands (Birmingham), and West Yorkshire (Leeds and Bradford).

Table 11

Local government expenditure as a percentage of GDP, 2010			Local tax revenue as a percentage of all government tax revenue, 2010		Local expenditures as a percentage of all non-defense public expenditure, 2010	
Country	Percent	Ranking	Percent	Ranking	Percent	Ranking
Germany	7.59	5	12.85	5	17.1	5
Italy	15.69	1	21.33	2	33.1	2
Poland	14.88	2	19.47	3	34.1	1
Spain	6.26	6	14.93	4	16.1	6
United Kingdom	13.98	3	6.21	6	29.5	4
United States	11.5	4	24.10	1	31.5	3
Mean	11.65		16.48		26.9	
Median	12.74		17.20		30.5	
Source: OECD fiscal decentralization database. Note: Ranking from highest percentage to lowest.			Source: IMF Government Statistics Yearbook 2011. Note: Ranking from highest percentage to lowest.		Source: IMF Government Statistics Yearbook 2011; Data for the United States: Office of Management and Budget, 2010.	

Figure 4: England Government Structure



- 27 counties with both a county government and district governments (201 in total) within the county; no single purpose authorities

With the exception of single purpose authorities, all of the units of local government are directly elected through a plurality (“first past the post”) system, i.e., the candidate who receives the most votes wins, even if the candidate does not receive a majority of the votes.

Service responsibilities for English local governments vary according to both area and tier as indicated in Table 12.

Using the IMF’s public expenditure categories, local governments in the U.K. account for more than 25% of all general government spending, the baseline for which we consider local governments playing an important role, on public order and safety (49.2%); economic affairs (28.5%); environmental protection (55.9%); housing and community amenities (67.0%); recreation, culture, and religion (49.4%), and education (67.4%) (see Appendix Table 6).

### Local Government Revenue by Major Sources

English local government raises less than 35% of its revenue from its own sources, suggesting a quite low level of local autonomy (see Table 13).

According to the IMF’s Government Finance Statistics, U.K. local governments received £118 million in 2010 from international organizations. We assume that most (if not all) of these grants come from the EU, because only EU member countries reported receiving grants from international organizations.

### Own-Source Revenue

#### Local Tax

*Council Tax:* The council tax is a variant of the property tax and is the only tax available to local

governments. The central government places each residence into one of eight bands of value depending on its capital value.<sup>18</sup> The bands are established nationally and are the same throughout England. Each local government then sets its own tax rate based on a residential unit that is in Band D (£68,000-88,000 as of 2011). The houses in each of the other seven bands are taxed at a rate relative to those in Band D that is specified by the central government — e.g., those in Band A, the lowest valued houses, are taxed 6/9 of those in Band D, while those in Band H, the highest value houses, are taxed at a rate 15/9 those in Band D.

*Business Rates:* “Property taxes” on businesses are set nationally and paid into a central pool from which they are redistributed to local authorities as grants. However, the redistributive mechanism is such that the grant to the locality is not related to what was raised from businesses within the local government boundaries. Recent government legislation will allow local governments to retain a set portion of business rates raised from within the jurisdiction.

*Fees and charges:* Local government fees and charges on a range of services, such as on and off-street parking, library fines, planning application fees, services to the elderly, and, in London, revenue from the congestion charge (a charge imposed on motor vehicles that drive within Inner London).

### The Grant System

The central government provides both general grants and specific (categorical) grants to local government. Grants accounted for 65.8% of local government revenue in 2010-11. Grants for general purposes comprised nearly 39% of total grants, with grants for specific purposes making up almost all of the remainder. Grants from the European Union were less than 0.01% of total grant revenue for local

<sup>18</sup> The bands are based on the units capital value as of 1991. Band A is the lowest band (capital value below £40,000 in 1991) and Band H is the highest (above £320,000 in 1991).

**Table 12: Local Authority Responsibility for Major Services in England**

	Metropolitan areas		Shire areas				London area			
	District councils	Single purpose authorities	Unitaries	County councils	District councils	Single purpose authorities	City of London	London boroughs	GLA	Single purpose authorities
Number of authorities	36	20	56	27	201	55	1	32	1	4
Education	—X		—X	—X			—X	—X		
Highways (a)	—X		—X	—X			—X	—X	—X	
Transport planning	—X		—X	—X			—X	—X	—X	
Passenger transport		—	—X	—X					—X	
Social care	—X		—X	—X			—X	—X		
Housing	—X		—X		—X		—X	—X		
Libraries	—X		—X	—X			—X	—X		
Leisure and recreation	—X		—X		—X		—X	—X		
Environmental health	—X		—X		—X		—X	—X		
Waste collection	—X		—X		—X		—X	—X		
Waste disposal (b)	—X	—	—X	—X			—	—		—
Planning applications	—X		—X		—X		—X	—X		X
Strategic planning	—X		—X	—X			—X	—X	—X	
Police		—				—	—X		—X	
Fire and rescue (c)		—		X		—			X—	
Local taxation	—X		—X	—	—X		—X	—X		

Source: "Local Government Financial Statistics England No. 22," 2012, p. 19.

government. Unlike several of the other case study countries (Germany, Italy, and Poland), there is no tax sharing in the English system.

#### **General Grants**

General grants accounted for 25.5% of total local government revenue in 2010-11 (see Table 13). There are two formula allocated general grants, Revenue Support Grant and Redistributed Business Rates (see discussion of business rates above). Both are distributed to local authorities (local governments) on the basis of socio-economic and demographic need characteristics and the local authority's ability to raise council tax locally, a proxy for tax capacity, measured by the number of Band D equivalent properties within its area (see discussion of council tax above). From 2008-10, there was also a non-formula general grant (Area-Based Grant) that was allocated to local authorities on the basis of specific policy criteria. This was replaced, as part of the Localism Act 2011 by the Local Services Support Grant, which provided a set percentage of local council tax revenue to those local authorities that voluntarily agreed to freeze or reduce their council tax in 2011. This "freeze grant" was set to provide an amount equal to 2.5% of the council tax in 2012-13 and 1% of the council tax in 2013-14.

#### **Specific Grants**

Specific grants accounted for 40.3% of total local government revenue in 2010-11 (see Table 13). Until 2011, there were also nearly 70 grants for specific purposes, some of them allocated by formula and others on a discretionary basis. However, the local government finance settlement for 2011-12 reduced the number of specific grants substantially to approximately ten.

#### **Fiscal Rules and Limitations on Local Government**

Fiscal rules and limitations are rules established by higher level governments that limit the fiscal choices of local government. Such rules may

**Table 13: Revenue by Source**

Local Government Revenue by Source, England, 2010-11		
Source	Amount in £ million	Percent of total
Council tax	26,254	23.1
Fees and charges	12,597	11.1
Grants	74,840	65.8
General grants	29,001	25.5
Specific grants	45,839	40.3
Total	113,691	100.0

Source: "Local Government Financial Statistics England No. 22," 2012

include the type of taxes that local governments can impose; the discretion of local governments in setting rates, ceilings on taxes, expenditures, and debt that can be issued; prohibitions or limits on budget deficits; and conditions on raising taxes or issuing debts (such as requiring approval of the citizenry through a referendum or requiring the approval of a higher level of government).

Since the early 1980s, the U.K. government has engaged in a variety of mechanisms designed to cap local government rates and expenditures that the government deemed excessive. The most recent of these measures gave the government the ability to designate a local authority that set a budget level the government deemed excessive and subject it to a maximum limit (Department for Communities and Local Government, 2013). However, very few local governments were actually so designated, although it can be argued that the potential of capping moderated local government fiscal behavior.

As of 2011, individual local authorities were no longer limited in terms of how much they raise and spend through central government capping limits. However, as noted above, there is an incentive for local governments to not increase their spending over the prior year's level in the form of a central



government “freeze grant.” Currently, budgets deemed excessive must be subject to a local referendum. Excessiveness for the 2012-13 budget year was defined as a local authority budget increase of 3.5% over the previous year. No local authority proposed a budget exceeding that increase, and thus no local referendum was required. For the 2013-14 budget year, the central government defined excessiveness as 2.0% (House of Commons Library, *Council tax: local referendums*, January 9, 2013).

As stated earlier, local authorities are limited to the council tax as the only local tax, structured under the rules previously described.

Local authority borrowing for capital projects, once controlled by central government limits on each authority, is now likewise not controlled by central government. These central government limits were replaced in 2004 by a “prudential system” that permitted local governments to raise funding for capital expenditure on their own so long as they had the capacity to handle the debt service cost.

### Summary and Conclusion

The U.K. is a unitary governmental system consisting of England, Scotland, Wales, and Northern Ireland. Within England there are several different systems and tiers of local government, depending on the geographic area. Local government in London and the other six metropolitan areas consists of a set of general purpose district governments (32 in London) and several special purpose authorities. With the exception of London, none of the metropolitan areas has a general purpose government for the entire area. Local

government in non-metropolitan (shire) counties may consist of either of two forms. One form consists of a single general purpose unitary government and single purpose authorities for police and fire. The second form is a two-tier system in which there is both a general purpose county government and two or more district governments within the county.

Compared to other OECD countries, local government plays an important role in the English system in terms of its share of expenditures. Local government plays a particularly important role (at least 25% of all general government spending) in terms of public order and safety, economic affairs, environmental protection, housing and community amenities, education, and recreation and culture.

However, compared to other OECD countries, the English system of local government has a low level of local autonomy. Less than 35% of local government revenues (resources that local governments can spend as they please) are raised locally through local taxes and fees. The major local government tax source is the council tax, a variant of a property tax. Most local government revenue (in excess of 65%) is derived from central government grants. Grants consist of general purpose grants (about 40% of total grants) and grants for specific purposes (60%).

### References

Department for Communities and Local Government England. 2013. *Local Government Financial Statistics England no. 23 2013*. London.  
Department for Communities and Local Government England.

# 5 GERMANY STRUCTURAL CONTEXT PROFILE

## German Governmental Structure and the Constitutional Role of Local Government

Germany is a federal system with 16 lander (states), three of which are city-states (Berlin, Bremen, and Hamburg). Lander have both taxing and spending power. The federal constitution protects the institution of local government, guarantees the right of local government to decide what tasks affecting the community it wishes to carry out, and stipulates that local governments can regulate and administer their own affairs. In addition, the constitution assigns specific tasks to local governments (see below).

Within these federal constitutional guarantees, local governments are organizationally subject to the constitution of the lander, so local government organization differs somewhat across the states. Lander can only add to the federal guarantees for local government, not subtract from or counter

them (Kramer in Steytler, p. 84). Despite the federal constitutional guarantee, there are no direct relationships between the federal government and local governments. Instead, all local governments are supervised by their lander (Kramer, p. 85).

## Importance of Local Government

To get a sense of the importance of a country's system of local government, we can examine both its role with respect to the national economy and its role in the overall public sector. Local government sector expenditure accounted for 7.6% of German GDP in 2010, 3.5 percentage points lower than the OECD median of 10.1% (see Appendix Table 3). Local governments in Germany accounted for slightly less than 13% of all public sector tax revenue in 2010, quite close to the median for OECD federal countries but about four percentage points below the median for all OECD countries (see Appendix Table 1). They accounted for 17.1%

Figure 5: Germany Government Structure

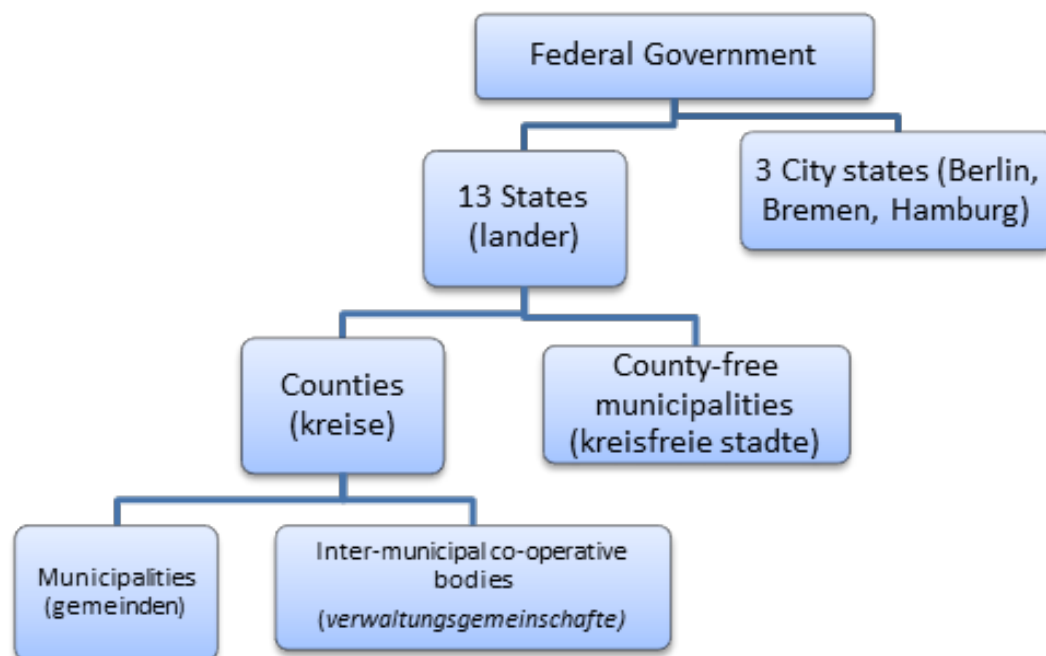


Table 14

Local government expenditure as a percentage of GDP, 2010			Local tax revenue as a percentage of all government tax revenue, 2010		Local expenditures as a percentage of all non-defense public expenditure, 2010	
Country	Percent	Ranking	Percent	Ranking	Percent	Ranking
Germany	7.59	5	12.85	5	17.1	5
Italy	15.69	1	21.33	2	33.1	2
Poland	14.88	2	19.47	3	34.1	1
Spain	6.26	6	14.93	4	16.1	6
United Kingdom	13.98	3	6.21	6	29.5	4
United States	11.5	4	24.10	1	31.5	3
Mean	11.65		16.48		26.9	
Median	12.74		17.20		30.5	
Source: OECD fiscal decentralization database. Note: Ranking from highest percentage to lowest.			Source: IMF Government Statistics Yearbook 2011. Note: Ranking from highest percentage to lowest.		Source: IMF Government Statistics Yearbook 2011; Data for the United States: Office of Management and Budget, 2010.	

of all public sector non-defense spending, about the median for federal countries but seven percentage points below the median for all OECD countries (see Appendix Table 2).

The German local government system ranks near the bottom in terms of indicators of importance of local government when compared to the other five countries in our six country comparison (see Table 14). It ranks fifth among the six countries on each of the three indicators.

### Local Government and the Intergovernmental System: Who Does What?

Local government consists of:

- *Municipalities (gemeinden)*: Municipalities are the dominant form of local government, and are part of counties. They have directly elected councils chosen by proportional representation. There is also a directly elected mayor.

- *Counties (kreise)*: Within each lander, counties are the intermediate level of local government between the landers and municipalities. County councils are also directly elected through proportional representation. The county executive is directly elected in some counties and is elected by the council in others.
- *County-free municipalities (kreisfreie städte)*: County-free municipalities combine the functions of municipalities and counties. Examples include Stuttgart, Leipzig, and Munich.
- *City states*: The three city-states of Berlin, Bremen, and Hamburg combine the functions of state, county, and municipality.
- *Inter-municipal co-operative bodies*: inter-municipal co-operative bodies (*verwaltungsgemeinschaften*) are associations of municipalities that delegate the planning or provision of a specific service to the association

(e.g., the equivalent of a special district in the United States).

As of 2002 there were 13,299 municipalities, 323 counties, 117 county-free cities, and 1,708 inter-municipal co-operative bodies (Kuhlmann, 2010, p. 6).

The local government system in Germany shares subnational responsibilities with the *lander* (state governments). The German federal system has been characterized as one in which legislation is centralized at the federal level, while policy administration, including the execution of federal laws and policies, is undertaken by the *lander* and their local governments. Local governments also implement *lander* laws. Within this system, the *lander* have legislative power over a function so long as the constitution does not assign it to the federal government (Feld and von Hagen, 2007, p. 131). Wollman and Kuhlman (UCLG Country Profiles, 2012, p. v), estimate that 70 to 85% of federal and state laws are implemented by local governments (indeed, the federal government is not allowed to have federal regional offices).

The resulting arrangement is frequently characterized as “cooperative federalism.” Within this system, the state governments are directly responsible for education, public safety and order, local law, and culture. States share responsibility with local governments for a wide variety of mandatory and discretionary services.

Local government functions thus include compulsory services — those that they are under a legal obligation, either from the federal government or the state, to provide — and voluntary or optional ones.

*Compulsory services:* While compulsory tasks set by the *lander* vary from state to state, among the most important are:<sup>19</sup>

<sup>19</sup> Gabriel and Eisenman, in Denters and Rose, 2005, p. 122; Vetter in Page and Goldsmith, 2010, p. 93

- school construction and maintenance
- welfare for the young (including kindergarten provision for all children over three)
- subsidized housing construction
- construction and maintenance of local roads
- energy and water supply
- sewage and waste disposal
- fire protection

Many social services are funded by municipalities but provided by non-profit organizations.

Optional services may include:<sup>20</sup>

- city planning
- public transport
- cultural amenities
- seniors’ homes
- youth centers
- leisure and athletic facilities

Using the IMF’s public expenditure categories, local governments account for more than 25% of all general government spending, the baseline for which we consider local governments playing an important role, on environmental protection (60.5%), housing and community amenities (56.3%), recreation, culture and religion (64.9%), and education (27.1%) (see Appendix Table 6).

### Local Government Revenue by Major Sources

Local government revenue consists of locally raised taxes, shared taxes, grants, and fees and charges. Own-source revenue accounts for 62.1% of total revenue, while grant and tax sharing account for the remaining 37.9% (see Table 15).

<sup>20</sup> Vetter, 2010, p. 93

## Own-Source Revenue

### Local Taxes

Federal legislation assigns tax bases to the various levels of government. Local governments may levy a local property tax and a business tax (a tax on the working capital and profits of medium sized and large businesses). Approximately 15% of the revenue from the business tax is shared with the state and 5% with the federal government (see shared taxes, below). Local governments have some, but not complete, discretion in the rates they can set on both of these taxes. In 2011, taxes and fees and services comprised 55% of local revenues, while grants and shared taxes amounted to 37.9% of local government revenue.

### Shared Taxes

Certain taxes are set by federal law to be shared among federal, state, and local governments. Local governments receive 15% of the personal income tax collected from residents of their area, 2.1% of the value added tax (on a per capita basis), and 12% of an interest rebate (Feld and Von Hagen in

Shah, *A Global Dialogue on Federalism*, V. 4, 2007, p. 142). The tax rates on these shared taxes are set by the federal government. However, the resulting revenues to local government can be spent for any legal purpose; they are the equivalent of a general grant.

## The Grant System

### Grants

German local governments receive equalization grants and both general and conditional grants from states to local governments. There are no direct federal grants to local government. German lander received €256 million from the European Union in 2010, some portion of which was likely passed on to local governments.

### Equalization Grants

The federal constitution outlines a policy of guaranteeing uniformity of living standards throughout the federal territory. As a consequence, the German system involves a series of grants (revenue transfers) designed to achieve equalization. These include federal grants to the lander, horizontal transfers among the lander, and grants from each of the lander to their local governments (Stehn and Fidelino, p. 7ff, also the source for the information presented below).

The equalization grants are composed of a set of overlaying processes. The first is a *vertical* equalization system. As set by federal law, the lander receive nearly half of the receipts of the VAT, of which one-quarter of this amount is distributed to the states in a manner designed to equalize tax capacity among the lander.

In addition, there is a *horizontal equalization* process in which lander with greater tax capacity (the sum of per capita state taxes plus 64% of per capita local taxes) are required to transfer revenues to lander with lower tax capacity. The result of these two processes brings the financial capacity of each

**Table 15: Local government general revenue by major sources, 2011**

Source	Amount (€ million)	Percentage of Total
Local taxes and tax sharing	77,290	37.9
User fees	36,930	18.1
Grants *	77,350	37.9
Other	12,480	6.1
Total	204,050	100

Source: OECD Fiscal Decentralization Database, <http://www.oecd.org/ctp/federalism/oecd/fiscaldecentralizationdatabase.htm>, accessed on May 30, 2013.

\* According to the IMF's Government Finance Statistics, state governments received €2,560 million in 2010 in grants from international organizations. We assume that most (if not all) of these grants come from the EU, because only EU member countries reported receiving grants from international organizations.

of the weaker lander to at least 91% of the average lander per capita capacity.

A third step consists of supplementary federal grants to poorer lander that bring their financial capacity to at least 97.5% of the national average.

Local governments benefit from these processes, since states are required to distribute a portion of these equalization grants to their local governments.

#### **Non-Equalization Grants**

Lander also provide both general and conditional grants to local governments.

#### **Fiscal Rules and Limitations on Subnational Governments**

Fiscal rules and limitations are rules established by higher level governments that limit the fiscal choices of local government. Such rules may include the type of taxes that local governments can impose; the discretion of local governments in setting rates; ceilings on taxes, expenditures, and debt that can be issued; prohibitions or limits on budget deficits, and conditions on raising taxes or issuing debts (such as requiring approval of the citizenry through a referendum or requiring the approval of a higher level of government).

Federal law limits the type of taxes local governments can impose to a property tax and a business tax. Local government budgets must be balanced on an annual basis. There are expenditure limits on total spending for local governments.

#### **Summary and Conclusion**

Germany is a federal country with a strong intermediate level of government (lander). While the federal government guarantees the rights of local government, it has no direct relationship with them. Local governments are subject to the constitution of the land in which they are located. Municipalities are part of counties, both of which

are considered tiers of local government. There are also three major city-states that serve as both lander and city: Berlin, Bremen, and Hamburg. These local government units play a relatively modest role in the German governmental system compared to those of the average OECD country and to the other five countries that we profile. Using the IMF's public expenditure categories, local governments account for more than 25% of all general government spending, the baseline for which we consider local governments playing an important role, on environmental protection (60.5%); housing and community amenities (56.3%); recreation, culture, and religion (64.9%); and education (27.1%).

In terms of revenue, own-source revenue accounts for 62.1% of total revenue, while grant and tax sharing account for the remaining 37.9%. Local governments may levy a local property tax and a business tax (a tax on the working capital and profits of medium sized and large businesses). Local governments have some, but not complete, discretion in the rates they can set on both of these taxes. Tax sharing with higher levels of governments plays a major role in local government finance. Certain taxes are set by federal law to be shared among federal, state, and local governments. Local governments receive 15% of the personal income tax collected from residents of their area, 2.1% of the value added tax (on a per capita basis), and 12% of an interest rebate. The tax rates on these shared taxes are set by the federal government.

The German grant system consists of vertical equalization grants from the federal government to state governments and an additional horizontal equalization grant in which wealthier lander transfer resources to less wealthy ones. There are no federal grants directly to local governments, but each lander is required to distribute a portion of its equalization grant to local governments. They do so largely through an equalization system.

Local governments in Germany have a moderate amount of local autonomy relative to other OECD local government systems (as measured by the extent to which they raise revenue from local sources and thus spend it as they wish).

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# 6 ITALY

## STRUCTURAL CONTEXT PROFILE

### Italian Governmental Structure and the Constitutional Role of Local Government

Italy is a formally unitary country, but one whose structure, since the constitutional reform of 2001 and the fiscal federalism law of 2009, has evolved toward a federal state<sup>21</sup> (see Longobardi, 2011, Frosini, 2010, Antonini and Pin, 2009, and Bassanini, forthcoming).<sup>22</sup> The 2001 constitutional reforms explicitly recognize both regional and local government as part of the Italian government constitution. As Article 114 of the Constitution states, “The Republic consists of municipalities, metropolitan cities, provinces, regions, and the state.” Article 113 states that, “Municipalities, provinces, metropolitan cities, and regions are autonomous entities with their own statute, power, and functions according to the principles defined in the Constitution” (UCLG, 2012).

Within Italy, there are 20 regions (*regioni*), 15 of which are classified as “ordinary status regions” and the other five of which are classified as “special status regions” with more powers because of their multi-lingual status and national border location. Special status regions have more powers in relation to legislation, administration, and finance and were granted extensive spending autonomy and central funding by the 1948 Constitution (Karpowicz, 2012), while ordinary statute regions have less financial autonomy.

While local governments exist as part of regions, they are not creatures of the regions and are not subject to direct regional oversight. The national

government cannot limit local (or regional) government autonomy if their actions are within the boundaries of the constitution (Frosini, 2010, p. 5), nor can a region do so with respect to local governments within the region. As a consequence, Bobbio and Piperno (2007, p. 129) observe that the constitution provides an “implicit mandate for (local governments) to perform any function deemed of local interest that has not been reserved for the national government by law, provided they have sufficient financial resources.” The same is true of the regions. These structural arrangements do not prevent extensive negotiations among the national government and local and regional governments (mostly through local and regional government associations), and particularly between local and national government.

The constitution (Article 119) also guarantees that, “Municipalities, provinces, metropolitan cities, and regions shall have financial autonomy with respect to revenues and expenditures.”

### Importance of Local Government

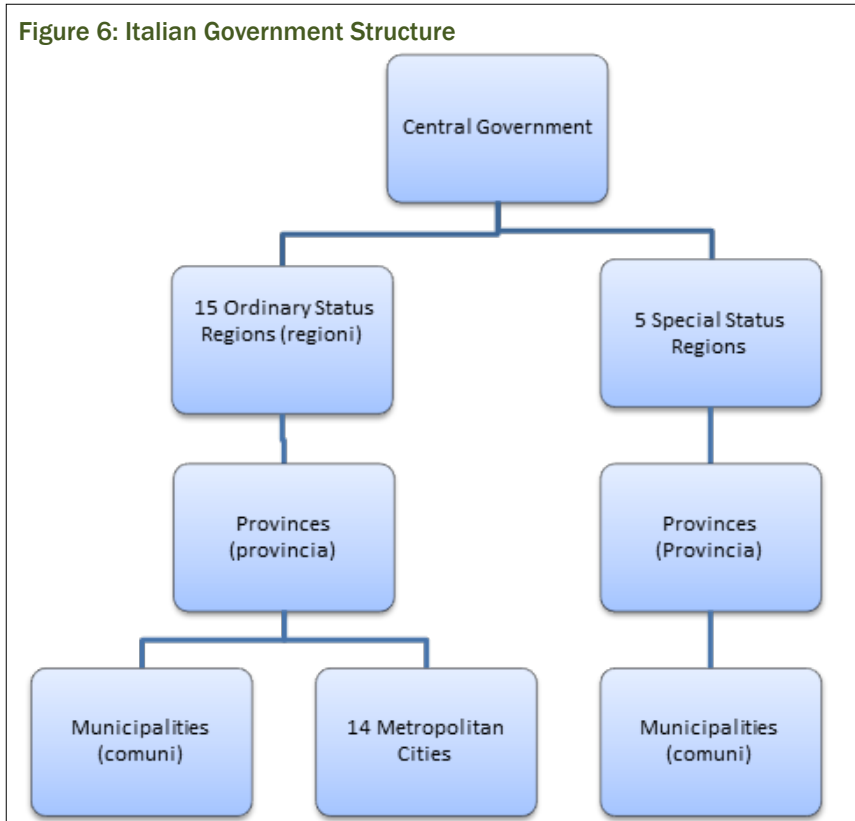
To get a sense of the importance of a country’s system of local government, we can examine both its role with respect to the national economy and its role in the overall public sector. Local government sector expenditure accounted for 15.7% of Italian GDP in 2010, 5.6 percentage points higher than the OECD median of 10.1% (see Appendix Table 3). In 2010, the local and regional government sectors together accounted for more than 21% of all public sector tax revenues compared to an OECD median of 16.7% (see Appendix Table 1). In the same year, local and regional government sectors combined accounted for 33.1% of all non-defense public expenditures compared to an OECD median of 23.9%<sup>23</sup> (see Appendix Table 2).

<sup>21</sup> However, Piperno notes that this movement toward fiscal federalism has slowed as a result of the fiscal consolidation program put in place in 2010 to reduce Italy’s deficit (personal communication from Stefano Piperno, Feb. 6, 2013).

<sup>22</sup> Longobardi (2011), for example, writes (p. 1), “Constitutionally Italy is still a unitary country, even if the amendment of 2001 has made the country resemble very closely a federal system... Scholars in constitutional law... define today’s Italy as a regional or regionalized country, which is probably undergoing a process toward federalism, even if the ultimate outcome of such a process is still very difficult to predict.”

<sup>23</sup> Unfortunately, the IMF continues to treat Italy as unitary state, so it is not possible to assess the role of local government alone.

**Figure 6: Italian Government Structure**



between municipality and region. Municipal councils are directly elected by proportional representation for cities over 15,000 in population and via a majority system for those under 15,000. The mayor is directly elected. The provincial council is directly elected through proportional representation and the council president is directly elected.<sup>25</sup>

Fourteen of the large municipalities are classified as metropolitan cities (e.g., Rome, Milan, Venice, Florence, Turin) that are sometimes treated differently in national legislation.

Rather than special

The Italian local government system ranks at or near the top in terms of indicators of importance of local government when compared to the other five countries in our six country comparison (see Table 16).

### Local Government and the Intergovernmental System: Who Does What?

Local government consists of municipalities and provinces.<sup>24</sup> As of 2012, there were 8,094 municipalities (*comuni*) and 101 provinces (*province*) (CEMR, 2012). Municipalities are part of provinces, which are the intermediate level government

districts, Italian local governments engage in cooperation through “associative specialized bodies” that perform a single task (transportation, waste management, social services, etc.) on behalf of members (Bobbio and Piperno, 2008, p. 128, Villenena, 2013). These *consorzi* are not independently financed, but are funded through their individual members.

The constitution specifies the exclusive powers of the national government and assigns certain “fundamental” powers and responsibilities to the regional government and others to local governments. With respect to these fundamental powers, the national government is responsible for the

<sup>24</sup> Examples: Agrigento, Catania, and Palermo are a provinces in the region of Sicily. Arezzo, Grosseto, and Pisa are provinces in the region of Tuscany. Rome is a city in the Province of Rome; the province of Rome is in the region of Lazio. Municipalities compose provinces, and usually several provinces form a region.

<sup>25</sup> For both the council presidents, there is a run-off between the top two candidates if no one receives 50% of the vote on the first ballot.

**Table 16**

Local government expenditure as a percentage of GDP, 2010			Local tax revenue as a percentage of all government tax revenue, 2010		Local expenditures as a percentage of all non-defense public expenditure, 2010	
Country	Percent	Ranking	Percent	Ranking	Percent	Ranking
Germany	7.59	5	12.85	5	17.1	5
Italy	15.69	1	21.33	2	33.1	2
Poland	14.88	2	19.47	3	34.1	1
Spain	6.26	6	14.93	4	16.1	6
United Kingdom	13.98	3	6.21	6	29.5	4
United States	11.5	4	24.10	1	31.5	3
Mean	11.65		16.48		26.9	
Median	12.74		17.20		30.5	
Source: OECD fiscal decentralization database. Note: Ranking from highest percentage to lowest.			Source: IMF Government Statistics Yearbook 2011. Note: Ranking from highest percentage to lowest.		Source: IMF Government Statistics Yearbook 2011; Data for the United States: Office of Management and Budget, 2010.	

framework legislation, while the regional government is responsible for the implementing legislation. The 2001 reforms introduced the principle of subsidiarity, which extend the administrative authority of municipalities to the majority of administrative functions (UCLG, 2012). The fiscal federalism reform (Law 42) enacted in 2009 and being implemented over a multi-year period divides functions among the various levels of government as outlined below (Piperno, 2012; Pola, 2010).

#### **National Government**

The national government performs typical national government functions such as foreign affairs, defense, public order and security, etc. It defines the fundamental (basic) services for which the government and either the regional or local government share the responsibility for providing and for defining the essential (minimum) level of service provision for each of these. National government

also sets forth the organization of local and regional government institutions.

#### **Regional Government**

The national government lays out the basic responsibilities and principles for regional responsibility and policy in national legislation, and regions specify the specific policy content through regional legislation (Frosini, p. 5), leaving its implementation to local governments. The regional governments are responsible for (Longobardi, 2011, p. 13) *fundamental services*, for which minimum levels must be provided across the country, including health, transport, social protection, education (not yet assigned to the regions), and other non-fundamental public services set forth by the national government (Piperno, 2012) according to the 2001 constitution reform, law n.42/09 and the implementing legislative decrees. These include town and country planning, economic development, environmental protection, culture, and agriculture. The

health services are provided by a special purpose autonomous bodies (local health agencies (*aziende sanitarie locali*), which are financed by the regions and are not dependent on local governments (CEMR, 2012). The health sector has the highest degree of decentralization. The social and health sectors represent the principal spending functions of the regions and account for 80% of their total spending. Health care spending is managed at the regional level through the local health authorities (Karpowicz, 2012).

#### **Local Government**

The fundamental services for local governments were distributed as outlined below as of 2012 (Piperno, 2012). *Municipalities* are responsible for providing all services with a local impact in town planning, social housing, local police, local public transport and road maintenance, sewage and waste disposal, and pre-school education. In addition, they have an implicit mandate to perform any function of local interest that has not been reserved for the national government by law (Bobbio and Piperno, 2010).

*Metropolitan cities* are municipalities with some of the additional powers of provinces, but the national government has yet to set forth the fundamental powers and responsibilities of these cities (Caravita di Torrito, 2005, p. 159)

*Provincial governments* are responsible for (Piperno, 2012) environmental protection, transport and road network maintenance, environmental protection, economic development, cultural heritage, secondary school building construction, and household waste and sewage. They also have a major role in supporting and coordinating small municipalities in rural areas.

Using the IMF's public expenditure categories, local governments account for more than 25% of all general government spending, the baseline for which we consider local governments playing an

important role, on general public services (30.3%); economic affairs (52.5%); environmental protection (85.4%); housing and community amenities (82.9%); health (98.5%); recreation, culture, and religion (56.5%); and education (28.1%) (see Appendix Table 6).

#### **Local Government by Major Revenue Sources**

The local (and regional) government revenue systems in Italy are in the process of change as a result of the 2009 fiscal federalism law (Law 42), most of which, however, has yet to be implemented (Piperno, 2012). As a consequence, we describe below both the system prior to 2009 and the changes brought about (or that will be brought about) when the law is fully implemented.

As noted, the constitution guarantees that local and regional governments have fiscal autonomy. It also specifies that these subnational units be able to levy taxes, as set forth in national legislation, that they be provided a share of national tax revenues raised within their boundaries, and that national laws must establish an equalization grant that may be used by recipients for general purposes. Finally, the constitution states that regional and local revenues must be sufficient to fully fund the functions for which the constitution and national law make them responsible.

As of 2011, local government own-source revenue accounted for 56.8% of all local revenue, while intergovernmental grant accounted for 43.2% (see Table 17). Revenue by source for the various types of local governments are presented in Tables 17 and 18.

#### **Own-Source Revenue**

##### **Taxes (*Tribute Propri*)**

National legislation specifies what taxes (and tax bases) local governments and regions may impose and in most case sets forth the range for the tax rates.

**Table 17: Local government general revenue by major sources, 2011**

Source	Amount (€ million)	Percentage of Total
Local taxes and tax sharing	100,815	42.6
User fees	17,658	7.5
Grants*	102,224	43.2
Other	15,911	6.7
Total	236,608	100

\* According to the IMF's Government Finance Statistics, local governments received €1,088 million in 2010 in grants from international organizations. We assume that most (if not all) of these grants come from the EU, because only EU member countries reported receiving grants from international organizations. EU grants to local government are included in the grant total.

Source: OECD Fiscal Decentralization Database, <http://www.oecd.org/ctp/federalism/oecdiscaldecentralizationdatabase.htm>, accessed on May 30, 2013.

- **Municipal:** Municipalities can levy a flat tax rate surcharge (Personal income tax [IRPEF] surcharge [*addizionale*]) on the income tax base determined by the central government. The maximum allowable tax rate is set by the national government; the ceiling was 0.8% as of 2008 (Longobardi, 2011, p. 10). The tax base is determined centrally according to a cadastral system, while the municipalities are free to set their property tax rates within a range (0.4%-0.7%) determined by the national government (Longobardi, 2011, p. 10).<sup>26</sup>
- **Provinces:** Includes taxation on automobile insurance and taxation on the purchase of automobiles (at a rate of 12.5% set by the national government).<sup>27</sup>

<sup>26</sup> A new municipal property tax replaced the prior municipal property tax in 2012 (Longobardi, 2011, p. 15). Moreover, the exemption of owner-occupied residential property has been removed. The new tax rates are 0.4% for owner-occupied residential property with a range equal to +/- 0.2%; 0.76% for residential owner-non-occupied property and non-residential property with a range equal to +/- 0.3%.

<sup>27</sup> As of 2012, provinces will be allowed to vary the rate within +/- 3.5 percentage points of the standard 12.5% rate.

- **Regions:** There is a surcharge on the personal income (IRPEF), of which regions can alter the basic rate by a margin of 1-1.4%. As of 2013, regions will be provided more discretion in the surcharge rate they can impose. Taxation on productive activities, the equivalent of a value added tax (IRAP), is allowed.
- **Tax sharing:** A share of nationally collected taxes are distributed according to the place they were generated (origin principle) (Brosio and Piperno, 2010). In the future, municipalities will receive a set portion of the regional surcharge on the national personal income tax and of the national value added tax. (Longobardi, 2011, pp. 15-17). Provinces receive a fixed share of the national personal income tax.

### The Grant System

Historically, Italian regional and local governments received funding through a long-standing system of negotiated and discretionary transfers rather than a formula driven one. Until 2002, most grants were conditional/earmarked (representing about 75% of total intergovernmental grants to local governments, and 25% of total grants to regional

**Table 18: Distribution of local government current revenues by type of local government, percent, 2010**

	Provinces	Communes	Regions (Ordinary Statute)
Own taxes	49	38(*)	37
Grants and shared taxes	44	43	61
Non-tax revenue	7	19	2
Total	100	100	100

\*Net of personal income tax sharing  
Source: For Provinces and Communes, Central Statistical Office, 2012. For Ordinary Statute Regions, Copaff, 2012.

governments). But most conditional grants have been abolished since the 2002 Constitution and replaced by own taxes, shared taxes, and unconditional equalization grants distributed through a formula. Conditional grants have not however been completely abolished, and are included in the fiscal federalism law that implements the constitutions. Grants from the European Union account for about 1% of all grant revenue to local governments.

#### **Grants from the Central Government to Subnational Governments<sup>28</sup>**

As a result of the passage of Law 42, these now consist, at least with respect to non-capital grants, completely of equalization grants that can be used for any purpose.<sup>29</sup> These equalization grants replace the prior system of negotiated grant settlements for regional and local authorities based primarily upon historical levels incrementally updated. The equalization grants are to be funded through a share of the national value added tax. Equalization must take into account both expenditure need and fiscal capacity.

There must be full equalization so that a minimum level of the fundamental (essential and compulsory) services is guaranteed to all citizens regardless of where they live within the country (Frosini, p. 9). Regional and local governments with a fiscal tax-raising capacity below the national average will be entitled to equalizing grants based on their fiscal capacity only.

The Constitution states that equalization grants must all be unconditional, while specific grants are allowed only when allocated to sub-national governments with a low level of economic development and in addition to ordinary resources. Thus, there are also specific grants from the central government targeted at filling regional disparities in growth. These grants are paid to individual

subnational governments for economic development equalization and social cohesion purposes, for natural disasters, and for funding functions delegated to them by the central government (Brosio and Piperno, 2010, p.4). The aim of the constitution was to limit as much as possible the use of this kind of transfer.

#### **Grants from Regional to Local Governments**

Although the Constitution banned conditional grant programs, it did not apply to regions since that would imply restriction in their policymaking and financial autonomy (Brosio and Piperno, 2010, p.17). Therefore, in practice, conditional grants from regions have not diminished since 2001. Grants for capital purposes from both levels of government are conditional.

#### **Fiscal Rules and Limitations on Subnational Governments**

Fiscal rules and limitations are rules established by higher level governments that limit the fiscal choices of local government. Such rules may include the type of taxes that local governments can impose; the discretion of local governments in setting rates, ceilings on taxes, expenditures, and debt that can be issued; prohibitions or limits on budget deficits; and conditions on raising taxes or issuing debts (such as requiring approval of the citizenry through a referendum or requiring the approval of a higher level of government).

Limits on the total amount borrowed are imposed by higher levels of government on regional and local debt issued. The national government has also periodically imposed some limits on the discretionary power of subnational governments to increase tax rates.

Regional and local autonomous entities are required to participate in the reduction of the public deficit (known as the internal or domestic stabilization pact) in order to enable Italy to meet its European “growth and stability pact (Vesperini,

<sup>28</sup> Brosio and Piperno, 2007, p.17

<sup>29</sup> Capital grants are all earmarked for specific purposes (Longobardi, 2008, p. 6)



2009, p.17).” As a consequence of Italy’s fiscal consolidation policy, the central government has imposed expenditure cutbacks on regional governments amounting to 5% in 2009 and 2010 and 13% in 2011 (Blochliger, H., Vammalle, C., *Reforming Fiscal Federalism*, 2012, p.103).

### Summary and Conclusion

Italy is a formally unitary country, but one whose structure, since the constitutional reform of 2001 and the fiscal federalism law of 2009, has moved toward a federal state. There are 20 regions within Italy that serve as an intermediate level of government. Local government consists of municipalities and provinces; municipalities exist within provinces. While local governments exist as part of regions, they are not creatures of the regions and are not subject to direct regional oversight.

The Italian local government system ranks at or near the top in terms of indicators of importance of local government when compared to the other five countries in our six country comparison. Local governments in Italy play a particularly important role (at least 25% of all general government spending) in general public services (30.3%); economic affairs (52.5%); environmental protection (85.4%); housing and community amenities (82.9%); health (98.5%); recreation, culture, and religion (56.5%); and education (28.1%).

Local governments raise about 55% of their revenue locally, while the remainder comes from grants from higher levels of government. The main municipal taxes are a personal income tax and the property tax. Local governments also receive tax sharing revenue from the national government (which is counted as own-source revenue). Local governments receive a general grant from the national government that can be used for any purpose. The grant is distributed on an equalizing basis, taking into account both fiscal capacity and

need. Local governments also receive a variety of conditional grants from their region.

Local governments in Italy have a moderate amount of local autonomy relative to other OECD local government systems (as measured by the extent to which they raise revenue from local sources and thus spend it as they wish).

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# 7 POLAND

## STRUCTURAL CONTEXT PROFILE

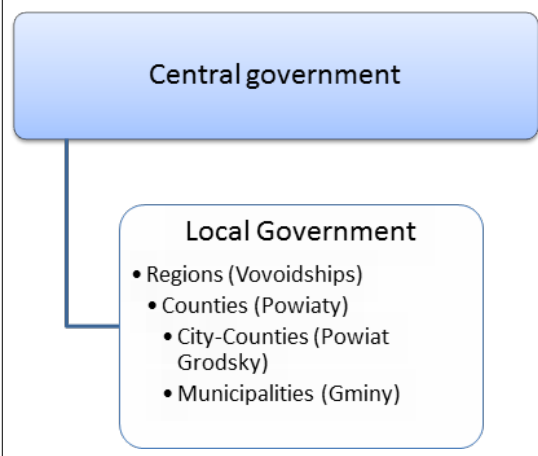
### Polish Governmental Structure and the Constitutional Role of Local Government

Poland is a unitary government system. The existence of local governments is protected by the constitution, adopted in 1997, which states that the municipality is the basic unit of local government. While the constitution protects the municipal *tier* of local governments, it does not protect individual units of local government (Swianiewicz, 2006). Nor are the other tiers of local government (see below) constitutionally protected (Kowalczyk, 2000). Kowalczyk (2000) notes that “The constitution specifies that public tasks that serve to satisfy the needs of the local community are assigned to local governments.” However, specific local government tasks are assigned by parliamentary legislation rather than by the constitution (Banaszak, 2013). Within that context, the 1990 Act on Local Self-Government states that municipal governments have jurisdiction on all matters unless stipulated by specific legislation, a provision that is usually called home rule in U.S. states.

### Importance of Local Government

To get a sense of the importance of a country’s system of local government, we can examine both its role with respect to the national economy and its role in the overall public sector. Local government sector expenditure accounted for 14.9% of Polish GDP in 2010, 5 percentage points higher than the OECD median of 10.1% (see Appendix Table 3). In 2010, local government tax revenues accounted for 19.5% of all Polish public sector revenues compared to an OECD median of 16.7% (see Appendix Table 1). However, local government expenditures constituted 34.1% of all public sector non-defense expenditures, more than 10 percentage points greater than the median OECD country (see Appendix Table 2). Thus, local government in Poland plays an important role in the Polish governmental system.

Figure 7: Poland Government Structure



The Polish local government system ranks at or near the top in terms of indicators of importance of local government when compared to the other five countries in our six country comparison (see Table 19). It ranks first in local expenditures as a percentage of all non-defense spending, second in local government expenditure as a percentage of GDP, and third in local tax revenue as a percent of all public sector tax revenue.

### Local Government and the Intergovernmental System: Who Does What?

Local government in Poland consists of three tiers:

- Municipalities/communes (gminy): 2,479
- Counties /districts (powiaty): 379, of which 65 are city-counties.
- Regions/provinces (Vovoidships): 16

### Municipalities (Gminy)

Municipalities are the most important tier of local government, and, as noted above, are constitutionally protected. They are the only local tier to have tax-raising powers. Municipalities account for about 43% of all local government revenue and expenditure. (These and similar data below

Table 19

Local government expenditure as a percentage of GDP, 2010			Local tax revenue as a percentage of all government tax revenue, 2010		Local expenditures as a percentage of all non-defense public expenditure, 2010	
Country	Percent	Ranking	Percent	Ranking	Percent	Ranking
Germany	7.59	5	12.85	5	17.1	5
Italy	15.69	1	21.33	2	33.1	2
Poland	14.88	2	19.47	3	34.1	1
Spain	6.26	6	14.93	4	16.1	6
United Kingdom	13.98	3	6.21	6	29.5	4
United States	11.5	4	24.10	1	31.5	3
Mean	11.65		16.48		26.9	
Median	12.74		17.20		30.5	
Source: OECD fiscal decentralization database. Note: Ranking from highest percentage to lowest.			Source: IMF Government Statistics Yearbook 2011. Note: Ranking from highest percentage to lowest.		Source: IMF Government Statistics Yearbook 2011; Data for the United States: Office of Management and Budget, 2010.	

are from Steszewski, 2009.) Municipal councils are directly elected, as is the mayor.

#### **Counties (Powiaty)**

Counties are established to carry out specific tasks set forth in national legislation. They do not have authority over municipalities. Counties (exclusive of city-counties) account for approximately 13% of all local government revenue and expenditure. The county council is directly elected, while the county executive is elected by that body from the ranks of its members.

#### **City-Counties**

The city-counties consist of the larger cities (populations of more than 100,000 such as Warsaw, Gdansk, and Lodz) as well as some smaller cities that are grandfathered in because they possessed previous *vovoidship* (regional) status (Kowalczyk, 2000, p. 225). They have powers of both municipalities and counties. City-counties account for

approximately 35% of all local government revenue and expenditure.

#### **Regions (Vovoidships)**

Regional governments consist both of an elected council (as with both municipalities and counties), a marshal elected by the regional council from within its ranks, and an executive consisting of council members and the marshal. In addition, a governor is appointed by the prime minister to represent the national government at the regional level. Regions do not have authority over either municipalities or counties. Regions account for about 9% of all local government revenue and expenditure.

National legislation assigns “obligatory tasks” to the various levels of local government. In addition, the central government may delegate specific responsibilities of its own to be carried out by local government.

Kowalczyk (2000) provides a long list of activities assigned to the various levels of local government (see also Otola, 2008 and CERN, 2012). Among them are:

- Municipal government services
  - Land use, local development and environmental protection
  - Roads and public transport
  - Water supply, sewage disposal, electricity, and gas
  - Pre-school and primary education
  - Housing
  - Social services
  - Local police and fire protection
  - Parks and recreation
  - Culture and libraries
- County government services
  - Secondary education
  - Health care and promotion
  - Social welfare
  - Road building and maintenance
  - Police and local public security
  - Employment, unemployment, and local labor markets
  - Environmental protection
  - Consumer protection
  - Agriculture and forestry
  - Culture and tourism
- Regional government services
  - Higher education
  - Economic development
  - Environmental protection
  - Health care and promotion

- Social welfare
- Public roads and transportation
- Culture and tourism

Education comprises the largest portion of spending for municipalities, counties, and cities of county status, while transport comprises the largest portion of regional government spending, followed by social care.

Using the IMF's public expenditure categories, the three local government tiers account for more than 25% of all general government spending, the baseline for which we consider local governments playing an important role, on economic affairs (45.1%); environmental protection (83.3%); housing and community amenities (95.8%); health (45.8%); recreation, culture, and religion (82.8%); and education (73.0%) (see Appendix Table 6).

#### Local Government Major Revenue Sources

Municipal government revenue comes from local taxes, tax sharing (a set share of specific national taxes), and grants from the central government. County and regional governments are not permitted to impose a local tax; all of their revenue is derived from tax sharing and grants. Municipal governments may only impose those local taxes specified by the central government; they cannot introduce a new tax (Uryszek, 2013). Local government revenue (municipalities and counties) for 2011 by major source is set forth in Table 20. For all local government own-source revenue (including tax sharing) accounted for 51.2% of total revenue, compared to 48.8% for grants and tax sharing.

For municipal government alone, own-source revenue (including tax sharing) accounted for 52.3% of all local revenue, with grants and tax sharing accounting for the remaining 47.6% (see Table 21).

**Table 20: Local government general revenue by major sources, 2011**

Source	Amount (Z million)	Percentage of Total
Local taxes and tax sharing	61,480	30.0
User fees	19,114	9.3
Grants	99,840	48.8
Other	24,361	11.9
Total	204,795	100

\* According to the IMF's Government Finance Statistics, local governments received Z12,723 million in 2010 from international organizations. We assume that most (if not all) of these grants come from the EU, because only EU member countries reported receiving grants from international organizations. Source: OECD Fiscal Decentralization Database, <http://www.oecd.org/ctp/federalism/oecdiscaldecentralizationdatabase.htm>, accessed on May 30, 2013.

### Own-Source Revenue

Only municipalities (including cities with county status) can impose local taxes. Municipalities derive tax revenue primary from a property tax. However, the tax is based not on property value but on land area, i.e., not the *value* of the land, but its area, with different rates for residential and commercial property. Approximately 80% of property tax revenue comes from commercial property (Swianiewicz, 2011, p. 5). There are a variety of other taxes (e.g., a motor vehicle tax on trucks, buses, and tractors; a tax on traders in designated market areas; a tourist tax), but they account for only a small portion of own-source revenues. Property taxes accounted for approximately 13% of municipal government revenue in 2009, with other local taxes accounting for 3%. Fees and charges accounted for 12.3% of municipal revenue.

### Shared Taxes

All three tiers of local government receive a set share of central government personal income tax and corporation tax collected within their boundaries. Local governments have no control over

**Table 21: Municipal government general revenue by major sources, 2009**

Source	Percentage of Total
Local taxes	15.8
Tax sharing	22.2
User fees and other	14.3
Grants	47.6
Total	100

Source adapted from Swianiewicz, 2011

**Table 22: Percent of Central Government Tax assigned to Local Government by Tier of Local Government**

Tax	Percent assigned to		
	Municipality	County	Region
Personal Income	39.3	10.2	1.6
Corporate Income	6.7	1.4	15.9

Source: Otola, 2008

either the tax rate or base. The revenues received can be used for any purpose. Otola (2008) reports the shares as shown in Table 22.

### The Grant System

All tiers of local government receive grants. General grants account for about 28% of local government revenue, while earmarked grants account for about 15%. For municipal governments only, general grants account for 28.6% of total revenue and earmarked grants for 19.0% as of 2009 (Source adapted from Swianiewicz, 2011). Grants from the European Union accounted for over 12% of grants and tax sharing for all local government.

### General Grant

General grants are grants that can be used for any purpose. Funding from general grants accounted for around 28% of all local government revenue and the same percentage of municipal government

revenue. General grant consists of three components: education grant, equalization grant, and balancing grant, each distributed to local governments via separate mechanisms (Steszewski, 2009).

#### **Education**

Education grant comprises upwards of 75% of general grants to local governments. The grant distribution formula is determined by the ministry of education and is based upon the relative number of pupils in schools and other educational institutions run by local governments, the relative share of teachers employed, and other education-related factors. Given its structure, education grant would seem to be more of an education block grant than a general grant. However, while education grant is distributed according to education criteria, it does not have to be used for education purposes. While nearly all recipients spend more for education than they receive in education grant, the grant frees up local money that would otherwise have been spent for that purpose (i.e., it is fungible). Thus conceived, it is closer to a general grant than to an earmarked one.

#### **Equalization**

Equalization grant comprises about 18% of the general grant. Equalization grant is designed to reduce differences in revenue capacity among local governments within each of the three tiers (note that while counties and regions are not permitted to levy their own taxes, there will still be differences in revenue capacity as a result of tax sharing based on personal and corporate income tax raised within their boundaries). Poorer counties and regions will receive lower amounts of tax sharing revenues per capita raised through these mechanisms than will wealthier ones.

#### **Balancing and Regional**

These components account for about 5% of the general grant. These grants are distributed largely on the basis of social expenditure need. They are

financed in part through horizontal transfers from local governments with high tax capacity within each of the tiers to those with low capacity.

#### **Categorical (Earmarked) Grants**

Earmarked grants are provided for a wide variety of purposes. For municipalities, counties, and especially city-counties, upwards of 60% of earmarked grants are designated for social care purposes (e.g., day care centers, social benefits, unemployment). Categorical grants to regions are for transport (35% of total earmarked funds) and health (23%) (Swianiewicz, 2011). Categorical grants accounted for about 15% of all local government revenue and 19% of municipal government revenue in 2009.

#### **Fiscal Rules and Limitations on Local Government**

Fiscal rules and limitations are rules established by higher level governments that limit the fiscal choices of local government. Such rules may include the type of taxes that local governments can impose; the discretion of local governments in setting rates; ceilings on taxes, expenditures, and debt that can be issued; prohibitions or limits on budget deficits; and conditions on raising taxes or issuing debts (such as requiring approval of the citizenry through a referendum or requiring the approval of a higher level of government).

**Municipal taxes:** The central government specifies the type of local taxes that municipal governments can impose and sets a maximum tax rate that can be levied by municipal governments (Swianiewicz, 2011). Regional and county governments are not permitted to impose taxes.

**Local debt limits:** There is no requirement for a local government to receive central government permission to issue debt. However, the central government sets total local government debt limits. A local government's debt cannot exceed 60% of its annual budget revenues. Annual debt service

costs cannot exceed 15% of annual budget revenues (Swianiewicz, 2011).

**Public sector debt limit:** The constitution limits total public sector debt (central plus local governments) to 60% of GDP. Polish law sets several limits once public sector debt exceeds 50% of GDP. These limits affect local government debt as well, even though local government debt amounts to only about 5% of total public sector debt (Swianiewicz, 2011).

### Summary and Conclusion

Poland has a unitary government system. The existence of local governments is protected by the constitution, adopted in 1997, which states that the municipality is the basic unit of local government. The 1990 Act on Local Self-Government states that municipal governments have jurisdiction on all matters unless stipulated by specific legislation, i.e., municipal governments have a form of home rule. In addition to municipalities, there are two other tiers of local government: counties and regions.

Local governments in Poland play a particularly important role (at least 25% of all general government spending) in economic affairs; environmental protection; housing and community amenities; health; recreation, culture, and religion; and education. Approximately half of local revenue comes from grants, while the remainder is locally raised. Of the three types of local government, only municipalities are permitted to raise tax revenue, the major source for which is the property tax. The grant system consists of a general grant distributed by formula to all three of the tiers of local government and consisting of approximately 28% of total local revenue. Categorical grants for specific purposes constitute another 15% of local revenues, while tax sharing accounts for the remaining, though relatively small, share of non-locally raised revenue.

The Polish local government system ranks at or near the top in terms of indicators of importance of local government when compared to the other five countries in our six country comparison (see Table 1). It ranks first in local expenditures as a percentage of all non-defense spending, second in local government expenditure as a percentage of GDP and third in local tax revenue as a percent of all public sector tax revenue.

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# 8 APPENDIX TABLES

**Table 1: Local tax revenue as a percentage of all government tax revenue, 2010, ranked**

Country	Percent
Japan	43.91
Sweden	42.32
Finland	34.96
Iceland	29.11
Denmark	27.32
Czech Republic	26.07
United States	24.10
Estonia	22.02
Korea	21.97
Italy	21.33
Poland	19.47
Slovenia	18.97
Slovak Republic	18.64
Norway	17.82
Austria	17.75
France	16.71
Spain	14.93
Germany	12.85
Canada	11.95
Hungary	9.62
Portugal	9.59
Israel	9.07
Belgium	7.64
New Zealand	7.35
Chile	6.34
Luxembourg	6.23
United Kingdom	6.21
Netherlands	5.86
Ireland	4.02
Australia	3.48
Greece	1.23
Mexico	n/a
Switzerland	n/a
Turkey	n/a
Mean	16.74
Median	16.71

Source: IMF Government Statistics Yearbook 2011

**Table 2: Local expenditures as a percentage of all non-defense public expenditure, 2010, ranked**

Country	Percent
Denmark	65.9
Korea	60.1
Sweden	49.5
Finland*	41.8
Norway	34.6
Netherlands	34.5
Poland	34.1
Italy*	33.1
United Kingdom*	29.5
United States***	31.5
Czech Republic	26.5
Iceland	26.0
Estonia	25.8
Hungary*	24.3
Switzerland	23.6
France	21.7
Slovenia	20.5
Canada**	19.0
Slovak Republic	18.9
Germany	17.1
Israel	16.6
Spain	16.1
Austria	15.8
Ireland*	15.3
Portugal	14.4
Belgium*	13.6
Australia	7.2
Greece*	6.6
Chile	n/a
Japan	n/a
Luxembourg	n/a
Mexico	n/a
New Zealand	n/a
Turkey	n/a
Mean	26.6
Median	23.9

Source: IMF Government Statistics Yearbook 2011; Data for the United States: Office of Management and Budget, 2010. \*2009. \*\*2007. \*\*\*2010.

Notes: Data for local government in Italy includes Italian municipalities, provinces, and regions. Bolded data means local government sector accounts for more than 25% of all government spending on function, an important role. Ranking from highest percentage to lowest.

**Table 3: Local government expenditure as a percentage of GDP, 2010, ranked**

Country	Percent
Denmark	36.53
Sweden	24.90
Finland	22.24
Netherlands	17.03
Italy	15.69
Norway	15.08
Poland	14.88
United Kingdom	13.98
Iceland	13.31
Korea	13.00
Hungary	12.65
Czech Republic	11.76
United States	11.5
France	11.49
Slovenia	10.09
Estonia	9.98
Canada	8.71
Germany	7.59
Austria	7.38
Slovak Republic	7.28
Portugal	7.13
Switzerland	6.96
Belgium	6.90
Ireland	6.43
Spain	6.26
Israel	5.42
Luxembourg	4.89
Greece	2.87
Mexico	2.10
Australia	n/a
Chile	n/a
Japan	n/a
New Zealand	n/a
Turkey	n/a
Mean	11.52
Median	10.09

Source: OECD fiscal decentralization database.

**Table 4: Revenue by source as a percentage of total local revenue, 2010, ranked**

Country	Own Source	Grants
Iceland	88.7	11.3
Switzerland	86.7	13.3
Austria	81.7	18.3
Sweden	76.5	23.5
United States	73.9	26.1
Finland	70.5	29.5
Slovak Republic	70.1	29.9
Portugal	66.2	33.8
Czech Republic	65.4	34.6
Israel	64.6	35.4
Germany	64.5	35.5
Estonia	60.8	39.2
Spain	60.4	39.6
Slovenia	60	40
Norway	59.1	40.9
France	58.8	41.2
Canada	57	43
Italy	52.8	47.2
Luxembourg	52.2	47.8
Belgium	50.3	49.7
Poland	49.3	50.7
Ireland	44.4	55.6
Denmark	43.8	56.3
Hungary	41	59
Netherlands	29.6	70.4
United Kingdom	28.6	71.4
Mean	59.9	40.1
Median	60.2	39.8

Source: OECD fiscal decentralization database.

Note: Ranking from highest percentage of own-source revenue to lowest.

**Table 5. Own-source local revenue as a percentage of GDP, 2010**

Country	Percent
Australia	n/a
Austria	6.32
Belgium	3.48
Canada	4.65
Chile	n/a
Czech Republic	7.45
Denmark	16.36
Estonia	6.24
Finland	15.63
France	6.90
Germany	5.03
Greece	n/a
Hungary	4.85
Iceland	11.13
Ireland	3.88
Israel	3.75
Italy	8.09
Japan	n/a
Korea	n/a
Luxembourg	2.77
Mexico	n/a
Netherlands	4.83
New Zealand	n/a
Norway	8.48
Poland	6.80
Portugal	4.24
Slovak Republic	4.48
Slovenia	5.90
Spain	3.91
Sweden	19.62
Switzerland	6.74
Turkey	n/a
United Kingdom	4.00
United States	6.17
Mean	6.99
Median	6.04

Source: OECD fiscal decentralization database

Table 6: Local expenditures on key public services as a percentage of all general government spending on that service, 2010

	General public services	Public order and safety	Economic affairs	Environment protection	Housing and community amenities	Health	Recreation, culture, and religion	Education	Social protection
Australia	15.8	2.6	13.9	48.9	23.1	0.3	43.9	0.2	1.3
Austria	20.1	10.3	17.1	60.1	34.9	19.1	52.5	25.0	7.4
Belgium*	18.8	48.1	11.8	55.5	51.9	2.4	49.3	22.2	6.3
Canada**	13.0	35.0	28.5	69.0	69.7	1.5	53.9	47.7	3.3
Chile	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Czech Republic	35.0	10.4	34.0	65.6	67.6	4.4	72.0	74.3	7.5
Denmark	19.7	9.0	41.5	50.9	41.1	98.3	54.2	49.0	81.2
Estonia	25.9	1.6	24.0	97.7	94.9	30.5	44.4	58.0	5.6
Finland*	45.1	18.7	28.3	40.3	54.7	83.8	73.0	64.6	23.4
France	31.7	21.1	44.5	88.7	95.6	1.1	73.4	31.3	8.3
Germany	23.5	16.0	22.8	60.5	56.3	2.0	64.9	27.1	12.6
Greece*	12.4	1.3	12.4	81.3	38.5	n/a	20.8	1.7	1.9
Hungary*	20.5	8.1	17.6	52.5	99.6	32.4	41.6	64.3	8.7
Iceland	17.7	9.5	13.8	46.3	12.4	1.1	67.5	58.5	23.6
Ireland*	7.5	7.3	27.9	72.8	94.7	0.0	49.7	22.5	4.4
Israel	15.6	8.5	17.6	85.7	38.1	0.4	47.3	28.4	9.5
Italy*	30.3	12.2	52.5	85.4	82.9	98.5	56.5	28.1	3.8
Japan	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Korea	57.1	0.0	47.5	n/a	93.1	49.2	77.5	109.4	39.1
Luxembourg	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Mexico	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

	General public services	Public order and safety	Economic affairs	Environment protection	Housing and community amenities	Health	Recreation, culture, and religion	Education	Social protection
Netherlands	23.3	56.2	52.2	92.7	85.1	3.3	84.5	78.3	15.1
New Zealand	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Norway	33.1	15.0	31.0	82.0	92.3	27.5	65.6	67.4	22.8
Poland	23.1	15.8	45.1	88.3	95.8	45.8	82.8	73.0	10.8
Portugal	27.0	3.5	27.3	68.5	97.8	5.0	69.6	10.9	2.7
Slovak Republic	27.6	0.7	17.9	58.5	85.0	0.3	51.3	66.3	4.0
Slovenia	17.6	7.7	29.8	69.8	72.2	15.2	55.8	55.6	2.4
Spain	43.7	20.2	20.5	69.7	75.7	1.8	52.3	5.2	4.0
Sweden	39.9	14.6	33.2	61.9	89.3	97.2	78.1	76.9	30.7
Switzerland	30.1	26.6	26.9	70.2	83.8	12.8	61.1	36.5	10.3
Turkey	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
United Kingdom *	18.5	49.2	28.5	55.9	67.0	0.0	49.4	67.4	22.8
United States ***	20.9	52.6	21.6	n/a	23.7	10.2	69.4	51.5	8.2
Mean	25.5	17.2	28.2	68.4	68.5	23.9	59.4	46.5	13.6
Median	23.2	11.3	27.6	68.8	74.0	5.0	56.1	50.2	8.3

Source: IMF Government Statistics Yearbook 2011; Data for the United States: Office of Management and Budget, 2010.  
\*2009. \*\*2007. \*\*\*2010.

Notes: Data for local government in Italy includes Italian municipalities, provinces, and regions. Bolded data means local government sector accounts for more than 25 of all government spending on function, an important role. Ranking from highest percentage to lowest.

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