Division of powers between the European Union, member states, candidate and some potential candidate countries, and local and regional authorities: Fiscal decentralisation or federalism
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Introduction

This report has been prepared as an implementation of the Framework Contract No. CDR/DE/94/2012/1 signed by the Committee of the Regions (CoR) and the Centre for European Policy Studies (the contractor). The subject matter of this report is "Division of powers between the European Union, member states, candidate and some potential candidate countries, and local and regional authorities: Fiscal decentralisation or federalism”.

This report covers 36 countries: the 28 member states, the five candidate countries (Iceland, Montenegro, the Former Yugoslav Republic of Macedonia, Serbia and Turkey) and three potential candidates (Albania, Bosnia and Herzegovina and Kosovo).

Its main added value lays in the 36 country factsheets presenting qualitative and quantitative information about the state of fiscal decentralisation. Factsheets have been designed with the objective of enabling the reader to quickly assess the extent to which decentralisation is accompanied by sub-national financial autonomy and responsibility in each country, how this has evolved over time and how it compares with other countries and the EU average. While these objectives are mainly achieved through the presentation of standardised data and charts, country specificities and differences in institutional arrangements are so important that qualitative information is essential to offer a complete picture of each country.

The methodological approach, which includes the description and the meaning of the indicators shown in the factsheets, is presented in section 2 of this report. All factsheets are structured in the same fashion and present, depending on the availability of the necessary data, the same charts. The Box below contains a list of the headings of each factsheet.

The report also contains suggestions (discussed with the CoR team) on how to present and visualise the information contained in the factsheets on the website of the CoR.

The information presented in the factsheets has undergone two independent processes of quality check. One on initiate of the CoR and one coordinated by CEPS in collaboration with the permanent representation of each individual country and some cases national experts from academia.
Box 1: The structure of the factsheet

OVERVIEW OF FISCAL DECENTRALISATION

- Legal acts governing fiscal decentralisation.
- Qualifying fiscal decentralisation.
  - Figure: Sub-national government expenditure as % of total government expenditure.
- Fiscal equalisation mechanisms.

LEVEL OF FISCAL DECENTRALISATION

- Figure: Revenue and expenditure indicators at sub-national level.
  - Figure: Tax autonomy of sub-national authorities.
- Fiscal rules and borrowing capacity.
- Deficit and debt at sub-national levels.
  - Figure: Deficit and debt of sub-national authorities as % of GDP.

EXPENDITURE BY GOVERNMENT LEVEL AND BY POLICY AREA

- Figure: Sub-national expenditures by policy area as % of total government expenditures.
- Figure: Sub-national expenditures by policy area as % of total sub-national expenditures.
1. Methodology

The degree of fiscal decentralisation of each country is measured using quantitative synthetic indicators complemented by qualitative information.

The overall information collected and assembled should offer a picture of the division of powers in the area of fiscal decentralisation in a way that is consistent with and better qualifies the existing information available on the CoR website on Division of Powers. Indeed, while the information from primary sources (mostly national legislation) is important, it offers a complex picture that is sometimes difficult to understand and use.

Qualitative information aims to illustrate country-specific features and institutional arrangements, which are often very rich and highly heterogeneous, but only quantitative standardised indicators can grant the basis for a rapid understanding of the essential features of a country. This approach has two additional advantages. First, it makes comparisons across countries and relative to EU averages possible. Second, the evolution of fiscal decentralisation can be tracked over time and updated on an annual basis.

1.1 Data Sources

Quantitative indicators are based on data provided by Eurostat and the OECD. For each country, these databases allow to produce a snapshot view of the level of fiscal decentralisation between the central government and the sub-national entity level by the use of measures of revenue, internal government transfers and expenditure, both at the aggregate level and by policy area.

The indicators are based on the classification of data followed by the European System of Accounts (ESA 95) and used by Eurostat, which differentiates the public sector (classified as S13) into four subsectors:

- S1311: Central administrations.
- S1312: Federated states (Germany, Austria and Belgium) and quasi-federated (Spanish Autonomous Communities) and related public entities.
- S1313: Local authorities and related local public entities, i.e. the local public sector which comprises local authorities with general competencies.\(^1\)

\(^1\) Countries with some autonomous powers in regions, for example Italy and the UK, have not been subdivided into further levels.
(local and regional governments) and bodies with more specialised competencies (responsibilities vary from one country to the next).

- S1314: social security funds.

Under this classification, the sub-national public sector includes the two sub-sectors S1312 (when it exists) and S1313, but the data are not consolidated between the two sub-sectors (i.e. the sum of the subsectors S1312 and S1313 is greater than S13 minus S1314+S1311).

The indicators compare measures of spending and revenues related to the levels S1311 and S1313, as well S1311 in the case of federal states.

A similar classification is followed by the OECD, which compiles data based on the 1993 System of National Accounts in which the general government sector consists of central, (federated) states (when they exist), local governments and the social security funds.

When relevant and depending on availability, indicators are also based on this second source of data. For some specific countries, most notably for EU candidate and potential candidate countries, for which a systematic collection of data in international databases does not exist, data is taken from alternative sources, such as specific reports and studies.

### 1.2 Qualitative information

It is important to acknowledge that neither dataset listed above provides detailed information about the sub-national level of authority. Only two levels (three for federal states) of powers can be taken into consideration – central government and the sub-national level – when building the indicators.

The lack of consistent and reliable data on expenditure and revenue of the different sub-national levels – namely regions, provinces and municipalities – implies that the quantitative indicators are unable to offer a fully-fledged quantitative measure of fiscal decentralisation for these entities.

In order to overcome this limit, the quantitative indicators are complemented with qualitative information on the actual multi-level government structure of each country. This qualitative information, found mainly in national sources but also in sources from the European Commission, the OECD and elsewhere, describes and explains how fiscal powers are distributed across different sub-national government’s levels in terms of revenue collection and spending implementation. The qualification of fiscal decentralisation in terms of decision
powers (i.e. who decides on tax rates, bases and reliefs) is based on the OECD index on tax autonomy which summarises such qualitative considerations. This database contains measures of tax autonomy for the central and sub-national levels (two in the case of federal states) since 1999, with the latest update from 2008. Since this indicator is very stable and is only affected by major reforms, it is still relevant. An update is expected for 2014. For countries under consideration that are not OECD members, an attempt to replicate the OECD index (using the OECD methodology) is undertaken. The relevant national ministries of finance of Lithuania, Latvia and Malta provided the required information.

The qualitative information (when available) also includes the degree to which local entities have access to capital markets and are allowed to borrow, as well as which fiscal equalisation instruments, if any, are in place.

1.3 Quantitative indicators

In economic literature, the most common indicators of fiscal decentralisation relate to the distribution of public revenues and expenditures among the different levels of government. Consistent with this, and following the IMF approach, two main indicators are used to illustrate the degree of fiscal decentralisation of a given country.

In the first indicator, the expenditure ratio, it is assumed that revenue equals expenditure. This is a simplification that excludes borrowing, both by the central government and at the level of sub-national entities. This is justified by the fact that borrowing is a one-off "income" that is reimbursed over time increased by interest. This can raise an inter-temporal problem when comparing central government behaviour with that of the sub-national level. In addition, the rules on the treatment of borrowing vary across countries, with off-balance-sheet borrowing becoming more common, hence making comparison across countries not fully accurate. Both factors can cause measurement distortions that make the assumption that all revenues (collected or transferred from another level of government) are spent an appropriate one, although the results represent an average and do not hold at each point in time.

In order to have a sense of the importance of borrowing at the sub-national level, the qualitative indicators of fiscal decentralisation are complemented by a chart

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depicting the evolution over time of the fiscal balance and the debt-to-GDP ratios at the level of sub-national government.

The expenditure ratio measures the share of spending taking place at the sub-national level (using all resources available, except borrowing) relative to total expenditure of the general government (using all resources available):

\[
\text{Expenditure Ratio} = \frac{\text{Subnational own revenues} + \text{Grants}}{\text{Total General Government revenue}}
\]

Under the assumption that revenue equals expenditure, the ratio also measures the share of total revenues available at the sub-national level. A high ratio signals high decentralisation of tasks (spending in the different policy areas and collecting revenues), but not necessarily of decision powers, at the sub-national level.

The revenue autonomy indicator measures how much of the total resources available to the sub-national (local and state, if it exists) authorities (excluding borrowing) is actually raised locally.

\[
\text{Revenue Autonomy} = \frac{\text{Subnational own revenues}}{\text{Subnational own revenues} + \text{grants}}
\]

While a high revenue autonomy ratio could point to high decentralisation, the indicator alone does not say whether this relates to a large or small share of the total revenues. For this reason, this information is complemented by the own revenues decentralisation indicator, defined as the percentage of sub-national (local and state, when it exists) revenues raised at that level relative to total general government revenue.

\[
\text{Own revenue decentralisation} = \frac{\text{Subnational own revenues}}{\text{Total general government revenue}}
\]

The transfer dependency ratio is the percentage of the actual subnational expenditure covered by transfers from the central government (grants):

\[
\text{Transfers dependency} = \frac{\text{Grants}}{\text{Subnational expenditure}}
\]

This ratio measures the degree of dependency of the sub-national level on resources distributed from the central level. In contrast to the revenue autonomy indicator, it tends to be low (though not necessarily) in countries with a high degree of fiscal decentralisation. The indicator of is approximately a complement to 1 of the revenue autonomy. The difference is an indirect
indicator of the discrepancy between expenditure and total resources available at the sub-national level; as in the transfer dependency, the denominator is the actual expenditure at local level and not necessarily equal to the revenue.

Finally, following the works of Martin-Vasquez and Timofeev, the composite indicator captures in a single measure the degree of autonomy at the sub-national level on the revenue and on the expenditure side:

\[
\text{Composite ratio} = \frac{\text{Own revenue decentralisation}}{1 - \text{Expenditure ratio}}
\]

In general the composite ratio is larger if the level of fiscal decentralisation, in terms of both revenue and expenditure, is higher, and vice versa. This implies that if a country exhibits a high level of decentralisation in terms of expenditure level but not revenue, the indicator will not necessarily be high.

### 1.4 Country coverage

The EU28 countries, the candidate countries to date – Iceland, Montenegro, the former Yugoslav Republic of Macedonia, Serbia and Turkey – as well as three potential candidates – Albania, Bosnia and Herzegovina and Kosovo.

### 1.5 Update of the charts

All the data presented in the charts contained in the factsheets are from official and standardised statistical data, as those provided by the international sources (Eurostat, OECD, IMF). These data have been published for the last 25 years (referring to the previous calendar year) and access is free using the data warehouse available on their respective websites.

Deriving the indicators reported in the factsheet and building the corresponding charts require only the use of standard tools of MS Excel. All the excel documents used to derive the charts contained in the factsheets are attached to the final report. Moreover, an ad-hoc meeting will be organised in Brussels (according to CEPS and CoR availabilities) to practically demonstrate the single procedures needed to process the data for future updates by the CoR.

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2. Country factsheets

2.1 Albania

2.1.1 Overview of fiscal decentralisation

The Albanian Constitution defines the two levels of sub-national governance in Albania: 12 regions and 373 local government units composed of 65 municipalities (urban areas) and 308 communes (rural areas).

For details see https://portal.cor.europa.eu/divisionpowers/countries/Potential-Candidates/Albania/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The Law 8652/2000 on the "Organisation and Functioning of the Local Government" (OFGL) sets the legislative framework for the devolution of responsibilities to the two tiers of sub-national governments in Albania. The multi-year decentralisation strategy (adopted in 2000 and revised in 2006) established a strong and powerful first level (municipalities and communes) and a coordinative role for the regions as an upper level of local government.

Qualifying fiscal decentralisation

In 2011, local governments' revenues accounted for 12% of total public revenues and 3.1% of Albanian GDP. Both of these values are below the European average.

The OFG Law states that local governments in Albania may obtain revenues from four basic sources: their own taxes (31% of total local revenues in 2011), conditional grants (44%), unconditional grants (25%) and borrowing (a very small fraction). Notably, in Albania tax-sharing between local and central government is very limited. Local governments’ own resources can be split into four components: in 2011, land development fees (impact taxes) were the largest component, accounting for 47% of resources, followed by communal fees (25%), assets revenues (16%) and property taxes (12%). In 2011, more than half (56.3%) of total local government expenditure was deployed to cover costs related to the provision of local public services (mostly wages and salaries of public administration employees). The second largest expenditure entry related to public transport (26%), followed by expenditure on primary and secondary education (6%), which is a competence shared with the central government.
Expenditure on culture and water supply accounted for 4% and 3%, respectively.

Fiscal equalisation mechanisms

Fiscal equalisation across local government units is achieved through an unconditional grant from the state budget, which is weighted against the fiscal capacity of each local government unit. The fiscal capacity of each local unit is evaluated based on two major sources of own resources: small business taxes and vehicle registration taxes. Each municipality and commune with revenues per capita higher than the national average contributes 25% of the fiscal equalisation difference (this sum, adjusted by a population factor, is subtracted from the initial calculation of the grant). Conversely, each municipality and commune that is below the national average is compensated, through an increase in the unconditional grant, with 25% of this difference.

Deficit, debt at sub-national levels and borrowing capacity

Up to now, municipal borrowing has been very limited (local borrowing accounted for 0.2% of GDP in 2011). The Law on Local Borrowing was approved in 2008 with the intention of establishing a legal framework for the borrowing activities of local governments by removing the prohibition on local government borrowing. The idea of increasing the fiscal autonomy of local governments is a pillar of the Decentralisation Strategy, part of which consists in reducing the role of the central government in allocating resources to finance local governments’ capital investments and turning this function over to private capital markets. The Ministry of Finance remains entitled to issue sub-regulatory acts limiting or disapproving loan agreements of communes and municipalities in order to preserve the sustainability of public finances. Nevertheless, in addition to the centrally imposed limitations, the central government adheres to a policy of limiting total public debt to 60% of GDP. The extensive use of external and domestic debt at the central level is now approaching the 60% limit and further restricts the possible use of borrowing by the local governments within this overall policy of public debt limitation. In 2011, local government debt accounted for 1.5 million euros, or 0.02% of national GDP.
2.2 Austria

2.2.1 Overview of fiscal decentralisation

Austria is a federal state in which government responsibilities are shared across three territorial levels: federal, state (nine Bundesländer) and local (2,357 municipalities).

According to Austria’s Fiscal Constitutional Law, the spending competences of the federal government concern tertiary education, parts of social policy (family allowances and private sector pensions), unemployment benefits, internal security, justice, foreign policy, defence and national infrastructure. The residual competences fall under the remit of the states. These include social assistance, health care (hospitals), parts of primary and secondary education, environment and regional infrastructure. Municipalities are responsible for local planning, the functioning of local infrastructure, as well as providing social services.

For details on System of multi-level governance see https://portal.cor.europa.eu/divisionpowers/countries/MembersLP/Austria/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The main act that governs fiscal decentralisation is the Fiscal Constitutional Law (1948), which defines the spending competences of the federal government, with the competences not listed falling under the remit of the states. Furthermore, relations between the three levels of government are ruled by the periodically negotiated Fiscal Equalisation Law (FAG) and the Austrian Stability Pact (ASP). The medium-term budgetary plans of the three layers of government are coordinated under the FAG. The law lists the types of taxes that are to be shared among the three levels, and the proportions they are entitled to receive. The FAG also specifies the horizontal distribution of revenues at the regional and local level. The ASP sets deficit/surplus targets for the federal, regional and local governments.

Qualifying fiscal decentralisation

Even though Austria is considered a federal state, the level of autonomy of the sub-central governments is relatively low. The relations between the three layers of government are complex and the division of competences is less extensive in comparison with other federal states.
In 2013, the share of expenditure of the Bundesländer was 18%, and that of the municipalities 16%, relative to total government expenditure. These ratios have remained largely unchanged since 2000.

![Sub-national government expenditures as % of General Government expenditure (2013)](image)

**Source:** authors’ elaboration on EUROSTAT data. For further details, see methodology

**Fiscal equalisation mechanisms**

The rules governing transfers from the federal level to the local level are defined in the FAG. The aim of the system of transfers is to ensure that each level of government has sufficient resources to carry out the tasks assigned to it by the legislation. However, the system of transfers that exists is fairly complicated and almost completely opaque. During 2008, the FAG changed some of the transfers
from the federal government to the regional and local levels into revenue shares. The new issue introduced some transparency, but further steps toward simplification are needed.

### 2.2.2 Level of fiscal decentralisation

In Austria, the degree of revenue autonomy at subnational level (own revenues relative to total resources available) is around 57%. This is slightly below the EU average (around 70%), but similar to the for Bundesländer revenue autonomy.

**Source:** authors’ elaboration on EUROSTAT data. For further details, see methodology
By contrast, local governments have a higher degree of revenue autonomy at around 80%, well above the EU average. Consistently, the transfer dependency ratio is well below the EU average. Revenue autonomy is in sharp contrast to fiscal autonomy, as discretion in setting taxes is low. This implies that while local authorities have a significant role in collecting tax revenues, they only have limited powers in taking decisions about taxes.

![Graph showing Revenue and expenditure indicators at local level (2013)](image1)

**Source:** authors’ elaboration on EUROSTAT data. For further details, see methodology

The composite ratio, which captures aspects of fiscal decentralisation of both revenue and expenditure, suggests that at the level of the Bundesländer, fiscal decentralisation in Austria is just above the EU average (for states), while at the municipal level it is slightly below the average.

![Graph showing Revenue and expenditure indicators at local level](image2)

**Source:** authors’ elaboration on EUROSTAT data. For further details, see methodology
The tax autonomy of the Bundesländer is similarly divided between rates set under full autonomy (39%) and those set by central government (46%). For municipalities, the discretion rate on local taxes is very low and is mainly restricted to real estate taxes. The federal government receives about 73% of the revenue from the shared taxes, the Bundesländer 12% and municipalities about 15%. Much of the revenue flowing to the sub-national governments is earmarked, some of which requires co-financing by the sub-national authorities.

**State government tax autonomy**

- Discretion on rates and reliefs: full: 15%
- Rates and reliefs set by CG: 46%
- Other: 39%

**Local government tax autonomy**

- Discretion on rates and reliefs: full: 62%
- Discretion on rates: restricted: 15%
- Rates and reliefs set by CG: 16%
- Other: 7%

*Source:* authors’ elaboration on OECD data. For further details, see methodology.
Fiscal rules and borrowing capacity

According to Austria’s Federal Budgetary Law, the federal finance minister is allowed to enter into a credit transaction on behalf of the states through the Austrian Federal Financing Agency. The amount of debt issued by the federal government for the financing of the states cannot be more than 20% of total general government expenditure in a given year. Credit operations of the municipalities are regulated by the states.

The ASP prescribes deficit/surplus targets for the federal, regional and local governments. The goal is to involve all levels of government in the consolidation of public finances.

Deficit and debt at sub-national levels

According to Eurostat data for 2013, the federated entities had a debt of 5.6% of GDP, down from over 6% in 2011, while for municipalities it was 3%. For both levels of government there are clear signs of an effort to rein in debt, with net lending at 0% for both in the past two years.

![State Government: deficit and debt (as % GDP)](chart)

**Source:** authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.2.3 Expenditure by government level and by policy area

STATES: Bundesländer

The Bundesländer governments have as their main expenditure items health (26%), social protection (20%) and education (19%), closely followed by general public services (13%) and economic affairs (15%). It is interesting to note that the Bundesländer handle a large share of the national expenditure on housing and community amenities, although this represents little of their budget, reflecting low national expenditure in this area. The shares of total government expenditure handled by Bundesländer in the areas of health and education are important, both around 30%.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
Municipalities

At the local level, provincial and municipal governments are mainly involved in social protection (20% of total budget of the two entities), health (19%), education (18%), general public services (187) and economic affairs (12%). These figures are very much in line with the EU averages. Municipalities have a slightly lower share of government expenditure than the EU average, but this is partly due to the share allocated to the Bundesländer.
Local government expenditure as % of total local government expenditure (2012)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.3 Belgium

2.3.1 Overview of fiscal decentralisation

Belgium is a federal state whose territory is divided into six federated entities (comprised of three linguistic communities, the Flemish-speaking, French-speaking and German-speaking communities, and three regions, Flanders, Wallonia and Brussels Capital), ten provinces and 589 municipalities.

For details on System of multi-level governance see https://portal.cor.europa.eu/divisionpowers/countries/MembersLP/Belgium/ Pages/default.aspx.

Legal acts governing fiscal decentralisation

The Special Finance Act (SFA) of 1989 regulates the financing of the federated entities. It has been amended on several occasions, with the last revision to the devolution of spending responsibilities to the communities and regions embodied in the sixth state reform signed in 2011 and not yet fully implemented.

Qualifying fiscal decentralisation

Belgium is one of the EU countries with the highest levels of fiscal decentralisation. This was realised through waves of reforms (the last one approved in 2011) that have transferred a considerable number of competences to the regions and communities. A list and description of these is available.

Under the last reform, the regions received economic and employment competences, while the communities received responsibility for family policy.

The regions and communities have their own governments and are not subordinated to the federal government in matters of expenditure policy.

Sub-national governments (also including provinces and municipalities) spend about 40% of the total public budget (see the pie chart below), with the regions and linguistic communities playing the largest roles. However, the ability to finance spending through own resources is limited for regions and absent in the case of communities.

Indeed, communities were used to benefitting from revenues from a tax on the use of radio and TV, but in 2001 this was transferred to the regions and in Flanders and Brussels Capital, the tax was even abolished. Moreover, since 1980 the Constitution attributes some fiscal power to the communities, albeit very...
limited. However, in practice, this attribution clashes with the absence of any territorial basis to their competences. In particular, the exercise of any power of taxation encounters the problem of the communities not having exclusive competences over tax-payers in the region of Brussels Capital, which is bilingual. The latest reform has not changed this situation. Hence, the communities do not have any fiscal revenue of their own.

More generally, the type of revenue from which sub-national governments can benefit differs considerably from level to level.

Communities are mainly financed by shared tax revenues (i.e. taxes collected by the federal government and transferred to sub-national governments by means of a set of "repartition keys") from personal income tax and VAT, by some non-tax revenues and possibly by borrowing.

Regions benefit from federal grants (raised mainly through personal income tax). Fixed, indexed, global resources are divided amongst the regions using repartition keys. The regions have the right to levy surtaxes on personal income tax raised at the federal level, but only Brussels Capital makes use of this possibility and raises 1 percentage point. The regions also receive own-source tax revenues, such as registration duties, property, succession and vehicle taxes, and some others. Similar to communities, they also enjoy some non-fiscal revenues.

The revision of the Finance Act of 2011 gives regions powers to set personal income tax rates on top of those imposed at the federal level, but this power is to a certain degree constrained to avoid unfair tax competition and to maintain the progressive nature of income taxation.

Provinces and municipalities do not share taxes with the federal level, but benefit from grants from the regions that can be either general or earmarked for specific projects. These amount to about half of their total financing. The rest comes from own-source taxes revenues, which are often surtaxes applied to basic rates set at the federal or regional level (e.g. on personal income tax or real estate tax), and from taxes levied at the local level (e.g. waste and leisure taxes), over which local authorities have full discretion).
In 2012 the share of expenditure of the provinces and municipalities relative to total government expenditure was 13%, while that of the regions and communities amounted to 28%. These ratios have remained largely unchanged since 2000. A change is expected after 2015 when the sixth state reform will be fully in place. Based on Bisciari and VanMeensel (2012), and in line with the projections of the Federal Panning Bureau of 2014, the share of regions and communities should increase to above 30%, while that of social security and central government should shrink to below 55%.

In Belgium, regions are characterised by quite a high level of revenue autonomy. About 40% of their total resources available come from own revenues, and on this portion the degree of tax autonomy is very high. Regions have full
autonomy over taxation and enjoy exclusive competence (rate, basis and reliefs) over the large majority of regional taxes. By contrast, communities have an extremely low revenue autonomy and no fiscal autonomy. When pooling together regions and communities, revenue autonomy is at about 25%.

**Fiscal equalisation mechanisms**

Belgium has always been characterised by high vertical fiscal imbalances, on average between 60% and 70% of sub-national own spending was not financed through own revenues over the last two decades. This stems from strong revenue centralisation at the federal level and decentralisation of spending. Hence equalisation mechanisms from central to sub-central governments are a pervasive feature of Belgium.

The main financial transfer to the regions is the so-called federal personal income tax transfer. Since 1990, this transfer has been horizontally attributed to the regions according to each region’s contribution to federal personal income tax revenues. As compensation for the change in the horizontal allocation formula, an equalisation grant (*mécénisme de solidarité nationale*) has been attributed to the regions. A region whose per-capita revenues from personal income tax are lower than the national average receives a yearly transfer of €19.8 (in 2012) indexed per inhabitant per percentage point difference between the per-capita revenues from personal income tax and the national average. With the latest state reform, a new mechanism will be put in place. The compensation is computed on the differences between population and fiscal repartition keys.

Finally, each region obtains a closed-ended grant from the federal budget as compensation for each unemployed person for whom the region creates a job (Algoed, 2009).

**2.3.2 Level of fiscal decentralisation**

In Belgium, the regions have a degree of revenue autonomy (i.e. own revenues relative to total resources available) of around 25%. This is well below the EU average of around 70%. A corollary of this low level is that the transfer dependency ratio (the share of expenditure covered by transfers) is higher than the EU average. By contrast, local governments have a higher degree of revenue autonomy, at around 50%, which is in line with the EU average. This is also the case for the fiscal imbalance and transfer dependency ratios. Discretion over taxation for revenues is also very high at the state level, but restrictive at lower levels of governance.
Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
Regions’ own revenues represent about 8% of total general government revenues (or about 4% of GDP); local revenue represents about 7.5% of total general government revenues (or 3.6% of GDP).

The composite ratio, which captures aspects of fiscal decentralisation of both revenue and expenditure, suggests that regions and communities have a degree of fiscal decentralisation just above the EU average (for federal nations), while that of provinces and municipalities is below the total EU average.
Province and municipalities have restricted powers in setting rates and reliefs, and full discretion is limited to a set of local taxes (less than 10% of the total).

**Source:** authors’ elaboration on OECD data. For further details, see methodology.
Fiscal rules and borrowing capacity

Numerical fiscal rules were introduced in 1990 to monitor the balance of the budget, expenditures and revenues of the federal government, as well as those of some sub-national governments. Although they have never been used, they would allow the federal level to impose borrowing limits on regions if they have not respected their budgetary targets. Regions cannot be liable, however, for providing fiscal surpluses to offset a potential federal deficit.

Two independent fiscal bodies – the National Account Institute (NAI) and a new section of the High Council of Finance (HCF) – give the federal and federated governments advice on public finance issues with the aim of reducing the debt ratio. The annual budget recommendations of the HFC's advisory section were the basis for budgetary conventions which acted as "internal stability pacts" by setting the medium-term budgetary targets for the different government tiers.

The increase in budgetary autonomy of sub-national governments with the last state reform includes the right to run deficits and to borrow accordingly. Although in the past budgetary correcting mechanisms existed at almost all government levels, now only an automatic compensation mechanism remains regarding health spending by the federal government (European Commission, 2012).

The local level (provinces and municipalities) and regional governments in Belgium score 6.41 and 6.02, respectively, in the European Commission’s composite index of fiscal rule strength, both below the EU average.

Deficit and debt at sub-national levels

According to Eurostat data in 2013, regions and communities reached a debt level of 7.5%, aggravated by the crisis which brought the debt level up from 3.9% in 2008. A consolidation effort is visible with borrowing and lending reaching a balance in 2013 and a first reduction in the debt level to below the 2010, 2011 and 2012 levels (7.6%, 7.8% and 8%, respectively). At the local level, the debt impact has been very limited, with a modest increase between 2009 and 2013 from 4.5% to 5.1% of GDP, but not exceeding that of the years 2000-06. Net borrowing increased during the crisis, but has decreased since 2012. The levels are nevertheless modest at -0.2% of GDP, and represent a marked improvement on the 2009-10 figure of -0.7%.
2.3.3 Expenditure by government level and by policy area

In Belgium, sub-national governments have competences, which are often very large, in many policy areas. The federal state remains largely in charge of general public services, on which it spends almost two thirds of its budget, and it is the only government tier with competence over defence matters (approximately 5% of the budget). Although health is a person-related service and is therefore expected to be part of the communities' responsibilities, it is the federal state that has the largest spending power with respect to this economic function.
In 2012, community and region expenditure on education represented the largest share (92%) of total general government expenditure in the field. The next largest policy areas for federated entities, in terms of expenditure as a percentage of total public expenditure, are housing and community amenities and economic affairs (65% and 45%, respectively). These values are well above the EU average, indicating the large role of federated entities in many policy areas.

In the budget of federated entities, education (38%) is by far the most significant spending item, followed by economic affairs (19%), social protection (18%) and general services (16%). Competences that are person-related are in the hands of the communities, whereas territory-linked areas are under the competence of the regions. Hence, communities are highly involved in education, as they finance large parts of primary, secondary and higher education. Regions are largely involved in economic affairs like agriculture and transport, as well as in environmental protection and housing.
Provinces and municipalities

The expenditures of provinces and municipalities represent a significant part of total general government expenditures in the fields of culture (52%), public order and safety (50%), environment (46%), and housing and community amenities (43%). While these values are high, most (except public order and safety) are below the EU average.

At local level, provincial and municipal governments are mainly involved in social protection (22% of the total budget of the two entities), education (19%), general public services (18%) and public order and safety (13%). Provinces have
spending power in certain person-related areas, like secondary and higher education, and are responsible for the general affairs of the provinces. Municipalities' spending competences include local planning, elections and registration, as well as policing and some education and social protection functions, such as public social welfare centres.

### Provinces and Municipalities expenditure as % of total local government expenditure (2012)

![Provinces and Municipalities expenditure chart](chart.png)

**Source:** authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.4 Bosnia and Herzegovina

2.4.1 Overview of fiscal decentralisation

Bosnia and Herzegovina is formed of two entities: the Federation of Bosnia and Herzegovina (FBiH) and the Republic of Srpska (RS). FBiH consists of ten cantons and 80 local self-government units (two cities and 78 municipalities), while RS consists of 62 municipalities.

For details see https://portal.cor.europa.eu/divisionpowers/countries/Potential-Candidates/BAH/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The main legal act governing the fiscal relation in FBiH is the Law on Public Revenue Allocation (Law 22/09). In RS, the most important piece of legislation is the Law on Territorial Organization and Local Self-Government of 2004; the assignment of competencies over taxes, fees and charges is covered by the Law on the Budget System of the Republic of Srpska.

Qualifying fiscal decentralisation

The most recent figures available for FBiH report that, in 2011, local governments’ revenues accounted for 10% of total public revenues and 4% of national GDP; both of these values are below the EU average (24% and 11%, respectively). In 2011, the composition of FBiH’s local government revenues was 36% own revenues, 30% from unconditional grants, 18% from shared taxes (notably the Personal Income Tax, PIT) and 16% from grants earmarked for the provision of specific services. Own revenues consist of administrative and communal fees and charges, fines and property tax income.

All VAT revenues, custom fees, excises and road fees flow into a single account managed at the federal level; resources from this account are shared between the federation (36%), the cantons (51%) and local governments (8%). In order to perform some fiscal equalisation, both the cantonal and local government shares are then allocated between the jurisdictions under their competence according to a formula based on population, area and, in the case of local governments, PIT per capita. Local expenditures in 2011 were composed of 29% on wages and benefits, 28% on capital investments, 23% on transfers to companies, and 19% on expenditures on goods and services.
Turning to RD, local government revenues in 2011 accounted for 14% of total public revenues and 7.4% of the national GDP. While these values are higher than for FbiH, they are still below the EU average. In 2011, the composition of RS local government revenues was 24% from own revenues, 50% from unconditional grants, 10% from shared taxes and 2% from conditional grants. A large majority of own revenues (88%) came from land development fees and impact taxes, with property taxes accounting for the remaining 12%. Local expenditures in 2011 these were made up of 30% on wages and benefits, 29% on capital investments, 23% on transfers to individuals, and 20% on expenditures on goods and services.

Deficit, debt at sub-national levels and borrowing capacity

The law setting the rules for local borrowing in FBiH is the Law on Debt, Borrowing and Guarantees of 2010. Municipalities and cities can contract long-term debt if their debt service payment in a given year does not exceed 10% of the previous year’s revenues. In specific cases, municipalities and cities need permission from the Federal Ministry of Finance to borrow (for example, when the FBiH is the guarantor). In 2010, the debt of cities and municipalities accounted for only 3% of total FBiH debt, or 0.9% of GDP. Regarding RS, the only available data report that, in 2011, local government debt amounted to 3.9% of GDP (174 million euros).
2.5 Bulgaria

2.5.1 Overview of fiscal decentralisation

Bulgaria is a unitary republican state. The territory is divided into regions (oblast) and municipalities. However, self-government and fiscal autonomy are only present at the municipal (obshtina) level. There are 264 municipalities, which for the purpose of this study constitute the sub-national level.

For details on System of multi-level governance see https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Bulgaria/Pages/default.aspx.

Legal acts governing fiscal decentralisation

Local finances are regulated by the Local Self-Government and Local Administration Act (LSGLAA), the Municipal Budgets Act (MBA), and the Annual State Budget of the Republic of Bulgaria Act (SBRBA). Bulgaria is officially in a transitional decentralisation process started by the Strategy for Decentralisation adopted in 2006 and revised in 2010. This was led by a ministerial council which included a consultative body to support implementation. With the crisis, however, the process has been halted, and in 2011 the consultative council was abolished.

Qualifying fiscal decentralisation

Bulgaria has a low level of fiscal decentralisation, below the EU average. Although regions are defined as administrative units, the municipalities are the only sub-national level of the general government with fiscal autonomy. Municipalities, in contrast to regions, possess their own budgets and are allowed to obtain their own revenues. The main source of financing local expenses comes from transfers provided by central government.

Municipal responsibilities are presently divided into state-delegated activities and own local activities. State-delegated services concern the management and financing of a number of services, for which the state retains the power to define policy. These delegated services include education (primary and secondary), social protection and health care. By contrast, municipalities have own responsibilities regarding housing and communities amenities, economic affairs, environmental protection, culture and religion.
No information on tax autonomy is available.

**Fiscal equalisation mechanisms**

Grants from the central government are mainly based on targeted transfers (approximately 90%) to cover state obligations where the implementation is delegated to local authorities. The transfers for capital expenditures are determined by specific criteria: population size (40%), number of cities/towns (40%), and the municipal territory (20%). Non-capital targeted expenditures
(such as managing environmental activities) make up 8-17% of the total transfer and depend on operation size.

Approximately 7-9% of the transfers are based on equalising criteria determined annually in negotiations between the Minister of Finance and the National Association of Municipalities in the Republic of Bulgaria (Art.34, p.4 of the Law on Municipal Budgets).

2.5.2  Level of fiscal decentralisation

In Bulgaria, regions have no fiscal autonomy and only municipalities have some fiscal capacity. Of the total government revenues, local revenues account for 14%. At the sub-national revenues, this represents 43% of the budget, resulting in a transfer dependency of 56% compared with the EU average of 47%. Own revenues, as indicated in the chart, seem to have remained relatively stable over since 2000 however the NALAS report (2012) challenge this point.

![Revenue and expenditure indicators at local level (2013)](image)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology
Fiscal rules and borrowing capacity

While there are no limits on the amount of borrowing by municipalities, there are limits on debt-servicing annual payment obligations. These may not exceed 15% of own revenues and the block equalising grant (Municipal Debt Act from 2011), which is down from 25% in previous years. Furthermore, no decisions on long-term municipal debt should be assumed within 39 months of the date of the next election. The nominal value of guarantees offered by the municipality cannot exceed 5% of the nominal value of annual debt payments.

The Public Finances Act, which was adopted in Bulgaria 2012 and came into force on 1 January 2014, further restricts municipalities’ room to manoeuvre. This act is the tool for the implementation in Bulgaria of the EU’s Stability and Growth Pact and imposes a balanced budget on municipalities. Also, annual municipal debt payments cannot exceed 15% of the average revenue (own and from state subsidies) of a municipality for the last three years. Due to reduced revenues from the state, municipalities have recently seen their debt levels grow.

Deficit and debt at sub-national levels

Due to the crisis and revenue shortfalls in recent years, municipalities have accumulated larger deficits. The level of municipal debt has grown gradually since 2008 (0.6% of GDP) to reach 1.3% of GDP by 2011, representing 57% of own municipal revenues. This has caused some extreme effects including municipal bank accounts being blocked and municipal services being temporarily suspended. A slight reduction has been reported for 2013. The structure of this debt is composed of bank credits and loan agreements, with
external slightly larger than domestic debt. Almost half of the total municipal debt reported is held by the municipality of Sofia.

![Local Government: deficit and debt (as % GDP)](chart.png)

**Source:** authors’ elaboration on EUROSTAT data. For further details, see methodology

### 2.5.3 Expenditure by government level and by policy area

Expenditure responsibilities are concentrated in a few areas including education (far above the EU average), housing, general public services and economic affairs.

The expenditures of municipalities represent a significant part of total general government expenditures in the field of housing and community amenities (at 91%, almost the entire total), environmental protection (64%) and education (62%).
Municipal expenditures in the areas of education, housing and community amenities, and economic affairs make up significant parts of total local government expenditures (23%, 14% and 12%, respectively).
2.6 Croatia

2.6.1 Overview of fiscal decentralisation

Croatia has a three-tier government structure which consists of the central government, counties and the local government level (towns, cities and municipalities). For the purpose of this analysis, counties and the local government level form the sub-national government level.

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Croatia/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The Law on Local and Regional Self-Government Units sets the legal framework for the division of competences between the different government levels, while the Law on Local and Regional Self-Government Financing is the law of reference for the local government finance system.

Qualifying fiscal decentralisation

Sub-national government authorities in Croatia finance their revenues through own resources, shared taxes, grants from the state budget, equalisation grants, shared revenues and borrowing. Own resources include income from sub-national government property, from county, city, town or municipal taxes, and from fines, fees and charges. Shared revenues include fractions of income tax and the tax on real estate transactions. The sub-national government in Croatia is not autonomous with regards to the determination of the base and rates of taxes. The rates of shared taxes are set centrally by the state government, and while the rates of municipal, town and city taxes are set by the municipal or city authority, strict limits are imposed centrally through boundaries within which these rates must be fixed. Full autonomy is allowed only in setting the tax rate for the use of public surface.

In 2001, the Croatian government launched an ambitious long-term decentralisation plan involving delegating competences to sub-national governments and increasing their revenue autonomy. In 2013, sub-national expenditures in Croatia accounted for 30% of total general government expenditures.
Fiscal equalisation mechanisms

Grants from the state's budget are allocated yearly to sub-national governments with low fiscal capacity in accordance with the Law on Execution of the State Budget. Specific equalisation grants are transferred to ensure proper coverage of expenditures in the areas of primary and secondary education, social welfare and health care.

2.6.2 Level of fiscal decentralisation

Revenue autonomy (own revenues relative to total resources available) at the local level in Croatia is below the EU average (42% versus 53%), which entails a rate of dependency on central government transfers that is higher than the EU average (58% versus 47%). Local own revenues represent 13% of total government revenues, which is similar to the EU average.
The composite ratio (18%), capturing aspects of fiscal decentralisation of both revenue and expenditure, suggests that sub-national governments in Croatia have a degree of fiscal decentralisation that is in line with the EU average.

**Fiscal rules and borrowing capacity**

Sub-national governments have access to debt markets (loans and municipal bonds) under the very strict conditions imposed by the State Law Budget. Every loan engaged in by sub-national governments needs to be approved by the Ministry of Finance. The maximum amount of these loans is determined at the central level. A general constraint for all local government units is that total local loans cannot exceed 2.3% of the revenue generated by all local government units in the previous year, while the total debt service of an individual sub-national government unit cannot exceed 20% of budget revenues from the previous year. Municipalities are, in principle, allowed to issue securities such as bonds, but the very strict criteria under which this is allowed and the limited development of Croatian capital markets have so far prevented the development of these instruments.

**Deficit and debt at sub-national levels**

In 2013, the consolidated gross debt of the Croatian local government sector amounted to 1.5% of GDP. This value had roughly doubled since the outbreak of the financial crisis.
Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.7 Cyprus

2.7.1 Overview of fiscal decentralisation

Cyprus government’s structure is based on a three-tier framework: the central level, an intermediate level composed of six districts, and a local level composed of 39 municipalities (urban areas and tourist centres) plus 478 communities (in rural areas). Of the 39 municipalities in Cyprus, nine are in the northern part of the island and, since 1974, have been displaced to the areas of the Republic of Cyprus which are under the effective control of the government. These continue to maintain their legal status, although their mayors and councils have temporarily been displaced to the government-controlled area, as have the vast majority of their constituents.  

For details see http://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Cyprus/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The major law governing local governments in Cyprus is the Municipalities’ Law 111 of 1985. Since being introduced, the law has been amended 25 times.

Qualifying fiscal decentralisation

Cyprus is one of the most centralised member states of the EU, with very limited expenditures at the sub-national level (see the pie chart below) and very limited competencies devolved to local authorities. Local government revenues are composed of local taxes, license fees and rights (around 50%) and transfers from the central government (around 40%), with the remaining 10% coming from fines and other revenues.

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4 This study looks at the local authorities in the areas of the Republic of Cyprus which are under the effective control of the government. Please refer to Protocol no. 10 appended to the Accession Treaty of the country to the European Union.
2.7.2 Level of fiscal decentralisation

While having very limited resources, revenue autonomy (own revenues relative to total resources available) at the local level is above the EU average (61% versus 53%), which entails a rate of dependency on central government transfers that is lower than the EU average (39% versus 47%). Confirming the small role played by local governments in delivering public services, local own revenues represent 3% of total government revenues, which is lower than the EU average of 13%.
The composite ratio (3%), capturing aspects of fiscal decentralisation for both revenues and expenditures, confirms that sub-national governments in Cyprus have a degree of fiscal decentralisation that is lower than the EU average (18%).

**Deficit and debt at sub-national levels**

In 2013, the consolidated gross debt of the local government sector of Cyprus amounted to 1.8% of GDP, following a smooth decline over the last four years.
2.7.3 Expenditure by government level and by policy area

Local expenditures represent a significant part of total general government expenditures in the fields of environmental protection (91% of total expenditures), recreation culture and religion (28%), and housing and community amenities (24%). In all other areas of spending, local expenditures make up a minimal fraction of general government expenditures, being either very limited or non-existent.

As a percentage of total local spending, sub-national expenditures in the areas of general public services (43%), housing and community amenities (27%),
recreation culture and religion (16%), and environmental protection (14%) are higher than the EU average. In all other areas of expenditure, no spending is reported.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.8 Czech Republic

2.8.1 Overview of fiscal decentralisation

The government in the Czech Republic is organised in a three-tier structure: the central government, 14 regions and 6,250 municipalities. Prague has a special statute and is considered both a region and a municipality. For the purpose of this study, municipalities and regions form the sub-national government level.

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/CR/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The basic status of territorial self-governance is established in the 1992 Czech Constitution. The regions as they are defined today were introduced with a major reform adopted through Act 347/1997. The system of regional government is regulated by Act 129/2000 Coll. The system of municipal government is regulated by Act 128/2000 Coll. on Municipalities. The system of regional government is regulated by Act 129/2000 Coll.

Qualifying fiscal decentralisation

Regions and municipalities are entitled by state law to both autonomous responsibilities, over which they have considerable freedom with regards to financial and legal aspects, and delegated responsibilities, which need to be executed according to central government guidelines.

Municipalities are autonomously responsible mainly for pre-elementary and primary education, local social welfare, environment, public housing, public transports and local roads. The major source of revenue for municipalities is taxes – shared taxes (notably VAT, which contributes to 40% of overall tax revenue) and non-shared taxes (mostly the real-estate tax, the marginal rate of which can be set discretionally by each municipality). Other municipal own resources come from fees and charges for local services (14% of total local revenues). In 2010, transfers from central government accounted for 36% of total municipal revenues.

Regions are autonomously responsible for secondary education, regional road networks, regional economic development and healthcare. Regions have a lower revenue autonomy compared to municipalities, as their major source of revenues are transfers from the central government (64% of total regional revenues in
2010). Regions are only entitled to shared taxes (32% of regional revenues in 2010) with the major tax revenues, analogously to municipalities, coming from VAT.

Overall in 2013, considering both municipalities and regions, sub-national expenditures in the Czech Republic accounted for 26% of total government expenditures (see the pie chart below).

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology
2.8.2 Level of fiscal decentralisation

Revenue autonomy (own revenue relative to total resources available) at the local level (regions and municipalities) is higher than the EU average (65% versus 53%), which entails a rate of dependency on central government transfers that is below the EU average (35% versus 47%). Local own revenues represent 17% of total government revenues, a value marginally higher than the EU average (13%).

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
The composite ratio, which captures aspects of fiscal decentralisation of both revenues and expenditures, suggests that sub-national governments in the Czech Republic have a degree of fiscal decentralisation (23%) that is higher than the EU average (18%).

**Deficit and debt at sub-national levels**

In 2013, the consolidated gross debt of the Czech local government sector amounted to 2.9% of GDP, having increased marginally during the last four years by 0.3 percentage points.

![Graph showing deficit and debt](image)

**Source:** authors’ elaboration on EUROSTAT data. For further details, see methodology

2.8.3 **Expenditure by government level and by policy area**

Expenditures of regions and municipalities represent a significant part of total general government expenditures in the areas of environmental protection (72%), education (69%), housing and community amenities (64%), and economic affairs (40%).
Regional and municipal spending is particularly concentrated, and more so than the EU average, in the fields of education (32% of the total budget of both entities) and of economic affairs (22%). Other relevant areas of spending are general public services (13%) and environment (10%).
2.9 Denmark

2.9.1 Overview of fiscal decentralisation

The organisation of the government in Denmark is based on a three-tier structure: the central government, five regions and 98 municipalities. For the purpose of this study, regions and municipalities form the sub-national government level.

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Denmark/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The Constitution establishes the principle of municipal autonomy under the supervision of the state. Regions were established with the Local Government Reform of 2007.

Every year the Government signs an agreement with the Municipalities National Association and the Regions National Association establishing the budget for the following year and setting boundaries for service and investment costs and targets for sub-national taxes. This agreement is signed on behalf of regions and municipalities as a whole and allows for a certain degree of flexibility at the level of single municipality/region.

Qualifying fiscal decentralisation

Municipalities, which are responsible for the majority of sub-national spending, enjoy a higher fiscal autonomy. Their activities are financed through the municipal income tax, the land value tax, a fraction of the corporate income tax, user charges and transfers from the central government (grants and reimbursements for specific expenditures). Municipalities are free to set the municipal income tax, which represents roughly 85% of their tax revenues, as they wish. Regarding the tax on land value, municipalities are able to choose a tax rate of between 1.6% and 3.4%. Conversely, the autonomy of and fiscal decentralisation towards regions is much lower. Regional activities are entirely funded by block grants and activity-based funding from the central government. The national government collects local taxes and allocates funds to sub-national governments each month.

Overall, the majority of Danish public expenditures (67%) occur at the sub-national level (see the pie chart below).
Fiscal equalisation mechanisms

Given the variations in the tax base of Danish municipalities (differing demographic and social structures), the Local Government Reform of 2007 established an equalisation mechanism transferring resources from the richer municipalities to the poorer ones. The purpose of the equalisation system is to ensure that the same level of service involves an analogous tax rate regardless of the income of the inhabitants and any demographic factors.

Fiscal equalisation across regions does not require such a system, as national government grants constitute the most significant element of financing. In order to give regions equal opportunities to provide healthcare services, the subsidy is...
distributed along a number of objective criteria (e.g. demography and social structure of each region) reflecting the expenditures required.

### 2.9.2 Level of fiscal decentralisation

Revenue autonomy (own revenue relative to total resources available) at the local level (regions and municipalities) is slightly lower than the EU average (43% versus 53%), which entails a rate of dependency on central government transfers that is above the EU average (57% versus 47%). Local own revenues represent 29% of total government revenues, a value higher than the EU average (13%).

**Source:** authors’ elaboration on EUROSTAT data. For further details, see methodology

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**Revenue and expenditure indicators at local level (2013)**

- **Revenue Autonomy**
- **Own revenue decentralisation**
- **Comp. Ratio**
- **Transfer dependency**

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology

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**Revenue and expenditure indicators at local level**

- **Revenue Autonomy (left axis)**
- **Transfer dependency (left axis)**
- **Own revenue decentralization (right axis)**
- **Composite ratio (right axis)**

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology
The composite ratio, which captures aspects of fiscal decentralisation of both revenues and expenditures, suggests that Denmark has a degree of fiscal decentralisation that is substantially above the EU average (87% versus 18%). This highly decentralised system is also confirmed by the indicator measuring tax autonomy of local governments: the indicator shows that local governments have full discretion over the tax rates relating to 87% of their total tax revenues.

![Local government tax autonomy](image)

**Source:** authors’ elaboration on OECD data. For further details, see methodology

### 2.9.3 Fiscal rules and borrowing capacity

Municipalities and regions can finance budget deficits through debt within specific limits defined by the Ministry of Finance. Municipalities have access to debt markets through their traditional credit institute (*kommunekredit*); they can also issue bonds and, under special conditions, guarantees. Municipalities are allowed to underwrite loans corresponding to the sum of expenditures in the fiscal year only for specific purposes: to finance capital expenditures, to pay off existing loans and to finance the costs of deferred property values taxes granted to pensioners.

Regions are more limited in their borrowing capacity and, in general, are not allowed to underwrite debt or to issue guarantees without a dispensation from the Ministry of Economics and Internal Affairs.
Deficit and debt at sub-national levels

In 2013, the consolidated gross debt of the Danish local government sector represented 7.5% of GDP. This value, after having fallen until 2009, marginally increased every year during the last four years.

![Local Government: deficit and debt (as % GDP)](image)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology

2.9.4 Expenditure by government level and by policy area

Expenditures of regions and municipalities represent a significant part of total general government expenditures in the fields of health (almost the totality at 98%), social protection (83%), housing and community amenities (63%), environmental protection (56%), education (48%) and economic affairs (41%).

![Local expenditure as % of total general government expenditure (2012)](image)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology
Regions and municipalities’ spending is particularly concentrated in the field of social protection (55% of the total budget of both entities). Other relevant areas of spending are healthcare (22%) and education (10%).

**Source**: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.10 Estonia

2.10.1 Overview of fiscal decentralisation

The Estonian governmental structure has two levels: the central government and 215 local governmental units.

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Estonia/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The basic legal provisions regarding the status and the organisation of local governments are set by the Constitution. The major legal act in this regard is the 1993 Local Government Organisation Act.

Qualifying fiscal decentralisation

In 2013, local government expenditures in Estonia accounted for roughly one-quarter of total government expenditures (see the pie chart below). Local governments are given limited autonomy over how to finance their expenditures: in 2010, 46% of local revenues derived from the personal income levy, a tax which is shared with the central government. Land tax is fully owned by local authorities, which can apply different rates within fixed boundaries set at the central level. Within the limits prescribed by state law, local authorities are also free to levy other local taxes (which accounted for roughly 1% of local revenues in 2010) and user charges. Transfers from the central government (block grants, earmarked grants and an equalisation fund) are the second largest source of revenue for local authorities (34%). Local governments can generate revenues from their economic activities, property incomes and sales of property.
Fiscal equalisation mechanisms

Fiscal equalisation across local governments is performed through an equalisation fund. In 2012, the amount of transfers granted by the equalisation fund accounted for 1.1% of central government expenditures. The exact amount transferred from the fund to each local government is defined in the yearly state budget negotiations and is based on two major principles: an average expense need based on population size and age structure, and the weighted lagged accounting revenues of each local administration.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.10.2 Level of fiscal decentralisation

Revenue autonomy (own revenues relative to total resources available) at the sub-national level is just above the EU average (55% versus 53%), which entails a rate of dependency on central government transfers that is slightly lower than the EU average (43% versus 47%). Local own revenues represent 14% of total government revenues, a value roughly equal to the EU average (13%).

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
The composite ratio, which captures aspects of fiscal decentralisation of both revenue and expenditure, suggests that the governmental structure in Estonia has a degree of fiscal decentralisation (19%) that is substantially in line with the EU average (18%).

Sub-national government tax autonomy is characterised by negligible full autonomy over rates, by a minor share of tax revenues over which local governments have restricted discretion (6%), and by a large majority (93%) of shared taxes controlled by the central government.

![Local government tax autonomy chart]

Source: authors’ elaboration on OECD data. For further details, see methodology

**Fiscal rules and borrowing capacity**

In principle, local governments are free to access debt markets (loans, debt securities, leasing) to finance the difference between their expenditures and revenues. From 2009 to 2012, special provisions limiting the amount of outstanding debt were put in place to limit excessive debt accumulation by local governments due to the erosion of the revenue base during the financial crisis. The new Local Government Financial Management Act of 2012 reinforces fiscal discipline and transparency of the financial governance of local governments. The new act foresees a net debt ceiling (debt minus liquid assets) of between 60% and 100% of the operational revenues of the current year, depending on the self-financing capacity of the local body.
Deficit and debt at sub-national levels

In 2013, the consolidated gross debt of the Estonian local governmental sector amounted to 3.5% of GDP, a value that had increased by 1.2 percentage points during the last ten years.

2.10.3 Expenditure by government level and by policy area

Expenditures of municipalities represent a significant part of total government expenditures in the fields of housing and community amenities (almost the totality at 97%), education (54%), recreation culture and religion (46%), environmental protection (38%) and health (34%).
The share of total municipal spending is higher than the EU average in the fields of education (35% of total local spending), health (18%) and economic affairs (13%). Other relevant areas of spending are general public services (8%), social protection (8%) and recreation, culture and religion (8%).

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.11 Finland

2.11.1 Overview of fiscal decentralisation

Finland has a governmental organisation based on three levels: the central government, 19 regions and 320 municipalities.

*For details see LINK page System of multi-level governance [https://portal.cor.europa.eu/divisionpowers/countries/MembersLP/Finland/Pages/default.aspx](https://portal.cor.europa.eu/divisionpowers/countries/MembersLP/Finland/Pages/default.aspx)*

**Legal acts governing fiscal decentralisation**

The Finnish Constitution grants autonomy to municipalities. The division of powers between central government and the municipalities is covered by the Law on Local Self-governance.

**Qualifying fiscal decentralisation**

Finland is characterised by a highly decentralised governance system. Regions are mainly administrative bodies and shouldn’t be considered as a real government level. Municipalities are granted control over their revenues through the setting of local tax rates, which represent 46% of total local revenues. The rate of the municipal tax on earned income can be set under full autonomy by each municipality. Real estate tax also accrues to municipal budgets and local authorities are free to set a rate within the boundaries prescribed by the law. Other revenues come from charges and fees applied on local services (27% of total revenues) and transfers from the central government (18% of total revenues). Local expenditures totalled 40.4 billion euros in 2013, representing 41% of total government expenditures.
Fiscal equalisation mechanisms

The central government manages an equalisation mechanism transferring resources to municipalities that are not able to raise the necessary resources to perform the tasks prescribed by the law. Equalisation transfers are made when the estimated tax income of a municipality is below 91.86% of the national average. The amount of these transfers is determined through a formula which takes into consideration a centrally estimated cost for the provision of each local service, demographic factors and population density, geographic location (e.g. islands, distance from main economic centres) and unemployment rates.
2.11.2 Level of fiscal decentralisation

Revenue autonomy (own revenues relative to total resources available) at the local level (municipalities) is higher than the EU average (70% versus 53%), which entails a rate of dependency on central government transfers that is lower than the EU average (30% versus 47%). Local own revenues represent 29% of total government revenues, which is higher than the EU average (13%).

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
The composite ratio, which captures aspects of fiscal decentralisation of both revenue and expenditure, suggests the governmental structure in Finland has a degree of fiscal decentralisation of 49%, which is substantially above the EU average (18%) and has increased since 2008. However, this increase may be caused by lower transfers from the central government due to austerity measures.

The indicator measuring the level of tax autonomy also points towards a high level of autonomy for local governments in Finland, as 87% of total local tax revenues are under the full control of local authorities.

The indicator measuring the level of tax autonomy also points towards a high level of autonomy for local governments in Finland, as 87% of total local tax revenues are under the full control of local authorities.

Fiscal rules and borrowing capacity

Municipal autonomy over drafting their budgets is limited by the condition of approval of a balanced budget over a programming period of a minimum of four years (the current financial year plus a budget framework of three years). The great majority of lending to local governments is granted by the Municipality Finance Corporation (MFC), a credit institution owned by the state and by municipalities themselves that provides loans at market conditions to municipalities and municipally controlled organisations. Borrowings from the MFC are guaranteed by the Municipal Board Guarantee (MBG), of which almost all Finnish municipalities are members. The MFC has never suffered any loan defaults.

Deficit and debt at sub-national levels
In 2013, the consolidated gross debt of the Finnish local government sector amounted to 8.2% of GDP, having increased by 1.7 percentage points during the last four years.
Expenditure by government level and by policy area

Expenditures of municipalities represent a significant part of total general government expenditures in the fields of health (85%), recreation culture and religion (72%), education (63%), and general public services (46%).

The concentration of municipalities’ spending is higher than the EU average in the fields of health (30% of total local spending), social protection (25%), education (17%) and general public services (14%).
Local government expenditure as % of total local government expenditure (2012)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.12 France

2.12.1 Overview of fiscal decentralisation

France is a relatively centralised state which offers limited discretion in the areas of taxation and expenditure. The Constitution adopted on 4 October 1958 does recognise the principle of local government autonomy.

The country is broken down into three tiers of sub-national government (*collectivités territoriales*): regions, departments and municipalities. In addition, with stronger autonomous powers, there are also the ultra-peripheral regions (Guadeloupe, Guyane, La Réunion, Martinique and Mayotte). There are 22 regions and 96 departments in mainland France and five regions and six departments overseas, and nearly 37,000 municipalities.

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/France/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The division of fiscal responsibilities between local and central governments is regulated by the Constitution, as established in the constitutional revision of 2003 which increased the power of sub-national authorities and recognised the financial autonomy of sub-national governments. The Decentralisation Act of 2004 also devolved further rights to the regions.

Qualifying fiscal decentralisation

France is a fairly centralised country, with 22% of total public expenditures paid out by sub-national governments in 2013, or 12.2% of GDP (see the pie chart below). According to the European Commission’s 2011 decentralisation study, 55% of local resources are raised by taxes set and raised locally or by shared taxes, 28% from state grants and the remainder from other revenues from the sale of good and services and asset management.

There are four main local taxes: the CET (*contribution économique territoriale*) from businesses, the rates of which are set by the local government; a property tax on buildings with the rate set by departments and municipalities; a residents tax and a property tax on non-built land the rates of both of which are set by the municipalities.
**Fiscal equalisation mechanisms**

France operates a vertical equalisation mechanism governed by the Finance Law. It is applicable to all subnational entities and set yearly. It is calculated by a formula based on the potential income from the four main local taxes above and the remaining tax revenues. It calculates what the resources would be of the regions based on the average tax rate. Regions were the revenues fall short of the national average are eligible for support from the equalization fund.

From 2012 a new fund for horizontal equalisation at the municipal level (*fonds de péréquation national des recettes intercommunales et communales (FPIC)*)
was introduced to upset the loss from the abolition of a "professional tax" in 2011 that was part of the municipal revenues.

2.12.2 Level of fiscal decentralisation

Revenue autonomy (own revenues relative to total resources available) at local level (regions and municipalities) is higher than the EU average (66%), this entails a lower dependency on central government transfers. Local own revenues represent 15% of total government revenues, a value that is slightly higher than the EU average (13%). The lower dependency ratio but marginally higher share of own revenue decentralisation indicate a lower level of competences at the local level. The crisis has affected the ratios to some extent and revenue autonomy has increased slightly, most likely due to lower state transfers.

![Revenue and expenditure indicators at local level (2013)](chart)

**Revenue and expenditure indicators at local level (2013)**

- **Revenue Autonomy**: Local government and EU 27.
- **Own revenue decentralisation**: Local government and EU 27.
- **Comp. Ratio**: Local government and EU 27.
- **Transfer dependency**: Local government and EU 27.

**Source**: authors’ elaboration on EUROSTAT data. For further details, see methodology
The composite ratio, which captures aspects of fiscal decentralisation of both revenue and expenditure, suggests that the sub-national governments in France have a degree of expenditure decentralisation (18%) that is similar to the EU average (19%).

As for local tax autonomy, there seems to be a fairly high level of tax discretion regarding 65% of the revenues.
**Fiscal rules and borrowing capacity**

The golden rule prohibits local government to finance current expenditure through debt – borrowing can only be used to finance capital expenditure. The local budget can only be unbalanced by up to 5% of the year’s current revenue (10% for small municipalities). While local governments can, within the maximum level imposed, borrow freely, any decision is subject to ex-post legal control and budgetary control by the office of the central government representative (the prefect) and the chamber of auditors. To ensure this, debt annuity has been included in the budget as a compulsory expenditure. In case of deficit in local budgets, the regional chamber of auditors will propose corrective action.

This means very strong control by central government and low autonomous decision-making power. Presently, debts are used to cover about one third of investment spending. It also means that debt annuities have to be financed by own resources.

The rules on asset deposits and defaults are very restrictive. Liquid assets have to be deposited in non-interest-bearing accounts with the French treasury, which does not allow the local authorities to undertake financial investments. Liquidity shortfalls can be handled in the banking sector for day-to-day operations.

Bankruptcy is not permitted, thus defaults of local authorities are not covered by central government guarantees, forcing the local authorities to reschedule debt if such a situation occurs. In extreme cases, the central government may offer cash advances on future tax payments to cover mandatory operations. The prefect may put the local authority under its supervision in such instances (*tutelle de l’État*).

**Deficit and debt at sub-national levels**

In 2013, the consolidated gross debt of the French local government sector amounted to 8.9% of GDP, a value that slightly increased during the crisis and is up from 8.4% in 2010. Eurostat has no data prior to 2010 for local governments. Net lending/borrowing has been limited and fluctuating.
2.12.3 Expenditure by government level and by policy area

Not unlike the European averages, sub-national government expenditures represent a significant part of total general government expenditures in the fields of housing and community amenities (86%), environmental protection (87%) and recreation culture and religion (63%). Sub-national government has much lower competences in the areas of education, health, public order and social protection, where the competences are mostly at the central level.
Looking at the distribution of the sub-national budget, the highest expenditure goes on general public services (16%), social protection (18%), housing (15%) and education (15%). The share of expenditure on health is very low as there are very few competences in this area.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.13 Germany

2.13.1 Overview of fiscal decentralisation

Germany is a federal state composed of federal entities (Länder). State powers are primarily exercised by the Länder, as stated in the German Constitution: "the exercise of state powers and the discharge of state functions is a matter for the Länder" unless otherwise specified by the Basic Law. The municipalities are part of the Länder under Basic Law. Overall there are 16 Länder, 295 Kreise and 11,118 Gemeinden. Most cities with more than 100,000 inhabitants, and several with less, have both county and municipal responsibilities.

The analysis in this factsheet considers Länder as the state government level and Kreise and Gemeinden as the Local government level.

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersLP/Germany/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The most important legal act which governs fiscal decentralisation is the Basic Law (Grundgesetz). During 2006 there was a reform of the Basic Law with the aim of reorganising the legislation and making clearer distinctions between the competencies of the Länder and the Federation. A second stage of reform took place in 2009, which addressed the system of intergovernmental finances. Numerous other acts are established by the Länder themselves, which have legislative powers.

As stated by the Basic Law (art.70 BL), legislative powers are assigned to the Länder unless conferred on the Federation by the Basic Law itself. Exclusive legislative powers of the Federation extend over foreign affairs and defence, citizenship, migration, customs and trade, federal railways, and postal and telecommunication services. Current legislative powers of the Federation and the Länder concern civil and criminal issues, public welfare, economic legislation, energy, commerce, banking and insurance, labour issues, social security, unemployment insurance, educational grants and the promotion of research, urban real estate matters, hospitals, roads, environmental protection, and regional planning. Areas of legislation that have remained under Länder competence include education policy, municipal law, police law and the construction of roads.
Municipalities have the right to regulate all local affairs under their responsibility, within the limits established by law. However, municipalities are not allowed to establish fiscal legislation by themselves. The general principle states that the division of spending responsibility among the Federation and Länder for a government task matches administrative responsibility. For municipalities, the executive powers are limited to localised services, such as water, gas, electricity, refuse collection and wastewater services. In addition, local planning (roads, public spaces and land planning) also falls under their responsibility. Cultural and sport activities are run on a voluntary level by the municipalities, and other social and health responsibilities may also be delegated to the municipalities.

**Qualifying fiscal decentralisation**

Germany is has one of the highest levels of fiscal decentralisation in the EU. Due to the considerable responsibilities of the sub-national governments, 46% of the government expenditures are managed by the Länder (28%) and municipalities (18%). The German system seeks to ensure that funding distribution and the executive responsibilities are clearly defined.

**Source:** authors’ elaboration on EUROSTAT data. For further details, see methodology
The legislative powers of taxation and the distribution of tax revenue in Germany are precisely determined. The legislation is designed to ensure that the responsibilities of the different levels of government are financed by appropriate sources of revenues. The federal government has some exclusive legislative powers over customs duties (which are an EU own revenue) and fiscal monopolies. For other taxes, it has legislative powers when the revenues are collected in full part for federal activities or to finance fiscal equalisation transfers.

Rules for shared taxes between the federal government and the Länder are precisely determined by the Basic Law. Income tax revenue – reduced by a share for the municipalities - and corporation tax are shared equally. Additionally, 75% of VAT revenues are redistributed across the Länder to ensure a uniform standard of living across the country (Art.106 of the Basic Law).

**Fiscal equalisation mechanisms**

The equalisation mechanism involving the Federation and the Länder in Germany is one of the strongest in Europe. The aim of the system is to guarantee each Land the means to cover their necessary expenditures and to ensure equivalent living conditions. The system involves three levels: primary horizontal equalisation between the Länder, secondary horizontal equalisation within the Länder, and finally vertical equalisation by supplementary federal grants.

At the first level a maximum of 25% of the Länder’s share of VAT goes to those Länder with below average revenue from income tax, corporation tax and
Länder tax. The second step further equalises fiscal capacity at the Länder level. In the third step, supplementary grants are provided by the Federation to those Länder with subpar fiscal capacity. Thanks to this system, the variance of fiscal capacity across the Länder is considerably reduced.

Within Länder a separate equalisation mechanism also affects municipalities. As between Bund and Länder, equalisation within the Länder is not only vertical but also horizontal, with wealthier municipalities having to contribute.

2.13.2 Level of fiscal decentralisation

The constitutional obligation for the Länder to execute state obligations explains their high level of revenue autonomy, clearly above the EU average for this level of government. Not surprisingly given the high revenue expenditure obligations, own revenue decentralisation and the composite ratio are higher than the EU averages and transfer dependency considerably lower. For municipalities, the level of autonomy is close to the European average, but slightly lower in some indicators due to the importance of the Länder.

![Revenue and expenditure indicators at state level (2013)](image)

*Source:* authors’ elaboration on EUROSTAT data. For further details, see methodology.
Revenue and expenditure indicators at state level

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.

Revenue and expenditure indicators at local level (2013)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
As the graph below demonstrates, taxes at the Ländere level are mostly not determined by the Ländere. The revenues are split with the central government. For municipalities, the level of discretion is higher.
During 2011, Germany introduced a constitutional rule on balancing structural budgets that is applicable to the Federation and the Länder. The principle states that the budgets of the Federation and the Länder must be balanced without revenues from credit. The Basic Law further establishes a notional control account for the Federation where deviations from the ceiling are recorded: debits on this account exceeding 1.5% of GDP have to be reduced. These credit constraints may be exceeded in case of natural catastrophe or an unusual emergency. Closely linked to the reform concerning the budget rule was the introduction of a Federation-wide early warning system to prevent emergency budgetary situations. The Stability Council, which commenced its work in 2010, was set up for this purpose. As part of the implementation of the Fiscal Compact in Germany, the Stability Council was also charged with monitoring compliance with the upper limit on the general government structural deficit. An independent advisory board was set up to support the Stability Council in this monitoring task. Budget balancing rules have also been in place for the local governments; budget law generally obliges the municipalities to balance revenues and expenditure in their administrative and capital accounts, but does permit some borrowing for investment purposes. The municipal agencies of the Länder are responsible for monitoring municipalities’ budgets. In case of non-compliance, they can impose sanctions.

There is some coordination in the medium-term budgetary planning of the Federation and the Länder. A medium-term financial plan is adopted with the federal budget each year and extends over the next three years. The plan includes projections for the main expenditures and revenues. The Stability Compact is an attempt to ensure that the countries keep the fiscal discipline, and one of its core aspects is the establishment of a high-level Stability Council. Stability Council, which commenced its work in 2010, was set up for this purpose. As part of the implementation of the Fiscal Compact in Germany, the Stability Council was also charged with monitoring compliance with the upper limit on the general government structural deficit. An independent advisory board was set up to support the Stability Council in this monitoring task. Budget balancing rules have also been in place for the local governments; budget law generally obliges the municipalities to balance revenues and expenditure in their administrative and capital accounts, but does permit some borrowing for investment purposes. The municipal agencies of the Länder are responsible for monitoring municipalities’ budgets. In case of non-compliance, they can impose sanctions.
Council considers the overall economic and fiscal conditions in existence at the time of the federal, Länder and local government budget and financial plans being drafted. The aim is to coordinate budgetary and financial planning among the different levels of government. The Stability Council may also issue recommendations for the purposes of budgetary and financial planning coordination.

**Deficit and debt at sub-national levels**

Given the very high level of responsibility of the Länder, the debt level is significantly higher than in other EU countries, at close to 25% of GDP. The lending to borrowing ratio is in balance. In the case of municipalities, the level of debt is 5% of GDP with no significant problem in the lending balance.

![State Government: deficit and debt (as % GDP)](image)

**Source:** authors’ elaboration on EUROSTAT data. For further details, see methodology
2.13.3 Expenditure by government level and by policy area

Given the constitutional obligation of the Länder to exercise state powers and discharge state functions, it is not surprising that expenditures as a share of general government expenditures are very high in most categories. The notable exception is health, which is mostly a federal competence, and defence. The responsibilities over education (77% of government expenditures) and public order and safety (76%) are very extensive. Given the additional expenditures in the municipalities, it is clear that sub-national authorities have the main responsibility over education in particular, but also significant responsibility over public safety and general public services.
The distribution of expenditure within the Länder reveals education and general public services, as well as social protection, to be the most significant areas.

Municipalities

Municipalities have important roles to play in financing housing, environmental protection and recreation, culture and religion (all three at approximately 60% of total general government expenditures). Among municipal expenditures, financing social protection and general public services are the most significant.
Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.14 Greece

2.14.1 Overview of fiscal decentralisation

Greece is a unitary state with a two-tier government structure. At the national level, Greece is divided into seven decentralised state administrations. At the sub-national level, two levels of self-government exist: 325 municipalities (first level) and 13 regions (second level). The latter are further divided into 74 regional units. Despite this structure, Greece remains a fairly centralised state.

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Greece/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The constitutional revision of 2001 put local governments (both municipalities and regions) in charge of the administration of local affairs and attributed to them administrative and financial independence.

Law 3852/2010 on the "New architecture of self-governance and decentralized administration - Programme Kallikratis" is the most recent modification to decentralised governance in Greece.

Central own resources for the sub-national governments (KAPs) have been restructured according to Law 3852/2010, aiming for long-term economic sustainability and protection from economic risks for local government finances.

Qualifying fiscal decentralisation

Sub-national governments have extended competences in functions such as environment, life quality, social protection, education, culture and sports, agriculture, breeding and fishery development, and so on (as set by Law 3852/2010).

Sub-national governments' share of responsibility has increased following the implementation of the Kallikratis Law, as they have also accepted exclusive duties. However, the share of expenditures at the local level is relatively low by EU standards at 8% of total government expenditure.
The revenues for the municipal KAPs are:

i. 21.3% of total annual receipts of income tax of physical persons and legal entities;
ii. 12% of total annual VAT revenues; and
iii. 50% of total annual receipts of the regular property tax (note that as of 1 January 2014, this changed to 11.3% of total annual receipts of the Single Property Ownership Tax).

Two-thirds of category (i) revenues and the whole of category (ii) and (iii) revenues make up the account covering operational and other general expenditures of the municipalities. The remaining third of category (i) revenues covers investment expenditures. KAPs cover 46%-49% of the total revenues of municipalities, although according to the Medium Term Fiscal Strategy 2013-2016, this share is intended to be reduced.

The revenues of the regional KAPs are:

i. 2.40% of the total annual receipts of income tax of physical persons and legal entities; and
ii. 4% of total annual VAT revenues.

**Source:** authors’ elaboration on EUROSTAT data. For further details, see methodology
2.14.2 Level of fiscal decentralisation

Greece has always been a highly centralised state, though this has gradually changed with the accession to the EU in 1981 and, since 2003, in order to benefit more from EU funding.

Article 261 of Law 3852/2010 explicitly states the measures concerning fiscal decentralisation (of taxation).

1. A percentage of the annual increase of VAT receipts within the administrative territory of a municipality may be assigned to the municipality concerned, and it will be used exclusively for social solidarity services.

2. By means of a ministerial decision, 20% of property tax revenues may be considered as local municipal revenue depending on the total amount of taxes collected in the administrative area of a municipality. This revenue is allocated to actions concerning urbanisation and related services.

3. The municipalities are given the power to ask for information on wealth elements (properties and income) of physical and legal persons in their administrative territory.

In Greece, local governments have a medium degree of fiscal autonomy – around 35% of revenues – which results in a slightly higher fiscal imbalance and transfer dependency than the EU average. Since 2000, revenue autonomy has declined sharply from 39% to 34%.
The composite ratio, which captures aspects of fiscal decentralisation of both revenue and expenditure, suggests that the sub-national governments in Greece have a degree of fiscal decentralisation (3%) that is considerably lower than the EU average (18%).

**Fiscal rules and borrowing capacity**

Greek local authorities may raise debt from financial organisations in the country or abroad, but only for financial investment and debt-financing purposes and only under certain constraints:
(a) the annual cost of debt financing does not exceed 20% of annual regular revenues;
(b) the total debt of the region/municipality leading to the borrowing does not exceed a threshold percentage of its total revenues which is determined by a ministerial decision. The total debt of the region/municipality is defined as the sum of its short- and long-term obligations.

Sub-national governments also have the right to issue bonds, but this has not yet been exercised. Given the limited autonomy of the local governments, their debt levels are limited. Nevertheless, some local authorities have been bailed out by the state.

**Deficit and debt at sub-national levels**

In 2013, the consolidated gross debt of the local government sector amounted to 1% of GDP, slightly higher than the 0.9% of the three previous years at. Local authorities are overall net lenders, at 0.4% of GDP, which is a reversal of the negative position between 2005 and 2010.

![Local Government: deficit and debt (as % GDP)](image)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology

**2.14.3 Expenditure by government level and by policy area**

Local government expenditures represent an important part of the total government expenditure in the areas of environmental protection (90% of the total), housing and community amenities (57%), and recreation, culture and religion (37%).
The local expenditures are particularly concentrated in the areas of general public services (35% compared to the EU average of 14%), economic affairs (17% vs. 11.4%) and environmental protection (16% vs. 5.2%)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology
2.15 Hungary

2.15.1 Overview of fiscal decentralisation

Hungary is a unitary state organised on a decentralised basis. It consists of three levels of governance: central, regional (counties) and around 3,200 municipalities. The intermediate layer (counties) has limited power over local affairs and municipalities are not subordinated to the counties. There are effectively two layers of public administration. Despite the average size of the municipalities being rather small, they enjoy a wide range of freedoms but, at the same time, an extensive range of mandatory services. For this reason, the main role of counties had been to bundle together some of the public services of small municipalities.

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Hungary/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The decentralisation process started with the adoption of the Law on Local-Self Government in 1990 by which local communes were given the right to self-government. In 2011 a new Law on Local Self-Governments was adopted, which has reduced the range of compulsory services by re-centralising a certain number of competencies.

Qualifying fiscal decentralisation

Hungarian municipalities enjoy a wide range of competences and responsibilities. The small size of the municipalities, the large number of competences and a lack of relation between financial capacity and obligations has led to difficulties – the sale of municipal assets and local indebtedness. This apparent mismatch between the size of local units and their obligations in delivering public services makes the Hungarian system distinct from other unitary models. Some features, such as the "multi-purpose micro-regional associations", were introduced to balance size and competences at the local level, but the situation has not yet been resolved.

Local governments enjoy a great deal of autonomy; however, the mix of local public services is characterised to a large extent by their financial ties with central funds. The intra-government financial system is complex without a clear relationship between different instruments and policy objectives. The 2012
amendment of the Act on Local Government has reduced the share of responsibilities of the municipalities, in particular for health and education.

In 2013, local expenditure as a percentage of total government expenditure reached 21%, a reduction from 2011 due to the change in the local government act.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology
Fiscal equalisation mechanisms

The majority of the transfers from the central budget are provided as normative grants, a designed equalisation transfer and a mandatory deficit grant. Normative grants are allocated to narrowly specified functions, mostly in the fields of education, social protection and culture. These transfers are based on expenditure needs rather than on actual output. Such a system tends to discourage improving the efficiency or the quality of local public services. The equalisation grant has the function of assisting poorer regions. The mandatory deficit grant is designed to cover the deficits that the municipalities encounter through no fault on their own.

2.15.2 Level of fiscal decentralisation

Revenue autonomy (own revenues relative to total resources available) of municipalities is low: 32% compared to an EU average of 52%. This results in a dependency on central government transfers. Local own revenues represent 7% of total government revenues, which is lower than the EU average (13%). The timeline shows how the crisis hit the municipalities, increasing their transfer dependency from 67% in 2007 to 92% in 2013.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
The municipalities benefit from some tax autonomy but own source revenues are limited, with the rest coming from shared taxes and grants. Municipalities can levy local taxes, the most important of which is the business tax levied on gross corporate profit (80% of all local taxes). Local authorities can decide on the tax rate under a ceiling of 2%. A vehicle tax is also collected, but this only raises 7% of own-resource revenues, while a property tax levies another 7%. Other resources come from shared taxes, such as income taxes and grants.

Source: authors’ elaboration on OECD data. For further details, see methodology.
Fiscal rules and borrowing capacity

Given the high degree of legal independence of local authorities, they are allowed to borrow from financial institutions or directly from the market. Furthermore, no golden rule exists; hence operational deficits have often been financed by borrowing or disinvestment (sales of assets). Consequently, assets in the local government have been declining while debt has been increasing throughout the past years. There is no national stability pact agreement between the central and the local levels. More strict rules came after the Economic Stability Act of 2011. Municipalities engaging in new financial liabilities are in general subject to authorisation by the central government. Loans can be taken out only for investment purposes and only if the debt redemption would not exceed 50% of own revenues in any given year during the maturity of the loan contract.

Deficit and debt at sub-national levels

In 2013, the consolidated gross debt of the municipalities was close to 1.6% of GDP in 2013, after a fall from a peak of over 4.5% in 2010. The municipalities also changed from being net borrowers to net lenders, while simultaneously cutting debt.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology

2.15.3 Expenditure by government level and by policy area

Expenditures of municipalities represent a significant part of total general government expenditures in the fields of environmental protection (62%), housing and community amenities (61%) and education (57%).
Municipalities’ spending is higher than the EU average in the fields of education (29% of total local spending), general public services (21%) and economic affairs (11%).
2.16 Iceland

2.16.1 Overview of fiscal decentralisation

The government organisation in Iceland is based on a two-tier structure: the central government and 76 municipalities (sub-national government).


**Legal acts governing fiscal decentralisation**

Art.78 of the Constitution of Iceland grants the legal authority of self-government to local authorities. Art.2 of the Act on Local Authorities reiterates the principle of self-government and provides the legislative framework.

**Qualifying fiscal decentralisation**

In 2013, sub-national governments’ expenditures in Iceland accounted for 30% of total government expenditures.

Local authorities in Iceland are assigned a wide array of tasks; they need to perform the activities specifically delegated to them by the Law (most notably education, urban planning and social welfare) but also have the flexibility to perform different duties in the interests of their communities.

According to the most recently available (2006) figures, local authorities’ revenues are based on the proceeds of the municipal income tax (63%), on charges and fees (18%), on property taxes (11%) and on the income from the Municipality Equalisation Fund (8%). Local authorities have some autonomy over the determination of the marginal rates of the municipal income tax and property taxes.
Fiscal equalisation mechanism

The Municipality Equalisation Fund was established in 1937 and reformed in 1990 and in 1996 to adapt its functioning to the evolution of local authorities’ competencies. The fund has two functions: first, it transfers resources among local authorities to ensure that they all have the necessary resources to perform their basic duties; second, the fund pays a share of rent compensation to all local authorities and statutory contributions to institutions and associations of local authorities.
2.16.2 Level of fiscal decentralisation

Revenue autonomy (own revenues relative to total resources available) at the local level is very high (89%), which entails a rate of dependency on central government transfers that is much lower than the EU average (11% versus 47%). Local own revenues represent 27% of total government revenues, which is higher than the EU average (13%).

![Revenue and expenditure indicators at local level (2013)](chart1)

**Source:** authors’ elaboration on OECD data. For further details, see methodology

![Revenue and expenditure indicators at local level](chart2)

**Source:** authors’ elaboration on EUROSTAT data. For further details, see methodology

The composite ratio, which captures aspects of fiscal decentralisation of both revenue and expenditure, suggests that the sub-national governments in Iceland have a degree of fiscal decentralisation (39%) that is higher than the EU average (18%).
Deficit and debt at sub-national levels

In 2012, the consolidated gross debt of the local government sector amounted to 8.3% of GDP, this value has been profoundly influenced by the strong effects of the financial crisis on local public budgets. Between 2007 and 2009 alone, local government debt increased from 4.9% to 9.5% of GDP.

![Graph: Local Government: deficit and debt (as % GDP)](image)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology

2.16.3 Expenditure by government level and by policy area

Expenditures of local authorities represent a significant part of total general government expenditures in the fields of recreation culture and religion (65%), education (59%), environmental protection (45%), housing and community amenities (31%) and social protection (29%).
Local authorities’ spending is particularly concentrated, and more so than the EU average, in the fields of education (35% of the total local budget), social protection (23%) and recreation, culture and religion (15%).

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.17 Ireland

2.17.1 Overview of fiscal decentralisation

Ireland has a three-tier government organisation: the central government, a second level composed of 34 counties and city councils, and a third level composed of 80 town councils. The Local Government Reform Act of 2014 will modify this structure, reducing (by merger) the number of authorities. For the purpose of this analysis, the sub-national government level is composed of counties, city councils and town councils.

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Ireland/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The Local Government Act sets the legal framework for the organisation and the functioning of local governments. Specific fiscal rules for the local government sector were established in 2004 and laid down in administrative circulars. The Department of Environment, Community and Local Government oversees the application of these rules.

Qualifying fiscal decentralisation

Ireland is a fairly centralised country. In 2013, the level of expenditure of the Irish local governments amounted to 10 billion euros (13% of total government expenditures, or 6% of GDP), making of it one of the smallest in the EU. The major source of revenues for local governments is transfers from the central government (60% of total local revenues). Local spending is financed through a mix of grants from the central government (specific and general), local taxes and charges for goods and services. Rates of local taxes – mainly property taxes levied on commercial properties – are set every year by local authorities and account for 13% of local revenues.
Fiscal equalisation mechanisms

Central government transfers to local bodies are of two kinds: specific grants, earmarked for the financing of specific public programmes; and general grants, which are not tied to any specific objective. General grants are designed to perform a resource equalisation action across local authorities, and are allocated taking into account the expenditures and revenues of each local authority. A computer-based model has been specifically developed to evaluate the resources needed by each local authority to perform its obligations.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
### 2.17.2 Level of fiscal decentralisation

Revenue autonomy (own revenues relative to total resources available) at the sub-national level is below the EU average (47% versus 53%), which entails a rate of dependency on central government transfers that is slightly higher than the EU average (53% versus 47%). Local own revenues represent 6% of total government revenues, which is lower than the EU average (13%). There has been an increase in revenue autonomy since 2004, with a fall in the transfer dependency ratio from 80% to 53%.

**Source:** authors’ elaboration on EUROSTAT data. For further details, see methodology
The composite ratio, which captures aspects of fiscal decentralisation of both revenue and expenditure, suggests that the sub-national governments in Ireland have a degree of fiscal decentralisation (7%) that is lower than the EU average (18%).

**Fiscal rules and borrowing capacity**

Irish local governments have limited borrowing power. More specifically, local governments are authorised to finance only capital expenditures (roughly one-third of total local bodies’ expenditures) through debt emissions. A borrowing ceiling for local authorities is set by the fiscal rule, imposing a limit of 200 million euros on the total sector’s fiscal deficit for any year. Default of local governments is theoretically possible, but in recent times the central government has intervened to bail out financially distressed local authorities.

**Deficit and debt at sub-national levels**

In 2013, the consolidated gross debt of the Irish local government sector amounted to 3.2% of GDP (more than 80% of the outstanding debt was to the Irish central government), after declining smoothly by 0.1% percentage points a year during the last four years.

![Local Government: deficit and debt (as % GDP)](chart)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.17.3 Expenditure by government level and by policy area

Despite being constantly below the EU averages, expenditures at the local level represent a significant part of total general government expenditures in the fields of housing and community amenities (83%) and environmental protection (73%).

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.

Sub-national spending is concentrated, and more so than the EU averages, in the fields of education (23% of total local spending), economic affairs (20%), housing and communities amenities (13%) and environmental protection (11%). Another relevant area of spending was social protection, which accounted for 19% of total local spending, a value which is still lower than the EU average (22%).
Local government expenditure as % of total local government expenditure (2012)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.18 Italy

2.18.1 Overview of fiscal decentralisation

Italy is a parliamentary republic. Its territory is divided into 20 regions (five of which have special statute and enjoy special autonomy granted by the Constitution), 110 provinces (two of which have special statute and autonomy) and 8,092 municipalities.

In what follows, qualitative indicators of local government include regions, provinces and municipalities.

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersLP/Italy/Pages/default.aspx.

Legal acts governing fiscal decentralisation

Local self-government and the subsidiarity principle between regions are granted by the Italian Constitution. The reform of 2001 substantially altered the relationship between the central state and the sub-national authorities, opening the way to fiscal federalism. However, the implementation of such changes has been very slow. The most significant progress was made with the framework law of 2009, which delegates government to adopt legislative decrees enacting fiscal federalism and has the overarching objective of guiding the country towards a more complete federal fiscal structure by 2017. Since then, several decrees have been adopted by different governments and approved in parliament. Particularly relevant in this framework is the distinction between: i) functions corresponding to essential services (livelli essenziali delle prestazioni), for which the introduction of the "standard cost" criteria instead of the "historical expenditure" criteria (standards of quality and efficiency are used to calculate the proper cost) is foreseen and which are funded according to need; and ii) other categories of expenditure, for which transfers across sub-national governments are based on the fiscal capacity of each region and on the need to fulfil the financial gap in providing essential services.

Law 56/2014 initiates a new phase of reforms by establishing metropolitan cities, abolishing the elective bodies of the provinces and redefining their competences.
Qualifying fiscal decentralisation

The territorial organisation of Italy is different from that of accomplished federations like Germany, Belgium and Austria. However, Italian regions enjoy a rather high degree of fiscal autonomy over both revenue and expenditure.

![Sub-national government expenditures as % of General Government expenditure (2013)]

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.

Local governments’ expenditure amounts to 31% of total general government expenditure, with the regions alone accounting for 20% (around two-thirds of the total local expenditure). These ratios have remained almost unchanged since 2000. Provinces have almost no spending powers – only around 5% of total
local government expenditure. This implies that the share of municipalities in total general government expenditure is just below 10%.

Regions finance their expenditure mainly through an own tax (Regional Tax on Productive Activity, or IRAP), a share of personal income tax (addizionale IRPEF), revenues, shared tax revenues of VAT and transfers for provision of health services and equalization mechanisms.

Provinces have very limited own resources, while municipalities mainly finance their expenditure through the Single City Tax (Imposta Unica Comunale), which is made up of three different taxes related to real estate property (the IMU on non-housing property and on luxury housing, the TASI, a tax on buildings to finance indivisible services, and the TARI on urban waste), shares of the personal income tax (addizionale IRPEF), other small taxes and equalisation mechanisms.

Fiscal equalisation mechanisms

The Fondo Perequativo is a fiscal equalisation tool introduced by Law Constitution 3/2001 that distinguishes the different levels of government (regions, provinces and municipalities) and the nature of the expenditure items. In the case of essential services, the Fondo Perequativo should compensate for any imbalance between tax revenues of the regions and allow them to provide services under their competence to uniform levels throughout the national territory; in the case of other expenditure items, it aims to compensate those local levels of government with a lesser fiscal capacity.

2.18.2 Level of fiscal decentralisation

Local governments in Italy have an overall degree of revenue autonomy (own revenues relative to total resources available) of 55%, which is just above the EU average (53%). A corollary of this is that the fiscal imbalance ratio (grants relative to total resources) and, by consequence, the transfer dependency ratio (the share of expenditure covered by transfers) are also in line with the EU averages.
Local governments’ own revenues represent 17% of total general government revenues (or about 6.5% of GDP). Since, on average, central government revenues correspond to about 26% of GDP, this implies that of the total general government revenues, 80% comes from central government and 20% from the local level.

The composite ratio, which should capture aspects of fiscal decentralisation of both revenue and expenditure, suggests that local government levels have a degree of fiscal decentralisation that is above the EU average (18% for non-federal nations).
In Italy, local authorities are characterised by a level of revenue autonomy of about 55%, (see the chart on revenue indicators), hence about half of their total available resources come from own revenues, though only on a rather small part of these (35%) is the degree of tax autonomy very high. Regions and municipalities have restricted powers over setting rates and reliefs for half of taxes.

Fiscal rules and borrowing capacity

Fiscal relations between central and sub-national governments in Italy are mainly regulated by the Domestic Stability Pact (DSP), which was established in 1999 with the aim of improving governance relations. The DSP rules are set every year by the budget law and contain constraints on expenditure or impose a balanced budget for sub-national governments. Over time, the effectiveness of the DSP in imposing budgetary discipline has declined due to frequent changes to targets and coverage, which have created uncertainty. From 2012, sub-national governments have had to provide a contribution to the national consolidation effort of around 0.4% of GDP per year.

The Health Pact is a separate fiscal mechanism which regulates regions’ health-related expenses. The pact sets constraints on current and capital expenditure for healthcare by region.

According to a golden rule established in 2001, local and regional bodies are allowed to carry a deficit only to finance investments (Article no. 119 of the Italian Constitution).
Italy scores 6.78 on the European Commission’s composite index of fiscal rule strength, a value that is in line with the EU average for local and regional governments.

**Deficit and debt at sub-national levels**

According to Eurostat data for 2013, local governments had a balanced budget overall and a total gross debt of around 9% of GDP. While deficits deteriorated just after 2000, two waves of adjustments in 2006 and in 2011 have managed to keep debt largely unchanged since 2008.

![Local Government: deficit and debt (as % GDP)](image)

*Source:* authors’ elaboration on EUROSTAT data. For further details, see methodology

### 2.18.3 Expenditure by government level and by policy area

Local governments in Italy have competences, often very large, in some specific policy areas. However, the central state remains largely in charge of general public services, on which it spends almost two-thirds of the total budget, and is the only government tier with competence for defence matters and virtually the only one with competence for social protection.

In 2012, local (or more specifically regional, as the regions are in charge of the heath matters) government expenditure on health represented almost 100% of total general government expenditure in the field. It is interesting to note that health being an essential service, it is entirely funded at the central level. The next policy area in order of local entity expenditures as a percentage of total public expenditures is environmental protection (88%), followed by housing and community amenities (82%). The value for health is well above the EU average,
indicating that Italy is an exception in this respect, while the other two values are much more in line with the EU averages.

In the budget of local entities, health (48%) is unsurprisingly by far the most important spending item. In 2012, health expenditure in Italy amounted to 7.1% of GDP, or more than 110 billion euros. General public services (14%), economic affairs (13%) and education (7%) follow some way behind, and all other items are below 5%.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology
2.19 Kosovo

2.19.1 Overview of fiscal decentralisation

The government structure in Kosovo is based on two levels: the central government and 38 municipalities.

For details see https://portal.cor.europa.eu/divisionpowers/countries/Potential-Candidates/KUU/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The Law on Local Government Financing (LGF) sets the general principles ruling municipal financing, transfers from the central government and the participation of municipal budgets in the central government’s budget.

Qualifying fiscal decentralisation

Over the last few years Kosovo has undertaken major changes in the way competences are assigned between different government levels and in the way these are financed. Local governments have been empowered with higher autonomy in spending, revenue collection and discretion over the delivery of public services.

In 2012, municipal revenues in Kosovo were composed as follows: operational grants for own competencies (including notably the health grant and education grant) accounted for 81% of municipal revenues, own revenues (property tax and municipal fees) accounted for 17%, and other revenues (including grants for enhanced competences, extraordinary grants and financial assistance from the Republic of Serbia) for the remaining 2%. A consistent part (99.8 million euros in 2012, or 44.1% of the total) of the operational grants for own competences is not earmarked for the fulfilment of specific tasks, and is therefore unconditional. This general grant, when added to own municipal resources, brings to 47% the share of total municipal revenues that local governments are able to spend freely in accordance with applicable national laws.

Fiscal equalisation mechanisms

Fiscal equalisation across municipalities is carried out through targeted adjustments in the size of general grants. In principle, the overall size of the

5 This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the ICJ Opinion on the Kosovo Declaration of Independence.
general grant is equal to 10% of the general government revenues; in order to account for the different revenue-generating capacities of municipalities, the grant is composed of an annual fixed amount of 140,000 euros, minus one euro per capita for the (vast majority) of municipalities with a population below 140,000 inhabitants. The variable part of the grant is calculated on a formula weighting different factors: population, which accounts for 89% of the variable part; number of minority communities (3%); municipalities in which the majority of the population is composed of an ethnic minority (2%); and area of the municipality (6%).

**Fiscal rules and borrowing capacity**

Municipalities have access to debt markets to finance capital investments with authorisation of the municipal assembly and, ultimately, of the Ministry of Economy and Finance. Borrowing is nevertheless subjected to tight conditions: borrowing is only allowed on national capital markets with no exposure to foreign exchanges; total annual debt services should not exceed 15% of municipal own revenues from the past fiscal year; the total amount of municipal outstanding debt should not exceed 50% of municipal own revenues from the past fiscal year; and grace periods are not allowed.
2.20 Latvia

2.20.1 Overview of fiscal decentralisation

The 2009 territorial administrative reform designed the Latvian government structure along a two-level basis: the central government and local governments (formed of nine cities and 110 municipalities).

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Latvia/Pages/default.aspx.

Legal acts governing fiscal decentralisation


Qualifying fiscal decentralisation:

Latvia is a rather centralised country in which, in 2013, 72% of total government expenditures were delivered by the central government (see the pie chart below). Local governments are not free to levy own taxes or to modify marginal rates on shared taxes. The main revenues of local governments are shared taxes (56% of total local revenues in 2010), earmarked government grants (36%) and the resources transferred through the equalisation fund. Personal income tax is the main tax revenue for local governments (the rate attributed to local bodies in 2012 was 80%, but it had been changed frequently by the central government in the previous years, adding instability to an already cyclical tax base). Real estate and land tax are fully local revenues, but no autonomy is allowed over setting rates and the tax base. Other shared taxes are those on gambling and on natural resources. Autonomy over expenditures is also limited, with most central grants earmarked to cover education and other public expenditures.
Fiscal equalisation mechanisms

Fiscal equalisation is carried out through the Local Government Finance Equalisation Fund (LGFEF), which performs the function of redistributing revenues from wealthier municipalities to poorer ones. The central government also contributes to this fund. Revenues are redistributed according to expenditure needs (calculated on demographic factors and other criteria); the basic principle is that municipalities contributing to the fund are those for which revenues from personal income tax and real estate tax exceed the expenditure need by more than 10%.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.20.2 Level of fiscal decentralisation

Revenue autonomy (own revenues relative to total resources available) at the local level is above the EU average (66% versus 53%), which entails a rate of dependency on central government transfers that is lower than the EU average (32% versus 47%). Local own revenues represent 18% of total government revenues, which is higher than the EU average (13%).

[Graph: Revenue and expenditure indicators at local level (2013)]

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology

[Graph: Revenue and expenditure indicators at local level]

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology
The composite ratio, capturing aspects of fiscal decentralisation of both revenue and expenditure, suggests that the governmental structure in Lithuania has a degree of fiscal decentralisation (25%) that is higher than the EU average (18%).

Fiscal rules and borrowing capacity

Municipalities are allowed to borrow under very strict rules. State law imposes that annual debt-servicing by a local body should not exceed 20% of its local tax revenue. Each year, municipalities negotiate the limits of their aggregate borrowing and the issuing of guarantees with the central government. These limits are in the annual budget law. In case of intra-year financial difficulties, municipalities can underwrite short-term loans to be repaid within a year. Only larger municipalities enter into contracts with financial institutions, and the main lender to local governments remains the state treasury. The strict central government control over local borrowing manages to guarantee a sound fiscal position for most local governments that do not represent a threat to the fiscal targets of the central government.

Deficit and debt at sub-national levels

In 2013, the consolidated gross debt of the Latvian local government sector amounted to 5.9% of GDP, after declining smoothly over the last four years.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.20.3 Expenditure by government level and by policy area

Local expenditures represent a significant share of total general government expenditures in the fields of housing and community amenities (95% of total expenditures), education (66%), and recreation, culture and religion (50%).

Sub-national expenditures as a percentage of total local spending are higher than the EU averages in the fields of education (37%), economic affairs (11%) and housing and community amenities (11%). In all other areas of spending, expenditures are rather limited and below the EU averages.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.21 Lithuania

2.21.1 Overview of fiscal decentralisation

The Lithuanian Constitution establishes a government structure based on two layers: the central government and 60 municipalities. Lithuania is also composed of ten regions, which are not self-governing authorities.

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Lithuania/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The major legal acts ruling the budgetary autonomy of local governments are the Law on Methodology for the Establishment of Local Government Budgetary Revenues, the Law on Budget Structure and on Local Government, the Law on the Methodology of Municipal Budget Income Estimation, and the Law on State and Local Government Budget.

Qualifying fiscal decentralisation:

In 2013, only one-quarter of total government expenditures were at the sub-national level (see the pie chart below). Nevertheless, local governments (municipalities) have the right to draft and approve their own budgets, to impose local duties, and to levy taxes and duties. Within the limits set by the law (i.e. a balanced budget and the performance of a set of defined tasks), local governments are granted autonomy in drafting their budgets; every year, specific financial indices are approved by the national parliament setting the budgetary limits for local bodies. Local bodies’ revenues consist of: shared taxes (personal income tax) and local taxes (land tax, real estate tax, stamp duties), with local governments granted partial autonomy with regard to the tax base and rates of the latter; non-tax revenues, such as municipal charges (up to 11 types), local fees, local duties, dismissal of municipal properties and partial privatisation of municipal utilities (up to 30%); and transfers from the state budget, which can be either general or earmarked for the provision of state services assigned to municipalities.
**Fiscal equalisation mechanisms**

The central government manages a mechanism of fiscal equalisation across local governments by transferring resources, based on natural persons’ income taxes, to less wealthy municipalities. Structural and tax-base-related inequalities which do not depend on local government activities are balanced through general grants from the state budget to local budgets.
2.21.2 Level of fiscal decentralisation

Revenue autonomy (own revenues relative to total resources available) at the local level (municipalities) is below the EU average (35% versus 53%), this entails a rate of dependency on central government transfers that is higher than the EU average (64% versus 47%). Local own revenues represent 9% of total government revenues, lower than the EU average of 13%.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
The composite ratio (12%), capturing aspects of fiscal decentralisation of both revenue and expenditure, suggests that sub-national governments in Lithuania have a degree of fiscal decentralisation that is lower than the EU average (18%).

**Fiscal rules and borrowing capacity**

State law sets limits and procedures of local government borrowing: short/long-term domestic/foreign loans are allowed to finance investment projects, to cover debts, to cover temporary income shortfalls, or to provide guarantees for loans to companies controlled by the municipalities. Borrowing limits are set each year by the national parliament in the Law on State and Local Government Budget. In 2012, a municipality’s annual net borrowing could not exceed 20% of the approved 2012 municipal budget revenues (excluding state-specific grants), while municipal guarantees could not exceed 10% of the approved municipal budget revenues (excluding state-specific grants). The borrowing limit varies year to year, but it is usually 20%. If the borrowing is for EU-financed projects, the limit can be increased by five percentage points. The Ministry of Finance must be informed when local governments undertake loans or guarantee operations.

**Deficit and debt at sub-national levels**

In 2013, the consolidated gross debt of the Lithuanian local government sector amounted to 2% of GDP, a value that has doubled since 2000.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.21.3 Expenditure by government level and by policy area

Local expenditures represent a significant part of total general government expenditures in the fields of housing and community amenities (97% of total expenditures), environmental protection (80%), education (58%) and recreation, culture and religion (44%).

![Local expenditure as % of total general government expenditure (2012)](chart1)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology

Sub-national expenditures are particularly high, and above than the EU average, in the fields of education (34% of total local spending), health (18%) and environmental protection (8%). In all other areas of spending, expenditures are rather limited and below the EU averages.

![Local government expenditure as % of total local government expenditure (2012)](chart2)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology
2.22 Luxembourg

2.22.1 Overview of fiscal decentralisation

The Grand Duchy of Luxembourg is a unitary state and, given its small territorial size, fiscal decentralisation is limited. The only effective tier of subnational government is 106 municipalities (communes).

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Luxembourg/Pages/default.aspx.

Legal acts governing fiscal decentralisation

Article 107 of the Constitution grants the municipalities the power of administration of their assets and own interests, under government supervision. Communes have statutory responsibilities defined by the Constitution and/or delegated by laws related to spatial planning, enforcement of public order and safety, organisation of nursery and primary school education, and supply of public utilities and networks (local road networks, drinking water distribution, sewerage, waste collection and disposal, cemeteries, etc.). In addition, communes have voluntary responsibilities such as providing infrastructure for sports, culture, tourism, health care or public transport. In order to increase efficiency, communes are allowed to form legal associations (syndicats de communes) to fulfil certain services jointly. A territorial reorganisation of the communes, including inter alia potential mergers between smaller communes, is ongoing in order to increase the quality and efficiency of services.

Qualifying fiscal decentralisation

Municipalities are allowed to impose and set the level of communal taxes after approval by the central government (specifically, the Ministry of the Interior). In 2013, total consolidated expenditure of sub-national governments amounted to 12% of general government expenditure, or 5.2% of GDP. In 2013, local government realised a consolidated surplus of 70 million euros (0.2% of GDP).
2.22.2 Level of fiscal decentralisation

Revenue autonomy at the local level is below the EU average (46% versus 53%), this entails a rate of dependency on central government transfers that is higher than the EU average (56% versus 47%). Local own revenues represent 6% of total government revenues, a value considerably lower than the EU average (13%).
Transfer dependency seems to have increased since 2008 due to the financial crisis.

Sub-national authorities’ ability to set tax rates is mostly restricted (91.4%) and only over a small fraction (5%) do local authorities have full discretion.
Fiscal rules and borrowing capacity

Budgetary surveillance is in the hands of the Ministry of Interior. Municipalities are not prohibited from running an operating deficit according to the Communal Law. Debt-issuing is only allowed if no other financing is possible and only if regular reimbursements can be ensured within the operational budget (Art. 118 of Communal Law, 13 December 1988).

Deficit and debt at sub-national levels

In 2013, the consolidated gross debt of the Luxembourg local government sector amounted to 2.2% of GDP, with no apparent impact from the crisis.
Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.

2.22.3 Expenditure by government level and by policy area

Expenditures of municipalities represent a lower share of total general government expenditures that the EU average. The main items in this regard are environmental protection (64%) and housing (57%).

Municipalities’ spending is more significant, and higher than the EU average, in the fields of general services (24% of total local spending), economic affairs (15%), environment (15%) and education (15%).
Local government expenditure as % of total local government expenditure (2012)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.23 The former Yugoslav Republic of Macedonia

2.23.1 Overview of fiscal decentralisation

The former Yugoslav Republic of Macedonia’s governance structure is based on two levels: the central government and 84 municipalities.

For details see https://portal.cor.europa.eu/divisionpowers/countries/Candidates/FYROM/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The legal framework of Macedonian fiscal decentralisation is set by the Law on Local Government Finances of 2005.

Qualifying fiscal decentralisation

The process of fiscal decentralisation in the former Yugoslav Republic of Macedonia started in 2005 with a gradual devolution of competences and the creation of own resources for municipalities. The degree of decentralisation of the different municipalities is not homogeneous and neither is the composition of revenues/expenditures, as the set of devolved competences varies substantially. Between 2007 and 2011, local government revenues as a share of GDP and of total public expenditures rose from 2.9% and 9% to 5.8 and 16%, respectively. Despite this significant increase, the composition of municipal revenues reveals how these government bodies have limited revenue autonomy: real own revenues (property tax and communal fees) represent 29% of total municipal revenues, while block grants account for 53% of the total, shared taxes for 6% and earmarked grants the remaining 12%. The composition of municipal expenditures reflects the range of competences devolved to the sub-national level: 59% of total expenditures relate to education (primary and secondary) and social protection (mostly kindergartens), 17% relate to communal utilities, 12% to municipal administration and the remainder to the other sub-national competences.

Deficit, debt at sub-national levels and borrowing capacity

The possibility of accessing debt markets is a relative novelty in Macedonia, as prior to 2008 it was explicitly forbidden by state law. Until 2008 and, and still to a large extent, local governments relied exclusively on funding from the central government.
Despite a sharp increase between 2008 and 2011, when local governments’ debt in the former Yugoslav Republic of Macedonia grew from 36 million Macedonian denar to 467 million denar, the total outstanding debt of municipalities at the end of 2011 accounted for just 2% of local government revenue. The biggest part of the municipal debt increase (73%) was generated by important funding agreements signed between local governments and the World Bank: the Municipal Services Improvement Project (MSIP I) for 18 million euros in 2009, and the MSIP II for 37 million euros in 2011.

The most recent available figures (for 2010) report that local governments’ debt accounted for 56 million euros, corresponding to 0.01% of GDP, the lowest figure for the whole Balkan region.
\textbf{2.24 Malta}

\textbf{2.24.1 Overview of fiscal decentralisation}

Sub-national government organisation in Malta is based on a three-tier structure: five regional committees, 68 local councils and 16 administrative committees.

\textit{For details see} \url{https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Malta/Pages/default.aspx}.

\textbf{Legal acts governing fiscal decentralisation}

The system of local governments (local councils) was established in 1993 through the Local Councils Act and was subsequently also recognised in the National Constitution by an amendment in 2001.

\textbf{Qualifying fiscal decentralisation}

Malta is one of the most centralised member states of the EU; in 2013, sub-national government expenditures in Malta accounted for just 2\% of total government expenditures.

Local councils’ revenues are almost entirely dependent on transfers from the central government. Transfers are determined every year according to a formula (revised several times in 1999 and 2009) based on councils’ specific features and on estimations of the cost of service provision. Local councils are allowed to increase own revenues by charging fees for the services they provide and from specific municipal activities.
2.24.2 Level of fiscal decentralisation

Revenue autonomy (own revenues relative to total resources available) at the local level is the lowest in the EU (6% versus an EU average of 53%), which entails a dependency on central government transfers that is much higher than the EU average (94% versus 47%). The high fiscal centralisation is also confirmed by the fact that local own revenues represent a negligible share of total government revenues.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology
The composite ratio, which captures aspects of fiscal decentralisation of both revenue and expenditure, suggests that the governmental structure in Malta has a degree of fiscal decentralisation (close to 0%) that is much lower than the EU average (18%).

**Fiscal rules and borrowing capacity**

Local councils have an extremely low borrowing capacity and need to be authorised by the minister responsible for local governments and the Minister of Finance to sign any loan contract.

**Deficit and debt at sub-national levels**

In 2013, the consolidated gross debt of the Maltese local government sector amounted to 0.1% of GDP, a value that has remained constant over the last four years.
2.24.3 *Expenditure by government level and by policy area*

Local government expenditures represent a negligible share of general government expenditures in all the areas of spending, with the exception of environmental protection (13% of total general government expenditures).

Local councils’ expenditures in 2012 were concentrated in the areas of general public services (59% of the total), environmental protection (23%), economic affairs (10%), recreation, culture and religion (4%) and public order and safety (4%).
Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.25 Montenegro

2.25.1 Overview of fiscal decentralisation

The governance structure of Montenegro is based on two levels: the central
government and 23 local government units (21 municipalities, the capital city
and the historical capital).

For details see
https://portal.cor.europa.eu/divisionpowers/countries/Candidates/Montenegro/Pa
ges/default.aspx.

Legal acts governing fiscal decentralisation

The funding of local government bodies is ruled by the Local Government
Finance Law, while the Law on Local Self-Government defines the
competences of local administrations.

Qualifying fiscal decentralisation

According to the Local Government Finance Law, local governments are
assigned funding from: own revenues (local taxes, local charges and fees);
assigned revenues (shared taxes, including 12% of personal income tax); the
equalisation fund; and the state budget (in the form of conditional grants). In
2011, own revenues accounted for 54% of total local government revenues,
shared revenues for 14.9%, the equalisation fund for 10.8%, and other transfers
for 1.1%. Local government functions are nevertheless quite limited (they do not
include responsibilities relating to health care and education) and the size the
local governments’ revenues compared to national GDP has shrunk from 11% in
2007 to 5.8% in 2011 due to the difficulties that local governments have
encountered since the outbreak of the financial crisis. A similar path has been
followed by the share of local revenues of total government revenues, which fell
from 22% in 2007 to roughly 15% in 2011.

Fiscal equalisation mechanisms

A fiscal equalisation mechanism across local governments is available through a
fiscal equalisation fund. This fund, taking into consideration the fiscal capacity
and the expenditure needs of each municipality, redistributes resources to all
municipalities that recorded an average per capita fiscal capacity during the
three previous years that was lower than the national average. The equalisation
fund is financed from municipalities’ contributions according to the following
proportions: 11% from personal income tax, 10% from tax on real estate’s
transfers, 100% from tax on the use of motor vehicles and aircrafts, and 40% from concession fees for gambling.

**Deficit, debt at sub-national levels and borrowing capacity**

Article 64 of the Law on Local Government Finance states that "a municipality may be indebted in a such way that the total payments of principal and interest, payments under a leasing contract, repayment of obligations for prior period and any other obligations that have the character of the debt may not exceed 10% of the realised current income in a year preceding the year of borrowing, with the previous approval of the government." The financial crisis hit municipalities’ finances hard, such that borrowing and loans in 2011 accounted (on average) for 10.2% of local revenues, meaning that many municipalities exceeded the allowed borrowing limit. The central government intervened in two ways to rescue municipalities: first, a new legal framework was enacted in 2011 increasing the participation of local governments’ in shared taxes and improving the resources of the equalisation fund; second, distressed municipalities have been offered agreements by the central government entailing financial aids subject to restructuring programmes. At the end of 2011, local government debt amounted to 96 million euros, corresponding to 3% of national GDP.
2.26 The Netherlands

2.26.1 Overview of fiscal decentralisation

The Netherlands is a constitutional monarchy and unitary state with a three-tier government structure: central government, 12 provinces, and municipalities. The Constitution, as amended in 2002, defines the country as decentralised, but it is not a federation of states. The Netherlands has seen a movement towards decentralisation in the past 30 years. The most important local government level is the municipalities, which in the last 60 years have seen a consolidation in their numbers from 1,000 to 430 for reasons of efficiency.

Figures in this factsheet refer to the sub-national government level, which includes both provinces and municipalities.

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/TN/Pages/default.aspx.

Legal acts governing fiscal decentralisation

Article 124 of the Constitution states the main principles of decentralisation. It states that the provinces and municipalities have the competence to regulate and administrate their internal affairs. Nevertheless, the central government can legally change the powers conferred to provinces and municipalities. Article 132 covers the organisation of the provinces and municipalities, and also determines the taxes that may be levied by provinces and municipalities.

Qualifying fiscal decentralisation

In 2013, roughly two-thirds of total public expenditures were at the central government level, with the remaining one-third at the sub-national level.

Government functions are mostly centralised and the ability of municipalities and provinces to raise own resources is very limited. Local governments’ finances are almost entirely dependent on central government transfers. General transfers to municipalities and provinces are managed by a centrally governed fund, the amount of the transfers is calculated using a formula that weights many different factors (population, earning capacity, real estate values, demographic variables, etc.). The total amount of general transfers is also indexed to total central government expenditures, creating a pro-cyclical correlation between local and central spending. Sub-national authorities are assigned a certain degree of flexibility in spending the resources of the general grants, but these grants
must be used to perform the assigned delegated responsibilities. Earmarked grants also account for a large share of sub-national government revenues, but these resources are tied to the performance of specific activities by local authorities. Sub-national governments’ own revenues represent a small share of local revenues, as these come only from a share of the national car registration tax (in the form of a surcharge) and other minor local taxes.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology
2.26.2 Level of fiscal decentralisation

Revenue autonomy (own revenue relative to total resources available) at the local level (provinces and municipalities) is lower than the EU average (30% versus 53%), which entails a dependency on central government transfers that is above the EU average (70% versus 47%). Local own revenues represent 10% of total government revenues, a value that is lower than the EU average (13%).

The composite ratio, which captures aspects of fiscal decentralisation of both revenue and expenditure, suggests that the governmental structure in the
Netherlands has a degree of fiscal decentralisation (14%) that is below the EU average (18%). As noted before, sub-national governments extract a very limited amount of resources from taxation. Despite this, they have quite a large degree of autonomy over local taxation, fully controlling 66% of total local tax revenues.

![Local government tax autonomy](image)

**Source:** authors’ elaboration on OECD data. For further details, see methodology

**Fiscal rules and borrowing capacity**

Sub-national governments in the Netherlands are allowed to borrow on the credit markets and to issue bonds without any formal authorisation by the central government. No ceiling for local government borrowing is formally in place and, as a general rule, local authorities can borrow until they are able to serve their debt-servicing expenditures. Nevertheless, in order to comply with the medium-term budgetary framework that imposes a "golden rule", borrowing is used only to finance investments.

**Deficit and debt at sub-national levels**

In 2013, the consolidated gross debt of the Dutch local government sector amounted to 9.2% of GDP. After having dropped from 2000 to 2007, this value has increased marginally every year during the last six years.
2.26.3 Expenditure by government level and by policy area

Expenditures of provinces and municipalities represent a significant part of total general government expenditures in the fields of environmental protection (93%), housing and community amenities (89%), education (83%) and recreation, culture and religion (83%).

Province and municipal spending is particularly concentrated, and more so than the EU average, in the fields of education (29% of the total budget of both entities), economic affairs (17%) environmental protection (10%).
Local government expenditure as % of total local government expenditure (2012)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.27 Poland

2.27.1 Overview of fiscal decentralisation

The sub-national government organisation in Poland is based on a three-tier structure: 16 regions (voivodships), 379 counties (poviats) and 2,479 municipalities (gminas). Figures in this factsheet refer to the sub-national government level composed of regions, counties and municipalities.

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Poland/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The Constitution of 1997 assigns to local governments all government tasks that are not explicitly assigned to other government levels. The key piece of legislation setting the financial framework for sub-national governments is the Act on Local Government Revenue of 2003.

Qualifying fiscal decentralisation

Municipalities’ budgets account for roughly 75% of total public finances managed at the sub-national level, reflecting the higher number of tasks assigned. Counties and regions account for the remaining 25%, reflecting their fewer responsibilities.

Overall in 2013, sub-national expenditures in Poland accounted for 34% of total government expenditures (see the pie chart below).

National law establishes that sub-national governments can have three different revenue sources: own revenues (in 2010, 48% of total), consisting of local taxes (only for municipalities), shared taxes (PIT, CIT in different shares for municipalities, counties and regions), fees and charges, and asset revenues; the general subsidy (29% of total revenues in 2010), which is transferred from the state budget every year and is weighted according to each local unit’s needs; and earmarked grants (23% of the total in 2010) used to finance central government functions delegated to sub-national governments. A special education subsidy is transferred by the Ministry of Education to all entities in charge of educational tasks, and represents the major financing source for primary and secondary education.
Fiscal equalisation mechanism

The size of the general grant transferred to each sub-national government is determined in order to perform a fiscal equalisation function among municipalities. The formula used to calculate the grant for municipalities takes into consideration the revenue-generating capacity of each local unit in the form of tax revenue per capita and, with a lower weight, population density. The grants for counties and regions also take into consideration other factors like unemployment and specific regional factors such as infrastructure.
2.27.2 Level of fiscal decentralisation

Revenue autonomy (own revenues relative to total resources available) at the local level is lower than the EU average (43% versus 53%), which entails a dependency on central government transfers that is higher than the EU average (57% versus 47%). Local own revenues represent 15% of total government revenues, a value largely in line with the EU average (13%).

![Revenue and expenditure indicators at local level (2013)](chart)

**Source:** authors’ elaboration on EUROSTAT data. For further details, see methodology.

The composite ratio, which captures aspects of fiscal decentralisation of both revenue and expenditure, suggests that Poland has a degree of fiscal decentralisation (22%) that is slightly higher the EU average (18%). The
indicator measuring the level of tax autonomy shows that local governments have very low autonomy in setting rates related to their tax revenues: the biggest share relates to shared taxes (62%), while 33% of the total is tax revenues over which local governments have no autonomy.

![Local government tax autonomy chart]

Source: authors’ elaboration on OECD data. For further details, see methodology

**Fiscal rules and borrowing capacity**

Local governments are subject to tight fiscal rules. The general rule imposes that current expenditures planned for a budget year cannot be higher than the sum of current revenues, the budget surplus from the previous year and unassigned resources. From the end of 2013, a general rule applied to all sub-national government units requiring that the overall debt of each local unit could not exceed 60% of the revenues at the end of the year, while interest payments could not exceed 15% of revenues. From the beginning of 2014 a new rule, which allows for greater flexibility, is in force. The new rule introduces a unit-specific coefficient of debt (calculated on a three-year average ratio of the sum of the current surplus and sales to total revenues) that defines specific debt thresholds for each local government entity.

**Deficit and debt at sub-national levels**

In 2013, the consolidated gross debt of the Polish local government sector amounted to 4.1% of GDP, having increased by three percentage points since 2000.
2.27.3 Expenditure by government level and by policy area

Expenditures of municipalities represent a significant part of total general government expenditures in the fields of environmental protection (82%), housing and community amenities (82%), recreation, culture and religion (79%) and education (70%).

Municipalities’ spending is more concentrated than the EU averages in the fields of education (29% of total local spending), economic affairs (16%), health (14%) and recreation, culture and religion (7%).
Local government expenditure as % of total local government expenditure (2012)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.28 Portugal

2.28.1 Overview of fiscal decentralisation

Portugal is made up of 308 municipalities and has no formal regional level except for the purposes of EU regional policy planning. The exceptions are the ultra-peripheral autonomous regions of Madeira and the Azores, these regions are vested with more fiscal and financial responsibilities and powers than mainland municipalities and are also themselves sub-divided into municipalities.

For details see
https://portal.cor.europa.eu/divisionpowers/countries/MembersLP/Portugal/ Pages/default.aspx.

Legal acts governing fiscal decentralisation

Fiscal responsibilities between local and central governments are regulated by the Local Finance Law and the Regional Finance Law.

Qualifying fiscal decentralisation

Portugal is a fairly centralised country – in 2013, only 15% of the total public expenditures were paid out by sub-national governments (see the pie-chart below). In 2010, 50% of the revenues of the municipalities derived from transfers from the central state (40% for the two autonomous regions). Municipalities’ own revenues are composed of: a share of the state’s personal income tax (5%); own taxes (on property, part of the corporate income tax (up to 1.5% of local corporate taxable results); fees and fines); and block grants and earmarked grants from the central government. State law defines the limits within which local authorities can exercise tax powers and sets precise boundaries for the autonomy of local governments over the modification of tax rates.
Fiscal equalisation mechanisms

Fiscal equalisation across municipalities is through two funds financed by central government block grants: the General Municipal Fund and the Municipal Cohesion Fund. These two funds, roughly of equal size, are intended to provide each municipality with a level of financial resources adequate for the extent of its needs, once the nature of such expenditures and the idiosyncratic ability to generate own resources are taken into consideration.
2.28.2 Level of fiscal decentralisation

Revenue autonomy (own revenues relative to total resources available) at the local level (regions and municipalities) is just above the EU average (58% versus 53%), which entails a dependency on central government transfers that is slightly lower than the EU average (42% versus 47%). Local own revenues represent 9% of total government revenues, a value lower than the EU average (13%).

The composite ratio, which captures aspects of fiscal decentralisation of both revenue and expenditure, suggests the sub-national governments in Portugal have a degree of fiscal decentralisation (11%) that is lower than the EU average (18%).

![Revenue and expenditure indicators at local level (2013)](image)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
The level of tax autonomy shows no discretion for local authorities; rates are set by central government. Of the revenues from local taxes, 90% are directly retained by the local authorities and 10% are shared with the central government. The transfer dependency is slightly below the EU average.

Fiscal rules and borrowing capacity

The Local and Regional Finance Laws defined net debt ceilings, borrowing constraints for local governments, and a debt service rule for regions. The 2012 budget law prohibited any increase in the net debt of regions and municipalities. This target temporarily supersedes all the other borrowing constraints. The
former general rule prescribed that net-indebtedness of municipalities could not exceed 125% of the sum of own taxes, shared taxes, intergovernmental transfers and dividends from municipal enterprises recorded in the previous year, but allowed for a significant number of exceptions to this rule. This framework, combined with the implicit guaranteed bailout by the central administration in the case of default and easy credit access, created a critical positive correlation between debt stock accumulation and economic up-turns and triggered financial difficulties in debt-servicing expenditures during declining phases of the cycle. As a consequence of this, regional and local governments built up significant amounts of debt over the last decade, in line with the overall public administration debt growth.

Consequently, in 2013 the new local finance law was reviewed and the new Local Finance Act was approved (Law nr. 73/2014 of 3 September). The new borrowing limit for a municipality was set at 150% of the average municipal total net revenue of the previous three years. Municipalities that exceeded this debt ratio threshold are obligated to reduce the excess by a minimum of 10% a year until reaching the threshold. Municipalities that did not exceed the threshold by the end of the year 2013 cannot increase their debt levels to more than 20% of the gap between the current debt ratio and 150% in a given year. Failure to comply with these limits implies a financial restructuring plan, with severity according to debt ratio levels. Between 150% and 300% of the debt ratio, the financial restructuring plan involved budgetary cuts (namely, capital and personnel expenditures), maximising local tax rates and alienating assets. For debt ratios above 300%, a new resolution mechanism was established (see below).

As a consequence of the 2013 Local Finance Act, a new intermunicipal permanent mechanism to deal with municipal bankruptcy or excessive debt levels was recently established – the Municipal Resolution Fund (Law nº 53/2014 of 25 August). This law sets up a new fund which is co-funded (50-50) by the central government and the 308 local municipalities.

Municipalities whose debt ratio exceeds the maximum threshold – i.e. whose net debt exceeds three times the average net municipal revenue of the previous three years – are now obligated to follow the new municipal adjustment plan. This plan includes access to the resolution fund conditioned by several rules, including maximising all local tax rates, introducing several cost-cutting measures and negotiating haircuts with debtors (with repayment prioritised for debtors who voluntarily accept partial losses). Municipalities whose debt ratio is greater than 2.25 but below 3 can voluntarily request access to the resolution fund but are not obliged to do so.
Deficit and debt at sub-national levels

In 2013, the consolidated gross debt of the Portuguese local government sector amounted to 5.9% of GDP, a value that had increased by 2.8 percentage points during the last ten years.

![Graph showing Local Government: deficit and debt (as % GDP)](image)

**Source:** authors’ elaboration on EUROSTAT data. For further details, see methodology

2.28.3 Expenditure by government level and by policy area

Expenditures of municipalities represent a significant share of total general government expenditures in the fields of housing and community amenities (almost the totality, 86%), environmental protection (75%) and recreation, culture and religion (63%).

![Graph showing Local expenditure as % of total general government expenditure (2012)](image)

**Source:** authors’ elaboration on EUROSTAT data. For further details, see methodology
Municipalities’ spending is more concentrated than the EU average in the fields of general public services (32% of total local spending), economic affairs (17%) and culture, recreation and religion (10%). In all other areas of spending, expenditures are rather limited and below the EU average values.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.29 Romania

2.29.1 Overview of fiscal decentralisation

The organisation of sub-national government in Romania is based on a two-tier structure: 41 counties at an intermediate level and, at the local level, 2,853 communes, 217 towns and 103 municipalities (cities).

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Romania/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The process of Romanian fiscal decentralisation can be divided into three separate periods. The first cycle, from 1991 to 1994, developed important steps for the organisation of the administrative structure and the financing of public local authorities. The second period, from 1998 to 2000, saw a further increase in the revenues transferred to local budgets. The last period, from 2001 onwards, has been marked by the adoption of the 215/2001 Local Public Administration Act, which regulates the general features of self-government and autonomy, and by the 273/2006 Local Public Finances Act that specifies the rules for revenues and spending at local level.

Qualifying fiscal decentralisation

In 2013, sub-national government’s expenditures in Romania accounted for 28% of total government expenditures.

Despite the evolution over the years towards a more decentralised local financing system, Romanian sub-national governments are still highly dependent on transfers from the central government, as own revenues are able to cover only a small fraction of their financial needs. There are four major categories of revenues available to sub-national governments: current fiscal revenues (e.g. taxes on properties, land and transportation vehicles); current non-fiscal revenues (e.g. transfers and grants from the state budget); capital revenues (e.g. local assets revenues); and revenues from special sources (e.g. taxes and unused expenses from previous years). The latest available figures, published in 2009, report that the major financing source for sub-national governments is earmarked government transfers (28% of the total sub-national revenues), followed by shared taxes (mostly PIT, 25%), local taxes and fees (14%) and earmarked subsidies from sectorial ministries (10%).
2.29.2 Level of fiscal decentralisation

Revenue autonomy (own revenues relative to total resources available) at the sub-national level is lower than the EU average (16% versus 53%), this entails a dependency on central government transfers that is much higher than the EU average (84% versus 47%). Local own revenues represent 5% of total government revenues, one of the lowest values of the EU countries.
The composite ratio, which captures aspects of fiscal decentralisation of both revenue and expenditure, suggests that the sub-national governments in Romania have a degree of fiscal decentralisation (6%) that is considerably lower than the EU average (18%).

**Fiscal rules and borrowing capacity**

Beyond the obligation of approving a balance budget, sub-national governments are limited in their borrowing activity by debt ceilings. The so-called "debt rule" imposes that local government cannot contract or guarantee loans if their annual
public debt service, including the new loan, is higher than 30% of their own revenues (refinanced loans and loans for financing EU projects are excluded from the calculation of this ratio). Nevertheless, the Ministry of Finance oversees all the borrowing activities of sub-national governments through an inter-ministerial commission that must authorise every operation.

**Deficit and debt at sub-national levels**

In 2013, the consolidated gross debt of the Romanian local government sector amounted to 2.6% of GDP, having increased by 2.1 percentage points since 2000.

![Local Government: deficit and debt (as % GDP)](image)

**Source:** authors’ elaboration on EUROSTAT data. For further details, see methodology

### 2.29.3 Expenditure by government level and by policy area

Expenditures of local governments represent a significant part of total general government expenditures in the fields of housing and community amenities (82%), environmental protection (63%), recreation, culture and religion (70%) and education (64%).
Local governments’ spending is most concentrated, and more so than the EU averages, in the fields of education (20% of total local spending), economic affairs (18%), and housing and community amenities (10%). Other relevant areas of spending are social protection (15%), health (13%) and general public services (10%).
2.30 Serbia

2.30.1 Overview of fiscal decentralisation

The organisation of Serbia’s government is based on three levels: the central government, two autonomous provinces and the local self-government units (the City of Belgrade, 23 cities and 150 municipalities).

For details see https://portal.cor.europa.eu/divisionpowers/countries/Candidates/Serbia/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The recognition and the scope of local self-governance are established in the Serbian Constitution of 2006. The most important legal act concerning fiscal decentralisation, the responsibilities of local self-government and the main financial relations between the central government and the local self-government units is the Law on Local Self-government Finance (LSG law) of 2006.

Qualifying fiscal decentralisation

The most recent figures available report that, in 2009, local government’s revenues accounted for 14% of total public revenues, or 5.6% of Serbian GDP; both of these values are below the EU average.

The results obtained by implementing the fiscal decentralisation strategy begun in 2006 have been partially offset by the effects of the financial crisis on Serbian public finances and by the measures that the Serbian government (following the recommendations of the IMF) has had to implement. The increase in the national public debt forced a radical reduction of public expenditures and some of the cornerstone measures of the LSG law were suspended for three years. In the second half of 2009, the unconditional grant to local governments (which, according to the LSG law, should have amounted to 1.7% of GDP) was reduced of 36.8% and transfers were frozen at the same nominal level of 2009.

In 2009, the composition of Serbian local governments’ revenues was 41% own revenues, 40% shared taxes, 18% unconditional grants from the central government, and 1% conditional grants. More specifically, the own revenues were composed of land development fees and impact taxes (56%), communal fees and taxes (18%), property taxes (14%) and asset revenues for (12%).
The composition of local governments’ expenditures sees the majority of spending focused on investments (including capital subsidies to public companies, 29%) and expenditures for goods and services accounts (24%), while transfers to individuals account for 19%.

**Deficit, debt at sub-national levels and borrowing capacity**

Serbian municipal debt has grown steadily over the past years, reaching 42% of total local government revenue at the end of 2011, up from 31% in 2008. According to forecasts for 2012, the capital spending of Serbian municipalities will remain at its 2011 level of 23% of total expenditures. Local government debt is expected to fall to 37% of total revenue in 2013.

A key innovation in the legal framework for borrowing by local governments has been the introduction of a municipal bond market (through important amendments to the Law on Public Debt) during the second half of 2011. Before the introduction of municipal bonds, local borrowing was restricted to bank loans. The city of Novi Sad was the first city to issue municipal bonds to finance capital expenditures, issuing a 35 million euro bond with a maturity of 12 years.
2.31 Slovakia

2.31.1 Overview of fiscal decentralisation

The organisation of sub-national government in Slovakia is based on a two-tier structure: eight regions and 2,887 municipalities. The figures in this factsheet refer to the sub-national government level as composed of regions and municipalities.

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Slovakia/Pages/default.aspx.

Legal acts governing fiscal decentralisation

Municipalities are defined as the basic units of territorial self-administration by the Slovak Constitution and regions have been introduced as higher territorial units. Both regions and municipalities are territorially and administratively independent, and are also independent from each other.

The legislative framework of fiscal decentralisation comprises of the following legal norms:

- Act No. 564/2004 Coll. of Acts on the budget determination of income tax yields to regional self-government and on amendments and supplements to certain laws,
- Decree of the Government No. 668/2004 Coll. of Acts on the distribution of income tax yields to the regional self-government,
- Act No. 582/2004 Coll. of Acts on local taxes and local charges for municipal waste and small rubble,
- Act No. 583/2004 Coll. of Acts on the budget rules of the regional self-government and on amendments and supplements to certain laws, and
- Act No. 523/2004 Coll. of Acts on the budget rules of the public administration and on amendments and supplements to certain laws.

Qualifying fiscal decentralisation

In 2013, sub-national governments’ expenditures in Slovakia accounted for 18% of total government expenditures (see the pie chart below).

Sub-national governments units have been assigned both autonomous and delegated responsibilities. Autonomous competences are carried out under the
discretion of the competent authority and, above all, need to be financed through own revenues. In performing delegated responsibilities, local governments are bounded by specific guidelines centrally imposed and, even if the actual financial disbursement is done through the local budgets, they are financed through earmarked resources transferred to the local government by the relevant central government ministry.

Revenues for both regions and municipalities come from own revenues, shared taxes and grants. In 2010, taxes were the major source of revenues for municipalities (50% of total municipal revenues). Despite the fact that tax revenues include proper own resources such as local taxes (real estate tax and other local taxes over which municipalities have large autonomy in terms of rates and tax bases), the major single source of income for municipalities is the personal income tax (70% of total tax revenues), a tax shared with regions and the central government. Earmarked grants from central government accounted for 35% of total municipal revenues. Regions’ tax revenues in 2010 accounted for 47% of total regional revenues (75% from PIT and 25% from vehicle tax), while earmarked grants accounted for 45%.

![Sub-national government expenditures as % of General Government expenditure (2013)](image)

*Source:* authors’ elaboration on EUROSTAT data. For further details, see methodology
2.31.2 Level of fiscal decentralisation

Revenue autonomy (own revenues relative to total resources available) at the local level (regions and municipalities) is higher than the EU average (62% versus 53%), which entails a dependency on central government transfers that is lower than the EU average (38% versus 47%). Local own revenues represent 11% of total government revenues, a value roughly in line with the EU average.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
The composite ratio, which captures aspects of fiscal decentralisation of both revenue and expenditure, suggests Slovakia has a degree of fiscal decentralisation (14%) that is lower than the EU average (18%).

**Fiscal rules and borrowing capacity**

Beyond the obligation of approving a balance budget, sub-national governments are limited in their borrowing activity by debt ceilings. A debt rule imposes that local governments are allowed to take out credit/loan/issue bonds only if a) the total sum of the debt of the municipality or self-governing region does not exceed 60% of the final current revenues of the preceding budget year, and b) the sum of the annual instalments of the loans does not exceed 25% of the final current revenues of the preceding budget year.

From 2015, a new constitutional law will come into effect meaning that if the total debt of a municipality or a higher territorial unit reaches 60% or more of the actual current income of the previous financial year, the unit is obliged to pay a fine imposed by the Ministry of Finance amounting to 5% of the difference between the total debt and 60% of the actual current income of the previous financial year.

**Deficit and debt at sub-national levels**

In 2013, the consolidated gross debt of the Slovak local government sector amounted to 2.3% of GDP, having decreased by 0.4 percentage points over the last four years.
2.31.3 Expenditure by government level and by policy area

Expenditures of local governments represent a significant part of total general government expenditures in the fields of housing and community amenities (69%), education (66%), environmental protection (56%) and recreation, culture and religion (39%).

Local governments’ spending is most concentrated, and more so than the EU averages, in the fields of education (40% of total local spending), economic affairs (15%) and general public services (14%). In all other areas, expenditures are quite limited and below the EU average values.
Local government expenditure as % of total local government expenditure (2012)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.32 Slovenia

2.32.1 Overview of fiscal decentralisation

Slovenia’s government organisation is based on two levels: the central government and 212 municipalities.

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Slovenia/Pages/default.aspx.

Legal acts governing fiscal decentralisation


Qualifying fiscal decentralisation

In 2013, sub-national governments’ expenditures in Slovenia represented 21% of total general government expenditures, a value which is three percentage points below the EU average.

The financial arrangements of municipalities are based on the complementary principles of "adequate spending" and "adequate funding". The adequate spending formula estimates the adequate level of expenditures for each municipality, taking into account the functions devolved to the sub-national level and a set of idiosyncratic municipal factors (i.e. inhabitants, age of population, surface area, and local infrastructures). Municipal financial needs, determined through the adequate spending formula, are met by the attributions of a particular mix of municipal funding according to the principle of adequate funding. The principal source of revenues (58% of the total municipal revenues in 2012) is the personal income tax (PIT). PIT is collected by the central government and it is redistributed to each municipality taking into account their revenue-generating capacity and spending needs. PIT plays a crucial role in redistributing resources among municipalities (solidarity compensations) and is the first resource deployed to help poorer local governments reach their adequate spending level. If PIT resources are not enough to cover the financial needs of all the municipalities, additional government resources, in the form of grants, are transferred to those local governments in need.
Municipal revenues are also composed of own resources (local taxes), over which municipalities have limited autonomy for setting rates and tax bases) and municipal fees, over which local governments are entitled to some discretion and autonomy.

Sub-national government expenditures as % of General Government expenditure (2013)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology

Sub-national government expenditures as % of General Government expenditure

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology

2.32.2 Level of fiscal decentralisation

Revenue autonomy (own revenues relative to total resources available) at the local level (regions and municipalities) is slightly higher than the EU average (59% versus 53%), this entails a dependency on central government transfers
that is lower than the EU average (41% versus 47%). Local own revenues represent 13% of total government revenues, a value in line with the EU average (13%).

The composite ratio, which captures aspects of fiscal decentralisation of both revenue and expenditure, suggests that the sub-national governments in Slovenia have a degree of fiscal decentralisation (16%) that is slightly below the EU average (18%). The indicator measuring the level of tax autonomy also points towards a moderate level of autonomy for local governments: only 14% of total
tax revenues can be fully controlled by local governments, while the largest share (75%) is represented by shared taxes (mostly PIT).

Fiscal rules and borrowing capacity

The possibilities of borrowing for municipalities are limited by strict rules. Municipalities are allowed to borrow domestically for liquidity purposes up to a ceiling of 5% of the budget of the previous year. Borrowing for investment purposes is also subjected to quantitative limits and, for any medium to long-term investment, a specific authorisation by the Ministry of Finance is required. Municipalities are not allowed to issue bonds but they can guarantee loans to indirect budgetary users (legal entities that provide public services). The total annual ceiling for the repayment of loans principals and interest, financial leasing, trade credits and contingent liabilities is set at 8% of the revenues of the previous year.

Deficit and debt at sub-national levels

In 2013, the consolidated gross debt of the Slovenian local government sector amounted to 2.1% of GDP, a value that had increased by 1.8 percentage points since 2000.
2.32.3 Expenditure by government level and by policy area

Expenditures of municipalities represent a significant part of total general government expenditures in the fields of environmental protection (65%), housing and community amenities (60%), education (56%) and recreation, culture and religion (47%).

Municipalities’ spending is most concentrated, and more so than the EU averages, in the fields of education (37% of total local spending) and recreation, culture and religion (9%). Other important areas of municipal spending are health (11%), economic affairs (11%) and social protection (11%).
Local government expenditure as % of total local government expenditure (2012)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology
2.33 Spain

2.33.1 Overview of fiscal decentralisation

Spain is composed of 17 autonomous communities (Comunidades Autonomas, CCAA), 50 provinces, 8,111 municipalities and two autonomous cities. It is a highly decentralised country with a significant share of spending powers devolved to the CCAA.

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersLP/Spain/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The Spanish Constitution ratified in 1978 ensures the right of self-government to the CCAA and considerable financial autonomy. It also grants provinces and municipalities autonomy in the management of their respective interests. The Royal Legislative Decree 2/2004 set the basis of the local financing system. The CCAA are divided into two groups ruled under the ordinary regime and the foral regime. Social security, however, is the responsibility of the central government (Article 41 of the Constitution). Major fiscal rules were set in the Budgetary Stability Acts of 2001 and 2006 and recently in the landmark reform of 2012 which included an amendment to the Constitution, limiting the borrowing capacity of the CCAA.

Qualifying fiscal decentralisation

Spain is a highly fiscally decentralised country. In 2012, excluding social security expenditures, sub-national spending amounted to 70% of total government spending. In line with the subsidiarity principle, the central government retains full autonomy in areas such as foreign policy, defence, justice, currency, and general standards of the health care system. Shared and devolved competences regard the provision of services in the fields of environmental protection, economic affairs (e.g. transport and communication), housing and community amenities, health, education and social protection.

At the same time, high fiscal autonomy is also granted on the revenue side to the CCAA and local governments: in 2010, shared and transferred taxes accounted for 29% and 15% of the CCAA and local government total revenues, respectively. The CCAA are divided in two main groups: those under the ordinary regime and those under the foral regime (namely, Navarre and the Basque Country). The CCAA under the foral regime enjoy full fiscal autonomy.
(excluding custom tariffs) under the condition that the overall effective tax burden does not fall below that of the rest of Spain. The ordinary regime sets the limits and the modalities under which tax revenues are shared between the CCAA and the central government: 50% of the personal income tax with normative discretion on regional rates, 50% of VAT with no discretion on regional rates, and 58% of duties on manufactured production of alcohol, tobacco and hydrocarbon. The CCAA retain 100% of the revenues and some normative discretion over the rates of the taxes on electricity, hydrocarbon oil retail sales, electricity, property taxes, stamp duties, motor vehicles, wealth taxes, inheritances and gifts.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology
In Spain, sub-national expenditure’s share of total government expenditure was 54% in 2013; that of the CCAA amounted to 37%, and provinces and municipalities to 17%. While the share of provinces and municipalities has remained almost the same since 2000, with a slight increase since the crisis, the share of the CCAA has fluctuated over the years since the crisis. This is caused by the austerity actions of the central government and the impact of social expenditures. Expenditures of the CCAA have become relatively more significant.

**Fiscal equalisation mechanisms**

A fiscal equalisation mechanism among the CCAA is in place through the Guarantee Fund for Essential Public Services in order to guarantee uniform access to the essential public services of the welfare state (namely, healthcare, education and social services). All the CCAA contribute 75% of their tax revenues to this fund and the resources collected are redistributed according to the "adjusted population" criteria (a formula that balances different regional statistics such as population, area, dispersion, insularity, protected population, and elderly and youth share).

**2.33.2 Level of fiscal decentralisation**

In Spain, local authorities have a high degree of fiscal autonomy. In terms of revenue autonomy, around 70% of the revenues of the CCAA originated from own financial resources in 2013. This does not include the high level of revenue autonomy of the provinces and municipalities. Of the four countries with a distinct sub-national state level (Austria, Belgium, Germany and Spain), Spain has the second highest level of revenue autonomy after Germany, which is approaching 80%. Given the economic weight of the German Länder, Spain’s CCAA appear below the "EU" average. In any case it is higher than the average sub-national revenue autonomy in the EU. Similarly, local governments have a high degree of revenue autonomy (around 60% of the revenues in 2013), which means a fiscal imbalance and transfer dependency that are lower than the EU average. However, these indicators are partially misleading because when observing the time series, there seems to be a strong impact from the crisis on the indicators. In recent years, the revenue autonomy has increased, but this is most likely due to a fall in transfers from the central government and not due to a shift in the level of control over revenues. Before the crisis, the level of local revenue autonomy was only slightly above the EU average.
Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
The CCAA’s own revenues as a share of total government revenues are higher than the EU average at over 20%, and the share of own revenues for lower level local authorities is 10%. This means that total sub-national decentralised revenues account for over 30% of total revenues in Spain, which is high by EU standards (an average of 13%).

Spain is characterised by relatively high local government revenue autonomy, with a sizeable share of tax receipts and fees transferred to sub-national governments. Shared and transferred taxes to the sub-central governments (SCGs) amount to 29% and 15% of total consolidated government revenues,
respectively. The remaining 56% remains in the hands of the central government. At the same time, SCGs enjoy a high regulatory capacity over both shared and transferred taxes.

Based on the OECD survey of 2008, the CCAA had full autonomy over defining the transferred tax rates amounts for 57% of revenues, while taxes set jointly between the central government and the CCAA authorities account for 39% of revenues. Local entities (provinces and municipalities) have more restricted power over this: they have restricted discretion over setting rates for 48% of their revenues, and full discretion over setting rates and reliefs for 31% of revenues.

Source: authors’ elaboration on OECD data. For further details, see methodology
Fiscal rules and borrowing capacity

Spain had difficulties controlling the indebtedness of the state and the sub-national authorities. The CCAA also had substantial leeway to decide their levels of indebtedness and deficit. The deepening of the crisis led to a reform of Article 135 of the Constitution in 2012. This article, which originally simply expressed the limits for the central government to issue debt, now regulates the overall debt and deficit levels for the government as well the sub-national authorities. It allows for the budgetary stability rules for all levels of governance to be set in "organic laws", thus allowing for relatively easy amendments when required compared to constitutional rules. The organic law establishing a new Budgetary Stability and Financial Sustainability Pact entered into force on 27 April 2012. While this law does not curb the financial independence of the sub-national authorities within their competencies, it does limit their levels of deficit and debt.

Deficit and debt at sub-national levels

According to Eurostat data in 2013, the CCAA had a gross debt of 20.2% of GDP. Deficits in the CCAA increased fourfold in the aftermath of the euro area crisis. This mirrors the large increase in central government debt from 34% of GDP to 82% between 2008 and 2013.

The figures also show a rapid decrease in the last two years of net borrowing as a percentage of GDP, in line with the consolidation efforts. The entry into force of the new budget stability law has most likely played a considerable role in this borrowing curb.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology
2.33.3 Expenditure by government level and by policy area

Expenditure indicators

In the area of expenditures, the level of discretion is high for both the CCAA and provincial and municipal authorities. In Spain, sub-national governments have extensive competences in many general public services, and very extensive competences in health (92%), education (91%) and general public services (77%). The expenditures of the CCAA in most areas are above those of other federated states in Europe. The three items listed above dominate the distribution of expenditure in the CCAA budgets.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
Provinces and municipalities

Given the share of expenditure at the level of the CCAA governments, the lower levels of government have rather low expenditure shares (below the EU average). As a share of the local budget, the highest goes to general public services (above the EU average, although this is due to the low levels of expenditure at this level of governance in non-federated states).

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology
Local government expenditure as % of total local government expenditure (2012)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.34 Sweden

2.34.1 Overview of fiscal decentralisation

Sweden’s government structure is highly decentralised and includes two sub-national levels: 21 counties and 290 municipalities. In reality, the number of government levels should be seen as only two, as there is no hierarchical relation between counties and municipalities since both have their own self-governing local authorities dealing with legally defined different responsibilities.

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersNLP/Sweden/Pages/default.aspx.

Legal acts governing fiscal decentralisation

The Swedish Constitution gives explicit recognition to the principle of local self-government. The Local Government Act (2004) draws the framework of local autonomies, assigns specific competences and lists the revenue sources for local entities.

Qualifying fiscal decentralisation

The revenues of sub-national governments are formed of tax revenues (about two-thirds of the total), general transfers from the central government (roughly 15% for municipalities and 9% for counties), targeted government transfer (3-4%), and user fees and rents (about 6% for municipalities and 3% for counties). Local governments are entitled to levy taxes on inhabitants’ income to meet their financial obligations and are free to decide on their own tax levels; at the aggregate level, the municipality tax rate is around 20%, while the county rate is around 10%. Technically, taxes are collected by the central government and then redistributed on the basis of each tax rate and tax base.
Overall, 50% of Swedish public expenditures are dispensed by the central government and 50% by municipalities and counties (see the pie chart).

**Fiscal equalisation mechanisms**

A fiscal equalisation system is managed by the central government. In order to cope with the high variation of inhabitants’ taxable income and different costs of service provision across different municipalities/counties, a redistribution of resources across different sub-national governments is performed on the basis of the different tax bases and the levels of expenditures.
2.34.2 Level of fiscal decentralisation

Revenue autonomy (own revenues relative to total resources available) at the local level (regions and municipalities) is higher than the EU average (75% versus 53%), this entails a dependency on central government transfers that is lower than the EU average (25% versus 47%). Local own revenues represent 38% of total government revenues, a value that is higher than the EU average (13%).

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
The composite ratio, which captures aspects of fiscal decentralisation of both revenue and expenditure, suggests the sub-national governments in Sweden have a degree of fiscal decentralisation (76%) that is substantially above the EU average (18%). The indicator measuring the level of tax autonomy also points towards a high level of fiscal autonomy for local governments in Sweden, with 97% of total local tax revenues under full control of local authorities.

**Source**: authors’ elaboration on OECD data. For further details, see methodology

### Fiscal rules and borrowing capacity

The autonomy of local governments in drafting their budgets is limited by the obligation to approve a balanced budget. In order to meet this requirement, local budgets are usually drafted following a conservative approach aiming for a 2-3% surplus.

### Deficit and debt at sub-national levels

In 2013, the consolidated gross debt of the Swedish local government sector amounted to 7.7% of GDP, having increased by two percentage points during the last four years.
2.34.3 Expenditure by government level and by policy area

Expenditures of counties and municipalities represent a significant part of total general government expenditures in the fields of health (almost the totality, 97%), housing and community amenities (93%), education (77%), recreation, culture and religion (77%) and environmental protection (58%).

Counties and municipalities’ spending is most concentrated, and more so than the EU average, in the fields of health (27% of total local spending), social protection (27%) and education (21%). Other relevant areas of spending are general public services (12%) and economic affairs (6%).
Local government expenditure as % of total local government expenditure (2012)

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
2.35 Turkey

2.35.1 Overview of fiscal decentralisation

The local government system in Turkey is organised into special provincial administrations (SPA), villages, metropolitan municipalities and municipalities. SPA is an "intermediate-level" local government unit operating at the provincial level.

For details see https://portal.cor.europa.eu/divisionpowers/countries/Candidates/Turkey/Pages/default.aspx.

Legal acts governing fiscal decentralisation

With the aim of substantially modernising the local government system, which was still based on the centralised model of the Ottoman Empire, the Turkish government announced in 2002 an ambitious public sector reform package. The Metropolitan Municipality Law No. 5216 was enacted and approved by the parliament in 2004; SPAs are governed by the Special Administration Law No. 5302 of 2005, and municipalities by Law No. 5393 of 2005. In 2008, the Turkish parliament approved more legislation changing the criteria for the allocation of intergovernmental transfer shares across special provincial administrations and municipalities (Law No. 5779).

Qualifying fiscal decentralisation

Despite the reforms of the local government structure enacted in the last decade, Turkey remains a country with a substantially centralised government organisation. The latest figures available (2011) show that sub-national government expenditures account only for a limited share (11%) of total government expenditures.
Moreover, the historical series highlight how the level of local government expenditures compared to the general government expenditures has remained roughly constant from 2006 onwards.

2.35.2 Level of fiscal decentralisation

The indicators presented below show that the level of fiscal decentralisation in Turkey is low both in absolute terms and compared to the EU average. Revenue autonomy (own revenue relative to total resources available) at the local level (province and municipalities) is lower than the EU average (25% versus 53%), this entails a dependency on central government transfers that is above the EU
average (75% versus 47%). Local own revenues represent only 3% of total government revenues, a value that is lower than the EU average (13%). Moreover, the path followed by all these indicators since 2006 points to a gradual decrease in the fiscal autonomy of local governments.

The composite ratio, which captures aspects of fiscal decentralisation of both revenue and expenditure, suggests that provinces and municipalities have a degree of fiscal decentralisation (3%), substantially below the EU average (18%). This highly centralised system is also confirmed by the indicator
measuring tax autonomy of local governments, which shows that local governments do not have any discretion over tax rates.

Source: authors’ elaboration on OECD data. For further details, see methodology

**Deficit and debt at sub-national levels**

Local governments’ borrowing is subject to strict conditions and requires the approval of the central government. Data on the debt stock of Turkish local governments are not available. Figures for the deficit show that, from 2006 to 2009, the Turkish local government reported a position of net borrower while, in 2010 and 2011, the local sector turned into a net lender.

Source: authors’ elaboration on OECD data. For further details, see methodology
2.36 United Kingdom

2.36.1 Overview of fiscal decentralisation

The United Kingdom is a unitary state and the right to devolve any power to other authorities, together with the way in which these are organised and financed, remains ultimately with the UK parliament. In the UK there are four countries (England, Northern Ireland, Scotland and Wales) and three devolved national administrations (Northern Ireland, Scotland and Wales).

England is divided in 55 unitary councils which are responsible for all local services, Wales is divided into 22 unitary councils, Scotland has 32 unitary councils, and Northern Ireland has 26 local councils (to be reduced to 11 following the 2011 Local Government Reform Programme).

Figures in this factsheet refer to the UK’s sub-national government level as composed of England, the three devolved authorities and the unitary councils.

For details see https://portal.cor.europa.eu/divisionpowers/countries/MembersLP/UK/Pages/default.aspx.

Legal acts governing fiscal decentralisation


Qualifying fiscal decentralisation

The level of fiscal decentralisation in the UK is rather limited, as fiscal policy is almost exclusively controlled by the UK government. Devolved administrations have very little control over their own budgets, which are mostly sustained by block grants from the UK government. Local authorities (councils) are entitled to raise and set the rate of a domestic property tax (Council Tax), which provides some 25% of local government revenues. The remaining revenues are transfers from the central government and charges for services provisions. Local authorities also retain 50% of national non-domestic rates (business rates) collected in their jurisdiction. The large majority of tax revenues (85%) are collected by the central UK government and are then redistributed. Scotland is granted the possibility to vary the basic rate of income tax by up to 3%, but this option has so far been unused. The size of the block grants that the UK
government allocates to the devolved administrations is based on the long-standing Barnett Formula, whereby the devolved administrations are given a proportionate share of spending on comparable functions in England, given their populations compared to that of England. Overall in 2013, sub-national expenditures accounted for 29% of total public expenditures (see the pie chart below).

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.

Source: authors’ elaboration on EUROSTAT data. For further details, see methodology.
**Fiscal equalisation mechanisms**

Given that local taxation provides only a minor fraction of sub-national spending, transfers from central government play the most important role in providing sub-national government expenditures with an adequate level of financial resources. The transfers (in the form of general or specific grants) are balanced against the cost of service provisions and the local tax revenues which are directly connected to the real estate values of each area.

2.36.2  *Level of fiscal decentralisation*

Revenue autonomy (own revenues relative to total resources available) at the sub-national level is well below the EU average (31% versus 53%), which therefore entails a dependency on central government transfers that is higher than the EU average (69% versus 47%). Local own revenues represent 9% of total government revenues, a value that is lower than the EU average (13%).

![Revenue and expenditure indicators at local level (2013)](image)

**Source**: authors’ elaboration on EUROSTAT data. For further details, see methodology.
The composite ratio (13%), which captures aspects of fiscal decentralisation of both revenue and expenditure, suggests that sub-national governments in the UK have a degree of fiscal decentralisation that is lower than the EU average (18%). The OECD indicator on the level of tax-autonomy shows that discretion of sub-national governments over tax rates is fully restricted.

**Fiscal rules and borrowing capacity**

The Scotland Act of 2012 introduced (as from 2015) the possibility for Scotland to borrow to finance current and also capital expenditures within specific limits. Borrowing is allowed from the UK government and from credit institutions. The
Act foresees the possibility of allowing the Scottish government to issue bonds (which the UK government has announced will now also be allowed from 2015).

**Deficit and debt at sub-national levels**

In 2013, the consolidated gross debt of the UK local government sector accounted for 5.3% of GDP, a value that has remained roughly constant since 2000.

![Local Government: deficit and debt (as % GDP)](image)

**Source:** authors’ elaboration on EUROSTAT data. For further details, see methodology

### 2.36.3 Expenditure by government level and by policy area

Expenditures of sub-national governments represent a significant part of total general government expenditures in the fields of education (61% of the total expenditures), environmental protection (58%) and public order and safety (50%).
Sub-national expenditures are most concentrated, and more so than the EU averages, in the fields of social protection (30% of total local spending), education (27%), housing and communities amenities (11%) and public order and safety (9%). In all other areas of spending, expenditures are rather limited and below the EU average values.
3. Web Presentation of the factsheets

The factsheets will be presented as part of the existing CoR website\(^6\) dedicated to the division of powers and multi-level governance in the EU. The factsheets prepared by CEPS complement the legal information that the site presently offers, with consolidated comparable data for all EU28 member states and an overview for candidate countries (Iceland, Montenegro, the former Yugoslav Republic of Macedonia, Serbia and Turkey), as well as three potential candidates (Albania, Bosnia and Herzegovina and Kosovo).

\(^6\) <http://extranet.cor.europa.eu/divisionpowers/Pages/default.aspx>
Once the country has been selected, the visitor will be directed to a dedicated area by country where information on a number of subjects is presented. Different aspects of the competences of the regions can be selected on the right-hand side of the screen. The factsheets will be integrated under the fourth link, "Fiscal Powers".

1. Systems of multilevel governance
2. Relations with the EU/Representation at EU level
3. Subsidiarity
4. Fiscal Powers
5. Bibliography

The authors of the factsheets have agreed with the web designers of the CoR on the formatting of the pages. A simple interface will allow the visitor to open the sections, and subsequently the data figures offering information for the latest year or trends, by clicking on clearly marked and colour-coded boxes.
It has been agreed that the sections will be hidden behind an "accordion" which will be closed by default.

Sections will open when selected.
Similarly, graphs with specific data on the present year or past trends will also be opened from accordion links.

This presentation system will allow the reader to easily access the information and to see at a glance the position of a region on a particular aspect compared to the EU average.
4. Quality check

To ensure the accuracy of the information presented in the factsheets a draft fact-sheet of each country was sent to the relevant National Permanent Representation to the EU; in two cases (Italy and Belgium) academic experts (from University of Modena and Catholic University of Leuven, respectively) were also contacted. All the feedbacks received have been taken into consideration and, when appropriate, incorporated in the final version of the factsheet.

The CoR also had the possibility of providing comments and feedbacks on each factsheet.

As of the 22nd of September, only one country (Kosovo) has not been reviewed externally.

The table below summarises the quality check performed by CEPS.
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5. **Recommendations for further use of collected data**

The dataset created for this study represents a unique source of information on the level of fiscal decentralisation in Europe.

To best of our knowledge, no other study (academic or policy report) has never reached such level of breadth and depth of analysis at the same time on this issue.

So far, in the economic literature, no consensus exists on the "right" way to measure the degree and the extent of the different aspects of the fiscal decentralisation. This lack of consensus is due to the fact that no single indicator seems to be able to measure fiscal decentralisation. One of the main messages of this report is that several quantitative indicators must be complemented by qualitative information to fully qualify the degree of fiscal decentralisation of a country.

Gu (2012) considers and compares alternative indicators of fiscal decentralisation proposed in academic literature (and that have been used in this study). This exercise tries to capture the implicit biases and different weights between revenue and expenditure decentralisation. The problem, as the author recognises, is that there is not a clear criterion by which these composite measures can be judged in a consistent way.

Given the lack of consensus, proposing innovative methodological approaches to develop a single indicator to rank countries from most to least decentralised appears a hard task. This would require to define a matrix with two inputs that can capture the degree of revenue and expenditure autonomy and the power of discretion in setting rates and spending. In the factsheets, the first three of these four aspects are displayed and explained, but no indicator of discretion in spending is shown as this is not available in the literature. Expenditure shares derived from budgetary data is an imperfect indicator of expenditure decentralisation because they fail to reflect the discretion of local authorities over their spending. Thus, a further analysis of expenditure decentralisation would be needed. While not optimal, the possibility of combining the information available today could be explored, and a first rank proposed.

A second possibility, along the lines indicated in the terms of references, would be to look into fiscal decentralisation by policy areas. The factsheets already address this issue and provide comparable ratios of expenditure at subnational levels (relative to the central level) by policy areas. It would be thus quite easy
to establish a ranking of countries by policy areas. However to offer a representative picture, this information should be combined with an indication of competences by policy areas.
Glossary

**Composite ratio**: Defined as the ratio between the revenue autonomy indicator and the share of central government expenditure in the total general government expenditure. It captures in a single measure the degree of autonomy at the sub-national level on the revenue and on the expenditure side. The ratio is large when the level of fiscal decentralisation, in terms of both revenue and expenditure, is high, and vice versa. If a country exhibits a high level of decentralisation in terms of expenditure but not in terms of revenue (e.g. Belgium), the indicator is not necessarily high.

**Expenditure autonomy**: Given by the total resources available for expenditure at the sub-national level (own revenues and transfers from other levels of government) relative to the total expenditure of the general government. In defining this ratio, it is assumed that expenditure equals revenues. This is justified by the fact that borrowing is a one-off "income" that is reimbursed over time and increased by interest. This can raise an inter-temporal problem when comparing central government behaviour with that of the sub-national level, which does not necessarily enjoy the same borrowing capacity and conditions. In addition, the rules on the treatment of borrowing vary across countries, with off-balance-sheet borrowing becoming a common (though not the only) practice, hence making the comparisons across country inaccurate.

**Local authorities**: Refers to authorities with general competencies (local and regional governments) and bodies with more specialised competencies (responsibilities vary from one country to the next) at the lower level of government, usually regions, provinces and municipalities.

**Own revenue decentralisation ratio**: Defined as the share of revenues raised at the sub-national level relative to total general government revenue.

**Revenue autonomy**: Measures how much of the total resources available to the sub-national level (excluding borrowing) are actually raised locally. While a high revenue autonomy ratio could point to high decentralisation, the indicator alone does not say whether this relates to a large or small share of the total revenues.

**Sub-national authorities**: Refers to all levels of government together below the central government. In countries with three levels of government, it includes state level and the local level. In countries with only two levels, it is equivalent to local authorities.
Transfer dependency ratio: The percentage of the actual sub-national expenditure covered by transfers from the central government (grants). It measures the degree of dependency of the sub-national level on resources distributed from the central level and is approximately – given the discrepancy between actual expenditure and total resources available (excluding borrowing) – a complement to 1 of the revenue autonomy.
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