SPICe The Information Centre
An t-Ionad Fiosrachaidh

Comparative research on local government and fiscal autonomy across Europe

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Introduction

The issue of fiscal autonomy and local government has been discussed for decades - in Scotland, across the UK and in many other democracies. Chapter 2 of this briefing shows it has been the focus of considerable effort, time, consultation, debate and compromise here in Scotland for most of the devolution period. With the Parliament's recent commitment to the European Charter of Local Self-Government, as well as the Scottish Government/COSLA commitment to progressing the Local Governance Review, some changes in the financial relationship between central and local government could materialise during the current Parliamentary session.

The Committee asked SPICe for a briefing setting out the proportion of funding Scottish local authorities receive from central government compared to the proportion raised locally. Members also asked for the research to include analysis of the situation in comparable European countries. Chapter 1 sets-out the situation in Scotland and assesses the extent to which Scottish councils can raise their own revenue through local taxes, fees and charges. The main part of the paper – Chapters 4 and 5 - set out the ratios in 9 other countries and provides contextual information on the powers and autonomy of these local governments.

Research conducted for the Commission on Local Tax Reform found that local taxes contribute well over a third of local expenditure in many countries in the Organisation for Economic Co-operation and Development (OECD). The research also found that unlike Scotland, local taxation in other OECD countries rarely relies on a single, local tax.

Much of the academic literature on local financial autonomy looks at both the revenue-raising dimension *and* the expenditure side[1]. The latter is often discussed in relation to local authorities' ability to spend their budgets as they see fit without direction or control from national or state governments. Every year the Parliament's Local Government, Housing and Planning Committee hears arguments from both sides of the ring-fencing debate and every year the issue remains somewhat unresolved. Again, this debate is not unique to Scotland, and it is certainly not a new phenomenon given the perceived need for a Europe-wide charter on these matters 40 years ago (see Chapter 3). Therefore, in addition to details of revenue-raising - and anticipating further Committee work on the Local Governance Review and local government budgets - this briefing includes information on the use of ring-fencing within various local governments across Europe.

1. Summary of Scottish local government finance

Local authorities in Scotland are responsible for delivering a wide range of vitally important services, including pre-school, primary and secondary education, social care, local roads and transport, economic development, housing and planning, environmental protection, waste management, and cultural/leisure services.

[1] See, for example, Panara and Varney (eds) (2013), Ladner, etc (2019), Wolman, etc (2009) and Loughlin (ed) (2012).

According to the Scottish Government, local government in Scotland spent almost £22 billion in 2019-20 (pre-Covid). This works out at around £4,000 per person.

The Scottish Government's position is that "councils operate independently of central government and are accountable to their electorates for the services they provide". However, they are not *financially* independent. Table 1 (below) shows that the largest single part of local government's income in 2019-20 came from the Scottish Government, in the form of General Revenue Grant (GRG) plus specific/ring-fenced Scottish Government grants.

Table 1: sources of Scottish local government income 2019-20

	2019-20 (£bn)	% total revenue
General Revenue Grant	6.9	32%
Other grants (mainly ring-fenced SG)	2.6	12%
Non-Domestic Rates	2.9	14%
Council Tax	2.5	12%
Customer and client receipts	2.7	13%
Other grants, reimbursements and contributions	3.8	18%
TOTAL REVENUE	**21.4**	

Source: Scottish Local Government Finance Statistics 2019-20 (www.gov.scot). Calculations based on the Commission on Local Tax Reform method (which used 2013-14 SLGF figures (p.13)).

"Core revenue funding" is primarily comprised of GRG plus a guaranteed allocation of Non-Domestic Rate (NDR) income. In theory, how this core budget is spent is up to local authorities to decide. In reality, local authorities have statutory duties to provide certain services so there are limits on this freedom (an idea of the extent of these duties is documented in this Glasgow City Council publication). As Members are aware, the debate between COSLA and the Scottish Government over what proportion of total revenue is directed or ring-fenced has been going on for decades.

Council tax is the only locally set tax in Scotland, and even then, there are limits to what councils can and can't do with it. For example, ratios between Council Tax bands are defined in national legislation and often the Scottish Government will aim to ensure a cap or freeze on any potential increases. Nevertheless, Council Tax Band D rates are set annually by councils, the tax is collected by local authorities, retained by them and spent entirely on local services. With regards to NDR ("business rates"), since 1989 councils have had no role in setting non-domestic rates; rate poundage is now decided by the Scottish Government and approved by the Scottish Parliament each year. It is therefore difficult to argue that NDR is a "local" tax.[2]

Adding together council tax revenue and customer receipts – the two revenue sources over which Scottish local authorities have some degree of discretion – gives us £5.2 billion in 2019-20, or 25% of total local government revenue that year.

[2] However it is collected, retained and spend locally.

Charges, fees and rents

As mentioned above, local authorities raise some of their revenues through local taxes *and* through charging people for services. These are set by each individual council, so there are large variances across the country. Some services which are offered by all councils, such as burial and cremation services, will have varying fees. Other services may not be offered at all by some councils, and may be offered without a fee in some places, or for a fee elsewhere. In evidence to the Local Government and Communities Committee on scrutiny of the Draft Budget 2017-18, submissions highlighted that councils were increasingly applying fees and charges for many non-statutory services

In 2019-20, councils across Scotland raised almost £2.7 billion in customer and client receipts (£1.4bn, if housing rents are excluded), with income directly linked to services provided by councils – for example, rents, licenses, school meals, burials, building warrants, parking charges and fines, the hiring of facilities, etc. The following shows how much local government across Scotland raised in Customer and Client Receipts by broad service area in 2019-20:

Table 2: customer and client receipts by service area

Service area	2019-20, £m
Education	129
Culture & Related Services	75
Social Work	274
Roads & Transport	186
Environmental Services	121
Planning & Development	144
Central Services	229
Non-HRA Housing	159
Trading Services	102
Total General Fund	**1,418**
Housing Revenue Account	1,267
Total General Fund and HRA	**2,685**

Between 2013-14 and 2019-20, total income from fees and charges for services increased by 3% in real terms (inflation adjusted), with the most significant increases seen in trading services, central services and planning and development services.

This area of revenue raising was of particular interest to the Local Government and Regeneration Committee in Session 4 (discussed in below). The Accounts Commission also published a useful briefing on this in 2013. There are some limits placed on what councils can charge for services provided, for example they should be seen as cost recovery for the specific service provided and not as a funding source for general services (this principle is set out in the Civic Scotland Act 1982 as well as the EU Services Directive).

The issue of councils introducing or raising fees and charges has not been without controversy. Members may recall the musical instrument tuition fees debate of 2018/19 and the resulting Scottish Government intervention.

2. Previous commissions, inquiries and reviews

The debate over *local* versus *centralised* control of council revenue and expenditure goes back a very long time[3]. Every few years there has been a commission, review or committee inquiry looking at the issue. In addition, the various arguments are usually well-aired during the annual budget debates between COSLA and the Scottish Government. The following summarises some of the more significant investigations that have taken place in recent decades.

Mcintosh Commission (1999)

The first public discussion on this matter during the devolution period was initiated by the McIntosh Commission on Local Government and the Scottish Parliament, established by the UK Government in June 1999 (a hard copy is available in SPICe). The Commission argued that the loss of local control over property taxes and business rates - which took place during the 1980s and early 1990s- was unpopular with both the public and councils alike. The loss of local discretion over revenue raising was, according to the Commission, "widely regarded as having undermined the democratic credentials of local government and contributed to public apathy about local government". The Commission therefore recommended that an independent inquiry into local government finance be instituted immediately.

Local Government Committee's finance inquiry (2002)

The Scottish Executive did not accept McIntosh's call for a review, so the Scottish Parliament's Local Government Committee undertook its own inquiry during 2000-2002. Its remit was "to examine the current system of local government finance, including systems of local taxation, identify strengths and weaknesses of the current system, and make recommendations on improving the system". This included an exploration of the balance between central and local funding of councils' budgets and a look at other potential sources of local revenue raising.

The inquiry found that 80% of a typical council's net revenue funding in 2002 came from central government, mainly in the form of combined general resource grants and non-domestic rates income (NDRI). It recommended that the central/local funding balance should change "from the existing 80:20 split to 50:50, or as close to 50:50 as is possible, as soon as is practicable"[4]. The Committee acknowledged that councils would need access to at least one other local tax, in addition to Council Tax, if this central/local funding ratio were to improve.

The Executive's response to the Committee's recommendations[5] was to stress that the majority of grant received by local authorities was "unhypothecated" (not ring-

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[3] See Dr Allan McConnell's 1999 book *The Politics and Policy of Local Taxation in Britain* for more details of the various reviews and commissions going back to the 1974 Layfield inquiry.

[4] This has not happened. Indeed, the current split according to the most recent LG Finance Circular is 85:15.

[5] Hard copies available in SPICe

fenced), and thus it was up to councils how they spent it. Councils are accountable to their electorates for their spending decisions, the Executive argued, regardless of where the funding actually comes from. Therefore, the Executive was unconvinced that changing the balance of central versus local revenue raising would result in more local accountability and improved partnership between the tiers of government.

The Committee inquiry considered a number of other local tax options, such as land tax, local income tax, sales taxes and a service tax. But ultimately the inquiry concluded that only one could be introduced quickly: a local non-domestic rate. Accordingly, the Committee recommended the Scottish Executive "introduce legislation to return the non-domestic rate to local control at the earliest opportunity"[6]. The Executive rejected this recommendation, arguing that:

> "Both businesses and local authorities gain stability from the current arrangements under which the business rate poundage is set centrally and the proceeds are pooled and redistributed to councils".

The Executive also rejected the Committee's recommendations for a council tax revaluation, followed by a fixed 10-year cycle of domestic revaluations.

Although the Committee believed that the most important reforms of local government finance related to taxation and the grant distribution system, it also recommended the Executive extend to Scottish councils the freedoms that councils in England enjoy in relation to the setting of fees and charges for discretionary services. The Executive accepted this recommendation and included provision in its Local Government Bill (later the Local Government in Scotland Act 2003) giving councils a general power to improve the well-being of their areas, including some flexibility to raise income from fees and charges[7]. The Executive did so cautiously, however, with the Bill's Policy Memorandum stating:

> "The power to advance well-being does not enable a local authority to raise money by levying any form of tax or charge. This provision does not however prevent a local authority from setting and determining amounts of council tax as at present or from imposing reasonable charges for services provided (where the charge indicates a direct relationship with the service provided). In terms of what may be deemed reasonable in this context, it is the Executive's intention that councils should be allowed the flexibility to recover costs on a range of services provided unless otherwise expressly controlled through existing legislation. It is not the Executive's intention that councils will set out wholly or mainly with the aim of raising money. Services where the income received is greater than the costs of providing that service will be deemed as commercial activity."

The Executive was reminding local authorities here that the "power of well-being" does not mean they can start charging for statutory services. Furthermore, Section 22 (11) of the 2003 Act requires local authorities to state *why* they have decided to charge for a service and how it arrived at the charge amount. The Executive told the

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[6] COLSA, CIPFA and the STUC were in favour of local control of non-domestic rates; business organisations such as the Scottish Chamber of Commerce and CBI Scotland were not.

then Local Government Committee that this was necessary given "taxpayers generally pay their taxes so that they do not have to buy public services individually".

The Burt Committee review (2006)

The next big review of Scottish local government finance was the Burt Committee's, commissioned by the Scottish Executive in 2004 (as agreed in the partnership agreement between Labour and the Liberal Democrats). Its remit was:

> "To review the different forms of local taxation, including reform of the Council Tax, against criteria set by the Executive, to identify the pros and cons of implementing any changes to the local taxation system in Scotland, including the practicalities and the implications for the rest of the local government finance system and any wider economic impact, and to make recommendations."

Burt's extensive report, *A Fairer Way: the report of the Local Government Finance Review Committee*[8], rejected the idea of a local income tax, favouring a tax on wealth (with property being considered a proxy for wealth). This, it recommended replacing Council Tax with a new Local Property Tax (LPT), which would be charged as a percentage (possibly 1% each year) of the capital value of each property. This idea was immediately dismissed by the Executive (and by opposition parties). Unlike the Local Government Committee's inquiry, Burt recommended that non-domestic rates continue to be set nationally by the Scottish Executive.

The Burt Review considered the introduction of new local sales taxes, for example specific additional taxes on fuel, tourism, chewing gum and alcohol. Sales taxes are used throughout the world, although generally collected by federal or regional governments rather than local. Such taxes make a small contribution to local revenues in France, Italy, Japan, Korea and New Zealand but substantially more in Spain and the Netherlands. The Review identified a series of problems that could arise from introducing local sales taxes in Scotland and it was generally unconvinced of the benefits; however, the Review recommended that consideration should be given to a discretionary power for local authorities to introduce a tourist tax. On the issue of changing service fees, or introducing new ones, Burt concluded that these would make only a limited contribution to total local government revenues.

Making a comparison with the financial relationship between the Scottish and UK Parliaments at the time, the Burt Committee argued that *both* councils and the Scottish Parliament were accountable to the people of Scotland "despite having only limited tax-setting powers". Therefore, local accountability need not necessarily be enhanced by councils having more tax-raising powers. However, the devolution settlement has changed markedly since Burt reported, with the Scottish Parliament having far more income-raising powers now than in 2006, so this line of argument has been weakened. Nevertheless, the Review's position was that ensuring councils have discretion and power over how they spend their money is more important than granting them more tax-setting powers:

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[8] Hard copies are available in SPICe

> "...we conclude that the balance of funding between Scottish Executive support and local tax income is of itself of little importance. To many in local government, moving the balance of funding towards 50:50 would protect local authorities from the effects of perceived under-funding and signal parity of esteem between central and local government. In our view, these concerns are tangential to the real issues, namely clarifying the relationship between the Scottish Parliament, Scottish Executive and local government and ensuring the right level of funding for local services."

The Burt Committee found that 23 out of 28 countries included in its study adopted multiple local taxes - usually in the form of a combination of local property and income taxes (this issue is explored later).

Local Government and Regeneration Committee's inquiry into Flexibility and Autonomy of Local Government (2014)

Session 4's Local Government and Regeneration Committee conducted its own extensive inquiry into levels of local government flexibility and autonomy. Consideration of powers to introduce or change local revenue-raising initiatives was a key part of this inquiry. Part of this was to contrast the position of local government in Scotland with the constitutional, legal and financial frameworks in neighbouring EU countries. As such, the members of the Committee visited Hamburg, Copenhagen and Malmo to discuss with local authorities their respective powers in addition to hearing about the funding arrangements between local and regional governments in these jurisdictions.

The Committee found that one area upon which there was general agreement was that the current system of financing in Scotland requires reform. There was consensus that local authorities should have more power to raise sums locally; for example, there should be a range of taxes or charges from which councils could choose to levy to meet local circumstances and needs. The Committee recognised that this could lead to variations across Scotland; however, they saw this as a "desirable adjunct of the exercise of democracy". It would then be for locally elected politicians to be held to account by their electorate for how council budgets are spent *and* how funding is raised.

Contrasting the situation in Scotland where local tax-raising powers are not available to councils, the Committee found that local authorities across Europe can, and do, levy a wide range of taxes, including local sales, income, and property taxes. This provides flexibility to respond to local needs and local circumstances. The Committee concluded that councils in Scotland already have some powers to raise revenue through fees and charges, for example parking charges and meters, on-street parking resident permits, care home fees and landlord registration charge. The Committee observed that people often consider such charges to be forms of local taxation, and suggested that local authorities could have more autonomy to raise money from these sources:

> "We consider existing restrictions imposed centrally should be relaxed allowing local authorities to determine what is appropriate for local circumstances and what will further support local ambitions. We consider there should be a range of taxes or charges from which they should be free to choose to levy to meet local circumstances and needs."

The Scottish Government responded by stating "it would be useful to understand where local authorities feel constrained and whether this applies to core or discretionary services".

COSLA's Commission on Strengthening Local Democracy (2014)

COSLA established its Commission on Strengthening Local Democracy in the lead-up to the independence referendum. It was set-up to look at how communities could be given a stronger say over public services. Its report, published in summer 2014, included a section on financial choices and asserted that change is required because Scotland's councils have "become perhaps the least fiscally empowered in Europe":

> "50 years ago they raised well over 50% of their own income through local taxation. As recently as 1998, around half was still generated this way. Today that has fallen to 18%. The average for Europe is around 40%, but for countries where local governments have the equivalent responsibilities to Scotland, the average is between 50% and 60% of income raised locally."

On the expenditure side, the Commission acknowledged that the reduction in ring-fencing arising from the 2007 Scottish Government/COSLA concordat had provided local authorities with "substantial discretion" over how to use their allocated budgets. Nevertheless, they found few incentives for local authorities to reap the rewards of local innovations and successes.

Critical of a "dependency culture" whereby councils increasingly rely on Scottish Government funding, the Commission argued that councils had cut and reduced services over recent years "not because local people chose this locally, but because government grants reduced in real terms and council tax was frozen". The Commission argued that this has created "the conditions for a cyclical blame game between councils and Ministers for what happens locally". The Commission found that these sorts of tensions are less common in countries such as Denmark and Sweden where local authorities are much more financially autonomous.

Looking internationally, the Commission did not find any system where local governments raise *all* the money they spend. COSLA accepts that national grants are necessary, and like McIntosh in 1999, understands that central grants have an important equalisation role, helping to even out differences in local taxation and expenditure needs of the different authorities. These redistributions support common standards of service across the country and help communities avoid a "postcode lottery" in the quality of services they receive.

Nevertheless, the Commission argued councils should have the means to raise at least 50% of their income locally. They should, for example, have full local control of

the whole suite of property taxes (Council Tax; Business Rates; Land and Property Transaction Tax) and the freedom to set these in ways that suit local circumstances. Also, the Commission argued, where there is a clear community appetite to do so, local governments should have a general competence to set and raise new taxes that suit the needs of the local community.

In December 2013 COSLA's Resources & Capacity Executive Group published the results of its review into local government funding. This identified and developed a set of principles which should form the basis of any future local government funding arrangements. Comparative research of other jurisdictions is included in the Annex to this review.

The Commission on Local Tax Reform (2015)

In 2015, following a recommendation by the Parliament's Local Government and Regeneration Committee, the Scottish Government and COSLA established the Commission on Local Tax Reform. The Commission reported in December 2015, concluding that "the present Council Tax system must end" and recommended local tax needs substantial reform because "some people are paying more than they should." It went on to note that previous attempts at reform had failed, and that "the opportunity for reform cannot be missed again."

The Commission also concluded that any new system of local government taxation should continue to be one of general tax contributing to the general funding of local services, rather than a system of charges for specific services. Based on the findings of their own international research, the Commission found that many local governments around the world are funded by taxes on income, property or land value (or a combination of these). Fundamentally, any new system in Scotland should offer greater flexibility to local government and thereby strengthen local democracy: "local rate-setting wherever possible should be an explicit feature of reform".

The report also notes that a new system of local taxation should not simply draw on one source of taxation, and that "multiple forms of tax would allow local taxation as a whole to be fairer." Linked to this, the report concluded that the local government tax base should be widened to include income. Although the report does not recommend a specific course of action, it does include three possible alternatives that could raise similar amounts as the current Council Tax:

- Local income tax: In this example, the Commission mirrored the UK income tax structure and added an additional flat rate tax to the basic, higher and additional rates of income tax.

- A reformed, proportionate Council Tax: In this example, the Commission retained the main features of the present Council Tax, including the Council Tax Reduction scheme, but changed the charge for each band to reflect differences in relative property values in each band.

- A steeply progressive property tax: In this example, the Commission modelled a tax based on each household paying a percentage of the value of their home in tax (similar to the Burt Review proposal)

The Commission also looked at land value tax in some detail but was not able to fully model the effects of a land value tax as for the three alternatives above.

In the response, the Scottish Government proposed that the overall system of Council Tax should remain largely unchanged whilst rejecting the idea of a revaluation. Instead, the main area of reform was to increase the ratios of the upper bands (E-H) relative to Band D which, the Government argued, would make Council Tax fairer.

The Scottish Government news release also announced that local government would be formally consulted on exchanging a fixed proportion of general revenue grant for the assignment of a fixed proportion of income tax receipts, distributed to individual councils by the existing needs-based formula. This would:

- Allow local government to benefit directly from economic growth and incentivise councils to contribute to this growth.
- Increase local authority budgets by £150-200 million a year by 2020/21 if 25 per cent of income tax receipts were assigned to councils.
- Result in only 25 per cent of local government spend being funded by general revenue grant - the remaining 75 per cent would come directly from taxes, user charges and other income, making local authorities more financially accountable.
- Ensure that the taxes that fund local services will, overall, be progressive.

SPICe asked the Scottish Government for an update on this part of its 2016 announcement. Officials stated that the proposals “have been superseded by the budget agreement between Scottish Ministers and the Scottish Green Party to develop a Fiscal Framework with Local Government”. COSLA also confirmed that the consultation had not been taken forward by the Government (source: SPICe/COSLA emails).

Local Governance Review and related Fiscal Framework (2017 - ?)

The Local Governance Review was jointly launched by the Scottish Government and COSLA in December 2017 to consider how powers and resources should be shared between national and local government, and with Scotland’s communities. Five years later the review has not yet concluded. Following on from a 2018 consultation, the Scottish Government and COSLA identified “three interconnected empowerments” which had arisen from the engagement exercise:

- community empowerment - through a new relationship with public services where communities have greater control over decisions

- functional empowerment of public sector partners to better share resources and work together
- fiscal empowerment of democratic decision-makers to deliver locally identified priorities.

The Review was optimistic about “a new relationship with public services where communities have greater control over decisions”. This was to involve some initial projects with “new autonomous and democratically accountable decision-making bodies”. However, shortly after the Government and COSLA updated council leaders in late 2019, all progress was paused, firstly due to the COVID-19 pandemic and secondly because of the Scottish Parliament elections.

The Committee received an update from Shona Robison, Cabinet Secretary for Social Justice, Housing and Local Government on13 July 2022[9]. The Cabinet Secretary confirmed that the Review will continue to be taken forward in partnership with COSLA and will inform a New Deal for Local Government, as highlighted in the SG’s Investing in Scotland’s Future: Resource Spending Review. The New Deal will be based on the twin pillars of a new Fiscal Framework and an accompanying partnership agreement for Local Government:

> “The Fiscal Framework will aim to provide a space for dialogue and exploration for delivering greater flexibility over financial arrangements and fiscal powers for Local Government, based on a clear commitment to delivering our shared priorities and outcomes, whilst ensuring maximum value for money.”

3. The European Charter of Local Self-Government

In March 2021, the Scottish Parliament voted unanimously to incorporate the European Charter of Local Self-Government into Scots Law by passing the European Charter of Local Self-Government (Incorporation) (Scotland) Bill. The UK Supreme Court has subsequently ruled that the Bill cannot become law in its current form. Nevertheless, the point remains that the Scottish Parliament and Government are committed to the Charter principles, with the Cabinet Secretary for Communities and Local Government stating:

> “The Scottish Parliament is taking an important step today to reinforce the autonomy of Scottish councils and, by doing so, to strengthen the status and standing of local government”.

The Charter lays down standards for protecting the rights of local authorities and requires the 46 states of the Council of Europe, including the UK, to comply with a number of principles. Article 9 of the Charter focusses on financial issues and promoting a degree of fiscal autonomy. It states:

[9] The Deputy First Minister was previously responsible for the Local Governance Review; however, when he took on the Finance and Economy brief (to cover Ms Forbes’s maternity leave) responsibility for the Review moved to Ms Robison.

1. Local authorities shall be entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers.

2. Local authorities' financial resources shall be commensurate with the responsibilities provided for by the constitution and the law.

3. Part at least of the financial resources of local authorities shall derive from local taxes and charges of which, within the limits of statute, they have the power to determine the rate.

4. The financial systems on which resources available to local authorities are based shall be of a sufficiently diversified and buoyant nature to enable them to keep pace as far as practically possible with the real evolution of the cost of carrying out their tasks.

5. The protection of financially weaker local authorities calls for the institution of financial equalisation procedures or equivalent measures which are designed to correct the effects of the unequal distribution of potential sources of finance and of the financial burden they must support. Such procedures or measures shall not diminish the discretion local authorities may exercise within their own sphere of responsibility.

6. Local authorities shall be consulted, in an appropriate manner, on the way in which redistributed resources are to be allocated to them.

7. As far as possible, grants to local authorities shall not be ear-marked for the financing of specific projects. The provision of grants shall not remove the basic freedom of local authorities to exercise policy discretion within their own jurisdiction.

8. For the purpose of borrowing for capital investment, local authorities shall have access to the national capital market within the limits of the law.

Most of the issues raised by the previous Scottish inquiries and commissions relate to one or more of the above provisions. Article 9 of the Charter therefore provides a useful framework which can help us compare Scotland with other jurisdictions when it comes to fiscal autonomy and local tax raising powers. This task is aided by the Congress of Local and Regional Authorities who actively monitor the application of the Charter in all signatory states and publishes country reports every few years.

Shared themes over recent years

The Congress acknowledges that implementation of Article 9 of the Charter is perhaps the most contentious issue for many signatory countries (and not all signatory countries have even signed-up to all 8 provisions of this Article[10]). The Council of Europe's position is that local taxes are key to the effective functioning of

[10] Signatory countries have the choice to opt out of some of the provisions. The UK has signed-up to them all.

local accountability, whilst accepting that central or regional government may set limits to local authorities' powers of taxation:

> "The exercise of a political choice in weighing the benefit of services provided against the cost to the local taxpayer or the user is a fundamental duty of local elected representatives."

Summarising 46 country monitoring reports between 2010 and 2016, the Congress highlighted the following as concerns that arose in many jurisdictions across Europe:

- over-centralised system of financing of local authorities;
- limited level of own income, in particular through the setting of tax rates by local authorities;
- inadequacy of financial resources freely available to local and regional authorities to exercise their powers;
- lack of concomitant financing for delegated tasks;
- lack of transparent and predictable financial equalisation mechanisms;
- lack of appropriate consultation on local finance matters.

4. Charter of Local Self Government UK monitoring report

The most recent monitoring report for the UK, published in March 2022, concluded that "the capacity of the United Kingdom local authorities to perform their tasks effectively is limited by over-regulation, "rather heavy" supervision by higher-level authorities and issues related to funding". Summarising the situation across all four UK nations, the monitoring group found that local authorities are limited in their ability to raise and spend financial resources freely and lack adequate and commensurate funding. Furthermore, central government has significant oversight in how local authorities are funded and how these funds are spent. The Congress therefore recommends a reform of local government funding in all nations of the UK "to bring the situation in line with the European Charter".

The 2022 monitoring report observes that, with an average population of 175,000 inhabitants, Scottish local authorities are the largest in Europe and are responsible for a third of total public expenditure in Scotland. Of the 8 paragraphs in Article 9 – i.e. the part of the Charter relating to financial resources - the rapporteurs concluded that Scotland does not comply with three of the clauses, partially complies with four and only fully complies with one provision (9.8 which relates to borrowing powers):

Table 3: Scottish local government and the European Charter of Self-Government

Paragraph	Relating to:	Scotland Complies?	Scotland-specific comments
9.1	Local authorities have right to their own financial resources and have freedom to decide how to spend them.	No	Local authorities are highly dependent on national government for resources.
9.2	Adequate funding: local authorities' resources are commensurate with the responsibilities provided.	No	Rapporteurs accept COSLA's view that "demand for local services has long outpaced the available funding".
9.3	LAs derive part of their funding from local taxes and charges.	Partially	Local government is at least partly funded by Council Tax. Rapporteurs also note that in Scotland and Wales, local taxation reforms are being discussed.
9.4	LAs have diverse sources of income and freedom/flexibility to adapt to new circumstances.	No	UK's systems of local government funding are diversified, but most of the resources are restricted by national governments and they are far from being "buoyant".
9.5	Systems of financial equalisation in favour of financially poorer areas.	Partially	The rapporteurs conclude that a transparent and predictable financial equalisation mechanism is lacking across the UK (they do not exclude Scotland from this assessment).
9.6	Local authorities are consulted on the way in which redistributed resources are allocated.	Partially	Concerns were expressed about the amount of time available for consultation. Time available for consultation is rather short; four weeks, sometimes including the Christmas break or other public holiday periods.
9.7	Limited use of ring-fencing in favour of unconditional, non-earmarked grants from higher-level authorities.	Partially	In Scotland and Wales, the general grants are more general than the English one, and a smaller proportion of local resources consists of specific grants. Rapporteurs gave Scotland and Wales a "partial" verdict whilst noting that England does not comply.
9.8	Borrowing powers: local authorities should have access to capital markets.	Yes	Although Scottish local authorities are entitled to borrow money, the purposes for which they can do so are limited.

The extent to which other European nations comply with these criteria will be explored in the next chapter. However, it is quite striking that the rapporteurs note very little difference between Scotland, England and Wales when looking at the 8 criteria above; this despite local government being fully devolved since 1999. There has seemingly been only limited divergence on many of these matters over the past 23 years.

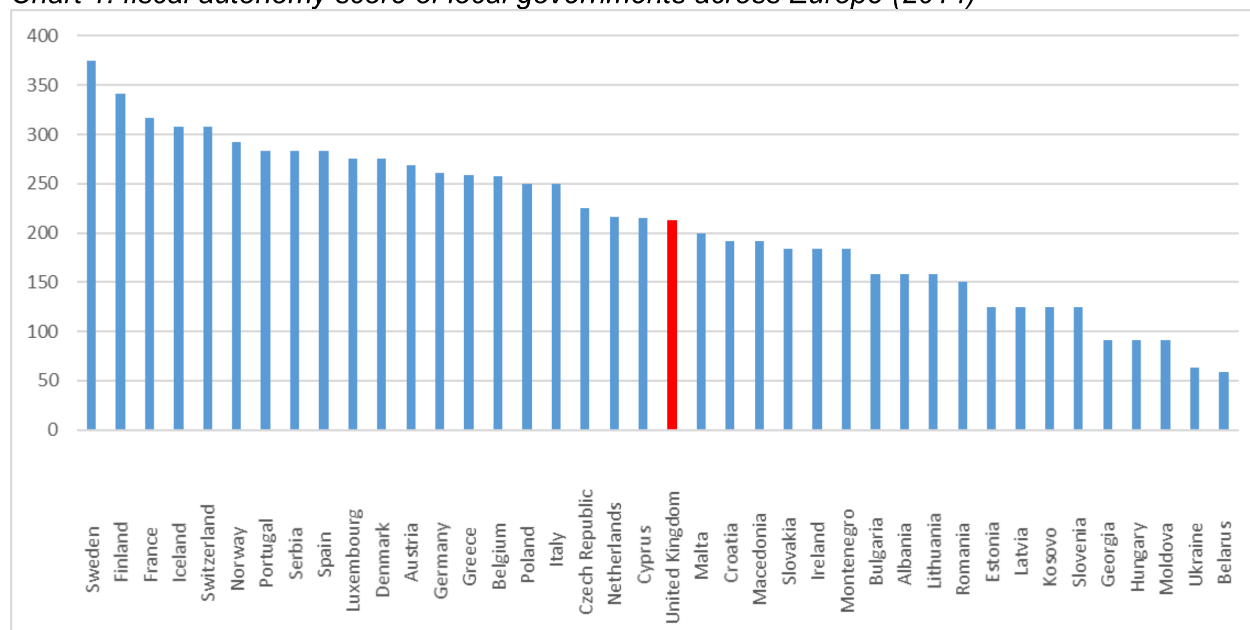
5. Fiscal autonomy in other jurisdictions

Influenced by the European Charter of Local Self-Government, a 2019 study team led by Professor Andreas Ladner of Lausanne University created a "fiscal autonomy index" aimed at measuring and ranking local governments by their levels of self-autonomy across Europe[11]. This uses the following four variables:

1. The extent to which local government can independently tax its population.
2. The proportion of unconditional financial transfers to total financial transfers received by the local government.
3. The proportion of local government revenues derived from own/local sources (taxes, fees, charges).
4. The extent to which local government can borrow.

The academics then asked in-country experts to score the systems in their respective countries. Countries were ranked in order of the most financially autonomous local government systems (with a maximum possible score of 13) down to the least (with a minimum possible score of 0). The following chart includes most European countries, with Sweden and Finland being the most financially autonomous in 2014, and Ukraine and Belarus the least.

Chart 1: fiscal autonomy score of local governments across Europe (2014)



Source: Self-rule index for local authorities in the EU, complied by Ladner, etc for the European Commission. Data is available here: Downloads (LAI 2.0) – LAI (andreasladner.ch)

[11] This section draws heavily on the book Patterns of Local Autonomy in Europe (eds. Ladner, Keuffer, *et al*), Palgrave Macmillan, 2019.

Many of those countries with high levels of local financial autonomy are described in more detail in the next chapter. Ireland is also discussed for comparison purposes. Each country description includes:

- a summary of local government structures, responsibilities and duties;
- total local government spend as a % of total public sector spending;
- the proportion of LG funding that is raised locally and proportion that is centrally allocated;
- the extent to which grants from central or regional government are ring-fenced or directed;
- the extent to which local government can set local tax rates;
- whether local government can introduce new taxes, fees and charges;
- a description of the local taxes used to raise local revenue.

This contextual information is important as it shows the need for caution when comparing the local government systems of different countries. As (then) Glasgow-based academic, Dr Allan McConnell, wrote in 1999: “local governments throughout the world vary in a multitude of ways”. There are massive differences in spending power, roles and responsibilities which are the results of centuries of development and evolution. Dr McConnell illustrated this by describing how hospitals in Sweden and Finland are the responsibility of counties and municipalities, whilst they are run nationally in the UK. Likewise, education is the largest area of local authority spend in Scotland, whilst in Ireland primary and secondary school education is the responsibility of national government.

Finally, Professor Richard Kerley, speaking to the Herald in 2014, said that turnout in local elections is “the canary in the coalmine”: “turnout for elections really tells us about the public view of the systems we have”. SPICe is not claiming a “cause-and-effect” relationship between fiscal autonomy and voter engagement; academic studies have struggled to identify one. However, recent local election turnout figures are included below to provide some idea of public engagement/interest in local government.

Different types of local taxes

The OECD provides data on the types of local taxes levied by local governments across member countries. Almost all developed countries levy taxes on property at a local level – property taxes work well in a local context as it is near impossible to move property assets between different jurisdictions. However, the following table shows that the UK, Canada and Australia (and, more-or-less, Ireland) are alone in having property taxes as their sole source of local tax. Most local governments across the OECD have “baskets” of local taxes which may be levied on incomes, goods and services (for example taxes on tourism), as well as property.

The following table shows that local taxes on income account for the majority of local tax revenue in many countries with high levels of local self-autonomy, for example Sweden, Denmark, Norway, Finland and Iceland.

Table 4: Distribution of Local Taxes, some OECD Countries, 2019 (as % of total local tax)

	Income	Property	Goods and services	Other
Australia	0%	100%	0%	0%
Austria	72%	14%	7%	3%
Belgium	35%	57%	7%	0%
Canada	0%	97%	2%	1%
Czech Republic	0%	56%	44%	0%
Denmark	89%	11%	0%	0%
Estonia	0%	82%	18%	0%
Finland	92%	8%	0%	0%
France	7%	50%	35%	7%
Germany	80%	11%	9%	0%
Greece	0%	93%	7%	0%
Iceland	80%	17%	2%	0%
Ireland	0%	95%	0%	0%
Italy	19%	22%	31%	28%
Japan	51%	27%	21%	1%
Korea	20%	45%	26%	8%
Latvia	86%	12%	1%	0%
Lithuania	0%	84%	16%	0%
Luxembourg	94%	5%	1%	0%
Netherlands	0%	52%	48%	0%
New Zealand	0%	88%	12%	0%
Norway	87%	13%	1%	0%
Poland	66%	29%	4%	1%
Portugal	25%	48%	27%	0%
Slovak Republic	0%	64%	36%	0%
Slovenia	75%	18%	7%	0%
Spain	18%	44%	38%	0%
Sweden	98%	2%	0%	0%
Switzerland	80%	17%	1%	2%
United Kingdom	0%	100%	0%	0%
United States	6%	72%	23%	0%

Source: OECD Statistics Global Revenue Statistics Database

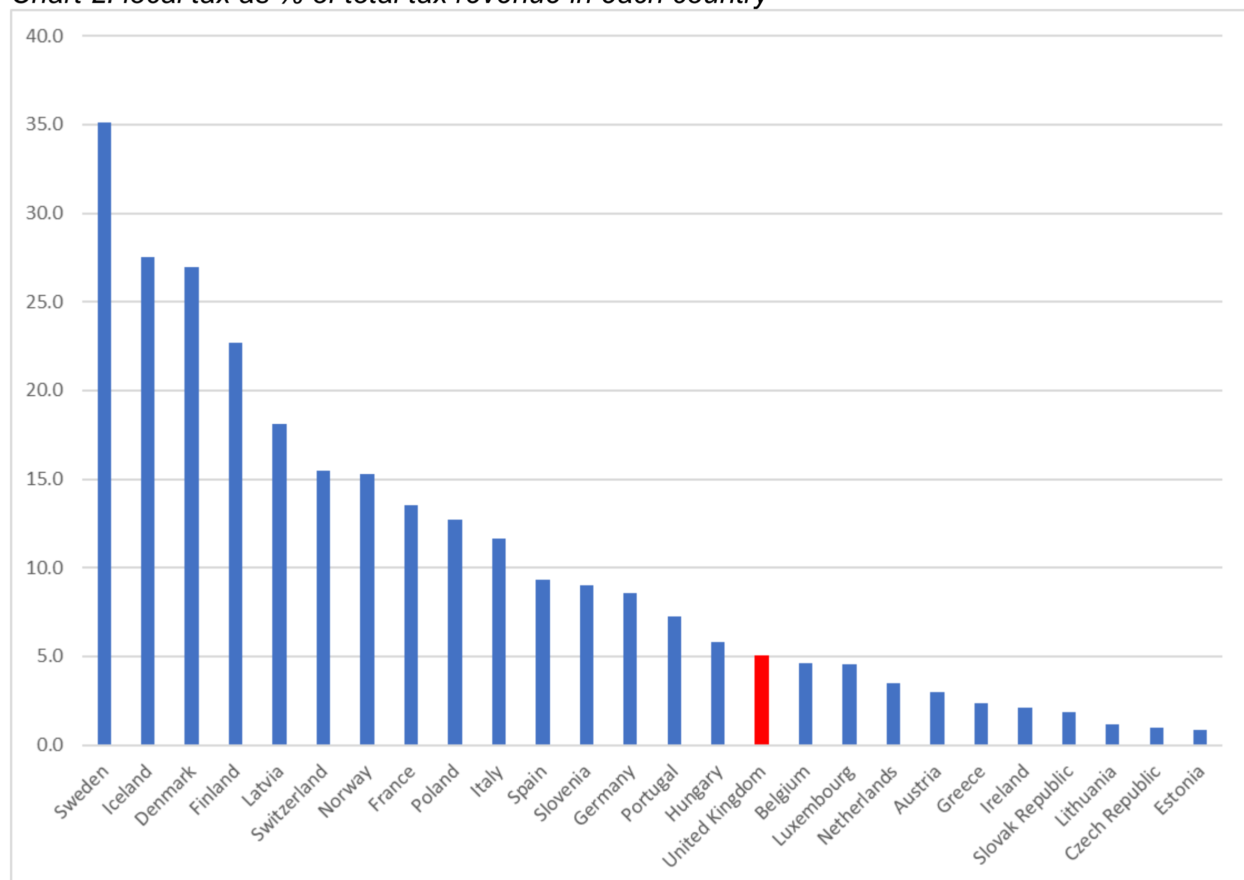
Occupancy taxes (tourist taxes) are levied in many countries across Europe. They are typically charged per person, per night, or sometimes charged as a percentage

of the room rate. At least 18 European countries levy tourist taxes, with almost all of them (the exception being Malta) doing so at a local government level. There can be significant municipal discretion over the rates applied. The rate may vary by the standard of accommodation (e.g. star rating of the hotel or resort), location and local authority. The tax is hypothecated in countries such as Croatia, France, Malta, Poland and some parts of Spain. This means that funds raised are spent in areas aimed at benefitting the tourism sector, for example on promotional activities, plans to improve infrastructure and tourism services, improvement and implementation of public services that affect the destination: cleaning, waste management, etc. (source: Tourism-related taxes across the EU (europa.eu)).

Local taxes as % of total national tax revenue

Local taxes are just some of the taxes households and businesses need to pay. It is clearly an indicator of fiscal autonomy if councils/municipalities have the powers and discretion to raise their own revenues. The following chart shows that (once again) the Scandinavian countries are at the higher end of the spectrum when it comes to local taxes as a percentage of total tax. The UK and a host of other European local governments are towards the lower end of the spectrum, with councils raising around 5% of total national tax.

Chart 2: local tax as % of total tax revenue in each country



Source: OECD Fiscal Decentralisation Database - OECD

Local taxes as % of local expenditure

The OECD provides statistics showing how much is raised by local government in the form of local taxes. This is then presented as a percentage of total local expenditure. As discussed in Chapter 1, Council Tax is the only UK tax which can be considered a “local tax”, and it represents a relatively small proportion of total local expenditure in Scotland, England and Wales[12]. Chart 5 shows local taxes as a % of total local expenditure for the 8 European countries explored in the next chapter.

Table 5: local taxes as % of local expenditure, case study countries

Comparable countries	Local taxes as % of local expenditure
Sweden	64.1%
Finland	45.7%
Iceland	67.0%
France	39.0%
Switzerland	58.5%
Germany	36.0%
Norway	38.3%
Denmark	34.1%
Ireland	13.5%
UK average	**12.6%**

Source: OECD, 2014, as used by the Commission on Local Tax Reform.
Note: Data may include totals for all sub-national government combined (and not just “lowest” level). So, figures may differ from those used in the case studies below.

Research commissioned by the Commission on Local Tax Reform in 2015[13] concluded that the contribution made by locally set taxes towards Local Government funding – often referred to as the “balance of funding” – has reduced considerably in the UK since the 1980s:

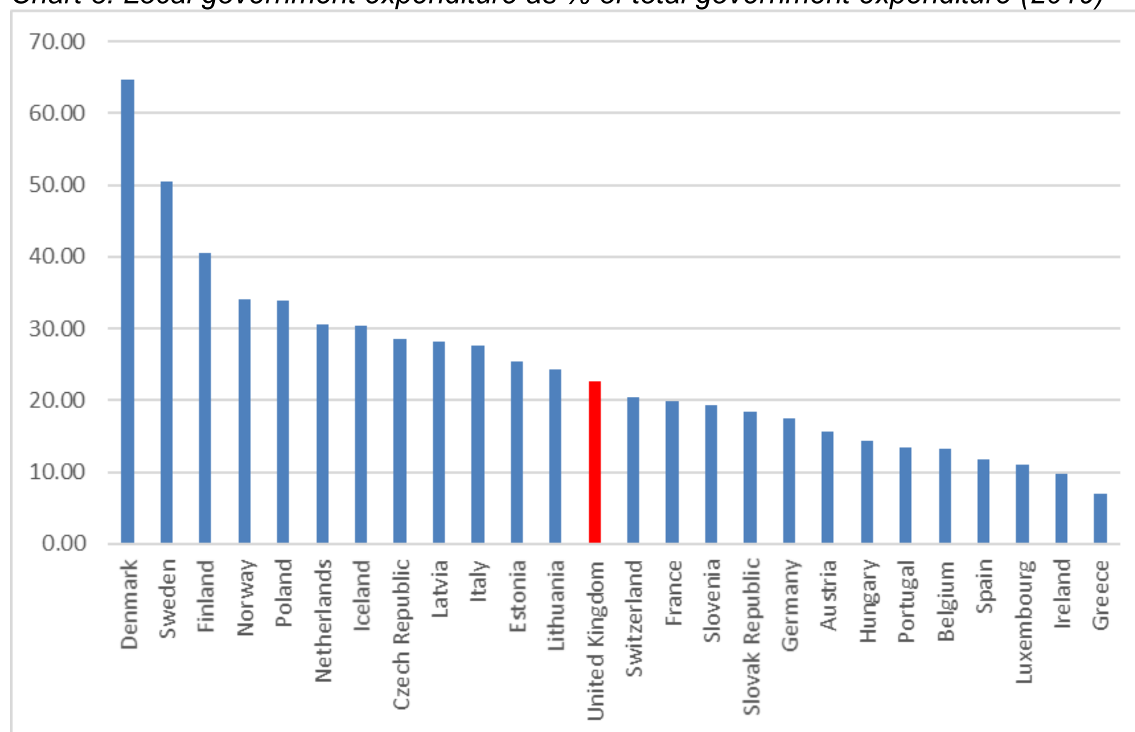
> “In the late 1980s, for example, prior to the introduction of the Community Charge, the balance of funding was almost 50:50 between central government and local funding, derived principally from domestic and business rates. The research conducted for us by Policy Scotland at the University of Glasgow indicates that local taxes presently contribute well over a third of local expenditure in many countries in the Organisation for Economic Co-operation and Development (OECD).”

[12] Although this varies by local authority, with Edinburgh and Aberdeen’s Council Tax yield equal to 28% and 27% of total net revenue compared to less than 12% in the Western Isles and Orkney.
[13] SPICe has asked the SG to fix the broken links on the Commission’s website. To no avail thus far.

Local government expenditure as % of total government expenditure

On the expenditure side, an indication of the importance of local government is how much it spends as a proportion of a nation's total public sector spend. The OECD again collects figures on this and presents them for most democracies, and the following chart shows proportions for many European countries. We can see that local government in Denmark is responsible for spending a massive 65% of total government spend in the country, whilst at the other end of the spectrum Ireland and Greece are responsible for spending less than 10% of total government expenditure. The figure for the UK is 23%.

Chart 3: Local government expenditure as % of total government expenditure (2019)



Source: OECD Fiscal Decentralisation Database - OECD

6. Case studies of fiscal autonomy across Europe

The following case studies use information and financial data gathered from a wide range of different sources. The most useful were provided by Professor Andreas Ladner and his team at the University of Lausanne (Switzerland) whose work for the European Commission also uses the expertise of various in-country academics. The monitoring reports of the Charter of Local Self-Government were also useful in helping inform these case studies.

Sweden

Structure
21 counties and **290 municipalities**

Turnout - 2018

Municipal and county responsibilities - social services, childcare and preschool, elderly care and care for disabled people, primary and secondary education, planning and building issues, health and environmental protection, refuse collection and waste management, emergency services and emergency preparedness, water & sewage.

County councils are mainly responsible for health care, public transport and regional development. There is no hierarchical relationship between counties and municipalities since both have their own self-governing local authorities dealing with different responsibilities. Local government is not responsible for policing.

Relationship with centre - Overall, 50% of total Swedish public expenditure is spent by central government and 50% by municipalities and counties. Local tax revenue in Sweden amounts to 35% of total national tax revenue.

A fiscal equalisation system is managed by central government to address and level out high variations of citizens' taxable income and different costs of service provision across different municipalities/counties.

Local financial autonomy – The revenues of local authorities are derived from local tax revenues (about 65% of the total), general transfers from the central government (roughly 15% for municipalities and 9% for counties), targeted (i.e. ring-fenced) government transfers (3 or 4%) and fees, charges and rents (approximately 6% for municipalities and 3% for counties).

Local income tax comprises a substantial proportion of total funding. Municipalities can levy taxes on citizens' income to meet their financial obligations and have some flexibility to decide on their own tax levels (within limits); at the aggregate level, the municipality tax rate is around 20%, while the county rate is around 10%. Technically, these taxes are collected by central government and then redistributed on the basis of each tax. Although each local authority decides independently its own tax rate, the national Parliament has the power to decide the level of local taxation (tax capping). The system of taxation is determined by central government.

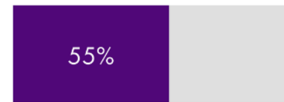
Compliance with Article 9 of the Charter of Self-Government – the most recent monitoring report (2022) concluded that Swedish local government complies, or partially complies, with all of the provisions of Article 9, except 9.6 (which relates to councils being consulted on the way in which resources are allocated).

Sources: CoR - Sweden Fiscal Powers (europa.eu), LAI (andreasladner.ch) and monitoring report (2022).

Finland

Structure
19 provinces (including the autonomous region of Åland Islands) and **310 municipalities**

Turnout



Municipality responsibilities – Finnish provinces and municipalities are responsible for a wide variety of services, including: health care, social services, child day care and services for the elderly and disabled, education, including pre-school, primary and secondary education, vocational training, adult education, library services, culture and sport, planning, public transport, construction and maintenance of local infrastructure, energy management, water and wastewater, waste management and harbours, promotion of local businesses and employment.

Election turnout – at 55% in 2021 this was the lowest since 1945 (possibly due to the impact of Covid).

Relationship with centre – Local government is explicitly recognised in the Finnish Constitution. This grants autonomy to municipalities. The division of powers between central government and the municipalities is covered by the Law on Local Self-governance.

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.

Local government expenditure in Finland amounts to 41% of total government expenditure. Local tax revenue in Finland amounts to 23% of total national tax revenue.

Local financial autonomy – fiscal decentralisation in Finland is substantially above the EU average.

In 2019 local taxes accounted for 48% of total local revenue, fees and sales for 20%, central government grants 18%, borrowing 9% and other revenue 5%. Municipalities set local tax rates, including a municipal income tax, which represented 46% of total local revenues in 2019.

The rate of the municipal tax on earned income can be set under full autonomy by each municipality. Local income tax represents over 90% of total local taxation and property tax around 10%. Local authorities are free to set a property tax rate within the boundaries prescribed by law.

Municipalities can decide on the rate of income tax, but the national government can affect the taxation rules in general, for example what kind of expenses the citizens

are allowed to register and demand for tax deduction. Personal taxes are divided into state and local tax, and municipal tax levels vary considerably. When it comes to property tax on houses, the national government sets a range, and municipalities can choose if rates within that.

Municipalities also collect a share of corporate tax, mainly corresponding to the portion of the corporate tax paid by local corporate taxpayers.

Municipalities also have the right to charge for various services and licenses (such as dog licence fees). The Finnish Tax Administration deals with taxation on behalf of the municipalities. The municipality is not entitled to collect any separate local taxes.

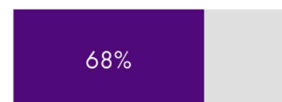
Compliance with Article 9 of the Charter of Self-Government – the rapporteurs conclude that Finland fully complies with all provisions of Article 9 of the Charter. There are some concerns about the “commensurability principle” (paragraph 2 of Article 9) as additional tasks have been transferred to municipalities but not necessarily with the corresponding financial resources.

Sources: Statistics Finland - County elections 2022, LAI (andreasladner.ch), CoR - Finland Congress (europa.eu) and Result details (coe.int)

Iceland

Structure
Central government
and **74 municipalities**

Turnout - 2018



Structure and number - Iceland is based on a two-tier structure: central government and 74 municipalities. Some municipalities are very small. More than half have fewer than 1000 inhabitants and a third have fewer than 500.

Municipality responsibilities – municipalities perform activities specifically delegated to them by the Law, most notably primary and pre-school education, maintenance of roads, recreation, culture, environmental protection, housing, urban planning and social welfare, but also have the flexibility to perform different duties in the interests of their communities.

The municipalities are responsible for approximately 30% of Iceland’s public sector spending but have fewer responsibilities than municipalities in other Nordic countries (mainly due to the very small size of some municipalities).

Election turnout – 68% (2018)

Relationship with centre – The Constitution of Iceland grants the legal authority of self-government to local authorities. The Act on Local Authorities reiterates the principle of self-government and provides the legislative framework.

According to Article 78 of the Icelandic Constitution: “The income sources of the municipalities, and the right of the municipalities to decide whether and how to use their sources of income, shall be regulated by law.” Nevertheless, local authorities in Iceland enjoy a great deal of fiscal autonomy.

Local government expenditure in Iceland amounts to 30% of total public sector expenditure. Local tax revenue in Iceland amounts to 28% of total national tax revenue. Local taxes cover about 70% of the financial resources of local authorities and municipal councils have the power to determine the rate of local taxes.

Local financial autonomy – By far the biggest part of Icelandic local authorities' income (almost 60%) is from municipal income tax. Various service fees account for 16% of the revenue, property taxes (13%), other taxes 2% and income from the central Municipality Equalisation Fund accounts for 12% of total revenues.

The Local Government Financing Act (1995) establishes the rules on municipal revenues, providing that the revenue bases of municipalities are the following:
a) property tax,
b) contributions from the Equalisation Fund,
c) municipal income tax.

Municipalities also have income from their assets, their own business operations and institutions operated as public services, such as water, electricity and heating utilities etc. Furthermore, they have various other revenues, such as from sewage disposal fees, lot rental, license fees etc.

Local authorities have some leeway in determining taxes. The municipal income tax percentage can vary from one municipality to another. The municipal council determines annually the income tax level between 12.4% and 14.5% (Article 23, Law 1995) with the average tax level in 2016 being 14.4%.

Municipalities also have some flexibility in levying property taxes on residential and commercial buildings (up to 0.5% on residential housing, up to 1.5% for commercial premises).

Service fees are subject to the limitation that they may not exceed the cost incurred in providing the service. Revenues from municipal service fees vary greatly.

Ring-fencing: grants for specific projects do exist, as consequence of agreements between central government and municipalities but they do not represent an important part of the financial resources of local autonomies and do not seem to constitute a problem for their autonomy.

Compliance with Article 9 of the Charter of Self-Government – the rapporteurs in 2017 concluded that Iceland fully complies with 5 provisions of Article 9 of the Charter and mostly complies with another three.

Sources: CoR - Iceland Fiscal Powers (europa.eu), LAI (andreasladner.ch) and Iceland - Web monitoring (congress-monitoring.eu).

France

Structure
101 departments and
35,358 municipalities

Turnout - 2020

Structure and number - There are three levels of sub-national governance in France: Regions, Departments and the Municipalities (communes). France is notable for the high number of (sometimes very small) communes.

Municipality responsibilities – the powers of communes, departments and regions are laid down by statute. Communes are generally responsible for planning, public transport, libraries and museums. They decide on the construction and functioning of sport facilities and cultural services as well as of roads, parking areas, public gardens, public utilities such as water distribution, waste collection and disposal, heating plants, bus or tram transport, though these services are often managed by co-operation bodies or delegated to private companies.

The departments have responsibility for sanitation and various social matters, and the regions have primary responsibility for economic development, professional training and apprenticeships.

In the field of education policy, central government sets curriculums, teaching standards and methods, recruitment and the management and renumeration of teachers. The regions, departments and the communes manage the school buildings.

Local governments have some decision-making powers in the areas of economic assistance, work training and integration of refugees. They also have some powers in providing care services and child protection.

Aside from their role as service providers, municipal governments are the focal point of local communities. The central figure of French small-town and rural society is the mayor.

Election turnout – 45% (March to June 2020, low turnout possibly due to COVID (turnout at the 2014 local elections was 19 percentage points higher).

Relationship with centre – France is a unitary, decentralised state. This means that legislative powers reside solely with central government. The country is then divided into territorial communities with different roles and responsibilities. They do not have hierarchical authority over each other, e.g. communes are not answerable to regions and local governments are explicitly autonomous and have a freedom of action within the limits of the powers conferred on them by the French Constitution.

Local government expenditure in France amounts to 20% of total government expenditure. Local tax revenue in France amounts to 13% of total national tax revenue.

Local financial autonomy – The French constitution requires a significant proportion of the resources of the territorial communities to come from their own revenues. The "ratio of fiscal autonomy", i.e. own resources as a percentage of total commune resources, is generally high at around 66% (mostly in the form of local taxes, but also coming from fees and land sales).

Financial transfers from the centre represent 30% of local government revenues. Most financial transfers are unconditional in France. Their aim is mostly to compensate the cost of competences transferred by the State to local governments, or to equalize revenues between municipalities.

The main local taxes are 1. the CET (contribution économique territoriale) from businesses, the rates of which are set by local government; 2. a property tax on buildings with the rate set by departments and municipalities; 3. a residents tax and a property tax on non-built land the rates of both of which are set by the municipalities. France also has a Tourist Tax. It is applicable in certain towns recognised as tourist resorts. It has been enshrined in national legislation since 1919, and the proceeds must be reinvested in promoting tourism in the local area.

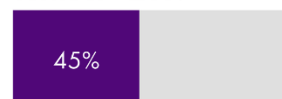
Compliance with Article 9 of the Charter of Self-Government – French local government complies with 5 of the 8 paragraphs of Article 9, including criteria relating to ring-fencing, diversity of revenue sources and equalisation in place to support financially weaker local authorities. However, the rapporteurs expressed concerns with the definitions of "local taxes" arguing that French law considers taxes as "local" and part of "own resources" where the rate or/and the local part of the tax base is not necessarily determined by the communes themselves.

Sources: CoR - France Fiscal Powers (europa.eu), Council of Europe Monitoring report 2016, Local Government Funding Review FULL (cosla.gov.uk), LAI (andreasladner.ch), Local Government in Europe eds Panara and Varney (book, available in SPICe), French Politics and Society (Cole, 2005) book available in National Library.

Switzerland

Structure
26 Cantons (regions)
and **2,148 municipalities**

Turnout - 2019



Structure and number – local governments in Switzerland are the municipalities (called Gemeinden, communes and commune depending on where you are). Forty-eight percent of Swiss municipalities have fewer than 1,000 inhabitants and 240 municipalities have fewer than 100. The smallest municipality has 14 people, while the largest has over 400,000 (Zurich). Cantons are the states or regions that

comprise the Swiss Confederation and these have significant powers. Each canton has its own constitution, legislature, executive, and judiciary.

Municipality responsibilities – The range of municipality functions differs from one canton to another. In most cantons of Switzerland, local governments are responsible for all local infrastructure, social services, primary schools, land use planning and natural resource management. Municipalities also own property (buildings, forests, orchards, etc.) on behalf of their citizens.

Many municipalities play active roles in the social and cultural field, they: manage hospitals, retirement homes and care homes; distribute study grants; help the unemployed, those with disabilities and drug users; and support libraries and museums.

Election turnout – 45% in 2019

Relationship with centre – Switzerland is a federal state, with considerable powers residing at the canton (regional or federal state) level. Cantons are responsible for the organisation of the local governments in their areas, so there are significant differences in the structure, powers and activities of municipal governments across the country.

Local government expenditure in Switzerland amounts to 20% of total government expenditure. Local tax revenue in Switzerland amounts to 16% of total national tax revenue.

Local financial autonomy – With such variations across the country - in terms of size, wealth, powers and organisation - it is difficult to paint a national picture. Nevertheless, all Swiss municipalities enjoy significant fiscal decentralization. On average, some 70% of their revenue is constituted by own resources, which is one of the highest levels in Europe. They are free to use these resources as they wish, provided that the cost of mandatory responsibilities is covered.

Municipalities have the right to impose taxes (mainly income, wealth and property taxes) however, they can only raise taxes within the limits of the authorisation given to them by the Constitution or the laws of the canton. The municipalities may either freely determine the rate of their own taxes, or add a surcharge to the basic cantonal tax rates. The main taxes that exist at the level of the municipalities are income tax and wealth tax, taxes on profits and capital, inheritance and gift taxes, real estate taxes, property taxes, property transfer taxes, business tax and dog licences.

Many small municipalities are more dependent on cantonal grants than others. Grants are generally provided by Cantons for a specific purpose but across the country, these represent a fairly small proportion of total income.

Compliance with Article 9 of the Charter of Local Self-Government – The most recent monitoring of Swiss local self-government took place in 2017. Rapporteurs concluded that Swiss communes/Gemeinden have generally high levels of fiscal autonomy including local tax-raising powers and freedom to spend this income. However, grants from canton levels, although accounting for a relatively small

proportion of income in most communes, were quite highly ring-fenced. As such, the rapporteurs were unable to say that Switzerland complies with 9.7.

Sources: Official Swiss statistics, LAI (andreasladner.ch), Local governance in Switzerland article, The 2019 Swiss elections: Results in detail and CoE monitoring report 2017

Germany

Structure

11,455 local authorities, including **107 county-free cities**, **294 counties** and **11,054 municipalities** belonging to counties.

Example turnouts

Hesse - 2021
45%

Bavaria – 2020
59%

Municipality responsibilities – municipalities, cities and counties are responsible for delivering a number of their own services, and they also help deliver federal (central) and *Land* (federal states) laws and policies.

Responsibilities at the **county** level include: financial support for jobseekers, secondary schools or vocational schools, adult education centres, fire and disaster protection, public health, county hospitals and veterinary inspection, child and youth welfare, waste disposal, environmental protection and nature conservation; public transport and economic development.

Responsibilities at the **municipal** level include: kindergartens, nursery schools, after-school clubs, fire services, libraries, museums and other cultural service, funeral services, the road network, planning and ID/civil status registration.

Although municipalities are responsible for school infrastructure, responsibility for the educational content taught in schools and other important areas of education policy and delivery lie with the Länder. They are also responsible for employing teaching staff.

Municipalities can also provide care services. However, there are many non-public organisations active in the field of caring (churches, third sector, private companies, etc.).

Election turnout – municipal elections don't take place on the same day across the country or even across the same state. However, research conducted by Professor Ladner of Lausanne University estimates that the average turnout across all recent local elections was around 57%.

Relationship with centre – Germany is a federal state and its 16 Länder (states) enjoy a high degree of autonomy from Berlin. Local government issues belong to the competence of the Länder. Thus, the institutional arrangements, the allocation of competences and the system of finance of local authorities fall within the range of responsibilities of the Länder.

Nevertheless, the autonomy of local governments is protected by the Basic Law (Germany's constitution). Local government expenditure in Germany amounts to 18% of total government expenditure. Local tax revenue in Germany amounts to 9% of total national tax revenue.

Local financial autonomy – Municipal budgets rely heavily on apportioned federal taxes as well as some directly-raised taxes. The Basic Law (German constitution) requires proportions of several important taxes be allocated to the Federation, the Länder and the local authorities. These taxes are therefore referred to as "joint taxes". Table 6 presents the joint taxes in Germany and displays the respective central, regional and local government shares in these tax revenues:

Table 6: Shares in joint tax revenues in 2019

	Federation	Länder	Local authorities
Income tax	42.5%	42.5%	15.0%
Capital gains	44.0%	44.0%	12.0%
Corporation tax	50.0%	50.0%	-
Value added tax	48.9%	47.7%	3.4%

Source: Council of Europe monitoring report

These tax allocations, combined with grant transfers from the Länder, make up between 55% and 65% of all municipality revenues (there is big variation between former West and former East German areas).

Local authorities have the right to set a multiplier for property tax and trade tax (TT). The latter is a municipal supplement on corporation tax, i.e an additional tax on the profits of companies operating in the area. Local supplementary levies on corporation tax (CT) can range between 7% and 17%, meaning the total combined CT and TT rate may range from 23% to 33% depending on where in Germany the corporation operates. So, there can be some degree of inter-municipality competition when it comes to business location.

Purely local taxes e.g. a dog tax, hunting tax, second-home tax, are fairly small in terms of revenue raised. Property tax (Grundsteuer), business tax (Gewerbesteuer), fees and other revenues together make up between 35% and 45% of total local revenues.

Although municipalities can introduce local taxes on some "nonessential spending and consumption", municipal powers of taxation are quite restricted. Legislative powers over most of the important taxes in Germany sit at the Federation (central, i.e. Berlin) and federal (Länder or state) levels. Nevertheless, the German constitution (the Basic Law) provides municipalities with the power to set rates on property and trades taxes.

Compliance with Article 9 of the Charter of Self-Government – Germany fully complies with 4 of the 8 provisions of Article 9 and partially complies with the other 4. Rapporteurs concluded in 2022 that many municipalities feel they have inadequate

funding for the roles and duties placed on them by the Länder. Particular challenges exist in areas such as climate adaptation, demographic change and digitalisation. The rapporteurs conclude that German municipalities “need financial resources that are concomitant to their tasks in the long run”.

On the issue of ring-fencing of Länder grants, the rapporteurs are not of the opinion “that the provision of such grants decisively restricts policy discretion of local authorities in relevant fields”.

Sources: Local Self-Government and Administration | SpringerLink, Local Government in Europe eds Panara and Varney (book, available in SPICe), Dentons - Global tax guide to doing business in Germany, Local Autonomy Index data for European Commission and CoE 2022 monitoring report.

Norway

Structure

Central government, 11 counties and **356 municipalities**

Turnout - 2019

Structure and number – There are three levels of government in Norway: central government in Oslo, 11 counties and 356 municipalities.

Municipality responsibilities – Counties are responsible for secondary education, regional development, transport and environment, trade and industrial policy, culture and dental health.

Municipalities are responsible for child welfare, primary and secondary education, health care, a wide range of social services, culture and leisure, technical infrastructure and local planning.

The Act on Local Health and Caring Services assigns a general duty to municipalities for the supply of care for persons with reduced functional capabilities, including elderly persons. Caring services cover home visitors, assisted homes, nursing homes and personal assistants. Responsibility for the availability and organisation of the front line child protection services are allocated to municipalities, including staffing and facilities.

Like in Iceland, municipalities may take on any functions not undertaken by other public bodies.

Election turnout – 65% (September 2019)

Relationship with centre – in common with other Scandinavian countries, Norway combines a centralised welfare state with a tradition of devolution and local self-government. All the main functions performed by local authorities, including in the field of social welfare, health and education, are monitored by central government,

one of whose tasks is to ensure that all members of the public have equal access to benefits and public services, whichever local or regional authority they come under.

Local government expenditure in Norway amounts to 34% of total government expenditure. Local tax revenue in Norway amounts to 15% of total national tax revenue.

Local financial autonomy – The legislative framework for local government is stipulated in the Local Government Act of 25 May 1992.

Local taxes account for roughly 40% of local and regional government resources. 35% of income comes from general grants awarded by central government, 15% from fees and charges levied by authorities on users of public services, and a further 4% from earmarked/ring-fenced grants.

Municipalities derive the bulk of their tax revenues from income tax but they also receive revenue from a wealth tax, a property tax, which they can decide to levy and a tax on natural resources. A further 5% of their income is derived from the VAT compensation fund.

The Norwegian Parliament decides every year the maximum (percentage) level of municipal income tax. Municipalities have the right to set a lower rate but no municipality has chosen to exercise this option since 1979. As a result, municipalities apply the same level of taxation.

Resources derived from taxation and general grants awarded by central government may be disposed of freely. Municipalities (and counties) may spend these funds as they see fit provided they duly perform the tasks assigned to them by law. In total, it around 75% of all local authority resources may be freely disposed of.

Compliance with Article 9 of the Charter of Self-Government – Norway fully complies with all 8 provisions of Article 9. Local authorities can borrow money, there is an equalisation fund which allocates general and specific grants on need and fundamentally local authorities have some powers to set local taxes (which amount to 40% of all revenue). Central government grants are mostly free from ring-fencing.

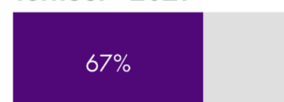
Sources: Local Government Sector - KBN, Downloads (LAI 2.0) – LAI (andreasladner.ch) CEMR: Norway (ccre.org), CoE 2015 monitoring report

Denmark

Structure

5 regions, 2 special-status regions (Faroe Islands and Greenland, not discussed here) **and 98 municipalities.**

Turnout - 2021



Structure and number - 5 regions, 2 special-status regions (Faroe Islands and Greenland, not discussed here) and 98 municipalities.

Municipality responsibilities – Regions' main responsibilities are in the areas of healthcare, economic development and the management of a number of social institutions. The regions are responsible for the following fields:
healthcare, regional development plans and regional growth strategies, social services and specialised education, employment and economic activities, tourism, nature and environment and regional public transport.

Municipalities are responsible for social services, primary education, child welfare, some healthcare (preventive medicine, dental care, etc.) and (non hospital) rehabilitation, social provision for the elderly, spatial planning and environment, integration and literacy courses for immigrants, local tax collection and local highways.

Election turnout – 67% in 2021 (considered fairly low by Danish standards, but blamed on the pandemic). It was 71% in 2017.

Relationship with centre – the Constitution sets out the right of municipalities to manage their own affairs independently, but under State supervision.

Local government expenditure in Denmark amounts to 65% of total government expenditure. Local tax revenue in Denmark amounts to 27% of total national tax revenue.

Local financial autonomy – Local taxes finance 60% of total municipal capital and current expenditures. General grants from central government amount to 20% of total municipal revenues. Conditional, or ring-fenced, grants amount to around 10%. Over the last four decades conditional grants have gradually been reduced and converted to general grants, leaving more room for local discretion, prioritizing and fiscal management. Since 1990 conditional grants are mainly restricted to social assistance and labour market activities expenditures.

Danish municipalities enjoy a great deal of freedom with regard to their revenues and financial management of their resources. However, the total level of taxes levied by all municipalities must stay below limits set in the annual economic agreements between the national government and Local Government Denmark (the local government association). These limits on taxes (and expenditures) are not binding for the individual municipality, but as the municipalities collectively have been running at the agreed level for the entire period, the autonomy of the individual municipality is restricted by the decisions by other municipalities.

Municipalities receive tax revenues (mainly from income, corporation and land tax), state grants and proceeds from services. Income tax is the main source of local authority revenue (over 70%). Both income tax and land tax are considered "local" taxes, i.e. local authorities are free to set the rate of income tax or the rate of tax levy

(nevertheless, local income tax is collected by the State at the same time as national income tax).[14]
[15]

Local authorities assess land tax according to the value of the land. In municipalities, the municipal council sets the rate of land tax. Tax rates are decided by the municipal councils themselves within the limits laid down by law and defined in the annual negotiations between the Ministry of Finance and the LGDK (the national local government association). Municipalities are able to choose a land value tax rate of between 1.6% and 3.4%.

If a new role is given to municipalities as a result of national policy decisions, the cost of the new task is calculated initially by the relevant Ministry, and then submitted to the LGDK (if the association disagrees then the decision is reviewed by a team of civil servants, the LGDK and relevant ministers).

Charges and duties also contribute to total revenue. The most important of these are charges for sewage disposal, waste disposal, gas, electricity, heating and water supply, private and public nurseries and care for the elderly. Local authorities and regions can also set up various local public enterprises; the State supports all kinds of public-private partnerships.

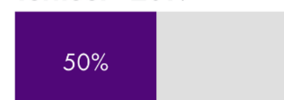
Compliance with Article 9 of the Charter of Self-Government – the last monitoring of Denmark's compliance with the Charter was in 2013. The rapporteurs concluded that Denmark only partially complied with Article 9 on financial autonomy. This assessment was based on the regions having very limited fiscal freedoms and effectively being a delivery mechanism of central government. The municipalities, on the other hand, seem to enjoy high levels of fiscal autonomy and, considered on their own, would probably meet all or most criteria.

Sources: CoE monitoring report 2013, SG systems of local governance and CoR - Denmark Introduction (europa.eu).

Ireland

Structure
31 local authorities consisting of **26 county councils, 3 city councils** and **2 combined city** and **county councils**

Turnout - 2019



[14] It is worth noting that a recent Scottish Government research report concluded that in Denmark, the aggregated level of local taxation at a national level should remain the same so municipalities can only raise their rates of taxation if another municipality lowers their rates equally. This issue merits further research.

Municipality responsibilities – Services provided include roads, planning, housing, economic and community development, environment, recreation, libraries and fire services. Education and social care are not delivered by local authorities. As such, Irish local authorities have much smaller budgets than Scottish local authorities, with around half of their funding being spent on social housing and roads. If measured by expenditure per head, Ireland's local government budgets are amongst the smallest in Europe.

Election turnout – 50.2% in 2019 (run in conjunction with European Parliament elections and a constitutional referendum on divorce).

Relationship with centre – The 1999 20th Amendment of the Irish Constitution provides for constitutional recognition of local government. The basic structures, procedures, financing arrangements, etc., of local authorities are set out in the Local Government Acts, including the Local Government Act 2001. A 2010 report by the OECD found that the functions of local authorities in Ireland are more restricted than usually found in other European countries: "they mainly provide public services under the general supervision of the Department of the Environment, Heritage and Local Government".

Local government expenditure in Ireland amounts to 10% of total government expenditure. Local tax revenue in Ireland amounts to 2% of total national tax revenue.

Local financial autonomy – Local authorities receive around 50% of their relatively small incomes from central government in the form of grants (both specific and general). The majority of these are conditional (i.e ring-fenced) for specific purposes. Unconditional transfers account for less than 10% of government grants.

Local spending is also financed by local taxes and charges for goods and services. Rates of local taxes – mainly property taxes – are set each year by local authorities and in 2018 these accounted for 19% of local revenues. Receipts from the provision of goods or services accounted for 27% of local authority revenue in 2013, with local authorities having powers to charge for services they provide, for example, commercial water charges, housing rents, waste charges, parking charges, and planning application fees.

A residential property tax, the Local Property Tax (LPT), was only introduced in 2013 (as part of the EU-IMF bailout). Ireland's Revenue – Ireland's equivalent to HMRC - is responsible for the administration, collection, enforcement and audit aspects of LPT. Money is then remitted to local authorities and used to pay for local services. Since 2015, local authorities have had discretion to vary the LPT local rates by up to +/- 15 percent. Local authorities keep 80% of LPT collected in their areas. The remaining 20% is redistributed by the Department of the Environment, Community and Local Government to provide top-up funding to those local authorities that have lower property tax bases. Receipts from this tax are relatively small (see page 5 of this years annual budget report).

Compliance with Article 9 of the Charter of Self-Government – the most recent monitoring of Irish local self-government took place almost 10 years ago and

therefore before the introduction of the LPT. At that time the rapporteurs assessed that Irish local government failed to meet all 8 provisions of Article 9.

Sources: Thornhill Review of Local Property Tax, Downloads (LAI 2.0) – LAI (andreasladner.ch) , gov.ie - Local Authority Budgets (www.gov.ie) and CoR - Ireland Congress (europa.eu) and 2013 CoE Monitoring Report.

Greig Liddell
Senior Researcher
SPICe
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