

OECD: Public Governance and Territorial Development

Growing Fiscal and Policy Challenges for Local Governments

Emerit. Prof. John M Bryden
Norwegian Agricultural Economics
Research Institute &
University of Aberdeen

Outline

- Structure and Function of Local Governments
 - Variable geometry – some examples
- Revenue sources and variations
- Expenditures and priorities
- Pressures on revenues
- Pressures on Expenditures
- The Policy Challenges
- Dealing with the Challenges – some examples
- Conclusions

Local Government Structure and Responsibilities

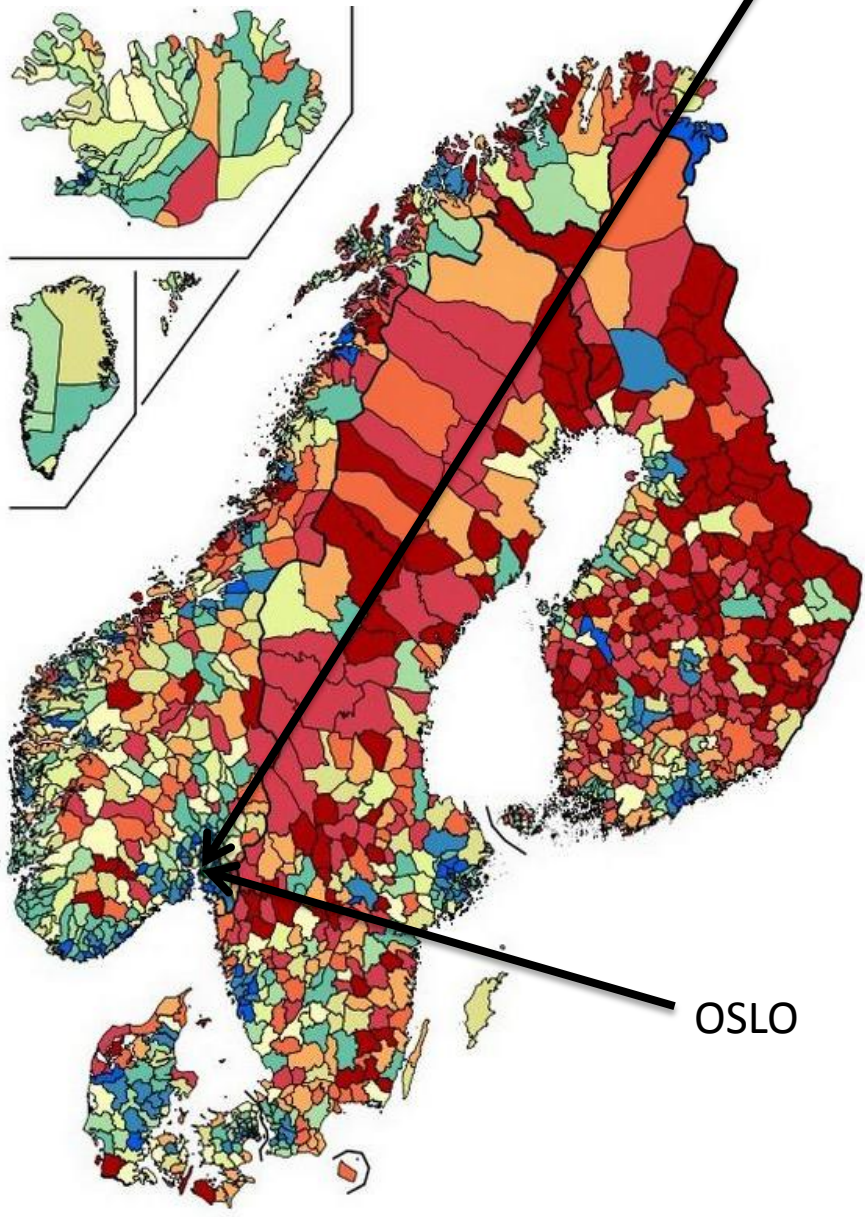
- Structure varies between countries
 - Single Tier – eg Scotland
 - Two Tier – eg Norway, Denmark
 - Three Tier – eg France
- Powers and Responsibilities also vary
 - What responsibilities:
 - Health, elderly care, child care, schools, roads, waste and wastewater, fire, police,
 - Areas that are covered by different levels
 - What Powers – ability to decide and the ability to act through finances and other resources
 - In Scotland some powers have been transferred to NDPBs – e.g health, environment, water & sewage
 - The division of responsibilities between tiers varies
 - And changes over time....

Scotland, 32 Local Authorities	Norway: 430 Municipalities, 19 Counties
Primary and secondary school, nurseries	Primary and lower secondary school Kindergartens Culture school
Care for elderly and disabled,	Care for elderly and disabled,
Social services (social assistance, child welfare, drugs/alcohol, social housing)	social services (social assistance, child welfare, drugs/alcohol, housing for homeless),
Local planning (land use),	Local planning (land use), agricultural issues, environmental issues, local roads
Harbours & some roads	Harbours, water and sewage
	Refugees and immigrants

Scotland, Inverness

Periphererality

Norway, Frogn



Local Government revenue sources vary between Countries

Scotland: Highland (Peripheral)		Norway: Frogn Municipality (Central, near Oslo)
219,000 inhabitants		15,000 inhabitants
£2,750 per head budget		£5,920 per head budget
20%	Local Taxes & Fees etc.	60%
80%	Central Government	40%

Local Government expenditure and priorities vary between Countries

Norway	Ex. of Frogm	Scotland	(ex. of Highland)
Elderly Care	21%	Elderly Care	15%
Schools 6-15	25%	Schools, 5-17	35%
Kindergarten	11%	Kindergarten etc	1%
Roads, Parks	8%	Roads etc	10%
Admin	7%	Admin	10%?
Social Care	7%	Social Care	8%
Buildings	5%	Buildings	<1%
Culture, health care	8%	Culture, health	n/a

Note: All categories are approximate: The headings are hard to compare.

Norway cf Scotland

- Compared with Scotland,
- Norway has
 - More & smaller local governments
 - With more responsibilities and powers
 - Higher % of local and own revenues, and some ability to make fiscal choices e.g. on property taxes
 - Higher budgets per capita
 - Higher voter turnout in local elections
 - Greater female participation in local government
- No evidence that large is better or more efficient!
 - And local democracy is more active!

Pressures on Local Government Revenues

- The tax base is often narrow or very narrow.
- Taxes are static or even declining in the crisis, and often regulated by Central Government
- Central government contributions are static or falling (in money and real terms)
- Government reluctance to increase taxes or introduce new taxes
- Future outlook is currently pessimistic!

Pressures on local government expenditures



- Population ageing
 - The proportion of people in older age groups is increasing nearly everywhere in the OECD countries.
- Increasing/ persistent inequalities
 - The poor and disadvantaged have a higher need and demand for local authority services.
- Climate change and energy costs (+ C-taxes).
- The economic and financial crisis.

Policy Challenges

- Meeting increasing demand with fewer resources
- Finding real evidence of increasing efficiency and cost reduction through
 - Preventative measures
 - Cost-sharing measures
 - Privatisation
 - Use of Volunteers, NGOs
 - Amalgamation

Preventative Measures

- These are increasingly popular in many countries
- Seek to reduce demand e.g. for elderly care, health services, prison services, landfill, etc
- Encourage, for example:
 - Greater exercise and control of obesity
 - Better diets
 - Fewer children/ youth put into care homes
 - Employability of disabled and disadvantaged
 - Reduction of waste and increased recycling

Ex: The Homelessness Prevention Service (HPS) run by the Edinburgh Cyrenians (EdCy), Scotland

- Funded in partnership with City of Edinburgh Council.
 - to prevent people from becoming homeless
 - evaluation suggests success
- Research (n.b. by EdCy) on 50 clients showed that
 - Employment rose
 - Rent arrears dropped
 - The number of people in rent arrears fell
 - Housing arrangements became more stable for almost every client.
 - Mental health levels improved

Cost Sharing – ‘Joining up’ services

- Ex. of Planning for Integration of Health and Care Services for the Elderly (Scotland)
- Highland Council and Health Service Highland committed to achieve the best possible health and social care outcomes for population & service users
- ‘Integrating Care in the Highlands’ will include further planning for shared services,
- Expected Results:
 - Improved efficiency and better outcomes for the elderly.

Inter-Municipal Cooperation

- Follo Ren: The inter-municipal waste disposal company established in 1995 by 5 municipalities in Norway
 - The aim was to have a common service and so share and reduce costs
- Critics doubt that cost-reduction has occurred in practice, and say that the service has been removed from democratic decision-making, and has ‘a life of its own’...

Privatisation

- A popular approach to cost-savings by local governments everywhere, but especially in the US from the 1980s on.
- Among the most frequently privatized local government services in the US are waste collection (residential and commercial), waste disposal, vehicle fleet management, hospitals, vehicle towing, electric utilities, drug programs and emergency medical services.

BUT ... privatisation has its critics!

- *“The spread of the privatization movement is grounded in the fundamental belief that market competition in the private sector is a more efficient way to provide these services and allows for greater citizen choice. ...*
- *...In practice, however, concerns about service quality, social equity, and employment conditions raise skepticism of privatization. ...*
- *...In New York State, labor concerns are also a major issue. ...*
- *...Although empirical studies do not provide clear evidence on the costs and benefits of privatization, public perception and pressure for improved government efficiency will keep privatization on the government agenda.”*
- M. Warner, Cornell University

Use of Volunteers to deliver public services

- Where voluntary organisations are strong as in the UK and the US, for example, they have often been used to delivery what were formerly public services, on a contractual basis. Volunteers – to a greater or lesser extent – do the work of formerly salaried officials.
- Concerns exist over
 - Over-use of volunteers
 - Lack of volunteers (willing to accept compliance procedures etc)
 - Ethical issues
 - Rising unemployment
 - Loss of goodwill among volunteers
 - ‘ a treadmill’ leading to ever more cuts ...

Amalgamation

- Often proposed as a cost saving measure –
 - Rural & small schools
 - Small hospitals
 - Local Authorities
- Resisted by populations
 - The Scottish Government has made amalgamation of rural schools very difficult because of the negative impacts on communities and children
 - Rural people consistently vote against amalgamation
- Ex-post evidence of savings is usually absent

Revenue enhancement measures

- Increase fees for services to meet real costs, especially
 - those which affect the poor less
 - Car parking, road use, planning permission, etc
 - those that (can) benefit the environment
 - Car parking, road use, waste disposal, water use, etc
- Find new tax bases that have other benefits ?
 - e.g Land Value Taxation
 - not very popular among strong interest groups!

Conclusions

- Local Authority finances are being squeezed on both revenue and expenditure side
- The challenge is to do more with less
 - Exploit revenues to the full and look at new tax bases and fee levels especially those with environmental or social benefits
 - Adopt Preventative Measures
 - Look carefully at possible cost-sharing and cooperation options