

EU SUB-NATIONAL GOVERNMENTS

Sub-National Government Structures

With Romania and Bulgaria joining in 2007, the European Union is now comprised of 27 Member States, three of which have a federal structure (Germany, Austria and Belgium). Altogether, there are just over 92,500 sub-national authorities in the EU, a number that changes every year with territorial reforms launched by central governments or Federated States.¹

Sub-national authorities are divided into one, two or three levels depending on the country. Eight countries have a single level of sub-national government, twelve have two and the seven others have three (see tables below²).

The first level, which corresponds to the municipal level, consists of 91,252 authorities. These include, for example, local councils in the UK and Ireland.

The second level (1,150 authorities) corresponds to the intermediate level in large countries such as Spain, France and Poland, but is the largest geographic level in certain smaller countries (Greece, Hungary, Sweden, etc.). In Austria, the second level corresponds to the Federated States. It also includes the eight regional authorities in Ireland and the county councils in England.

The third level groups 104 diverse authorities: regions in the large unitary States (France and Poland), Federated States in the countries with a federal structure (Germany and Belgium) and regions with a great degree of autonomy and legislative power in certain unitary States whose organisation increasingly resembles a federal structure (Spain, Italy, United Kingdom).

¹ 'Sub-national public finance in the European Union', Dexia, December 2007 - http://www.dexia.com/docs/2008/2008_news/20080131_public_finance_europe_UK.pdf

² These tables were reproduced from the above publication.

**EIGHT COUNTRIES WITH ONE LEVEL
OF SUB-NATIONAL GOVERNMENT**

Bulgaria	264 municipalities
Cyprus	524 (378) local governments: 33 (24) municipalities & 491 (354) rural communities ¹
Estonia	227 municipalities (194 rural municipalities & 33 cities)
Finland	416 municipalities
Lithuania	60 municipalities (48 districts, 6 towns & 6 municipalities)
Luxembourg	116 municipalities, including 12 cities
Malta	68 local councils
Slovenia	210 municipalities, including 11 urban municipalities

1: Data in parentheses does not include the northern part of Cyprus

TWELVE COUNTRIES WITH TWO LEVELS OF SUB-NATIONAL GOVERNMENT

Austria	2 357 municipalities (15 statutory cities, 197 towns, 755 markets & 1 390 villages)	9 Federated States
Czech Republic	6 249 municipalities (20 statutory cities, 496 towns & 5 733 municipalities)	14 regions
Denmark	98 municipalities	5 regions
Greece	1 034 local governments (914 municipalities & 120 communities)	50 departments
Hungary	3 175 municipalities (23 towns with county statute, 265 towns, 2 863 villages, Budapest & 23 city districts)	19 counties
Ireland	114 local councils (29 counties, 5 cities, 75 towns & 5 boroughs)	8 regional authorities
Latvia	527 municipalities (7 republican cities, 53 towns, 35 amalgamated municipalities & 432 rural municipalities)	26 districts
Netherlands	443 municipalities	12 provinces
Portugal ²	308 municipalities	2 autonomous regions
Romania	3 173 local authorities (2 854 rural municipalities, 319 urban municipalities including 211 towns & 108 municipalities)	42 counties (41 counties & Bucarest)
Slovakia	2 891 municipalities including 138 cities ³	8 regions
Sweden	290 municipalities	20 (18 county councils & 2 regions)

2: Portugal also has an infra-municipal level composed of 4 259 parishes. 3: Excluding districts.

SEVEN COUNTRIES WITH THREE LEVELS OF SUB-NATIONAL GOVERNMENT

Belgium	589 municipalities	10 provinces	6 communities and regions
France ⁴	36 683 municipalities	100 departments	26 regions
Germany	12 312 municipalities (12 196 municipalities & 116 district-free cities)	323 rural districts	16 Federated States
Italy	8 101 municipalities	103 provinces	20 regions
Poland	2 478 municipalities (307 urban municipalities including 65 with county statute, 1 587 rural municipalities & 584 mixed municipalities)	314 counties	16 regions
Spain	8 111 municipalities	50 provinces	17 autonomous communities
United Kingdom ⁵	434 local governments (127 unitary authorities, 36 metropolitan authorities, 238 district councils & 33 London boroughs)	34 county councils & the Greater London Authority	3 devolved nations (Scotland, Wales, and Northern Ireland)

4: Including overseas departments and regions. 5: The United Kingdom also has an infra-municipal level composed of more than 11 200 parishes.

Sub-National Government Expenditure

The importance of the sub-national public sector in the overall economy varies considerably from country to country, the expenditure / GDP ratio ranging from 0.6% in Malta to 33.4% in Denmark. The weight depends notably on the breadth and the type of competences sub-national entities carry out:

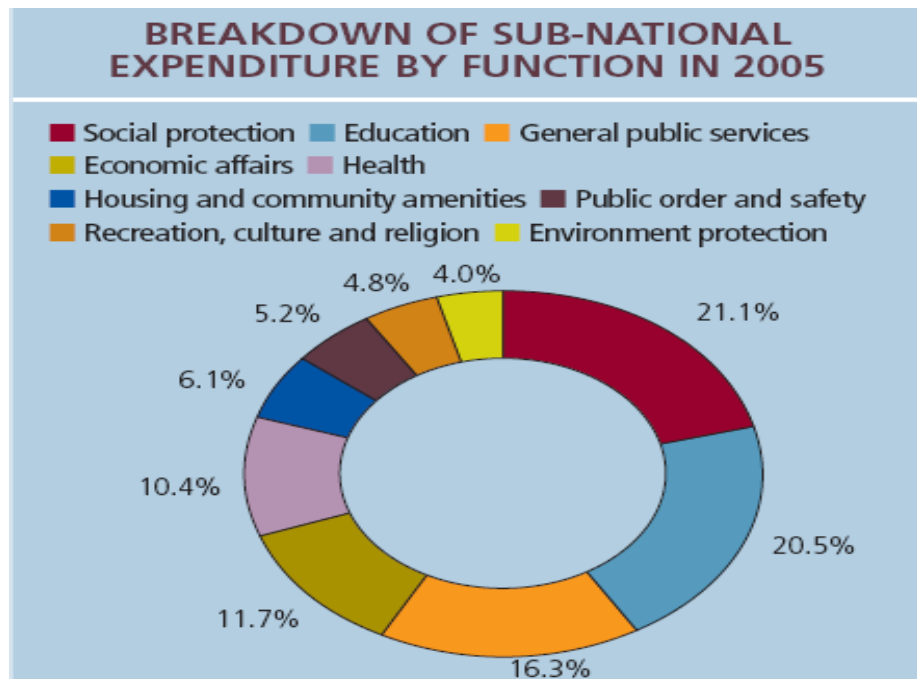
- The economic weight of the sub-national public sector is particularly heavy in highly decentralised countries such as the Scandinavian countries (over 25% of GDP in Sweden and Denmark), countries with a federal structure and the regionalised States (Spain and Italy).
- In countries that are less decentralised (Malta, Cyprus, Greece, Luxembourg, etc.), local governments have limited competences and therefore a lighter economic weight (under 7% of GDP). For some countries, this can also be explained by their small geographic size.
- Between these two extremes and just below the EU average of 15.7% lie a dozen countries, including most of the new Member States and a few EU15 countries (including the UK and Ireland), that remain relatively centralised.

In 2006, EU sub-national (including state government) public sector expenditure grew by 2.3% to reach 1,825 billion euros (15.7% of European GDP and 33.6% of total public expenditure). Within this amount, the greatest increase was in investment (+6.6%), mostly stimulated by the 12 new Member States. Totalling nearly 200 billion euros, sub-national public sector investment accounted for more than two thirds of total public investment.³

MACROECONOMIC WEIGHT OF THE SUB-NATIONAL PUBLIC SECTOR IN THE EU27							
	Amounts (€bn)	% of GDP		% total public sector		Average growth in volume	
		2000	2006	2000	2006	2000-2006	2005-2006
PUBLIC EXPENDITURE							
Sub-national	1825	15.2	15.7	33.5	33.6	+2.6%	+2.3%
Local	1466	11.6	12.6	25.5	27.0	+3.5%	+3.3%
PUBLIC INVESTMENT							
Sub-national	196	1.6	1.7	70.6	67.4	+2.8%	+6.6%
Local	188	1.5	1.6	65.6	64.4	+3.2%	+6.5%

³ 'Sub-national public finance in the European Union', Dexia, December 2007 - http://www.dexia.com/docs/2008/2008_news/20080131_public_finance_europe_UK.pdf

Social protection and education are the two principal budget expenses for sub-national authorities. In 2005, these expenses represented 21.1% and 20.5% of expenditure, respectively (see chart below). Social protection expenditure is particularly significant in the federal countries (27% of sub-national expenditure in Germany, 21% in Austria and 17% in Belgium) and in the Scandinavian countries, especially Denmark (53%). Territorial reform in Denmark in 2007 further solidified the local competences in this area by fully transferring the organisation, execution and funding of social welfare services to the municipalities in 2007. Ranging from 29% to 43% of expenditure, education constitutes the largest sub-national budget in EU12 countries (except Malta and Cyprus). This is due to the fact that in most of these countries, local governments are responsible for teaching staff remuneration.⁴



The following table provides a breakdown of sub-national public expenditure in 2006 by country

⁴ Ditto.

Sub-national expenditure			
	€ Billion	% of GDP	% publ. exp.
Austria	20.1	7.8	15.8
<i>(Including Federated States)</i>	<i>44.7</i>	<i>17.3</i>	<i>35.1</i>
Belgium	21.8	7.0	14.2
<i>(Including Federated States)</i>	<i>65.9</i>	<i>21.0</i>	<i>42.9</i>
Germany	166.4	7.2	15.8
<i>(Including Federated States)</i>	<i>456.0</i>	<i>19.6</i>	<i>43.2</i>
Bulgaria	1.7	6.8	18.3
Cyprus	0.3	2.1	4.7
Czech Republic	13.6	12.0	27.4
Denmark	73.5	33.4	64.7
Estonia	1.1	8.4	25.4
Finland	32.8	19.6	40.2
France	199.3	11.1	20.8
Greece	6.1	3.1	6.7
Hungary	11.6	12.9	24.9
Ireland	11.9	6.8	19.9
Italy	230.4	15.6	31.2
Latvia	1.7	10.2	27.4
Lithuania	2.0	8.5	25.1
Luxembourg	1.7	5.2	13.2
Malta	0.03	0.6	1.5
Netherlands	82.1	15.4	33.3
Poland	36.7	13.5	30.8
Portugal	9.3	6.0	13.0
Romania	8.2	8.4	24.0
Slovakia	2.9	6.6	17.6
Slovenia	2.7	8.8	19.5
Spain		20.9	54.1
Sweden	76.6	25.0	45.0
United Kingdom	247.2	12.9	29.0
TOTAL EU 27	1 466.4	12.7	27.0
<i>(Total including Federated States)</i>	<i>1 814.9</i>	<i>15.7</i>	<i>33.5</i>

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⁵ This table was reproduced from 'Sub-National Europe: basic facts', Dexia, 2007 Edition - http://www.dexia.com/docs/2008/2008_news/20080131_sub_nationale_europe_UK.pdf

Sub-National Government Revenue

In 2006, EU27 sub-national public sector revenue stood at 1,795 billion euros or 3,640 euros per capita, 15.5% of GDP and 34.3% of total public revenue. Taxes accounted for 43.1% of revenue (62% of revenue for Federated States and 33% of revenue for just the local public sector) and the remainder comes mostly from State grants as well as fees and asset management. The weight of taxes in total revenue varies greatly from country to country based on the degree of decentralisation and sub-national public sector financing models.⁶

The data for 2006 shown in the charts below⁷ (which also include data for Norway) indicate substantial differences in the structures of the taxation systems across the Union. These data, however, give little insight into the degree of tax autonomy of sub-central levels of government as such. In practice, the fiscal organisation of government – including the fiscal relations, the constitutional arrangements and the tax raising process – is quite complex, and varies considerably from one Member State to another.

The share of sub-federal revenue (defined as municipalities plus the State level where it exists) varies from less than 1% in Greece to 34% in Denmark. Not only Denmark, but also Sweden, Spain, Germany and Belgium show high shares of total taxes received by the non-central authorities. At the other end, this share is noticeably small in Greece (0.9%), Cyprus (1.4%), Ireland (2.2%) and Bulgaria (2.3%), as well as in Malta, where local government does not receive directly any tax funds.⁸

In 2006, the UK tax-to-GDP ratio (including social security contributions) stood at 37.4%, a value that rose above the EU average (37.1%) for the first time since 2001. Less than 5% of tax revenue is raised by local government (compared with over 10% raised by local government across the EU27).

At 32.6%, the total tax to GDP ratio in Ireland (including social security contributions) is the seventh lowest in the Union and the second lowest in the euro area. However, this ratio has shown a significant upward trend since 2002. Ireland is one of the most centralised countries in Europe with local government having few responsibilities and commensurately low revenues (2.2% of tax revenues).⁹

⁶ 'Sub-national public finance in the European Union', Dexia, December 2007 - http://www.dexia.com/docs/2008/2008_news/20080131_public_finance_europe_UK.pdf

⁷ Graph I-9 reproduced from above publication.

⁸ 'Taxation trends in the European Union', Eurostat, 2008 Edition - http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/Structures2008.pdf

⁹ Ditto.

Graph I-9 Revenue structure by level of government
2006, in % of the total tax burden



Source: Commission Services

19 November 2008