

UNITED KINGDOM

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: POUND STERLING (GBP)

POPULATION AND GEOGRAPHY

Area: 243 610 km²**Population:** 66.040 million inhabitants (2017), an increase of 0.7% per year (2010-2015)**Density:** 271 inhabitants / km²**Urban population:** 83.1% of national population**Urban population growth:** 1.0% (2017 vs 2016)**Capital city:** London (13.7% of national population)

ECONOMIC DATA

GDP: 2 856.7 billion (current PPP international dollars), i.e. 43 269 dollars per inhabitant (2017)**Real GDP growth:** 1.8% (2017 vs 2016)**Unemployment rate:** 4.3% (2017)**Foreign direct investment, net inflows (FDI):** 64 685 (BoP, current USD millions, 2017)**Gross Fixed Capital Formation (GFCF):** 16.9% of GDP (2017)**HDI:** 0.922 (very high), rank 14 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The United Kingdom is a parliamentary constitutional monarchy, and a unitary state with an asymmetrical decentralisation system, composed of four constituent countries: England, Northern Ireland, Scotland and Wales. At the central level of government, the legislative power is vested in the bicameral parliament composed of a lower house, the House of Commons, and an upper house, the House of Lords. Members of the Commons, known as Members of Parliament (MPs), are elected by direct universal suffrage to represent constituencies and they hold their seats until Parliament is dissolved. However, following the Fixed-term Parliaments Act 2011, Parliamentary terms are now fixed at five years, except in exceptional cases (vote of no confidence, passing of an "early election" motion). Membership of the House of Lords, also known as the House of Peers, is granted by appointment or else by heredity or official function. The Government is led by the Prime Minister and the Head of State is the Queen.

The UK has no written constitution, and therefore no constitutional provision for local governments, which rely instead on Acts and Bills passed by the Houses of Parliament. Wales was incorporated into the governance structure of England through the so-called Act of Unions of 1536 and 1543, and the Acts of Union of 1706-1707 brought Scotland together with England and Wales to form Great Britain. Finally, the 1800 Acts of Union brought Great Britain and Ireland together as the United Kingdom. During their incorporations within the United Kingdom, Scotland and Ireland preserved their own separate legal systems, whereas Wales was merged into England's legal system, resulting in three legal systems today within the UK: the laws of England and Wales, Northern Irish laws, and Scottish laws. Administrative devolution took place in 1999, when Wales, Scotland and Northern Ireland had their own elected assembly and government. The powers and responsibilities of the three devolved bodies vary in nature and scope, as each devolution Act was arranged independently. The devolved institutions in Wales and Scotland have subsequently evolved and taken on greater powers, whereas the process has been more precarious in Northern Ireland, with devolution suspended several times over the course of the 20th century.

Scotland has a Parliament, as deliberative body whose members are elected by direct universal suffrage for a four-year term and an executive government, led by a First Minister nominated by the Parliament and appointed by the Queen. Scotland has full legislative powers over a wide range of matters, i.e. all issues except those reserved to the UK Parliament. A further transfer of mainly tax and borrowing powers to the Scottish Parliament was enacted via the Scotland Act 2012. A referendum was held in 2014 regarding the independence of Scotland, which was rejected with 55.3% voting against. Following the referendum, the Scotland Act 2016 was passed by Parliament, which set out amendments to the Scotland Act 1998 and devolved further powers to Scotland, including taxing and new borrowing prerogatives.

In Wales, the deliberative body is the National Assembly of Wales, whose members are elected via direct universal suffrage for a four-year term while the executive branch of government is led by the First Minister, nominated by the Assembly and appointed by the Queen. The National Assembly for Wales has a more limited range of legislative powers than the Scottish Parliament, i.e. mainly on secondary legislation. However, a referendum held in March 2010 enhanced its primary law-making powers. The National Assembly can now legislate without having to consult the UK parliament in devolved areas. The Wales Act 2014 and Wales Act 2017 devolved taxation and borrowing powers to the Welsh Government and the National Assembly for Wales.

In Northern Ireland, devolution was restored in 2007. The Northern Ireland Assembly is also the deliberative body with members are elected direct universal suffrage for a four-year term. The Assembly appoints the Northern Ireland Executive, led by a First Minister and deputy First Minister.

England, which outweighs other constituent countries in terms of political and economic power, remains the only nation without its own devolution settlement. The project of devolution of limited political powers to four elected regional assemblies in North East England, North West England, Yorkshire and the Humber was debated in the early 2000s. The Regional Assemblies (Preparations) Act 2003 also entrusted these new assemblies with some political powers. However, the proposal was suspended indefinitely. It was rejected during the first referendum (three other planned referendums were postponed and later dropped) held in the North-East of England in November 2004. The main reasons behind this no vote were the lack of consensus over where the "regional capital" would be, the lack of convincing arguments in favour of the reform, and the fear of adding another layer of politicians, public servants and taxes. The initiative was suspended indefinitely following the rejection (at 77.9%) of the North East Assembly proposal in 2004.

Local governments are governed by the devolved nations and by the UK government for England. Therefore, organisation, responsibilities and finances as well territorial and decentralisation reforms differ from one nation to another as well as within England, although they have some common characteristics. Local governments in each of the four constituent countries have councils, governed by directly-elected bodies. Local councillors are elected at least every four years, either through the 'first past the post' system (England and Wales), or using the Single Transferable Vote system (Scotland and Northern Ireland). Councils are typically chaired by the leader of the largest single political group in the Council, along with a chief executive leading the executive arm. The 2000 Local Government Act enlarged the range of available options for local councils executive leadership in England and Wales, including directly-elected mayors. Thereby, all councils were required to review their executive arrangements, and some of them held referendums on such a proposal and, as of 2016, 16 councils have directly-elected mayors.

As a result of the EU referendum in June 2016, the United Kingdom voted to leave the European Union. The UK is currently scheduled to leave the EU on the 31 October 2019 unless a deal is agreed before this date.

TERRITORIAL ORGANISATION

2019	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Local authorities – single tier and district authorities	County councils (26) Greater London Authority (1), combined authorities (8)	Devolved nations (Wales, Scotland, Northern Ireland)	
	Average municipal size: 175 500 inhabitants			
	382	35	3	420

OVERALL DESCRIPTION. The UK territorial organisation is highly complex and differs greatly in each of the four constituent countries. England has, in places, a two-tier subnational government system whereas in Scotland, Wales and Northern Ireland there is only one tier of local authorities. England has 35 local governments at the intermediary level (upper tier), comprising 26 county councils, the Greater London Authority (GLA) and eight combined authorities. At the local level, England has 317 lower tier or 1st level authorities responsible for local services. In Wales, there are 22 local authorities, 32 in Scotland, and 11 in Northern Ireland (formerly 26). In addition, there is a structured sub-municipal level of approximately 9 500 parish councils in England, 735 community councils in Wales, and 1 200 in Scotland. These entities have elected councillors, deliver some services at community level and are consulted by local authorities on issues regarding their community.

REGIONAL LEVEL. The three devolved nations represent 46% of the UK area but 16% of its population. They have very different characteristics in terms of area, demographics and socio-economic development. Scotland is the largest region both in terms of area and population (5.4 million inhabitants in 2017). It is followed by Wales (3.1 million inhabitants) and Northern Ireland (1.8 million). Regional disparities in terms of GDP per capita (measured by TL2) are high and have increased in the United Kingdom over the last 16 years. In 2016, the GDP per capita in Wales was equivalent to 41% of the GDP per capita in Greater London. The United Kingdom has the 6th highest regional economic disparities among 30 OECD countries with comparable data and recorded the 4th largest increase in disparities between 2000 and 2016.

LOCAL AUTHORITIES. The system of local government is asymmetric, depending on the UK regulation for England and on regulation of each devolved nation.

In Wales, there are 22 “principal” local government areas at municipal level, each of which has a locally-elected council. Municipalities are further divided into 735 community areas for which there may be a community council. The framework for local government in Wales is the Local Government Act 1972 (LGA 1972), which has been substantially amended since its enactment including, significantly, by the Local Government (Wales) Act 1994 which established the current system of principal local authorities. In Scotland, the current structure of local government, establishing the 32 council areas, is based on the Local Government (Scotland) Act 1994, which has been amended several times since. There are around 1 200 community councils in Scotland, which are voluntary organisations set up by statute by the Local Authority and run by local residents to act on behalf of their area. In Northern Ireland, the district councils are ruled by the Local Government Act (Northern Ireland) 1972, modified in 2005 and 2014. In fact, Northern Ireland carried out an important local government reform reducing the number of local councils from 26 to 11, effective as of April 2015.

In England, the current structure results from continuous territorial reform. The two-level system still in place in some rural areas is disappearing and counties are gradually being replaced by “unitary authorities”. The structure remains, however, complex, including county councils, the Greater London Authority, and eight combined authorities at the upper-level and over 300 unitary and district councils at the lower-tier. In addition, the local government system in London comprises 32 London Boroughs, and 1 Sui Generis authority, the City of London Corporation. In England, decentralisation in the form of “localism” has gradually emerged since the 2000s. A process based on several white papers and reviews on local government led to the adoption of the Localism Act 2011. This act aimed at pushing decentralisation forward by giving local authorities general competences, transferring new responsibilities to local authorities and pushing for fiscal decentralisation. In parallel, the government has negotiated “City Deals” with large cities. The first deal led to the creation of the Greater Manchester Combined Authority in 2014. The “Cities and Local Government Devolution Act 2016” was passed in 2016. It is considered an important step towards decentralisation. It makes various amendments to the 2009 Act to allow greater devolution of powers to combined authorities. It also includes provisions for mayors to be elected directly and have various degrees of power as part of “Devolution Deals”. There are currently eight combined authorities in England, six with directly-elected mayors. Devolution deals are also found in Scotland and Wales.

Overall, the United Kingdom has large municipalities on average, around 168 000 inhabitants (with a median size of 132 200 inhabitants), which is the OECD's highest (with Ireland and Korea). All municipal level authorities have more than 20 000 inhabitants, compared to 30% in the OECD on average.

Inter-municipal cooperation is developing. In England, in addition to the creation of combined authorities at metropolitan area level, more and more local authorities are involved in “Shared Service Agreements” which allows collaboration between two or more local authorities on a range of services, one major motivation being costs savings. In England, recent figures from the Local Government Association show that the current 416 shared service arrangements between councils resulted in GBP 462 million in cost savings (as of September 2015). In Scotland, councils are able to set up joint board or joint committee organisations with other councils to provide a service across a combined area of the participating local authorities.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

At regional level, the system of devolution is sound but asymmetric. The three devolved nations have different levels of legislative, administrative and budgetary autonomy.

At local level, responsibilities vary from one constituent country to another but they typically include education, local economic development, housing, social services, local roads and public transport, culture and recreation, waste management, environmental protection and parks, health and public safety, etc. A recent trend is the merger of health (a national power) with social care (a local one).

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Several decentralisation processes are underway. In Northern Ireland (Local Government Reform), local government has undergone a significant reform process in terms of both the number of councils (see above) and their functional responsibilities. The latter have increased, particularly in the area of community planning, in addition to being granted a General Power of Competence. In England, the Localism Act 2011 provided local authorities and some parish councils with a General Power of Competence and transferred new responsibilities in several areas (housing, public health and social protection). In addition, the Cities and Local Government Devolution Act 2016 allowed greater devolution of powers (housing, transport, planning and policing powers) to combined authorities. The Greater London Authority has also more powers and responsibilities than other cities in England. Finally, parish and community councils are responsible for local services.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	DEVOLVED ADMINISTRATIONS (WALES, SCOTLAND, NORTHERN IRELAND)	LOCAL AUTHORITIES
1. General public services	Internal administration; Local government; Statistical office	Internal administration; Electoral register
2. Public order and safety	Criminal justice; Police; Fire protection	Fire protection; Civil protection
3. Economic affairs/transport	Regional spatial planning; Economic development; Highways and roads; Transport; Agriculture, forests and fisheries; Trade and industry, tourism	Urban roads; Cemeteries and crematoria; Electricity; Trade and industry; Tourism; Local economic development/promotion
4. Environmental protection	Sanitation	Waste collection and disposal; Sewerage; Slaughterhouses Environmental protection
5. Housing and community amenities	Housing; Regional planning; Water	Housing; Water provision; District heating; Town planning
6. Health	Primary care; Hospitals; Health protection; Environmental health	Health protection
7. Recreation, culture & religion	Culture and arts; Sports	Cultural facilities; Parks and open spaces
8. Education	Education; Higher and adult education; Training	Pre-primary and primary education; Secondary education
9. Social protection	Social services	Family welfare services; Welfare homes

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: local and parish councils and local government units, grouping all local budgetary organisations, including their regional offices, town councils and regional councils, community schools (i.e. around 28.000 organisations). Note: Data do not include the three devolved administrations of Scotland, Wales and Northern Ireland, which are included in the central government accounts.	SNA 2008	Availability of fiscal data: High	Quality/reliability of fiscal data : High
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GENERAL INTRODUCTION. Fiscal powers in the United Kingdom are quite centralised, and the country positions itself below the OECD average regarding the different dimensions of fiscal decentralisation. Wales, Scotland and Northern Ireland however have a relatively high degree of autonomy in several governmental areas including fiscal matters; whereas England has a more centralised structure of government, with local councils that preside over little fiscal power.

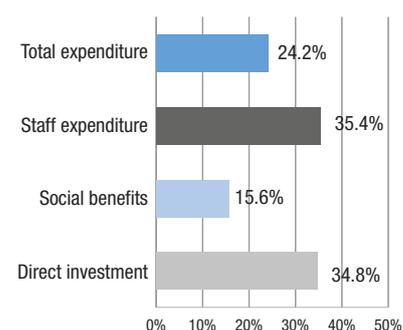
Greater devolution of taxing and borrowing power is taking place in the three devolved administrations. The two successive Scotland Acts passed in 2012 and 2016 devolved further fiscal powers to Scotland. A new fiscal framework for Wales was also agreed between the Welsh and UK governments as of 2016, following the recommendations of the Silk Commission, which devolved tax and borrowing powers to the National Assembly for Wales and the Welsh Government.

Fiscal decentralisation is asymmetric between regions but also within local authorities, depending on where they are located (three devolved nations and England). But there are also asymmetric fiscal arrangements across cities themselves, between those having signed a devolution deal and the others. The recent steps towards devolution deals with cities – London in particular – which give English cities more powers are also introducing a major change with a significant decrease in central government funding (Government has committed to reduce central grants for local government by 2020), part of broader reductions in public sector spending.

It is important to note that figures presented below are under-estimated as fiscal data regarding the devolved administrations in Scotland, Wales and Northern Ireland are not included in the subnational government sector but rather in the central government sector. Therefore, data presented in the tables relate to local authorities and their related organisations only.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	4 283	10.0%	100%	
Incl. current expenditure	3 855	9.0%	90.0%	
Staff expenditure	1 373	3.2%	32.1%	
Intermediate consumption	1 267	3.0%	29.6%	
Social expenditure	1 056	2.5%	24.7%	
Subsidies and current transfers	53	0.1%	1.2%	
Financial charges	75	0.2%	1.8%	
Others	30	0.1%	0.7%	
Incl. capital expenditure	428	1.0%	10.0%	
Capital transfers	61	0.1%	1.4%	
Direct investment (or GFCF)	367	0.9%	8.6%	

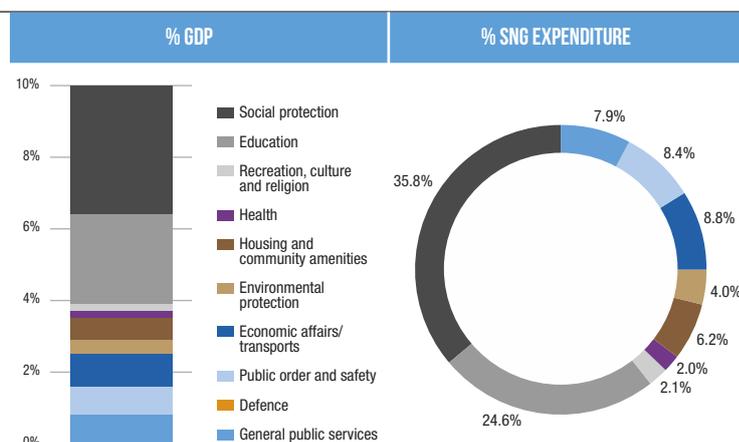


EXPENDITURE. Spending decentralisation in the UK (without expenditure from the three devolved administrations) as a share of GDP and public expenditure is lower than the OECD on average where subnational government expenditure accounted for 16.2% of GDP and 40.4% of public expenditure. UK ratios are also well below the EU28 average (15.5% of GDP and 33.4% of public expenditure). They are, however, more in line with the average of OECD unitary countries (9.2% of GDP and 28.7% of public expenditure). Even though SNGs are key public employers in significant sectors (education, social care, police force), the share of local staff spending in total public staff spending is lower than other OECD and EU countries: 35.4% vs 62.9% in the OECD and 50.9% in the EU28.

DIRECT INVESTMENT. UK local governments play a much more limited role as public investors than the OECD average (56.9% of public investment and 1.7% of GDP in 2016), even when considering the average for unitary countries (50.7% and 1.7% of GDP) or the EU28 average (51.6% of public investment and 1.4% of GDP). Stable from 2014, local government investment has increased since 2011, despite the crisis and the cuts in grants. Between 2007 and 2017, investment increased by 1.4% per year on average in real terms. Most subnational investments are dedicated to economic affairs and transport (37.4% of SNG investment in 2016) and to housing and community amenities (35.7%). Education accounted for 11%, and general public services 9.4%. Transportation infrastructure investment has become a bottleneck for the development of the UK territories, and nearly 30% of transport infrastructure spending takes place in London, from the local government body, called "Transport for London". The UK government recently set up a National Productivity Investment Fund (budget of 1.2% of GDP by 2021-22) with the specific aim to increase public infrastructure spending. Since 2012, City Deals or City Regional deals first in England and then across the UK have developed long-term investment plans where the UK and Devolved Governments give back locally-raised tax receipts to promote medium-term investment. In England, local enterprise partnerships (LEPs) are voluntary non statutory partnerships between local authorities and businesses set up in 2011 to help determine local economic priorities and lead economic growth and job creation within the local area. There are currently 38 LEPs covering the whole of the country. Over GBP 9 billion of the Government's Local Growth Fund has been committed to LEPs since 2015-16 to help them deliver on their investment priorities and create new economic opportunities for local businesses and communities.

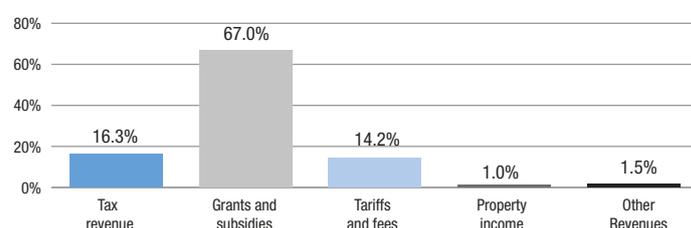
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The two main local government categories of spending in 2016 are social protection and education, even though dedicated amounts have been decreasing (totalling for more than 60% of total SNG expenditure). In particular, the share of social protection expenditure in local expenditure is particularly high, compared to OECD average (14.0%). Adult Social Care represented the highest increase for SNG spending from 2015, together with Children Social Care and public health in general. The share of education expenditure is on par with OECD levels (24.8%) but it has decreased substantially in recent years (it amounted to 33% of local expenditure in 2010). Lower education spending is a consequence of the ongoing change in status of local authority schools to centrally-funded academies. They are followed by three areas that have similar weights: security and public order (police and fire services), general public services and economic affairs/transport.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	4 134	9.7%	25.2%	
Tax revenue	676	1.6%	5.8%	16.3%
Grants and subsidies	2 770	6.5%	25.2%	67.0%
Tariffs and fees	587	1.4%	5.8%	14.2%
Property income	40	0.1%	0.1%	1.0%
Other revenues	61	0.1%	0.1%	1.5%



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GENERAL DESCRIPTION. As for expenditure, revenue data do not include the devolved administrations of Scotland, Northern Ireland and Wales. Local governments in the UK depend largely on grants and subsidies from the UK government and devolved administrations (67.0% vs 37.2% in the OECD and 48.8% in OECD unitary countries). Consequently, the share of taxes in local revenues is small in the UK (16.3% vs 44.6% in the OECD and 38.7% in OECD unitary countries) while the share of tariffs and fees is in line with the OECD average. Local councils' fiscal framework varies from one country to another but, in general, local governments are highly dependent on central/devolved government transfers. However, recent reforms in England have reinforced local taxation autonomy through the localisation of local council tax support and business rates retention schemes (BRRS). Despite new measures designed to strengthen their fiscal powers, most face funding gaps for the financing of local services. The situation has been exacerbated by major cuts in grants.

TAX REVENUE. The vast majority of taxes in the UK are set by the central government. Over past years, increasing tax powers were devolved to the three devolved assemblies, in particular in Scotland and Wales to improve the financial accountability of devolved administrations.

In Scotland, the two successive Scotland Acts passed in 2012 and 2016 devolved further fiscal powers to Scotland, including the ability: to set a Scottish Rate of Income Tax (10% of income tax from April 2016 onwards); to set rates and thresholds for income tax for non-savings and non-dividend income (from 2018); to vote on and administer new taxes to replace the UK Stamp Duty Land Tax (SDLT), the UK Landfill Tax and the Air Passenger Duty. The Scottish parliament will also be devolved half of VAT receipts collected in Scotland by 2019 (with homogenous rates within the UK), and the air passenger duty (still on hold).

Following the Wales Act 2014 and Wales Act 2017, Wales has also been devolved stamp duty land tax (SDLT) and landfill tax as of April 2018, and partial income tax powers will be further devolved in 2019 (PIT surtax). Regarding Northern Ireland, the country was devolved air passenger duty which was abolished in 2012, and plans for the devolution of CIT were postponed. Once these changes will be implemented, the UK Institute for Government estimates that Scotland will administer approximately 43% of tax revenues collected within its territory, Wales 21%, and Northern Ireland 14%.

Taxing powers of local authorities have also been increased. Overall, local tax revenues amounted to 1.6% of GDP and 5.8% of public tax revenues, well below the OECD average (7.1% of GDP and 31.9% of public tax revenues) and the OECD average for unitary countries (respectively 4.7% and 19.8%).

In England, Scotland and Wales, local councils are funded essentially by the council tax and a share of the business rates. The council tax is a property tax based on the rental value of individual property and is paid by the resident, based on his or her situation, income level and the property value. The business rates are levied on non-residential properties. The receipts of business rates are pooled and then redistributed by the UK government in England or the devolved nations on a per capita basis. Taken together, recurrent property taxes represented 1.6% of GDP and 16.2% of total subnational revenue (compared to 1.1% of GDP for the recurrent property tax on average in OECD countries in 2016).

Until 2013, the structure of local funding in England, Scotland, Wales and Northern Ireland was relatively similar but has become more divergent ever since then. In England, the Local Government Finance Act 2012 introduced major changes in the English system. Local government taxing power increased in 2013 through the localisation of the council tax support scheme and of the business rates retention scheme (BRRS). The 2012 financial reform abolished the national council tax benefit scheme, and introduced a local council tax support scheme (LCTS). Local councils in England were then responsible for designing their own tax support schemes for the active population - though they are obliged to provide a centrally determined (and largely protected) level of support for pensioners. Thereby, in 2016, 152 local authorities with responsibilities for providing social care services could, for the first time, raise additional funding through the council tax precept. When the BRRS was introduced in 2013-14, the proportion of the real-terms change in business rates revenues kept by the councils was up to 50%. However, since April 2017, the government has been piloting 100% retention of real-terms changes in business rates revenues in a number of areas of England.

In Scotland, Council tax support was localised to Scotland. The Scottish Government has made changes to the Council Tax multiplier. The Scottish Government also proposed to consult on exchanging a fixed proportion of income tax receipts, distributed to individual councils through the local government settlement. In Northern Ireland, councils are legally required to set domestic and non-domestic district rates. Due to the creation of the new councils in 2015, a District Rate Subsidy has been introduced for a four-year period for those ratepayers most affected by significant rises in their rates bill.

GRANTS AND SUBSIDIES. The devolved administration of Scotland, Wales and Northern Ireland are all mainly funded by block grants from the UK government, based on the Barnett formula, established in 1978. Under this formula, the block grant in any given financial year is equal to the block grant in the previous year plus a population share of changes in UK government spending on areas devolved to each country. It may also vary based on changes in the UK department expenditure limit, and takes into account a comparability factor. Changes in spending devolution and taxing power may lead to amendments to the Barnett formula. For instance, the formula for Wales has been amended in recent years to respond to the new fiscal framework, in order to temporarily include a funding floor (115% of equivalent funding per head in England) as well as to add a new needs-based factor to the formula.

At local level, grants and subsidies are the main source of revenues and they differ from one region to the next. In England, the main grants (excluding the housing grant) are referred to collectively as Aggregate External Finance (AEF). AEF includes the Revenue Support Grant (distribution of RSG recently changed; now it is based on the main resources available to councils) and certain specific grants (distributed by individual government departments, such as Dedicated Schools Grant, Pupil Premium Grant, Local council tax support Grant and Public Health Grant). From 2011-12, a new 'un-ringfenced' general grant called Local Services Support Grant was set up to group previous earmarked grants. From 2013-14 the Business Rates Retention Scheme replaced the Formula Grant, which was used to redistribute business rates. In 2016, to compensate for the change of the calculation method of the RSG, local governments also received a transitional grant dedicated to ease the pace of lower central government funding, aimed to last until 2018.

In Wales, the Revenue Support Grant – non-earmarked – is allocated to councils by the Welsh Government according to a population-based formula. The Scottish Government provides a block grant to councils that makes up approximately 86% of their revenue. The grant is broken down into three constituent parts: General Revenue Grant (previously known as Revenue Support Grant), Non-Domestic Rates Income and Specific Grants to be used for specific services such as Pupil Equity Fund, early learning and childcare, and criminal justice support. This arrangement was updated in 2011 and gave councils greater control over their budgets. However, while in Scotland the Devolved Government ended ringfencing of local budgets (agreed with Local Authorities in 2007), the Scottish Government subsequently provided additional grants that were conditional on certain indicators (e.g. class sizes). Ringfencing is therefore gradually creeping back as national policy priorities are introduced to local government.

In Northern Ireland, transfers to councils through the Department for Communities include the “de-rating” grant (compensating for the loss of income from de-rated properties), the rates support grant (for councils with greater expenditure needs than revenues), and the transferred functions grant, which supports the functions that were transferred as part of local government reform to district councils.

OTHER REVENUES. Other revenues include fees and charges, especially in the education, transport, social care and cultural sectors (12.8% of local government revenue). Local governments can also levy congestion charges and possibly parking charges. They also raise revenues from the rent and sales of properties.

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	3 519	9.6%	7.9%	100%
Financial debt*	1 804	4.9%	4.3%	51.3%

* Currency and deposits, loans and bonds

FISCAL RULES. Fiscal rules were first adopted in the UK in 1997, later formalised in the Finance Act 1998 and the Code for Fiscal Stability. An independent Office for Budget Responsibility was also set up as the UK Fiscal Council, to address gaps in the national fiscal framework and also to scrutinize the on-going operations and spending of the devolved governments, in collaboration with country-specific fiscal commissions. Under the supervision of the Auditor General, the Scottish government is required to operate a balanced budget on a yearly basis. In England, best value performance indicators are developed annually to assess local governments’ performance, which is just one of the measures taken to increase spending efficiency and performance budgeting.

DEBT. Each devolved administration has the power to borrow money to meet cyclical fluctuations in income and to fund capital expenditure. As with other aspects of devolved finance the extent and type of borrowing available varies between the devolved governments. The borrowing powers of Scotland, Wales and Northern Ireland have grown as devolution has progressed. From 2016, the Scottish Parliament has been granted new borrowing powers, including by issuing bonds. The Wales Acts 2014 and 2017 devolved greater borrowing powers to the Welsh Government and National Assembly for Wales. Northern Ireland already enjoyed more borrowing powers than the other two devolved governments.

In England, Scotland and Wales, local governments are able to issue long-term debt to finance capital investments only (golden rule). Local government must follow the CIPFA Prudential Code, which sets indicators to be respected regarding affordability, sustainability and prudential rules. In Northern Ireland, borrowing is subject to approval by the Ministry of the Environment, and must aim at financing capital projects only. The devolution deals involve more borrowing powers against the long-term Investment Fund Grants which are part of the deals promised over 30 years as regional financial support.

Overall, local government debt remains well below the OECD average (24.5% of GDP and 20.7% of public debt) as well as below the OECD average for unitary countries (14.5% of GDP and 11.8% of public debt). It is made up of financial debt (51% of financial debt stock), pension liabilities (24%) and other accounts payable (25%). Bond financing is very limited, 95% of the financial debt being made up of loans. However, in 2015, the Local Government Association set up a municipal bond agency (the Local Capital Finance Company) aimed at reducing long-term capital costs for councils and increasing competition in the marketplace, and at giving councils more control over the interest rates they pay. For instance, Aberdeen City Council issued a municipal bond in 2016.



Lead responsible: OECD
Last update: 02/ 2019

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