

List of papers for expert meeting on expenditure needs Copenhagen 13.-14. September 2007

Author: John Spasojevic, Commonwealth Grants Commission, Australia

Title: "Fiscal equalisation in Australia: Some technical issues"

Author: Prof. Nobuki Mochida, Professor of Economics, University of Tokyo, Japan

Title: "Measuring fiscal needs: Japan's experiences"

Summary:

In Japan, Local Allocation Tax (LAT) has played important role as a fiscal equalization scheme since 1954. It actually has corrected horizontal fiscal imbalance and ensured a minimum level of public service in all parts of Japan. Fiscal need of each local unit is calculated as the number of measurement units by multiplying the unit cost, adjusted by modification coefficients. Japanese system is, however, under political criticism for lack of adequacy, policy neutrality, simplicity and affordability: LAT becomes asymmetric in adjusting for the business cycle; a part of debt repayment cost is included in fiscal need calculation, and LAT premiums to small local government. Against this background, the government launched in FY 2002 an ambitious reform of three main components of local government financial resources- earmarked grants, local tax, and LAT- the so-called "Trinity Reform". In this paper, the author describes current equalization system, evaluate its method of calculating fiscal need, and refer to future reform from the view points of several criteria.

Author: Anwar Shah, Lead Economist and Program Leader, Public Sector Governance
World Bank Institute

Title: "Fiscal Need Equalization: Is it worth doing? Lessons from International Practices"

Author: Silvia López Ribas, Ministry of Economy & Finance, Spain

Title: "Decentralization in Spain: Estimating the cost of devolved services to the autonomous communities"

Author: Ehtisham Ahmad (IMF), Giorgio Brosio, Mercedes García-Escribano, Jose Gonzalez Anaya (SHCP), Ben Lockwood (Warwick University), and Ernesto Revilla (SHCP)

Title: "Why Focus on Spending Needs Factors? The Political Economy of Fiscal Transfer Reforms in Mexico"

Author: Junghun Kim, Korea Institute of Public Finance

Title: "The use of Expenditure Needs in Korea: Equalization or Regional Policy?"

Author: Sarah Ponsford, Statistician, Communities and Local Government, Local Government Finance - Formula Grant Division

Title: "Distribution of Formula Grant to Local Authorities in England"

Summary:

"This paper describes how formula grant is allocated to local authorities via the Local Government Finance Settlement in England. It provides a brief background to Local Government Finance and describes how the Grant Distribution model has evolved over time, through to the presently used four-block model that was introduced in the 2006/07 Settlement. Each of the model's four blocks are explained – the Relative needs amount, Relative resource amount, central allocation and floor damping."

Author: Niels Jørgen Mau, Ministry of Interior and Health, Denmark

Title: "Expenditure needs equalization – reasoning and organization of work: The Danish case"

Author: Giorgio Brosio Dipartimento di Economia, Torino, Italy, and Stefano Piperno, IRES-Istituto di Ricerche Economico-Sociali del Piemonte, Italy

Title: "Assessing regional and local government expenditure needs in Italy. Small achievements and big prospective issues"

Author: Lennart Tingvall, Finansdepartementet, Sweden

Title: "Yearly fluctuations in the cost equalisation and budget stability for the municipalities in Sweden"

Summary:

"The cost equalisation for the Swedish municipalities, used since 1996, is built up of 10 distinct models. The different models refer to services like child care, elderly care and compulsory school etc. Many of the factors on which the equalisation is based are updated annually. The age structure and the factors that reflect the municipality's socio-economic structure are thus updated annually. It is perfectly natural that this updating leads to a variation in the result of cost equalisation for the individual municipality from year to year. The yearly variations can be large for municipalities with a low population making budgeting difficult. There is a conflict between stability and changes in the cost equalisation reflecting changes in expenditure needs."

Author: Prof. Bernard Dafflon and Peter Mischler, University of Fribourg, Switzerland

Title: "Expenditure needs equalization at the local level"

Summary:

"The canton of Fribourg recently presented a new reform project of its equalization system at the local level. The present paper addresses the problems of method and political implementation of this new equalization system. It will consider separately revenue equalization and needs equalization. Revenue equalization is founded on RTS. Needs

equalization will take differences in expenditure needs explicitly into account. The technical details of the project will not be discussed. However, the importance of practical political implementation cannot be underestimated. "Black-box" formulas of expenditure equalization and expert coalition on highly technical econometrics seem to be impossible in the Swiss political arena: a system of expenditure needs equalization must be plausible and understood in the democratic debate since it will have to be put to ballot. The paper will present the challenges of policy reform in the field of expenditure needs equalization. It is built on the on-going experience in the canton of Fribourg. The project is now under consultation in the communes, the political parties and the civil society. It seems to be well understood and accepted so far."

Author: Hessel Boerboom, Ministry of Interior, and Peter Huigsloot, Cebeon, Netherlands

Title: "The equalized allocation of local expenditure needs in the Netherlands
- an optimized mixture of objectivity and politics"

Summary:

An equalized allocation of local expenditure needs has to be an optimized mixture of objectivity and politics. In the Netherlands, the aim of equal (not uniform) levels of services combined with a large degree of municipal autonomy, is expressed in the allocation of financial means from central government to municipalities: as many general grants as possible, reducing the number of specific grants, specific grants should have a wide target and a minor role for (redistributed) own incomes of municipalities. The most important instrument for the allocation of general means, the Municipal Fund, is based on a system of objective criteria applied to each municipality. The indicators in the Municipal Fund are related with large differences in costs between municipalities on account of varying exogenous factors (features of social, physical and regional structure in combination with legal regulations). The indicators applied in the Municipal Fund are based on a new method: the Difference Analysis. This new method is chosen, because of the proven serious shortcomings of the use of statistic/econometric techniques for the selection and weighing of criteria. The paper describes the method of the Difference Analysis leading to a well-balanced mixture of an objective substantiation of local financial needs and political decisions.

Author: Grete Lilleschulstad, Ministry of Local Government and regional development, Norway

Title: "Equalization of settlement pattern and size of municipality in Norway"

Summary:

"The municipalities are compensated for objective differences in their need for involuntary costs through the General Grant Purpose Scheme. The settlement pattern and the geographical differences in Norway give us special challenges in a perspective of equalization of expenditure. This paper will give an account of how this objective costs due to settlement pattern and the size of the municipality are treated in the equalization of expenses. Much effort is put into developing criteria that will capture the costs due to the settlement pattern. This paper will account for this work, and also the method ap-

plied to determine the weights these criteria should have in the equalization of expenditure (the calculation matrix).

In addition, it is accounted for the vertical grants for the remote areas and Northern Norway. These grants are based on political priorities.”

Author: Nils Otter, German Research Institute for Public Administration, Speyer, Germany

Title: “Issues in Fiscal Need Equalization in Germany”

Summary:

“The purpose of this paper is to shed light on fiscal need equalization in the German fiscal constitution. It provides a brief background to State and Local Government Finance and describes how expenditure needs are calculated. The main focus lies on the system of local fiscal equalization which can be characterized as a vertical equalization scheme with a horizontal effect. The vertical element is mainly expressed by unconditional grants from states to local authorities („Schlüsselzuweisungen“); the horizontal effect arises out of a comparison between fiscal needs and fiscal capacities on the local level. Although this basic mechanism is the same in all German States the estimation and weighting of fiscal need is practised in each State differently. Since this quantification of local expenditure needs is crucial for resource allocation it will be critically discussed.”
