

MANAGING ACROSS LEVELS OF GOVERNMENT PART ONE: OVERVIEW

A. Introduction

This introduction provides the context for the discussion of emerging trends in “managing across levels of government” which follows. It looks at the concept of governance and relates it to recent public management reforms and changes in inter-governmental relations in OECD Member countries. In Part B several critical aspects of managing across levels of government are “examined: firstly evolving patterns in the structures, responsibilities and powers of sub-national governments; then the shifting financial and fiscal relations between the centre and other levels of government; and finally trends in regulatory reform and human resource management. Part C presents some implicit tensions in inter-governmental relations; and resulting challenges for systems of governance which are increasingly complex and diverse. Some implications of these observations for central managers are then elaborated in terms of the changes needed in the mechanisms of inter-governmental management.

At the **Ministerial Symposium on the Future of Public Services** -- the first OECD meeting at the Ministerial level on public management -- held in Paris in March 1996, the Statement by the Chair (Alice Rivlin) noted that:

“Developments are forcing, as well as enabling, changes in the structure and boundaries of government. There has long been a debate about the size of government, as well as whether to centralise or decentralise. ... We must now be willing to move in both directions -- decentralising some functions while centralising other critical policy-making responsibilities. Such changes are under way in all countries.”

The arrival of “managing across levels of government” (MALG) on the agenda of the OECD’s Public Management Committee reflects some new attitudes by central governments towards public management and governance. This comes in response to the twin pressures of budgetary deficits and calls for better quality democracy. In this context, the main concerns underpinning this work are to:

- facilitate the achievement of national objectives, e.g. fiscal strategy;
- remove unnecessary duplication and overlap;
- obtain better value for taxpayers’ money;
- make services more responsive to local needs; and
- empower citizens to participate more in decision-making.

The box which follows confirms that despite their complexity and political sensitivity, issues of inter-governmental management, are high on the current agenda of many OECD Member countries.

Some recent developments in inter-governmental management in OECD countries

- **Australia:** a Steering Committee for Review of Commonwealth/State Service Provision published its first annual report in 1995 after much collaboration between all levels of government. It contains much performance data (on both efficiency and effectiveness) for key social services;
- **Belgium:** progressive transformation from a unitary to a federal state culminated in the 1993 Constitution changes and debate on the distribution of responsibilities between levels continues;
- **Canada:** since 1994, a "Program Review" has put focus on effective and cost-efficient services; redefined the role of the federal government; and proposed stronger partnerships with the provinces in efforts to "get government right". The 1995 referendum on Quebec has brought the Constitution and all other devices for devolution to the top of the national agenda;
- **Finland:** Regional Councils were established through legislation in 1994;
- **France:** the 1982 decentralisation reforms created the region as a new territorial authority and the 1992 "Deconcentration Charter" significantly changed the responsibilities of the prefects;
- **Greece:** much discussion continues around the new regional tier of government created in 1994;
- **Ireland:** Regional authorities were created in 1994 mainly for co-ordination but not directly elected, a Strategic Management Initiative is encouraging central/local consultation, a Devolution Commission was set up in 1995, in 1996 a Local Government Reorganisation Commission made recommendations;
- **Japan:** the Decentralisation Promotion Law of 1995 set up a Commission with the same name in the Prime Minister's Office charged with recommending a decentralisation package;
- **Netherlands:** in the past 15 years some 10 bill. guilders have been "structurally decentralised";
- **Mexico:** since 1995 "New Federalism" has been a key objective; the National Development Plan 1994-2000 puts decentralisation and new instruments for fiscal co-ordination high on agenda;
- **Portugal:** regional institutions have been at the centre of political debate for several years;
- **Spain:** Autonomous Communities cover the country since 1983 and enjoy large degree of regional self-government. A framework to extend and standardise their powers was agreed in 1992 and a reform of the Senate is now planned to strengthen regional constituencies for the election of senators;
- **Sweden:** in 1995 a Parliamentary commission proposed a new type of directly elected regional government with regional development functions in addition to those of existing county councils.
- **Switzerland:** the Federal Council started reforms in 1994 including a working party with canton representatives to strengthen their financial capacities and guarantee the subsidiarity principle;
- **United Kingdom:** in July 1996 the House of Lords Select Committee on Relations Between Central and Local Government published a report on the current state of those relations and the factors leading to them, and made recommendations for improvement. In response the Government published a White Paper in November 1996 with a programme of action to strengthen local democracy, promote the local leadership role of local authorities and improve further the relations between central and local government. Over 40 "Citizens Charters" now spell out the standards of service which can be expected;
- **United States:** the 1995 Unfunded Mandate legislation restricts the ability of Congress to impose costly mandates on sub-national governments; and the National Performance Review and "Reinventing Government" initiatives have put much emphasis on empowering state and local governments -- particularly through partnership agreements with federal agencies.

First, a few words about the notion of governance -- what it means, why it is important, and how it affects inter-governmental management.

Governance reflects a pluralisation of the important actors in governing and in providing public services. The configuration of public institutions is changing; the roles of supra- and sub-national bodies are becoming more important; and semi-public and private sector actors are becoming more widely and deeply involved. At the same time, interaction is becoming less authoritative and more co-operative. New policy challenges (such as the environment and regional development) are undermining long-established habits of compartmentalisation. As a result, inter-governmental relations are more complex and need to be considered more comprehensively as a system -- hence governance.

The implication of all this for managing across levels of government are far-reaching. New skills are needed to manage multi-tiered systems with diverse, fragmented and inter-dependent components. In addition, moves to improve the quality of local democracy (such as more directly elected posts and wider use of consultative councils) are increasing the tensions between local authority and central steering. Fiscal squeeze is exacerbating those tensions. The overall effect has been to make inter-governmental relations much more complex and sub-national governments a more important partner in patterns of governance as a whole.

The public sector management reform strategies being designed and implemented in OECD countries to address these challenges have many points in common, and taken together they may be seen to represent a paradigm shift. The elements of this change have been spelt out in the Committee's 1995 publication, *Governance in Transition*. They place the focus on:

- results and increased value for money;
- devolution of authority and enhanced flexibility;
- strengthened accountability and control;
- a client and service orientation;
- strengthened capacity for developing strategy and policy;
- introducing competition and other market elements; and
- changed relationships with other levels of government.

The changes reported in this present publication need to be considered in the context of these developments. The bottom line, especially when times are financially difficult, is that the centre is seeking to retain some overall control of expenditures and revenues, while local resistance mounts and calls for greater freedom of action grow stronger. Fiscal issues are, therefore, at the heart of many of these tensions, and in many countries fiscal and financial pressures have been the major factor in seeking more decentralised modes of governance. In **Mexico**, for example, fiscal federalism is a key concern -- but political factors are also crucial. In other countries, the push to decentralisation has been driven primarily by a call for greater democracy, not a quest for greater efficiency. Such is clearly the case in **Spain**, for example, and in **Belgium**, also, it is political and cultural concerns which have been dominant.

There is growing recognition that any public management reform strategy must be an astute combination of overall steering and enhanced flexibility. Aligning central and sub-national government

policies is critical to the successful implementation of reform programmes which are aimed at improving the overall efficiency, effectiveness and economy of the public sector. All countries seek to perform better when competing in the international arena; addressing national social and economic problems; and providing quality public services to individual citizens. This requires a coherent merging of the goals and the values present at *all* levels of government.

The approach and the constraints

The publication attempts to map out the current and evolving distribution of responsibilities and authority across levels of government in 26 OECD Member countries. (Since preparation Hungary, Korea and Poland have also become Member countries). It also presents the current debate and driving forces behind the changes currently taking place. Each country chapter has a standard structure which was established after a pilot study involving a representative group of OECD countries.

All Member governments have assisted in the preparation of their respective country chapters. They were also asked to respond to a questionnaire dealing with some of the implications for central managers of a more (de)centralised environment. Their responses have been used, along with the material in the country chapters, for drafting this Overview. Members of the Public Management Committee -- who were the addressees (and are the prime clients) of this study -- were also asked to circulate the questionnaire to representatives of sub-national governments in their country. This was intended to give another perspective to some of the issues under discussion, but such material was provided by only a small number of countries.

The size and complexity of the subject requires an approach which is selective and where value may be added by dealing with the issues in a broad comparative way. There is, therefore, a focus on inter-governmental aspects of policy co-ordination and financial and performance management. By the same token, human resource management and regulatory management are not dealt with in any detail.

The wide variety of country-specific local and regional government structures, practices and political and administrative cultures means that there is no single best model for (de)centralisation. Countries are moving in different directions, at different speeds, in different sectors, from different starting points, and with different objectives and priorities. Different political parties holding office at different levels of government further complicates matters. A focus on inter-governmental management transcends the uniqueness of each national situation. It can help to identify and explain evolving inter-governmental relations and may lead to practical conclusions on ways of making existing systems of governance -- in all their diversity -- more efficient, effective and responsive.

Some definitions

Moves along the centralisation-decentralisation spectrum may take any of several guises. They may involve decentralisation, deconcentration, devolution and/or delegation -- and these may be alternative strategies to achieve the same results. Different shades of meaning may, however, be attached to these options across countries, so it is useful at the outset to establish what these alternatives are and how they are understood in this publication. The following definitions have been adopted throughout this study. They reflect distinctions between the transfer of responsibilities and discretion out and down organisations, and the implications for accountability:

- **Decentralisation:** the transfer of responsibility to democratically independent lower levels of government, thereby giving them more managerial discretion, but not necessarily more financial independence.
- **Deconcentration:** the transfer of responsibility from central ministries to field offices or more autonomous agencies, thereby becoming closer to citizens while remaining part of central government.

Given the differences of meaning attached to these and related terms such as delegation in different countries, **devolution** has also been used in other PUMA work as an umbrella term covering all forms of transfers of responsibility. And, in the regulatory area, **delegation** is used for the formal relationship in which competence for an aspect of the regulatory process is given by one level of government to a second level of government.

In this report “**central**” (or “**state**”) government refers to national governments in federal and unitary countries; “**state**” government is used only for the intermediary order in federal countries (provinces, *Länder*); and “**local**” government is either the third tier in federal countries or the second and third tiers in unitary countries (regions, counties, municipalities, communities, etc.). “**Sub-national**” includes all governments other than that at the centre. In the System of National Accounts (SNA), “**general government**” is broken down into four sub-sectors or levels i.e. central government, state government, local government, and social security funds. The graphs in this report merge the state and local levels of government into one category -- “sub-national”.

Finally, it is tempting to try to devise statistical measures according to which countries may be placed on a scale of decentralisation. A large range of parameters can indicate different facets of decentralisation in quantitative terms. They are all, however, only partial measures of what is a very complex phenomenon. And even taken together, they remain simplistic and unable to reflect adequately the essential political and administrative components which make up the real “quality of decentralisation” in any country. Finance, but also administration, control, regulation, reporting and accountability are all key factors in decentralisation and have implications for the efficiency of resource allocation; effectiveness of governance; and degree of equity. The quantitative data included here to illustrate specific financial and fiscal aspects of managing across levels of government should, therefore, be read with due caution.

The statistical charts in this chapter are for countries for which OECD data are available on the variable and in the year required. If a country is not represented in a chart, it is because suitable data were not available at the time of preparation. Similarly, for time series, certain countries do not have the complete set of data, in which case the time series has been shortened accordingly. Differences of this nature have been footnoted. The figures in the charts are drawn from the OECD public sector data base which assembles data found in other relevant OECD data bases (National Accounts, the analytical database, and revenue statistics). The table on public employment by level of government has been taken from the Public Management Service’s database on public sector pay and employment.

Statistical tables in the individual country chapters are from various national and international sources, as noted in each case. Because of differences in definitions, figures in the country chapters may not always match figures taken from National Accounts and the OECD public sector database. Country-specific statistics quoted in this Overview have been taken from the country chapters, unless noted otherwise.

B. Some emerging trends

The following box indicates some recent shifts in responsibilities across levels of government in those OECD countries reporting significant change. Such shifts -- between existing levels of government and to newly-created regional tiers -- have increasingly become a subject of interest. While the general trend has been one of decentralisation, there have been exceptions to this tendency.

Recent changes in responsibilities across levels of government

Austria	Functions such as housing are shifting from the central to the <i>Länder</i> level; local governments are playing a larger role in economic expansion and social change; and there is a growing federal and <i>Länder</i> concern with macro-economic management and reduction of regional and social disparities.
Canada	The federal government has delegated to the provinces activities such as administration and enforcement of the Criminal Code and regulation of interprovincial and international highway traffic. The federal government has withdrawn from labour market training, forestry, mining, and recreation, and has proposed a much strengthened partnership with the provinces on such items as food inspection, environmental management, social housing, and tourism. Many municipalities have transferred responsibility for health, social services and education to the provinces because of the high costs involved.
Denmark	During the 1970s and 1980s, responsibility for social security was shifted to municipalities, and responsibility for regional planning, primary health services, care for the handicapped and disabled, secondary schools, environmental quality, and public transport moved to the counties.
Finland	There has been a transfer of power from central government's deconcentrated administration to new regional joint authorities controlled by municipalities since 1994 in areas such as regional planning and development and environmental policy.
France	The 1982 decentralisation plan gave full independence to the regions and the <i>départements</i> in a range of areas such as education, economic support measures, and local transport. It also gave responsibility for the construction and maintenance of primary schools to the municipalities, while retaining responsibility for most other education policy at the central level.
Greece	Responsibilities delegated to the new level of regional administration created in 1994 include land use planning, public land disposal, licensing of industrial development, and the administration of primary and secondary school staff.
Iceland	All responsibility for primary education was transferred from central to local government in August 1996. An experiment with "pilot authorities" seeks to transfer some central government responsibilities to selected local authorities.
Ireland	The responsibilities of the local government have been greatly increased, and a wide range of central controls removed from matters such as land disposals, staffing, personnel, and housing construction. Local authorities have acquired additional functions such as urban renewal, housing, physical planning, road traffic, amenity provision, and building control. Environmental functions have been transferred to a national agency.
Italy	The period since 1970 has seen the transfer from the State to the regions of manpower training, health care, agriculture, transport, environmental protection, and economic development. In 1990, a law was passed that sets the stage for a major reorganisation of the provinces and municipalities, which should lead to a major reallocation of functions between levels of government.

Mexico	In 1983, the Constitution gave municipalities more regulatory power and exclusive authority over the real estate tax. Municipalities' functions were enlarged from 1989-1994 to include the approval and administration of urban development plans, the legalisation of land holdings, and the provision of water, electricity, sewer and policing. In 1992, the federal government transferred the operation of educational services to the states, including responsibility for schools, budgets, and human resources. Decentralisation is still high on the agenda and extended to health, agriculture, social development, transport and communications by transferring resources, authority and powers to the states.
Portugal	The new Government (October 1995) has put the transfer of responsibilities to local governments high on the political agenda in areas such as pre-school care, social housing, public security, tax collection, and environmental matters.
Spain	The creation of the Autonomous Communities has brought significant transfers of responsibility. This has included the decentralisation of the health and educational systems, as well as public works, agriculture, environmental protection, regional development, and social assistance. The process is continuing as new sets of functions continue to devolve.
Sweden	Since the 1960s there has been a transfer of responsibility to local government of services such as schools, old-age and child care, and health care. There has also been some centralisation of functions and tasks, such as the social security administration, the administration of student aid and grants, the national tax administration, employment of disabled and handicapped persons, and the administration of housing subsidies. In 1992, local governments took over responsibility for long-term medical care of the elderly and handicapped, and county councils took responsibility for public transportation.
Switzerland	Simplification of the currently very complex distribution of responsibilities between the federal and cantonal levels is presently the subject of possible Constitutional reform.
Turkey	Many government functions were transferred to the municipal level after World War II: the construction and provision of public housing and some urban planning and development (1950s), the regulation of urban economic activity and consumption (1960s), and certain duties in the area of environmental protection (1970s). The transition to civilian government in 1984 led to the devolution of development planning to the municipalities.
United Kingdom	In the past 15 years there has been some centralisation of power so as to set national direction, standards and policy frameworks; but there have been parallel moves downwards, particularly to service users themselves, using Citizen's Charters to define specific service standards and rights of redress. Recently, the role of local government has put more emphasis on securing services rather than providing them directly.
United States	A shift in responsibilities has come about as a result of the increased tendency of the federal government to approve waivers that allow the states to experiment in important policy areas such as welfare and health care. The number of waivers granted in the 1990s has increased, and the states have taken the lead in formulating innovative approaches. Congress has also passed a welfare reform bill that converts current federal spending into block grants, ends the federal entitlement to welfare benefits, and shifts many responsibilities to the states.

I. Structural development

Structural development, as used here, mainly concerns territorial changes that have occurred sub-nationally in recent decades and shifts in the distribution of authority or the performance of tasks. National administration has also undergone changes, especially in terms of the presence of the "centre" at sub-national level. In some countries, the creation of a new level has altered the functions of the centre's representative when, for example, some tasks are decentralised. More often, however, they are related to developments in the mode of public management which affect the role played by the centre and its representative. The changes connected with deconcentrated national government and its relations with local authorities form another important subject, but one which lies outside the scope of this analysis and

which is mentioned here only briefly. Another equally important aspect, also outside the scope of the present study, is the growing involvement of private and para-public actors in sub-national public affairs, and the effect on management.

1. *Structural changes*

Over the past quarter of a century, most OECD countries have witnessed structural changes sub-nationally. The scale of these changes and the reasons for them vary according to the country. They can, however, be broadly summed up in two types of change: territorial re-organisation, and “rationalisation” at the local level. Whatever the nature of these changes, they have altered and blurred the traditional typology which in the past distinguished federal and unitary systems.

Territorial re-organisation has taken different forms. The countries in which it has been extensive have in the main been strongly centralised unitary States. The creation of new levels has led to a modification of the national structure, as in **Belgium** which recently became a federal State, or **Spain** and **Italy** which have become regional countries and have thus introduced a new type of institutional organisation. The bodies so created often arise from a division of territory reflecting cultural, linguistic or historical contexts. These bodies often have legislative powers which can vary across regions. Other countries have instituted a regional or intermediate level with its own political “force”. Thus **France**, by virtue of its policy of decentralisation, has created a regional level, and **Greece** has also instituted a regional level with an elected prefect. **Finland** has created a new level formed by the voluntary association of municipalities at the regional level, which is now calling into question the role of the Finnish provincial administration; while in the **Czech Republic** there is continuing debate on the nature and responsibilities of any new regional tier of government -- and on how many regions there should be. In some European countries, accession to the European Union has given more importance to the regional level, particularly due to the process of allocating European funds. The elimination of a tier, on the other hand, is more rare and few countries have attempted it. In **Germany**, some *Länder* have decided to eliminate districts, and in the **United Kingdom** the number of levels in the local government system throughout Scotland and Wales and in some parts of England has been reduced from two to one.

Rationalisation at the local level is something which has occurred in the vast majority of OECD countries. It has taken the form of municipal amalgamations (even of *Kreise* in **Germany**), being seen by central government as a way of establishing economically viable units better able to provide local services. Such mergers are usually carried out with the consent of the communities involved and within a legal framework. In most cases they involve simple amalgamations and the disappearance of the old authorities. The ability of the municipalities concerned to resist mergers depends on the extent of their autonomy. In **Australia** and **Canada**, for example, each state or province issues its own rules on the matter. In some countries the amalgamation process is very protracted, in others it does not exist at all. Where, for example, there is a strong tradition of municipal independence, it has bred opposition to any kind of imposed merger -- as in **Iceland**, where mergers can take place only at the instigation of the municipalities concerned, or **Finland** where, despite government efforts, large numbers of small municipalities survive as they view amalgamations as an attempt to reduce their independence. Other factors such as the status of the municipal executive can also slow down the merger process. It is of interest to note that in **Sweden**, following a period of imposed mergers, despite strong opposition from the municipalities, a reverse trend now appears to be occurring, explained by the distance between inhabitants and their elected representatives once a municipality grows beyond a certain size.

In addition to simple amalgamations, mergers of associated municipalities also take place and give a degree of administrative freedom to the authorities involved. This is the case for example in **France** -- another country where there remains a large number of municipalities and which prefer to form inter-municipal associations for carrying out works in their common interest. Such groupings of municipalities occur in most countries. Inter-municipal co-operation of this nature is often voluntary, done within a legal framework, based on shared interests, and allows each municipality to retain its own institutions. The type and degree of autonomy of these associations or inter-community organisations varies across countries, such that in **Switzerland**, and equally in **Italy**, they may constitute an additional administrative tier between the local and cantonal levels. In most countries, metropolitan areas have emerged which can give rise to new local levels (as in **Canada**) and which may herald new administrative levels. In the case of both amalgamations and associations, the bodies are usually headed by a council -- elected directly or indirectly.

Another structural development in many countries, but notably the **United States** and **Canada**, and which is not strictly speaking territorial, is the impressive number of specific purpose bodies set up at all levels -- not only by central or federal governments (see section 3) but also by local authorities. Their freedom of action varies, but is often limited to a particular field. These organisations may be part of the local authority system and governed by an elected council, as in the **United States**, or not be part of that system and have at their head a council, the members of which are nominated by the local authorities, as in **Ireland**. These organisations or associations may be mandatory or formed on a contractual basis, as in **Finland**. There are also bodies which have been created as a result of local government reforms, as in the **United Kingdom**, which have inherited the functions previously entrusted to local authorities, and which have a specific task and members appointed by central government or from the local community. Another possible category is government “agencies” whose competence extends across state and provincial borders in federal countries, as well as trade associations, and interest groups working across levels in the same field and associated among themselves. All these bodies — whether certain countries call them “districts”, “councils”, “agencies” or “associations” and regardless of their status and attachment (to central government, local government, or other) — play a part in the decision-making and co-ordination system and have a definite influence on the complexity of the chain of responsibility, particularly where the provision of services is concerned.

The stratification observed in most countries can sometimes spark debate. The exact role of the new levels can take a long time to define (as in **Finland**), since this entails redefining the role and functions of the levels already in existence. Some countries (**Denmark, Ireland, Belgium, Spain, Sweden**) are reviewing the role or the number of existing sub-national levels. Others again are experiencing the development of entwined or superimposed levels. The question arises of whether the creation of new intermediate levels such as in the Nordic countries where there is a strong tradition of municipal independence, impinges on the freedom of action of local authorities. This vertical multiplication, combined with a horizontal expansion of bodies (specific or general-purpose, public or private, or deconcentrated parts of central government ministries) also raises the question of how all these bodies inter-relate.

2. *Distribution of responsibilities*

There are two aspects to the distribution of responsibilities: the principles and machinery of distribution, and the mode of application. Each aspect in turn has two angles: formal features and operational reality. The gap between the two can stem from a formal structure which is ill-adjusted to real situations (e.g. environmental protection, which was less important thirty or forty years ago), from

economic developments (especially social protection policies), or more simply from the fact that the competent sub-national level does not have, or no longer has, the means to cope with the financial costs attached to its responsibilities.

a) Distribution principles and machinery

This subject requires at least a passing reference to the constitutional arrangements in force: the status of the sub-national levels and the amount of autonomy officially attributed to them, the official distribution of responsibilities, and the way this distribution has developed in practice and now operates. The task is not an easy one, for the subject has become increasingly complex —owing in part to the large number of systems and traditions in operation, and in part to the growth in shared functions.

The classical analytical criteria by which “degrees of autonomy” could be determined, like the theoretical distinction between intrinsic and delegated fields of authority, are no longer fully valid. There are some systems in which the centre intervenes increasingly in the management of the “intrinsic” competences of sub-national governments. In the **Netherlands**, this kind of intervention operates via co-administration. In many countries, on the other hand, delegated authority is being exercised with increased independence in certain fields.

Countries may nonetheless be classified by type of structure: federal countries, unitary countries, and countries tending towards regionalism. Countries in each category share common features as regards the status of sub-national levels and the formal distribution of tasks.

Within the federal category, certain sub-groups may be distinguished:

North American federal countries and Australia: The **United States**, **Canada**, **Australia** and, to some extent, **Mexico**, may be characterised as having only their two upper levels (federal level, and state or provincial level) mentioned in the federal constitution. Local administrations are “creatures” of the intermediate level. This intermediate level has its own constitution. Authority is distributed between the federal and intermediate levels, generally “by default”. The constitution either mentions the broad principles and general areas, or defines the prerogatives of a single level, the remainder being assumed by the other level. The history of this distribution is reflected in an extremely complex state of affairs in which the growth of federal funding and regulation has created a great tangle of overlapping roles and responsibilities. The sovereignty/autonomy conferred under the constitution on the intermediate levels is very much affected by this situation. In the **United States**, the proliferation and interpenetration of the different local bodies (whether general or single purpose) has produced much dispersion in the provision of services (and has certainly weakened the chain of authority).

Germanic federal countries: These are **Germany** and **Austria**. Also, especially in its German-speaking cantons, **Switzerland**, shows features similar to the Germanic systems, but for the rest remains atypical. In **Germany** and **Austria**, the constitution guarantees the existence of the *Länder* and municipalities, the latter being considered independent and autonomous; and in practice they are quite powerful. The constitution provides for a distribution of responsibilities (in detail in **Germany**, “by default” in **Austria**). The *Länder* and the municipalities perform both their intrinsic tasks and devolved tasks (either compulsory or optional). In **Germany**, the concept of “co-operative federalism”, while favouring the development of tasks and, especially, resources that are shared among the three levels, has resulted in difficulties regarding clear priority assignment. It has also resulted in a need (felt by each level) to guard against too much interference from the level above and in growing task distribution problems. In **Austria**, the independence of the *Länder* is curtailed from the outset by the constitution.

The increased complexity of relations among the different levels (particularly as regards the sharing of tax revenues, and joint decision-making on co-financing) is a source of friction among them. The freedom of action of the municipalities has been restricted by the devolution of federal powers to the *Länder*.

Atypical federal systems: In **Switzerland**, the confederation is an emanation of the cantons, as befits the Germanic principle of “self-administration” (*Selbstverwaltung*). **Switzerland** differs considerably from **Germany** and **Austria** in that the principle of self-administration is interpreted in a much broader sense. Under the federal constitution, the cantons are sovereign entities which exercise all the powers and responsibilities not delegated by them to the federal authority. Each federal responsibility must be identified in the constitution. The cantons have authority over the status of their municipalities, whose tasks they determine. The Swiss system is in this sense not unlike those of North America and Australia. The end result is wide diversity, although two groups may be distinguished: municipalities in the Germanic-type cantons, which are often larger and wealthier; and those in the French-type cantons, which are often smaller and less wealthy. The autonomy of the municipalities is not guaranteed by the constitution; it varies markedly from one local authority to another. In practice, the cantons’ sovereignty is limited by the extension of federal power and greater federal intervention in all fields. There seems to be a tendency towards the centralisation of powers at the federal level. The distribution of responsibilities among the three levels is extremely complex: a large number of tasks are shared (of 160 responsibilities counted, two-thirds are exercised jointly by the Confederation and the cantons). This executive federalism is responsible for the very complex distribution of activities, which becomes more complicated as the degree of service to be provided increases.

Belgium has a singular federal system resulting from a long process of federalisation. The autonomy of the language-based communities and of the regions is far-reaching, since in principle the rules which they promulgate have the same legal weight as federal ones. As in **Switzerland**, the constitution confers only “residual competence” on the federal state. The detailed distribution of responsibilities among sub-national levels is set out in the constitution and legislation on institutional reform. Another result of federalisation has been to transfer supervisory authority to local government (provinces and municipalities) without, however, transforming them into “creatures” of the regions. More particularly, the notion of “exclusively provincial and local interests” has been recognised, making the overlapping of responsibilities more likely.

The unitary countries may be divided into the “classic” unitary states and the Nordic countries, which form a fairly homogeneous group.

Classic unitary states: These countries, although highly disparate, may be divided into two broad groups -- on the one hand, “Westminster-style” countries, influenced by the British tradition, such as the **United Kingdom, Ireland** and **New Zealand**; and, on the other hand, “Napoleonic-style” countries, influenced by structures inherited from the French model based on the unity and indivisibility of the State, namely **France, Greece, Luxemburg, the Netherlands, Portugal** and **Turkey**. Some of these latter countries, especially in southern Europe, have retained a largely centralised mode of government. In others, a devolution of competences has developed over the years, as in the **Netherlands** and, since 1982, in **France**.

Japan is a case apart, difficult to classify in either group, owing to its roots in another sphere of culture (despite Western, mostly Prussian and Anglo-Saxon, influences).

The degree of centralisation in these unitary countries varies enormously according to the country and fields of responsibility, but State sovereignty remains at the centre. It is this aspect which

unites these countries which are very different concerning the autonomy they accord to their sub-national levels. Legislative authority, for instance, is never shared; it remains exclusively the responsibility of the national parliament. Matters are less simple where regulatory authority is concerned, owing to the need for taking decisions which will ensure good local governance. While sub-national governments have decision-making authority in their fields of responsibility, they may not exercise general regulatory power, as in **France**, or such power is at best limited, as in the **United Kingdom** and **Ireland**. The only exception is the **Netherlands**, where the constitution gives autonomous and general decision-making authority to sub-national governments in respect of their own affairs (authority admittedly eaten into by the growth of “co-administration”).

Legal protection of sub-national responsibility is also less extensive than in federal systems. In unitary countries, only the State has “responsibility for its own responsibilities”; in other words, sub-national governments cannot alone determine their fields of action. Furthermore, the responsibilities of sub-national governments are not normally mentioned in the constitution. Even where an intermediate (regional) level exists between the national and the local level, its responsibilities are generally set out in specific legislation but not in the constitution. It is thus easier to contest the powers and responsibilities of sub-national governments in unitary than in federal or regional systems. Occasionally, as in **Greece** or **Turkey**, the executive branch holds substantial prerogatives regarding the distribution of tasks. In **Greece**, for example, the amount of autonomy and freedom enjoyed by regional governments in conducting their own policies depends, according to the legislation of 1994, on the power conferred on them by Presidential decree.

However, in some cases, the courts have extended their control over such law. A general principle of “free administration” sometimes provides sub-national governments with constitutional protection -- as in **France**. This does not guarantee them the right to any specific responsibilities -- that power remains in the hands of the legislator -- but it does guarantee them freedom in how those responsibilities are carried out. French jurisprudence also recognises the competence of each level of government concerning its “local affairs”.

The Nordic countries: Sweden, Denmark, Norway, Iceland and Finland (though the creation of a regional level, and rather less freedom of action at local level, distinguish it from the others) undoubtedly belong with the unitary countries. They have a number of common features which set them apart, however: the principle of local self government (enshrined in the constitution, except in **Norway**), and the extent of local freedom of action. Local government may have several levels, each with its attributes, but without any order of rank. This is a feature common to other kinds of unitary system, such as in **France**. Local levels are regulated by a framework law and their responsibilities are defined by legislation. The principle for determining where to locate responsibilities is that they should be at the level most suited for supplying a particular service. Local levels are generally responsible for the tasks entrusted to them, and thus differ radically from those in Napoleonic systems. Some of the tasks are compulsory; others are optional and undertaken at the discretion of municipalities according to need or available financial resources. Municipalities can, in most cases, levy their own taxes, within limits which are (except in **Denmark**) determined by Parliament. They enjoy considerable freedom of action in the performance of their tasks. In **Iceland**, the situation is slightly different: the smallness of local units and of the population obliges central government to be involved in many activities customarily reserved for the local level. The distribution of responsibility is far from clear due to the complex pattern of decision-making and roles. In **Finland**, the creation of a regional level (composed of regional councils formed by the voluntary association of town councils) marks a transfer of authority and responsibility from, in particular, the provinces to the regional level. Seeing that these regional councils do not have

constitutional status, it is unlikely that the municipalities will lose their role as main actors in the municipal sector or their general responsibility concerning their territory.

Regional countries: A new category has emerged, that of regional systems. There are two “regional” countries, which grant degrees of autonomy to their regions, i.e. **Spain** and **Italy**. These countries have evolved from centralism to regionalism quite recently. The regions are inscribed in the constitution, which defines their status and responsibilities, both of which vary according to the region, but the similarity stops there. In **Spain**, the constitution lists the functions of the regions and those that remain the prerogative of the State. Functions not in the list remain with the State unless they are claimed by the regions. The distribution of responsibilities may be modified by a ruling of the constitutional court. The municipalities have, in theory, numerous functions. In practice, they are few and may be related to decisions taken by central and regional governments. The sum of these arrangements is reflected in the growing number of fields governed by different legislation in different parts of the country. In **Italy**, the legislative authority of the region is concomitant or shared with the State, so that their autonomy is limited. The regions are independent with regard to administrative matters. The municipalities and provinces have their own statutes and are entitled to choose their own form of internal organisation and administrative machinery. The constitution lays down the responsibilities of the regions (a large part of them transferred from the State), which have delegated executive authority to the provinces, municipalities and other administrative agencies. This decentralisation of responsibilities has been accompanied by budgetary centralisation, mostly at the expense of the municipalities. There is a possibility that the provinces and municipalities will be re-organised and that the present distribution of functions among administrative levels will be reviewed.

Despite guarantees and a distribution of responsibilities that varies from country to country, sub-national authorities in the OECD countries are often required to perform rather similar tasks. This is particularly true at municipal level. While it is impossible to list all the responsibilities exercised in all OECD countries, a summary distinction may be drawn among three types of responsibility.

- First, responsibilities which by their nature belong only to the centre, whether the system be federal, regional or unitary (e.g. diplomacy, defence, and monetary policy). The centre also conserves a regulatory role through the setting of objectives.
- Second, tasks which are, practically everywhere, the exclusive domain of the local level, commonly called “classic local public services”. These include town planning, local transport, sewage systems, refuse collection, and water supply. Most related reforms aim at giving local authorities full use of their prerogatives in these matters, as is the case in **Portugal**, for example.
- Third, shared tasks and responsibilities. These are of two types: those shared between different tiers of central government, and those shared between central and sub-national governments. In most countries, they are connected with the implementation of social (health, education, social assistance) or environmental policies. The sharing may be intended, that is, each level is granted part of the responsibility in a given field. In **France**, for example, responsibilities in education are shared among the three levels: university education is attributed to central government; secondary schooling to the intermediate levels; and primary education to the local level. Teachers and education policy are the responsibility of the centre, whereas each level of deconcentrated administration has responsibility for the buildings used for their own education cycle. The sharing may also result from changing economic circumstances. Formal responsibility may be attributed to one level but, owing to subsidies or other factors, its clarity

may become clouded. In **Canada**, for example, health, which is nominally the responsibility of the provinces, has gradually become an area in which the federal level plays an important part.

In short, the grey area induced by overlapping or complexity of responsibilities is not peculiar to any one system (although federal countries provide more favourable conditions than others for the development of such situations), and a review of task distribution across levels of government forms part of the reform agenda of many OECD Member countries.

b) Exercise of responsibilities

An overview of how responsibilities are carried out and of the means available to sub-national levels requires a different approach. The influence of each national tradition and culture is very important and leads to another type of classification. On the assumption that all countries do their best to provide high-quality service equitably, other criteria apply which vary by group according to whether a country's culture is primarily directed towards efficiency, effectiveness, value for money, satisfaction of citizens' needs or strict enforcement of the law. The means available to sub-national levels also vary depending on whether the tradition of relations among levels of administration is mainly one of negotiation, of consultation, or of confrontation.

It is possible to distinguish between two main categories: those countries where the exercise of responsibility is based on a legal tradition, as in the "Napoleonic" or "Germanic" countries, and where the local level is largely regulated by the centre; and those countries where a "managerial" culture is more predominant, as in the Anglo-Saxon countries, for example, where the search for efficiency is an important objective and in the Nordic countries with their traditions of negotiation and consultation. Clearly, in each category, cultural factors influence how policies are implemented.

The continental European countries, heirs to a legalistic culture, have many points in common. Even so, a distinction must be made between the Napoleonic and the Germanic countries.

In the Napoleonic countries (**France, Italy, Spain, Belgium, Luxemburg, the Netherlands** and, to a certain extent, the southern countries, **Portugal, Greece and Turkey**), detailed legislation determines the sphere of action of each protagonist and tries to avoid any overlapping of responsibilities. Since there is a tradition of distrust between levels of government (in all countries), separation of the blocks of tasks assigned to each level is felt to be necessary. This separation is also seen as a guarantee of efficiency. Priority is given to the coherence of the institutional framework, and good governance should flow from that coherence. Even in systems which are now regional, central government tries to maintain a certain degree of involvement. The citizen is traditionally looked upon as a "subject", although this view is changing. Market-type mechanisms have gained ground for services which are traditionally provided by public enterprises rather than by private institutions. Changes are also taking place in this area. The **Netherlands** differs from these countries through a tradition which is strongly attached to compromise and by the development of the co-administration of responsibilities.

The Germanic countries, **Germany, Austria and Switzerland** (at least in its German-speaking cantons) are also heirs to a legalistic culture. Grounded in respect for the law, which determines many things, they also rely on co-operative mechanisms to ensure that responsibilities are carried out as they should be at each level. The intermediate levels play an important part in the federal legislative process. This is not to say that efficiency is neglected. Local authorities are entitled by statute to use market mechanisms in the provision of services for which they are responsible and may be flexible in adjusting to circumstances. Tasks which exceed the capacity of the municipalities are entrusted to intermediate levels.

Health care is divided between the regional level and the municipalities, as is education (although secondary education is usually handled at regional level).

The situation in **Switzerland** is somewhat unusual. Local (direct) democracy is strong, and the cantons wield a large amount of power (financially and administratively). The cantons determine their own administrative structure, so may decide on the appropriateness of introducing market mechanisms in carrying out their responsibilities and on the type of services they will provide. Taxpayers have a wide right to oversee the operation of their institutions.

Japan, because of its cultural specificity, cannot be easily classified in either system. What is striking is that the central government is perceived as a leader with a mission to regulate society and local actors should help it in that mission.

The Anglo-Saxon countries (**United States, Canada, Australia, United Kingdom, New Zealand, Ireland**) put particular emphasis on efficiency, effectiveness, and value for money. They are more likely to introduce market mechanisms and notions of competitiveness carrying out their responsibilities, both of which disadvantage bodies with few resources. The citizen is viewed primarily as a consumer of services, as a client. In **Canada** and **Australia**, where most major responsibilities such as health, education or agriculture are entrusted to intermediate levels (albeit with growing federal intervention), classic local public services are left to the local levels. However, in some provinces and states, a centralisation of these tasks may be observed since they overstrain the resources of the local communities. In the **United States**, local governments play a bigger role in regard to their allotted responsibilities, but they depend financially on subsidies and the way they carry out their responsibilities is significantly affected by the rules and terms imposed by the federal administration.

The Nordic countries (**Denmark, Finland, Iceland, Norway, Sweden**) belong to another “cultural category”, more concerned with meeting citizens’ needs. They also have a tradition of negotiation and consultation. Central government regulation has on the whole been eased with the aim of giving local levels the possibility of better adjusting to local conditions and using their finances in accordance with local priorities. An important part of this approach is the ability of local authorities to organise their funds according to their needs. While local levels enjoy considerable power, citizens themselves play an important part in local government decision-making. The search for efficiency and effectiveness involves satisfying citizens’ wishes; it is they who should remain in charge of the process.

3. *Representation of the centre*

In all countries (the federal countries being no exception), some form of central representation exists at the sub-national level. Its nature is closely related to deconcentration and decentralisation policies. The centre’s presence takes two main forms. One consists of a network of central government offices at the sub-national level (a system of agencies for example) -- often called “deconcentrated administrations” to reflect the certain amount of independence which characterises them. The other type comprises, a “prefect system” in which an official is charged with representing the centre at the sub-national level. Both of these forms exist together in about half of the OECD countries -- an indication of the desire to devolve and decentralise the administration. Relations between these forms of central representation and sub-national government may give rise to problems, especially in fields where the sub-national and deconcentrated authorities have competing responsibilities.

a) Deconcentrated administration

Deconcentrated administrations exist in all countries (even **Switzerland** has deconcentrated services -- the civil servants working for the post office [PTT], for example, are subject to federal statute even though working in administrative units throughout the country).

While this ensures the presence of the centre at the local level, the field of action, local presence and degree of autonomy of deconcentrated administrations vary widely. In **France** public establishments, sometimes likened to the “agencies” of the Anglo-Saxon countries, in fact enjoy greater legal autonomy (they have legal personality, for example). **Ireland**’s system of “boards” is extremely independent. Agencies in the Nordic countries have both considerable freedom over financial management and broad decision-making powers.

In **Sweden**, where the centre’s representative is by tradition less present than in countries with a “Jacobin” tradition, the county administration helps in co-ordinating State action at the local level, along with the local agencies of the central government. Its system is sometimes described as “functional” rather than “prefectoral”. In unitary countries without a central representative at the local level (in particular, the **United Kingdom** and **New Zealand**), the agency system is also highly developed.

In the federal countries, the federal presence at the local level can be strong, whereas in unitary countries, even the decentralised ones, the regional level is not represented at the lower levels. In **Germany**, for example, both federal and *Länder* administrations are present at the local level.

In some countries, it is difficult to make the distinction, in certain areas, between deconcentrated departments and sub-national authorities, particularly where a non-elected local administration is endowed with general responsibilities (while at the same time particular central ministries are represented locally, irrespective of the form taken by this representation). This is the case in **Finland**, where regional administrations holding general powers exist without necessarily being separated from the central State apparatus. This is a country where, in accordance with a highly developed process of deconcentration, each ministry is represented at the local level. In the **United Kingdom**, Scotland and Wales have their own structures in a certain number of fields (agriculture, fisheries, health, education) and Scotland has special legislation, as its legal system is different from that of the rest of the United Kingdom. This does not, however, make it a sub-national administration. The Scottish Office and the Welsh Office, in which a large number of secondary administrations are grouped, are directed by a member of the Cabinet.

In the interests of efficient territorial development and infrastructure policies, many countries (including **Australia**, **Canada**, the **United States** and **Ireland**) have set up “regional structures” which help in organising the central government’s territorial action. The political influence of these regions varies but is always restricted to their particular sphere of action. They are involved (in ways and to degrees that vary across countries) in the integration of the centre at the sub-national level. In **Ireland**, the regional and local authorities, whose degree of autonomy varies, are entrusted with performing a certain number of tasks in specific fields such as fisheries, health, tourism, and local development

It should be noted that, depending on the country, different local authorities have boundaries which do not always coincide with the traditional administrative units. This may reflect flexibility and adaptation to needs, but may also add to fragmentation. In the **United States**, regional structures usually extend beyond state borders and have no constitutional status at either the federal or state level. In **Canada**, regional development policy needs have led to the creation of four large territorial regions, each including several provinces. These regional bodies may take part in the provision of services.

The conclusion to be drawn from these examples is that the degree of integration by the centre in the country as a whole is very much a function of how the deconcentrated administration is organised and operates. Factors which help to understand the centre's position include the role of general purpose or specific administrations, the type of links with the centre, and the extent of co-ordination between local services. This is usually offset by other mechanisms. Given the growing interdependence in central and sub-national responsibilities in most OECD countries, a better understanding of the relations between the regional bodies of central government and sub-national authorities seems indispensable.

Like the prefect system, deconcentrated government is an essential part of the provision of public services. It is often firmly implanted in the institutional landscape, and the intricate networks that have been developed are likely to ensure its continued survival.

This structural stability can, in some countries, be a hindrance to modernisation -- in contrast to the changing role of the prefect in response to new challenges. Regarding **France**, Robert Herzog, in *Entre l'Europe et la Décentralisation*, writes, "When one sees how difficult it is to redivide the departmental directorates of the [Ministry for] Infrastructure, and the near-impossibility of even touching those of [the Ministry of] Agriculture, it is hard to be optimistic."

Structural stability need not be a hindrance to innovation in management. In such countries as the **United Kingdom, Canada, New Zealand, the Netherlands** as well as in the Nordic countries, administrative modernisation reforms have been successfully undertaken within government agencies.

The place of agencies in administrative modernisation: the Nordic example

State territorial administration takes many different forms in OECD countries. These include the external services of central ministries, regional organisations emanating from the centre, and boards. One of the approaches most widely developed in recent years is the "agency" system. While the legal status of these "agencies" varies according to country, they have usually been important players in the territorial administration modernisation policies of central government. In the Nordic countries, central government ministries are now much reduced in size, and the agencies have been granted extensive freedom to decide and manage.

- In **Sweden**, where the agency model has a long tradition, the power of independent decision-making of agencies was strengthened in 1986-1989 and again in 1991. With their greater flexibility, they have been given the task of improving access to public services. They must report to the government on the measures taken and the results achieved at regular intervals. They are also now in charge of their own staff management and training.
- In **Norway**, after a period of budget reform aimed at putting more emphasis on performance, certain agencies have become public enterprises operating under market rules.
- In **Denmark**, where the bond between ministries and agencies is traditionally strong, greater managerial freedom was granted in 1991-1992 to a number of agencies in exchange for tighter control of performance.
- The basic development in **Finland** focuses on performance management and the progressive transformation of the agencies into public enterprises.

- In **Iceland**, contract management, which provides agencies with greater managerial freedom and introduces performance-based control, is being developed.

These examples show the key role of agencies in government modernisation efforts in the Nordic countries. It may be surmised that in future, on account of the services they provide and their involvement in the supervision of sub-national governments, they will become increasingly important links in the relations between central and sub-national governments.

b) Prefect system

Under one form or another, a prefectural system exists in most OECD countries. It is the result of an evolution specific to some countries and can be found in almost all the unitary systems which are not of the “Westminster” kind. As to the federal countries, where a representative of the centre at sub-national level is the exception rather than the rule, the federated States have sometimes instituted a similar system at the local level.

The representative of the centre is traditionally vested with two main duties. Apart from his role in maintaining order, he is involved in the supervision of the sub-national governments and acts as an intermediary between the central administration and its external offshoots. It may be noted that where there is such a representative, his or her presence is rarely contested, even in the event of a move towards decentralisation. In some countries, decentralisation has even been followed by a widening of the prefectural system; in other countries, such as **Spain**, the existing system prevailed as the Communities came into being.

In brief, the prefect system is alive and well. The centre has managed, especially since the early 1980s, to develop the institution, even taking account of the introduction of new methods of oversight. The centre’s representative occupies a key position, since he has shown himself to be a valuable link between national and sub-national government. He is thus involved in public management at both these levels.

The action of prefects in sub-national public management has often taken the form of administrative supervision of local governments which can involve overseeing legality and advisability. In some systems, the State’s representative also acts as local executive. Although these functions have often evolved, as under decentralisation policies, the institution of prefect is rarely completely absent from sub-national public management, if only via participation in joint projects, especially those involving areas of shared competence. The State’s representative, insofar as he often has the job of co-ordinating central government action at the sub-national level, is also associated with central public management. He acts as the channel of communication, helping to centralise the information flowing from the centre and arising from the sub-national levels.

The “prefect system”, where it exists, varies significantly according to the traditions and history of each country. Without any attempt at strict typology, certain systems may be grouped together on the basis of common features.

- The “Napoleonic” prefect model first influenced the traditions of the unitary states of continental Europe. It is a legacy of the Jacobins (the centralist movement born out of the 1789 French Revolution). The different systems have changed but the institution has remained, whether it be in states that are still centralised such as **Turkey**, **Greece** (where decentralisation is currently under way) or **Luxemburg**, those that are decentralised such as **France** or the **Netherlands**,

those that are “autonomic” and regional such as **Spain** or **Italy** or those that are now federal such as **Belgium**. In **Belgium** and the **Netherlands**, mayors also are designated by the centre; there are other countries where, although elected, they exercise part of their competences on behalf of the State.

- The Nordic countries, with the exception of **Iceland**, all have a system not far removed from this tradition. A representative of the centre is in charge of the counties. The relations among the different administrative levels are, however, by tradition less “hierarchical” or “vertical” than in the Napoleonic model countries. In **Denmark**, for example, the representative heads a council which oversees the local authorities; the local authorities association takes part in the nomination of members to this council.
- The systems derived from the British tradition, whether unitary (**United Kingdom, Ireland and New Zealand**) or federal (**Canada and Australia**), are foreign to this institution, long considered as being contrary to “self-administration”. This lack of a central representative at sub-national level, along with a network of local State agencies, is one of the distinguishing features of these systems. It does not prevent them today from being centralised in certain respects, including their finances.
- There is not often a prefect system in countries with other traditions, the **United States** and **Mexico**, for example, although institutions of a related kind may sometimes be found, mainly at local level. In **Switzerland**, with its sovereign-state cantons, a prefect system would appear to serve no purpose; yet the cantons have on occasion created sub-districts directed by a prefect who may be elected or appointed depending on the situation. **Austria** has its “Chief District Administrative Authorities” who direct the indirect (deconcentrated) federal administration but do not exercise authority over the *Länder* or the municipalities. It may be noted that watchdog institutions have sometimes been set up by the governments of federal countries to supervise the action of local bodies. In **Germany**, district administrations depend on a district commissioner whose function is similar to that of French prefects before the decentralisation laws were passed, although this system does not operate in all *Länder*. In **Japan**, the intermediate administrative level (Prefectorates) is presided over by governors who used to be appointed by the central government before the Second World War and are now elected. This change has not brought about any strengthening of local authority, however, the governor generally ensuring correct local implementation of central government directives.

All these examples go to show that a direct relation between the prefect system and the amount of centralisation or central direction cannot nowadays be established. They also imply that the old typologies (e.g. distinction between federal and unitary systems) are inadequate where this subject is concerned.

In most OECD countries, big changes have taken place, leading to extremely varied situations as regards the authority and role of the centre’s representative. These changes are linked to the development of public management priorities: trend towards a less vertical supervisory system; need for better co-ordination of State action in the field; search for forms of partnership or collaboration with sub-national authorities, on the one hand, and with other public and para-public actors on the other. This evolution takes the form of a shift towards more comprehensive governance. The structural transformations made in many countries over the past twenty years have often affected the central representative’s role. His position often gives a clear picture of the kind of relations, vertical or co-operative, which the centre tries to maintain with local government.

Carrying out tasks on behalf of central government is increasingly being shared with other bodies, especially local governments. In some countries, the mayor traditionally performs some responsibilities on behalf of the centre. The constitutional reforms which have taken place in **Greece** concerning the new regional administration also follow this trend. This form of evolution may call for additional efforts at co-ordination.

It is clear that, in many systems, the prefect has lost his powers of coercion. (In **France**, in favour of the courts; in **Belgium**, in favour of other administrative levels; in **Spain** and **Italy**, his main function is the maintenance of public order; in the **Netherlands**, the municipalities and provinces are involved in his designation.) This trend can be traced to a desire to conduct a coherent policy of decentralisation, as in **Spain**. The loss of authority may in some cases but not all (**Belgium**) be offset by additional functions, or the restoration of functions attributed in former times (see box below).

Development of the prefectural function in France

The effect of the 1982-1983 decentralisation policy was to replace the prefect by an elected Departmental and regional authority. The tutelage which he exercised over the acts of sub-national governments was changed into a post factum control via the courts. The prefect's power in this respect is now limited to taking the case to the appropriate court. He retains in essence his position as the sole representative of the centre at the sub-national level.

The prefect's position has, on the other hand, been strengthened vis-à-vis the State's territorial administration. Regional prefects have been introduced. The prefect has become the linchpin of deconcentration policy, especially since the "Deconcentration Charter" of 1 July 1992, which reinforces the prefect's powers of co-ordination over all the central government's deconcentrated services. He also has a budget for local development. The loss of his local executive role was in the early stages accompanied by a decrease in the funds which he could distribute. Since 1992, this situation has been reversed and he now once again has "envelopes" to be spent on particular policies. Under the three-year State reform plan, prefects are due to receive even greater resources (2 billion FF and 2 000 extra jobs for the 95 *départements*).

An effort has also been made to dissipate the authoritarian and hierarchical image associated with prefects and instead to promote their role as partners and experts interested in the social and economic development of the country. Inter-service "missions" have been created to permit a better flow of information. These have sometimes been left out of the picture by department heads who prefer to go directly to the prefect, who is their equal in terms of rank (a good indication of the prefect's influence on the local scene in terms of status). Another function which could be developed is conciliation, a role which could be aided by the deep roots and longevity of the prefect as an institution.

One of the basic problems of the prefect's function today stems from the perception that this local co-ordinator of State services lacks many of the elements needed to give unity to a widely dispersed system of action. The policies of specific ministries and direct communication between central and deconcentrated government administrations also tend to short-circuit the prefect's action.

In the Napoleonic countries, with their Jacobin and centralist tradition, the function of the prefect has been preserved in formal terms but has also often evolved along with the decentralisation of national institutions. Many of these countries are now very decentralised. Where this is so, the prefect, whose office may be said to be suffering from an identity crisis, has an important role to play in fostering

co-operation among levels of government. On the other hand, the absence of a perfect system has not prevented certain countries in the Anglo-Saxon tradition, the **United Kingdom** first among them, from becoming more centralised, especially on questions of finance. The agency system, with its broad managerial freedoms combined with linkage to the central government (as in the Nordic model), has in such cases served as a platform for introducing reform. Clearly, the absence of a prefectural institution does not imply a reduced central presence at sub-national levels.

II. *Financial and fiscal relations*

Designing government programmes so that activities are performed at the appropriate level of government is one of the most difficult challenges associated with the task of making government more efficient and effective....Devising policies that ensure accountability and that protect the national interest, while also allowing for flexibility, adaptability, and innovation at the state, local and individual levels is a great challenge.

Economic Report of the President to Congress, Washington DC, February 1996.

Adjusting institutional frameworks and patterns of responsibility and authority is part of the larger issue of how to improve inter-governmental financial and fiscal arrangements. The latter hold the key to understanding the nature and extent of the real autonomy of each level and shifting patterns of dependence. Views on how best to achieve gains in efficiency and economy of service delivery, be more responsive, bring greater equity, and marry these economic objectives with democratic ones, can vary significantly depending on whether there is a central or sub-national perspective. That is why inter-governmental financial and fiscal relations have become so complex -- and why the control of public expenditures and revenues are at the heart of inter-governmental management. It is also why issues of fiscal federalism such as the nature and amount of inter-governmental transfers, equalisation policy and unfunded mandates are currently at the forefront of political debate in many countries. These matters are dealt with in turn below.

1. *Public expenditure across levels of government:*

The dramatic increases in overall public expenditure in OECD countries over the last 40 years reflect, in particular, the very significant expansion of the role of government as the "welfare state" has evolved. Associated with this have been increases in the level of demand for services from the public -- in the form of both higher standards for established public services and calls for new types of services. More recently, expenditure has been subject to pressure from slower economic growth and big increases in unemployment benefit payments. As a result government spending in the OECD area has risen by about 50 per cent relative to GDP since 1960 and real government final consumption expenditure per capita roughly doubled in the 1980s.

Charts 1 and 2 illustrate how the public sector has expanded since 1970, measured by the ratio of government expenditures and receipts to GDP. Although the total level and overall growth of *expenditures* differs across countries, expenditures as a percentage of GDP have grown in all the 21 countries depicted (five OECD Member countries are not included because of incomplete data). Large increases can be found in both federal and unitary countries. Government *receipts* have followed a similar path, with receipts as a percentage of GDP rising since 1970 in most countries for which data is available.

Chart 1. Total government expenditures as a percentage of GDP (1970/1994)⁽¹⁾

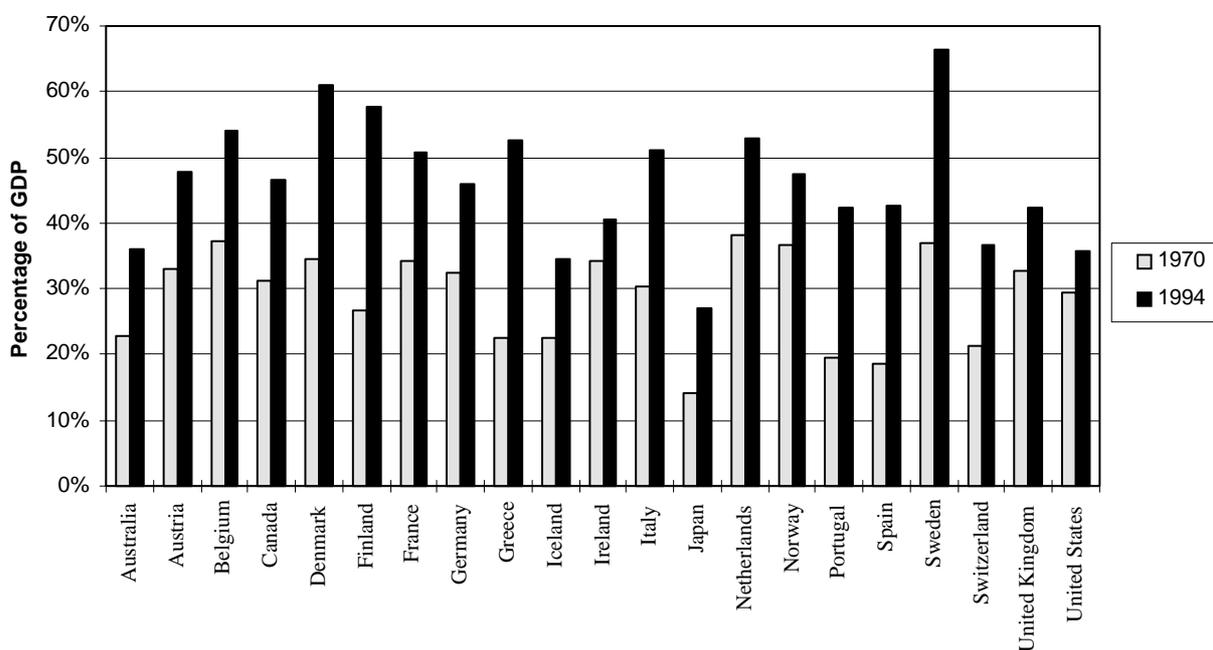
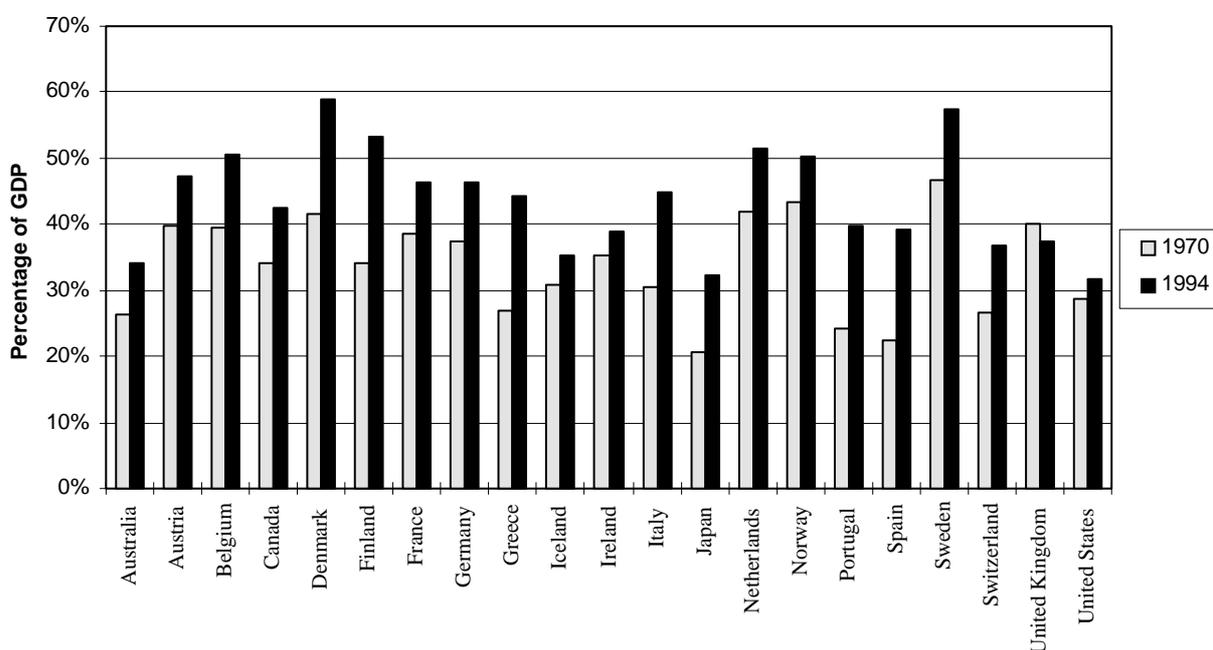


Chart 2. Total government receipts as a percentage of GDP (1970/1994)⁽¹⁾



1. For Ireland, Portugal and United States, the chart uses 1970/1993 figures.

Total government expenditures = the sum of total current government disbursements (also called current public expenditure), gross fixed capital formation, increase in stocks, net purchases of land and intangible assets, and net capital transfers.

Total government receipts = the sum of current government receipts (also called current public receipts), provisions for consumption of fixed capital, and capital transfers received.

Note: Because of differences in definitions, figures in country chapters may not always match those from National Accounts.

Source: OECD National Accounts.

Today, despite downsizing in many countries, levels of aggregate public expenditure remain high. Countries are using a range of policies to address the deterioration in financial balances including numerous measures which have a direct impact on inter-governmental relations. This reflects the growing weight of sub-national governments in the evolution of public expenditure patterns. One early causal factor was the widespread need in many countries after World War II to extensively rebuild local infrastructure including housing and transport facilities. Another was the rapid growth of urban areas as people migrated away from rural regions looking for jobs and seeking a better quality of life. But the key prevailing factor has been the increasingly important vocation of sub-national government as the “handmaiden of the welfare state”. This reflects the introduction of a wide range of public programmes in the fields of health, social welfare and education which needed to be implemented -- by, or with the assistance of, sub-national levels of government. Since the 1980’s pressures on the welfare state have grown, primarily due to higher levels of unemployment and more aged demographic structures. In many countries this has called for more expenditure sub-nationally.

In some federal countries this growth has tended to cluster at the intermediary tier of government :

- in **Canada** most expenditure in health and education is concentrated in provincial governments (federal transfers constitute an important source of provincial revenues and have expanded enormously over recent decades) ;
- in **Belgium**, the communities and regions accounted for 31 per cent of total public expenditure in 1985, but by 1994, after federalisation, this had risen to 66 per cent.

In some unitary countries new tiers of government have been created thereby adding to the importance of the regional level. The share of consolidated public expenditure of the **Spanish** regions, for example, rose from 15.2 per cent in 1985 to 25.3 per cent in 1994 and in the ten years from 1982 to 1993 the number of people employed in the civil service rose by over 40 per cent, with much of the increase being at the regional level. Similarly in **France**, the level of revenues in the regions has more than tripled since 1985 while their share of all sub-national revenues has increased from 4 to 9 per cent and that of the municipalities has dropped from 64 to 60 per cent.

In the Nordic countries, on the other hand, the local authorities account for the largest share of total public expenditure and deal with most of the redistributive functions typical of a welfare state. This reflects their strong tradition of local self-government and the associated high level of local taxation. In **Sweden**, for example, almost 80 per cent of public consumption is accounted for by local governments.

Charts 3 and 4 give an indication of the relative changes since 1970 in the breakdown of expenditures and receipts between levels of government. For many countries, including the **United States, Switzerland, Finland, France, and Japan**, the figures show that the central government’s share of both expenditures and receipts has been shrinking. In others, such as **Denmark, Iceland, Italy, the Netherlands**, and the **United Kingdom**, the central government’s share of expenditures has grown. These charts suggest that while some significant shifts are taking place in many, if not all, OECD countries, the figures in themselves do not demonstrate a clear pattern of change.

Chart 3. Share of total government expenditures (by level of government) 1970/1980/1994⁽¹⁾

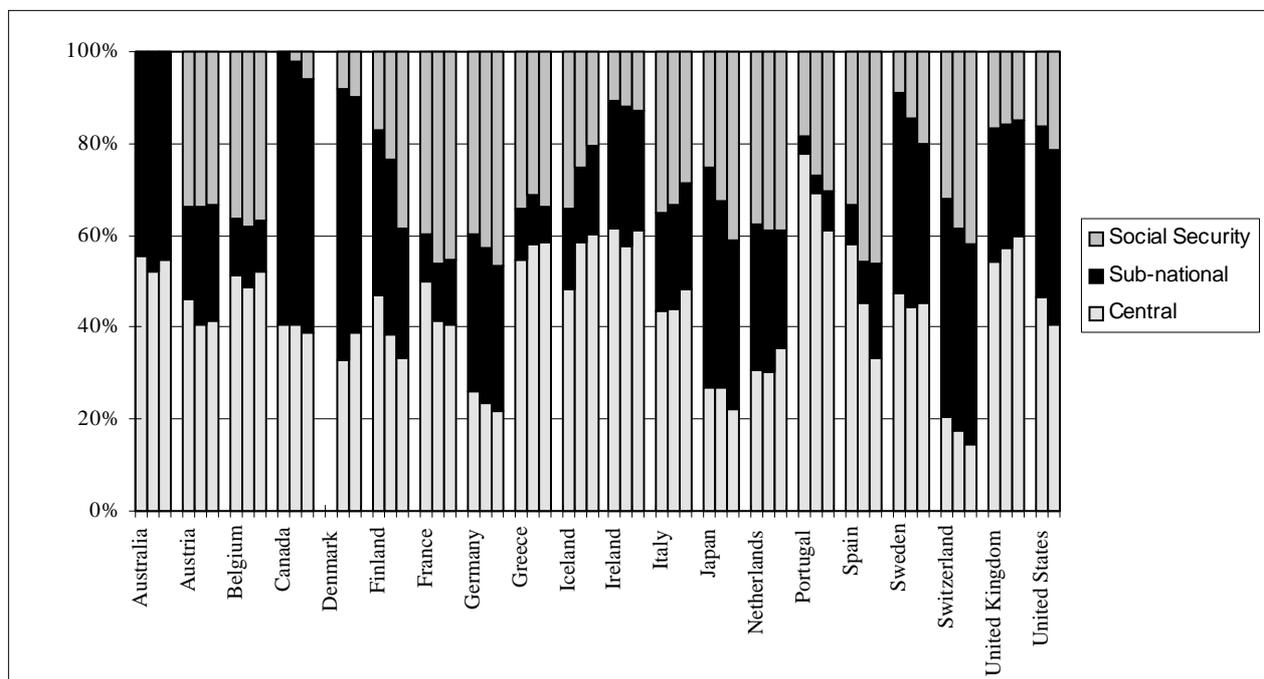
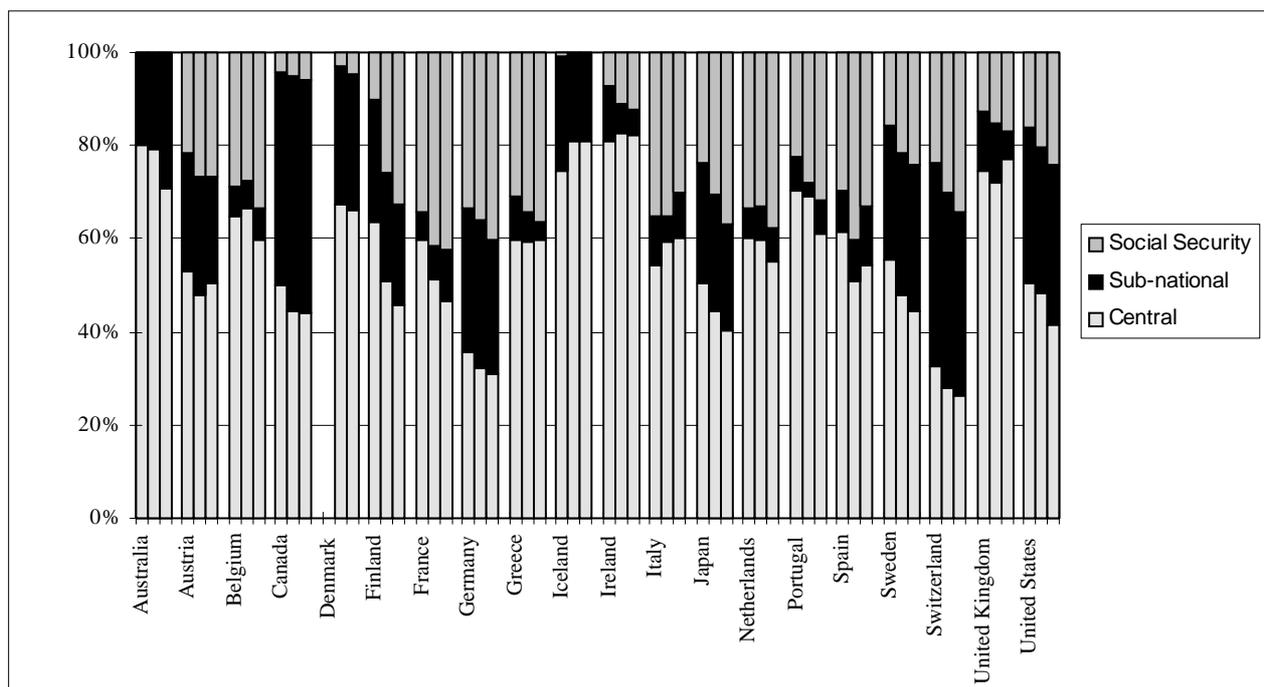


Chart 4. Share of total government receipts (by level of government) 1970/1980/1994⁽¹⁾



1. For Ireland, The Netherlands, Portugal, Spain, and United States, the chart uses 1970/1980/1993 figures.
 Note: The term "sub-national" refers to all levels of government -- regional, state, or local -- below the national level.
 Because of differences in definitions, figures in country chapters may not always match those from National Accounts.
 Source: OECD National Accounts.

Other indicators of the relative weight of sub-national governments include numbers of staff employed at each level of government.

Table 1. Share of public employment by level of government in some OECD countries
(percentages)

Level of Government	1985	1990*	1994**	Level of Government	1985	1990*	1994**
Australia⁽¹⁾				Italy⁽²⁾			
Commonwealth	..	15.0	14.6	Central	62.9	63.0	63.0
State	..	74.2	73.3	Regional	21.7	20.9	23.0
Local	..	10.7	12.1	Municipalities	15.4	16.1	14.0
Austria⁽²⁾				New Zealand⁽²⁾			
Federal	..	51.0	44.5	Central	89.7
<i>Länder</i>	..	26.2	28.1	Local	10.3
Municipalities	..	22.8	27.4	Portugal⁽¹⁾			
Canada⁽¹⁾				Central	82.8	83.8	86.0
Federal	..	17.9	17.1	Municipalities	17.2	16.2	14.0
Provinces ⁽³⁾	..	63.5	44.1	Spain⁽¹⁾			
Local ⁽³⁾	..	18.6	38.9	Central ⁽⁶⁾	58.8	50.7	47.1
Denmark⁽²⁾				Autonomous comm. ⁽⁶⁾	23.2	29.7	31.4
Central	31.3	29.2	27.1	Local	18.1	19.6	21.5
Local	68.7	70.8	72.9	Sweden⁽²⁾			
Finland⁽²⁾				Central	27.2	26.7	17.3
Central	33.3	24.3	25.2	Regional	26.9	27.8	24.6
Municipalities	66.7	75.7	74.8	Municipalities	45.9	45.5	58.1
France⁽²⁾				United Kingdom⁽²⁾			
Central ⁽⁴⁾	56.3	55.0	48.7	Central ⁽⁷⁾	48.0	47.7	47.7
Sub-national	25.6	26.6	30.7	Local	52.0	52.3	52.3
Health	18.1	18.4	20.6	United States⁽¹⁾			
Germany⁽⁵⁾⁽¹⁾				Federal	17.9	16.9	15.2
Federal	22.1	21.6	11.9	State	22.1	22.4	22.6
<i>Länder</i>	47.5	46.5	51.0	Local	58.7	59.5	61.1
Municipalities	30.4	31.9	37.1				
Ireland⁽¹⁾							
Central	85.0	86.5	87.3				
Municipalities	15.0	13.5	12.7				

1. Full time and part time.

2. Full time equivalent.

3. Prior to 1992 school boards were included in the provinces; since then they have been integrated with municipalities.

4. After 1991, excluding posts and telecommunications.

5. For 1994, figures include the new Länder.

6. Including social security employment managed at the autonomous community level.

7. Including NHS Trusts.

* Figures for Portugal are for 1989.

** Figures for France and Italy are for 1993; figures for Ireland, New Zealand, and Spain are for 1995.

Source: PUMA Public Sector Pay and Employment Database.

Table 1 shows the breakdown in public employment by level of government for 1985, 1990, and 1994 in the fifteen OECD countries for which such data is available. There is a clear shift across most countries towards an increasing share of sub-national employment, especially at the local level. The figures may reflect an expansion of local government activities and responsibilities, bureaucratic inflation, changes in the status of some central or sub-national bodies, and/or an effort by central government at downsizing. In **Finland**, for example, the significant shift in central and municipal public employment is largely explained by a change in the status of some State enterprises. **Spain** saw its share of public employment at the central level drop from 58.8 per cent to 47.1 per cent. Even in the three countries that showed increases in central government employment, the gains were either small (**Portugal** and **Ireland**) or negligible (**Italy**).

2. *Evolving patterns of sub-national revenues:*

There are five basic sources of funding available to sub-national levels of government:

- transfers from other levels (in particular as specific or general grants);
- shared taxes;
- local (own) taxes;
- user charges, fees, and other sources of income (e.g. property); and
- loans.

The relative weight of each of the above sources varies significantly across countries. Sub-national governments in federal countries, for example, tend to rely more on several sources of revenue, with states generally having more spending and taxing powers than do local authorities in many unitary countries. And within countries there can be much variation across different jurisdictions. In **Norway**, for example, the proportion of total income coming from local taxes varies between municipalities across the country from 15 to 85 per cent. In a number of countries there have also been considerable shifts in the relative importance of the five sources across time. In the **United States**, for example, only 15 per cent of all state and local expenditures came from federal grants in 1960. That proportion rose to 28 per cent in 1980 and stood at 23 per cent in 1995. There is some direct federal assistance to local governments, but it declined sharply in the 1980s and as a result local governments now rely more heavily on state grants.

Broadly speaking, the expansion of sub-national tasks has not been matched by increases in the independent local revenue base. Furthermore, the financial problems created by an increased service demand are heightened by dependence on income-inelastic revenues such as property taxes. (Although the latter have the advantage of being relatively stable irrespective of the economic cycle.) Any shortfall has had to be met largely by increased transfers from central government, but as national financial situations have deteriorated, many sub-national governments have been required to share in cutbacks. Hence the emergence of the sub-national “fiscal crisis” with concerns about the levels of sub-national debt and underfunded mandates.

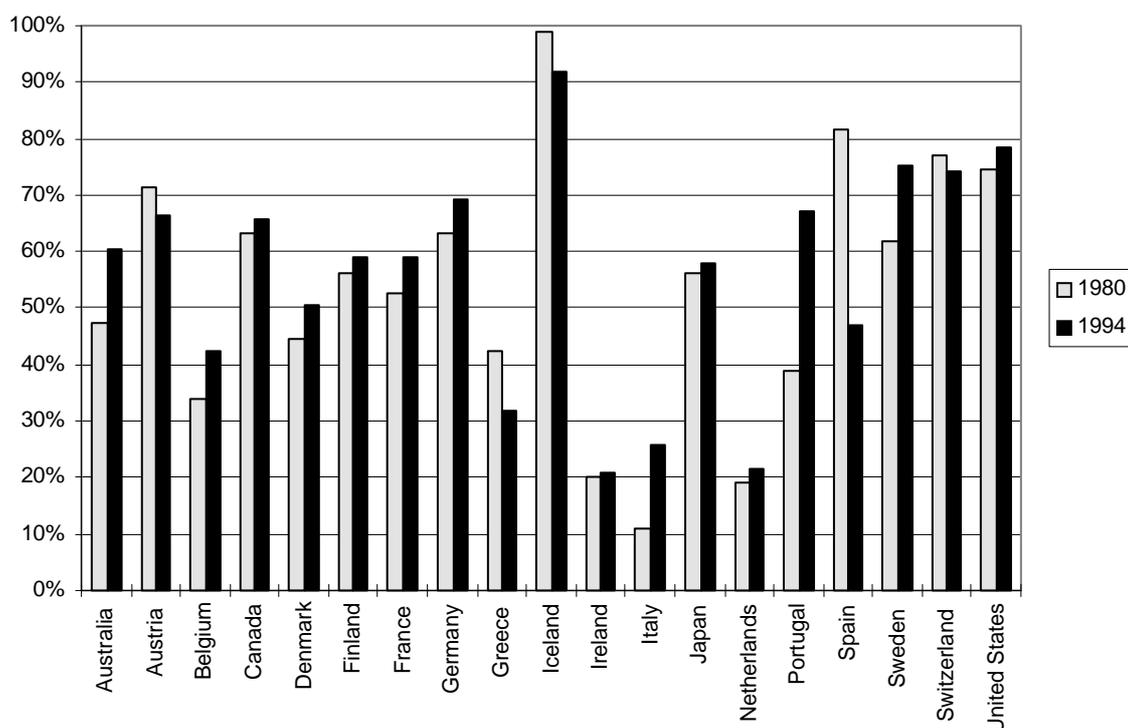
- In **the Netherlands**, the financial position of municipalities and provinces is seen as one of the key challenges to local government in the 1990s. The choices of raising property taxes and fees or making cutbacks are difficult options and not very palatable to either local elected officials or

local citizens and taxpayers. But they must be faced given that funds from higher levels of government can no longer be guaranteed to continue at the same levels as in the past.

One indicator of the relative “autonomy” of each level of government is the percentage of “own receipts” received by that level of government, defined as total current receipts minus current transfers from other levels of government. In other words, “own receipts” at the sub-national level represents the amount of all sources of revenue received directly at the sub-national level, *except* revenue from inter-governmental transfers.

The data presented in **Chart 5** shows the level of own receipts as a percentage of total receipts at the sub-national level for 1980 and 1994. The trend across OECD countries has been mixed over the period, with just under two-thirds of the 19 countries depicted showing an increase in the percentage of own receipts and the rest showing moderate to steep decreases.

Chart 5. “Own receipts”⁽¹⁾ at the sub-national level⁽²⁾ as a percentage of total sub-national receipts (1980/1994)⁽³⁾



1. Total current receipts minus current transfers from other levels of government.
2. Sub-national includes *all* levels of government below the central level, except in the cases of Switzerland, Austria, Germany, and Canada, where data for the state/ provincial level are *not* included.
3. For Ireland, Portugal, Spain and the United States, the chart uses 1980/1993 figures.

Source: OECD National Accounts.

Fiscal federalism is concerned with the inter-governmental coincidence of abilities and responsibilities, i.e. the relative taxation and spending powers of each level of government. Its focus is on fiscal relationships among decision-makers at those different levels and it demonstrates the extent to which central and sub-national government budgets are interdependent. Fiscal federalism is not limited to

federal countries. Some federal countries have very centralised fiscal systems and in some unitary countries local governments can largely finance their own needs from their own receipts, but there is much variety.

- In **Australia** fiscal patterns are typified by large flows of funds from the federal level (which collects about three-quarters of all tax revenue) to the states (which ceased to impose separate income taxes in 1942).
- In **Canada**, both federal and provincial governments transfer very large sums of money to other levels of government. The collection of revenues is far more centralised than is the delivery of services. There are, therefore, perceived problems of political visibility for the levels of government responsible for collecting taxes, while more local levels of government are seen as providing the services.

In the **United States**, “project grants” give federal officials a lot of discretion in shaping state and local activities, but a much larger volume of funds are “formula grants” where the amount going to each state is established by a formula. This gives little discretion in the **amount** of the grant, but allows the federal government to require plans for how the funds will be used. Almost 90 per cent of these formula grants are for narrow, “categorical” purposes and there is active negotiation between levels of government on the terms of the grants. Total federal aid to states has recently reached historically high levels -- with recent increases coming primarily from grants passed on to individuals, especially for medical care for the poor. In 1980, aid to individuals comprised 40 per cent of all federal grants, and this figure had risen to over 60 per cent by 1995. (Medicaid is now the largest grant programme, jointly financed by federal and state government, but administered at the state level.) The effect of the shift from programme grants to aid for individuals is that state and local governments have less discretion over how federal funds are spent, although there has been a big increase in the number of waivers allowed by the federal government to allow states more flexibility in the design of social programmes -- although this can be a costly and complex process.

In unitary countries, sub-national levels are often largely dependent on one main source of local tax revenue -- which is frequently a property tax. This can be a problem for local governments if there is too much dependence on it as it lacks buoyancy and may become a source of strain during periods when the economy is less strong. In the Nordic countries, however, local income taxes are predominant and local governments' tax-raising powers are considerably greater than those of the states in many federal countries:

- In **Denmark**, in 1994, counties and municipalities received 62 per cent and 54 per cent respectively of their total financing from local taxes. There are no formal limits on local income tax rates but they are negotiated between the national association of local authorities and the central government in the interests of overall economic control.
- In **Sweden**, less than 20 per cent of local governments' revenues stem from national government grants, the balance coming from local taxes and user fees.
- In **Greece**, the freedom of local authorities to finance their own activities has increased in the last decade (by increasing local rates, borrowing in the private market, or entering into partnerships with other public or private bodies), and the range of activities in which they can

engage has also expanded so that the main limitation on them now is local taxpayer resistance to higher rates.

- In **Japan**, local taxation is the most important single source of local revenue, although it has declined (from 44 per cent in 1988 to 35 per cent in 1993).

a) Transfers

The role of the federal government in transferring resources to states and localities is more complicated, both in theory and in practice, than is often recognised.
Economic Report of the President to Congress, Washington DC, February 1996.

Government revenues, broadly speaking, are characterised by the centre's prime position as tax recipient and hence its key responsibility for transfers to sub-national levels of government. Central governments have, however, recently been obliged to carefully review the nature and size of transfers -- because of the huge amounts involved and because of overall fiscal pressures. This is partly due to the resources currently needed for servicing debts -- in **Canada**, for example, the federal government currently spends 36 per cent of its revenues on debt-servicing charges, and the provinces an average of 14 per cent.

Reducing transfers, as opposed to "own purpose" expenditures, can be a less painful way for central government to balance the national budget. But transfers are often the largest of the various sources of revenue available to sub-national governments, so any such moves can have some very significant consequences for overall patterns of sub-national revenues:

- transfer payments may be reduced;
- expenditure functions may be added without an equivalent transfer of revenues.

Both of these phenomena have been observed in a number of Member countries in recent years. Both bring the risk of relocating financial problems from one level of government to another without, necessarily, any improvement to the basic fiscal malaise of the public sector as a whole. But both may also be justified by central government to the extent that efficiency gains can be expected when functions are decentralised -- if service levels remain the same.

Transfers are used to varying degrees in all countries to fill the gap between the revenue-raising capacities and the expenditure requirements of the lower levels. In this sense they provide a crude measure of the degree of dependence of sub-national governments, although the nature of the transfers between levels (their degree of specificity and the type and number of conditions attached) are equally important in determining the degree of local autonomy. Following are some examples:

- **Italy** is rather centralised in financial terms: transfers represented around 90 per cent of regional funding, 75 per cent of that of the provinces, and 55 per cent for the municipalities in 1991.
- **Spain**, despite the growing importance of regional taxation, has Autonomous Communities (regions) which depend on the centre for a very substantial part of their revenue (65 per cent in 1994) -- half of which is in the form of general rather than specific transfers. The municipalities enjoy greater autonomy in that they control more of their own income (50 to 60 per cent from

own sources). In order to balance the autonomy and taxation capacity of the Communities, a reform of the financial system has started (September 1996) with agreements between the State and Autonomous Communities on “fiscal accountability”.

- **Turkey** took measures in 1984 to significantly increase municipal revenues in both absolute terms and as a share of the national budget. This broadened their tax-base, but real local decision-making authority still remains rather limited.

There are many types of transfer arrangements. They form a continuum in terms of the degree of discretion available to sub-national governments. Some are relatively simple, others involve complex conditions and formulae for determining the amounts to be transferred. The type of grant used can be a critical factor affecting accountability by making vertical lines of responsibility more transparent.

Specific grants are associated with mandatory tasks. They must be spent by the receiving authority for the use identified -- which may be very precise or rather broad. General grants, on the other hand, may be used for any service provided by the authority to which they are granted. Specific grants may be justified when they are for services provided locally on behalf of central government, and where it is seen to be desirable that central government sets minimum standards on locally provided services so as to influence outcomes (e.g. to address equity issues). In some countries their use has grown:

- In **the Netherlands**, specific grants have gradually become the most important source of sub-national government income (from 30 per cent in 1950 to 59 per cent in 1994) although their total number has reduced significantly (from 537 in 1983 to 143 in 1995). At the same time, financial cutbacks at the centre have encouraged attempts to reduce local financial dependence on the centre, and as a result local financing from own sources increased from 4 per cent in 1975 to 11 per cent in 1994.
- In **Australia**, specific purpose grants now account for over 50 per cent of the transfers from the federal to the state level -- a much higher proportion than in the 1980s. At the same time there have been substantial cuts in payments from the federal government, while general revenue sharing has increased.

General grants, understandably, are preferred by sub-national governments. They enhance the freedom of local authorities to exercise discretion with regard to expenditure priorities, although at the same time it is easier to reduce a general grant than to cut individual specific grants. General grants can be either at the discretion of central government or mandatory.

The Council of Europe’s Charter of Local Self-Government, recommends that general grants be used wherever possible and a shift in the balance between specific and general grants in favour of the latter is evident in numerous countries including **Finland**, **France** and **Japan**. (In the latter country, 63 per cent of municipal income came from central government grants in 1993 -- but most were “general purpose” allowing for a considerable degree of local discretion). **Norway** also reports a shift from specific to general grants in the last decade in that the number of specific grants has reduced, but at the same time their volume has increased. And in **Sweden**, since 1992 specific grants have been heavily reduced in number and replaced by a single general block grant. The specific grants were often created when local governments took over a specific task from the centre, while the general grants have the sole aim of equalising the financial demands on sub-national governments.

b) Shared taxes

Tax sharing is an approach which gives sub-national authorities the right to a share of the yield of certain national taxes. It is an attractive source of revenue to sub-national governments as it is relatively low on administrative costs, and tax sharing agreements have the advantage for sub-national governments of usually reflecting some long-term agreement or constitutional arrangement. At the same time, tax sharing carries the risk that central government will seek to impose some conditions or controls. When there are several shared taxes, each may have a different share going to each level of government. This gives rise to much political debate and negotiation -- in both the vertical sense (re the respective shares of central and sub-national government); and horizontal sense (re the basis of allocation between sub-national units). The following examples come from federal countries, although it is also common in some unitary countries such as the **Netherlands**. **Australia**, **Canada** and **Germany** all share “federal” revenues; many taxes are shared in **Austria** (with rather complex rules for determining the sub-national shares); and in **Mexico**, the states are heavily dependent on revenue-sharing with the centre and must pass on a minimum of 20 per cent of those funds to the municipalities. In the **United States**, there is much sharing of funding between the federal and state levels for certain programmes.

In **Germany** there are three main shared or “joint” taxes: income tax, corporation tax and value-added tax. Together they account for about 75 per cent of all tax revenues. 15% of income tax goes to local authorities, and the balance is divided equally between the federal and *Land* governments; while the other two taxes are both split equally between the federation and *Länder*. However, there is much variation across the *Länder*. The Basic Law provides, therefore, that there must be “reasonable” equalisation between the financially weaker and stronger *Länder*. At the local level, 28 per cent of total tax revenue comes from financial equalisation within the *Land*, based on local needs and capacities and aimed at creating equal living standards while also enforcing the political objectives of the *Länder*. In addition some transfers are specific purpose and are passed from the federal to the *Land* level before reaching the municipalities. These provide an element of central influence through co-operative federalism, but this is measured to retain local self-government. Since 1995 the eastern *Länder* have been fully tied into the general federal equalisation system and the structure of revenues will become similar to that in the western *Länder*.

c) Local (own) taxes

The extent and nature of exclusive local taxes and the authority to set the rates of those taxes are key factors in the autonomy and accountability of sub-national governments. This is dealt with in the following section, but it is worthy of note here that this is another form of trade-off as more local discretion in this field can hamper the centre’s interests in controlling overall tax burdens and aggregate public expenditure. Thus in **Italy**, for example, public expenditure control has been the driving force behind the centralisation of tax powers, especially concerning the regions. And in **Norway**, the proportion of total sub-national revenue from local taxation has been decreasing steadily since 1945, mainly because sub-national government has been given new and costly new responsibilities by the centre -- and this calls for more central transfers to satisfy the goal of providing services of similar scope and quality to all citizens.

d) User charges, fees, and other sources of income

The more widespread adoption of market-type mechanisms, especially in the form of *user charges and fees*, is another factor of growing importance in the autonomy of sub-national governments. Charges for locally provided services are relatively efficient and low on administrative costs, and able to produce quite significant revenues. They can also reduce excess demand for services and improve service quality as customers tend to demand better and more tailored services when they pay for them directly. In the **United States**, user charges accounted for about 14 per cent of total state and local government revenues in 1992.

e) Loans

The discretion afforded sub-national governments to *borrow* (on what markets and for what purposes) is an increasingly significant facet of their need and their ability to manage their own affairs as loans are likely to substitute for government grants. Generally, a case can be made for borrowing to finance capital projects -- especially if they are revenue-earning -- as they usually have a long life, making it reasonable that they be paid for as they are used. In many countries, however, local governments require the authorisation of central government to raise loans. **Iceland**, is one exception to this practice. In **France**, sub-national governments have been free to borrow money wherever they please, including abroad and in foreign currencies, since 1990. In **Ireland**, there are no legal limits on the revenue raising capacities of local authorities, but borrowing must be approved by the relevant minister. The purposes for which long-term borrowing can be incurred are now very limited. In some countries, notably **the United States**, sub-national governments have credit ratings which act as an incentive to perform better.

3. *Issues of horizontal and vertical distribution*

Strategies relating to the overall public sector budget deficit (and in some cases also level of public sector debt), covering all levels of government, have been developed in a number of countries. Such strategies reflect a perceived need for the public sector to both limit and co-ordinate its borrowings on capital markets both to prevent the public sector from "crowding out" private sector investment and to avoid upward pressure on interest rates. In a number of European Union countries such strategies are reinforced by the criteria set for membership of the European Monetary Union by the Maastricht Treaty. These criteria relate to the level of total public sector deficits and debt.

Such national fiscal strategies clearly have a major impact on the financial relations between national and sub-national governments. In a situation where national governments control or dominate the fiscal position of sub-national governments it is clearly easier to obtain adherence to the strategies. National governments may directly control the budgets of sub-national governments e.g. have power to determine their size, or control directly or indirectly their major revenues. Consultation mechanisms nevertheless exist in most countries but in situations where the national government has less direct control more complex consultation mechanisms may be required.

In **Germany** a Financial Planning Council, chaired by the Federal Minister of Finance, makes recommendations on the co-ordination of budgets and financial plans of the federal, Länder and local governments, although it cannot make any binding decisions. The Council comprises the ministers of finance of the federation and the Länder, the Federal Minister of Economics, and representatives of the municipalities. The Bundesbank also participates.

Central grants can be used for equalisation purposes (either openly or implicitly), but many countries have, in addition, established equalisation systems. These may deal with imbalances across governments either vertically between levels or horizontally between different local authorities or states, and may take several forms:

- by having sub-national authorities pay into a fund from which amounts are then transferred to different authorities according to their needs and resources;
- by providing central (or state) government grants to the most needy local authorities;
- by weighting the distribution of tax sharing to allow for differences in costs or fiscal capacities.

The first approach is generally confined to countries where imbalances are not large, but still provides for considerable debate because of its very transparent nature; the second is particularly important in federal countries where there may be wide disparities across federal states.

The following examples illustrate the diversity and complexity associated with equalisation systems:

- **Iceland** has a Municipal Equalisation Fund which provides both block and special grants from central government to municipalities, with the special grants being directed to those with a lower potential for raising revenues.
- **Norway** introduced a system of block grants (General Purpose Grants Scheme) in the 1980s to replace about 50 earmarked grants and become the main instrument for redistributing income. In the 1990s sectoral grants have been amalgamated into a single expenditure equalisation grant (covering health, transport and secondary schools for counties; and primary schools, culture, health and social services for municipalities).
- In **Sweden**, in 1996 a new equalisation system for municipalities and county councils was introduced. Its main components are income equalisation, equalisation of structurally related cost differences, a general block grant and certain transitional rules. The income equalisation system implies a far-reaching equalisation of both municipal and county council taxation revenue. After equalisation, all municipalities and county councils should have incomes corresponding to the national average.
- In the **Netherlands**, general grants come from a Municipal and Provincial Fund which is administered and fed by central government -- in part from national tax revenues, the exact percentage being decided each year.
- **Ireland** is considering moving towards a formula-based method of grant distribution to local authorities but this has not yet been agreed. This is in the context of demands to increase the overall level of local funding and to give more discretion in local revenue raising.
- In **Portugal**, while the central government's Financial Equalisation Fund is the principal single source of local government revenue (a block grant), it now represents only one third of total revenues compared with over one half in 1986 as funds from the European Union have increasingly been used.

- In **Austria**, the Financial Equalisation Act provides for relative stability in fiscal transfers, although this does not prevent ongoing discussion between the Länder and the federal government about the distribution of revenues in the context of a possible restructuring of competences across levels.
- **Australia's** Commonwealth Grants Commission makes annual recommendations which embody the principle of horizontal equalisation to ensure that each state has the capacity to provide the average standard of state type public services, if it makes the same effort to raise revenue as the states on average and it operates at an average level of efficiency. In each state, a Local Government Grants Commission allocates federal funds to local governments using an equalisation formula.
- A system of federal transfer payments was introduced in **Canada** in 1957 to ensure equity in public services across the provinces, and in 1982 equalisation transfers were enshrined in the Constitution. These have increased enormously over recent decades, the largest by far being the Canada Health and Social Transfer which relies mostly on federal spending power.
- **Mexico**, which has particularly difficult problems of imbalance across the country and its inhabitants, has recently created a "Municipal Promotion Fund" to help local bodies with the lowest levels of development to receive support directly from the federal government.
- In **Switzerland** the entire equalisation system between the Confederation and the cantons is currently being examined with a view to guaranteeing the principle of subsidiarity and strengthening the financial capacity of the cantons.

The issue of unfunded mandates seems to have become most pronounced in, but not exclusive to, federal or regionalised countries. It has led, for example, to the passing of the Unfunded Mandates Reform legislation in the **United States** in 1995 due to the very significant costs, especially to local governments, of inadequately compensated federal and state mandates. The new legislation restricts, to some extent, the ability of Congress to impose costly mandates on sub-national governments and requires assessment of what those costs are. In **New Zealand**, some unfunded mandating has led to calls for more revenue sharing, but the central government currently prefers to give priority to efficiency improvements in sub-national government as a means of improving their financial position. In **Norway**, municipalities complain of doing more tasks on behalf of central government without a proportional increase in resources. A Committee was, however, set up in 1994 to examine the cost implications of Parliamentary reforms which have to be implemented by local government. It has representatives of all levels of government and aims to test feasibility and to improve consultation. And in **Sweden** the municipalities see the restructuring of public finances, which has given them more tasks and costs, as an acute problem. However, the principle has been established that all transfers of responsibility between the central and municipal levels should be subject to comprehensive financial scrutiny and arrangements.

Finally, the nature and extent of cost-sharing, especially for capital projects, can be an additional significant factor in inter-governmental financial relations. In some countries (e.g. **France, Iceland**), this practice is rather extensive and provides an important opportunity for negotiation.

4. *Implications for management*

The need to cut back total public expenditure and to reduce public deficits is encouraging many central governments to seriously re-examine the amounts, nature and conditions attached to the often

enormous transfers which they make to lower levels of government. Greater inter-dependence and shared responsibilities can promote a more comprehensive view of public sector finances and the broad issues and goals of governance. But downsizing which involves off-loading tasks to sub-national governments and seeking more control over aggregate expenditures may run counter to some of the key objectives of the new public management paradigm aiming to increase flexibility, discretion and responsiveness. Underfunded mandates only displace problems and add to existing mistrust across levels of government. Restructuring responsibilities brings an opportunity for inter-governmental partnership through shared financing and/or agreed goals. This is generally desirable, provided that such arrangements are designed so as to avoid perverse incentives. More attention should, therefore, be directed at the critical intersection of fiscal federalism and performance management. Two examples from the Nordic countries serve to illustrate this point:

- In **Denmark**, the greater use of block grants is reported to have increased the freedom of local authorities to set their own priorities, but within national frameworks and standards. In **Sweden**, specific grants have been largely replaced by general grants and the centre's control of municipalities reduced accordingly. Instructions in the use of grants have been replaced by goal-setting.

Central (or state) governments may *impose* minimum standards on certain local services when they are financed by specific grants -- in the interests of equity and influencing outcomes. But the more widespread use of general rather than specific grants, in many countries, provides opportunities for "more steering and less rowing" by central government. This also, is an incentive for negotiating *agreements* between central and sub-national governments on acceptable national guidelines within which minimum standards may be set. In this context, improvements may also be achieved in the quality of regulation; performance management may be strengthened by comparing targets against results; and encouragement may be given to more rigorous quantitative approaches such as accrual accounting.

The importance of improving the overall transparency of the management of public funds is increasingly recognised across all Member countries. This is also true of national *fiscal strategies*, which encompass all levels of government. This said, inter-governmental systems are, and always will be, in a state of change -- and budgetary strategies must take account of this. The most original attempt, so far, to put the formulation and conduct of fiscal policy in a *legal* framework has been in **New Zealand**. There the 1994 "Fiscal Responsibility Act" introduced a significant strengthening of the reporting requirements on central government and incorporated a long-term orientation to the budget process. Its principles are now being extended to local government.

III. Regulatory reform

Regulation is widely used at all levels of government to carry out public policy, and must therefore be a major component of any comprehensive inter-governmental reform process. Although there is much rhetoric about attempts to rationalise and streamline government regulation, most OECD countries have reformed exclusively at the national level, and started to make progress only during the last few years towards greater regulatory co-ordination and the elimination of regulatory duplication between levels of government.

The regulatory regimes in Member countries are diverse. Some countries share responsibility for regulation across different levels of government, often involving multiple bodies at each level, while others are very centralised, with almost all authority vested in national ministries. However, there appears to be a general movement towards a common middle ground as decentralised countries attempt to reduce

duplication and regulatory costs by creating national standards, and centralised countries move towards power-sharing arrangements and a shift of responsibility away from central government.

For instance, in the federal countries: **Australia**'s complex and multi-layered regulatory system has long been a subject of concern with respect to the efficiency of the national economy and the effectiveness of government action. However, considerable efforts have been made to improve co-ordination in rule-making between state and federal levels, including: the adoption of a set of national regulatory principles and guidelines that specify a nationally-consistent assessment process and require the preparation of regulatory impact statements; the emergence of regulatory reform "competition" between the states as each tries to reduce red-tape; and the creation of new institutional structures.

Canada also has a great deal of inter-governmental inter-dependence and collaboration in regulatory affairs. The decentralised regulatory system has led to concern about inter-provincial trade barriers, duplication between provincial and federal regulations, and rising regulatory costs. To tackle these problems, Canada has undergone both a harmonisation and a rationalisation of regulation. In 1995, the Agreement on Internal Trade went into effect, establishing a broad framework for rules of internal trade and reducing barriers and distortions. Both the central government and the provinces have been examining existing regulations and re-justifying their regulatory programmes.

Over the past several decades, **Germany** and the **United States** have experienced a steady centralisation of regulatory authority at the federal level. As the problems confronting *Länder* and states grew in size and complexity, the federal authorities have tended to take responsibility for regulation, a trend supported, in the case of Germany, by membership of the European Union and implementation of European Single Market. Recently, however, both countries have attempted to reverse this trend by decentralising regulatory authority, but it is too early to know how successful these reforms will be.

Although inter-governmental regulatory reform is more visible in federal systems, unitary States have also been addressing the design and implementation of regulations across levels of government. In the **United Kingdom**, local governments play a major regulatory role -- both directly and as an enforcer of national regulations. During the past few years, emphasis has been on improving co-ordination, communication, consultation, and understanding of regulatory impacts at the local level. This has led to the creation of Local Business Partnerships; the adoption by national enforcement agencies of a code based on openness, transparency, and fairness; and the granting of new rights to businesses subjected to enforcement action. In **Japan**, which has a highly centralised regulatory system, there has been a slow transfer of regulatory authority from the national to local level in areas such as agricultural land usage and municipal planning. Pilot programmes have also been developed to test the transfer of responsibility for welfare, public health, and education. In **Finland**, there has been a general movement to reduce the number of regulations by the central government on municipalities and to improve the quality of those regulations that remain.

Regulatory reform has become a high priority in a number of Member countries, but comprehensive attempts at reform that cut across levels of government are rare. It is in this area of inter-governmental relations, however, that significant gains can be made through better communication and co-ordination between levels of government, resulting in more effective and cost-efficient regulatory action.

IV. *Human resource management*

In most countries (**Australia, Norway, Sweden, and the United Kingdom**, are particular examples) there is no formal civil service bridging all levels of government, but a different system at each level of government. Other countries, such as **France, Germany, and Iceland**, have established civil service structures which grant civil servants at all levels a number of protections and subject them to certain laws. National labour legislation may also be applicable to sub-national public services, although this may be an area of dispute where sub-national governments also have powers in this.

An area of human resource policy that has generally received little attention is that of public service mobility between levels of government. Few countries seem to encourage or even allow civil servants to move easily between central and sub-national levels of government, or vice-versa.

C. *Issues*

The issues which need to be addressed by central governments in improving the management of inter-governmental relations are as multi-faceted, complex and inter-dependent as the relationships themselves. For the purposes of this report, the issues are dealt with in two ways. Firstly, as a set of *tensions and challenges* which reflect the fact that there is both a top-down and a bottom-up perspective on all of these matters; and secondly as some specific *implications*, for managers in central government, of the evolution which is taking place, since they are the prime clients of this work.

I. *Tensions and challenges*

A trait noted by several countries, is that sub-national orders of government may be better disposed than national governments to adopt features of the “new public management” such as service quality initiatives, the use of market-type mechanisms and performance management. Reasons for this, other than the very nature of many of the tasks involved, include the fact that numerous relatively small units encourage competition and choice; and that the shorter distance between those holding office and citizens is generally good for responsiveness, accountability and performance. There are, therefore, significant incentives and opportunities for sub-national governments to practice the rhetoric of “working better, costing less”.

In fact, in both federal and unitary countries, the sub-national (and especially local) level is serving as a valuable “laboratory” for innovation with public management methods. In **Japan**, for example, nationwide improvements in health and social security programmes have been based on lessons drawn from local government experiences. Local authority innovations have also provided the basis for subsequent national legislation (e.g. in the **United States**); and have been used to develop similar exercises in other local authorities (as in the **Nordic** countries and **Switzerland**). In **Canada**, such innovation is encouraged by central government (especially in the health sector) -- but they can also be the fruit of purely local effort (as, for example, in **Germany**).

This disposition for innovation and entrepreneurship, is not, however, present to the same degree everywhere in sub-national government. The same factors which promote efficiency, effectiveness and responsiveness locally can also, therefore, reinforce inequalities. This presents some serious challenges to both the vertical and horizontal dimensions of inter-governmental management. The centre seeks to ensure an adequate measure of overall control so as to protect a coherent approach to policies; while sub-national governments seek autonomy so as to be fully responsive to local preferences and needs.

These objectives may be in conflict. However, inter-governmental management may be able to identify the sources of tension and their implications for central management. These may be seen as a set of dichotomies between:

- autonomy and direction;
- variety and uniformity; and
- responsiveness and efficiency.

Taken together, these reflect the polarisation of inter-governmental issues between the centre and other levels of government.

1. *Discretion or direction?*

In the comparative study of inter-governmental relations, the degree of autonomy and discretion of sub-national governments, in particular local governments, vis-à-vis national authorities has traditionally been regarded as the most important characteristic distinguishing different national systems.

Goetz and Margetts in "Responsive Government", OECD, 1996.

Granting more discretion to lower hierarchical levels is an integral part of the public management currently in vogue. In the context of this report, it is the granting of authority to sub-national levels of government to make decisions on matters which affect them, and the implications of that decentralisation for central management bodies, which is of principal interest. This embraces both the transfer of responsibility for a new task to a lower level and the freeing-up of higher level control over how existing tasks are carried out.

A key issue is how to adjust inter-governmental relations so that national objectives for the public sector as a whole are not compromised. There are *trade-offs* between allowing more discretion to a lower level of government and maintaining a steering capacity at the higher level. The benefits of more autonomy for sub-national government have to be weighed with care against the risks to national goals, and the potential costs to the system of governance as a whole through loss of coherence. Growing inter-dependence adds to the complexity of inter-governmental relations.

These concerns raise basic questions about the most appropriate roles for each level of government; which mechanisms perform best; and which are most needed in the interests of good governance. For the purposes of this discussion, three aspects of the discretion enjoyed by sub-national levels of government *vis-à-vis* the centre are dealt with:

- a) the types of autonomy;
- b) the nature of the responsibility (i.e. mandatory, shared, optional);
- c) the amount of financial discretion available.

a) Types of autonomy

There is enormous variety and complexity in how power relations may operate between different levels of government. Some systems put emphasis on the “division” of powers, and others rely more on “joint exercises” in which all levels involved are restricted in their scope of action. Three basic “typologies” of autonomy may be constructed. All three may be present in a country at the same time, but operating in different sectors. They are as follows:

- considerable sub-national discretion within a broadly defined *framework* of powers and duties;
- emphasis on *interaction* based on discussion and mutual influence;
- an *agency* relationship wherein sub-national governments help to implement national policies by adapting them to local circumstances.

The Nordic countries, and those federal countries where local self-government is guaranteed in the Constitution, belong most closely to the first category. In **Germany** about 75 per cent of all federal statutes are directly addressed to and implemented by the *Länder* and municipalities and the Basic Law includes the principle of *Länder* sovereignty which implies that laws passed by the *Land* parliaments should not contravene federal legislation. If it does, the federal law takes precedent. In the Nordic countries the municipalities implement national policies but are largely autonomous in doing so. This is the case in **Finland** and **Norway** (where central government cannot instruct local government) and in **Sweden**, where the two main sub-national levels (municipalities and counties) are both vested by the Constitution with great freedom.

France belongs more to the second configuration. There is no hierarchy between the three levels of sub-national government (which have no legislative powers), and where many responsibilities and much financing is shared across different levels; and in **Austria**, the amount of local government autonomy allowed varies across the *Länder*, but generally the system is less decentralised than in most other federal countries (giving a higher degree of homogeneity). There is also, however, a high degree of constitutional protection, particularly through the Constitutional Court, to safeguard the rather complex divisions of competence between federal and provincial lawmakers.

Japan and the **United Kingdom** may be considered to follow more the third approach.

b) Nature of responsibility

The challenge here is to design mechanisms which allow for the effective distribution of responsibilities and funds between levels of government, while at the same time providing flexibility and financial accountability. This is a factor of many things including the extent to which responsibilities are mandatory or optional, clearly defined or indistinct, exclusive or shared with another level, and how many levels exist.

The extent to which any given level of government is obliged to carry out certain tasks might be expected to reflect the extent to which its operations are financially dependent upon a higher tier of government. In **Sweden** however (where the level of local “own receipts” is rather high) about 80 per cent of total local government expenditure is for mandatory assignments of government and parliamentary policies -- the number of which has significantly increased since 1977. And in **Ireland**, where many non-

local government bodies have mandatory rather than optional functions (e.g. health, environment), debate on more devolution of responsibilities from central to local government is made more complex as the big need now is for local authorities to become a focus for partnership and co-ordination.

Another consideration is the prevalence of tasks which are shared by different levels rather than exclusive to one level. In **Germany**, the concept of co-operative federalism provides for tasks to be undertaken jointly by the federal and *Länder* levels. But the joint decision-making which this calls for brings problems of fixing clear priorities -- and avoiding excessive federal interference. During the 1980s there was an increase in distributional conflicts among levels of government and between local governments and local government is seen to have become more politicised due to co-operative federalism.

In **France**, there is a large number of very small communities which have less capacity to fulfil tasks and hence have less autonomy. The degree of autonomy in spending depends on whether services are mandatory or not and this is a factor of the size of the community.

Another consideration is the extent to which there is clear definition of the responsibilities of each level in the constitution or whether that is left indistinct. The latter can encourage healthy debate and consultation processes but also carries the risk of conflict and tension resulting from an adversarial rather than a collaborative approach. In **Norway**, for example, there is no stipulation in the Constitution nor any general legislation on how government functions are to be divided between levels. The distribution which results is a mix of parliamentary decisions and local initiatives and a recurrent theme of debate. And in **Canada**, the 1867 Constitution sets out a separation of powers between the federal and provincial tiers of government, but it is silent, or does not clearly define which level should intervene, on some important current issues such as job training. A 1991 study argued that there is almost no duplication, but the First Ministers agreed, in 1994, to address the issues of overlap and duplication in their "Efficiency of the Federation Initiative".

The number of *tiers* of government, is another factor in the extent to which problems of duplication and overlap of functions between levels are likely to occur. While frequently mentioned by federal countries, they do not have a monopoly on this malaise. In **Belgium**, given that there are five levels of administration in such a relatively small country, some overlapping of competences seems to be inevitable but there is awareness of this problem and a rather clear division of responsibilities -- partly attributable to the desire of each Community to have a guarantee of autonomy in specific spheres.

The principle of *subsidiarity* has been developed in the context of the European Union to deal with issues about which is the most appropriate level of government at which tasks should be carried out. While its meaning is not entirely clear, it basically holds that functions should be placed at the lowest level able to perform them. In other words, it reflects a political philosophy which seeks to locate decision-making as close as possible to the citizen. Some countries report that this principle is increasingly cited as grounds for a review of the division of functions - between both the local and regional levels and the regional and national levels.

c) Degree of financial discretion

The main determinants of autonomy are in the financial realm. The parameters involved here include the:

- proportion of revenue which is locally generated;

- limits to, and conditions on, the resources received from other levels of government (especially the balance between specific and general grants); and
- powers of sub-national governments to raise taxes, set tax rates, apply user charges, and borrow money.

As discussed in the section dealing with financial and fiscal relations, there is a significant tendency for central government to give sub-national governments more discretion by switching from specific grants to general ones, and there is a growing interest in the ability of sub-national governments to raise money on the capital markets. The focus here is on the powers accorded to sub-national governments to define their own tax levels.

The difficult challenges involved in this may be illustrated by the case of **Canada**. Reductions in the growth of federal transfers have squeezed the provinces which have often responded by putting fiscal pressure on the municipalities. Provinces exert some control over local borrowing and all aspects of the property tax base, including its rates, but costs and demands for municipal services have increased a lot. Municipalities are expected to deliver services mandated by other levels, control their costs, and also finance them. This pressure is exacerbated by differentials in staff pay between the federal, provincial and local levels.

In the Nordic countries the situation varies as follows:

- In **Denmark**, municipalities are free to determine their own level of taxation as well as the level of services to be provided, but they must comply with legislative regulation on minimum standards. There are no formal mechanisms through which central government can influence the levels of taxation or expenditure sub-nationally. The main means by which the centre “controls” local governments are through negotiation and agreements with associations of county and municipal councils.
- In **Finland**, municipalities raise income taxes and are free to define levels of taxation; they may issue local regulations but do not have full regulatory powers; and may decide on their own staffing levels.
- In **Iceland**, the level of local income and property tax and of other public levies must be within limits prescribed by central government but these give local authorities some latitude as to maximum and minimum levels.
- In **Norway**, the right of counties and municipalities to levy taxes is limited to maximum and minimum rates determined by Parliament each year. In practice all local authorities levy the maximum rate and this lack of differentiation has been perceived as diluting local financial accountability. There is some municipal dissatisfaction as although they have considerable discretion over fund allocation within the total amount transferred, they have no control over what the total amount is. But there is a trend to more municipal independence over how money is spent locally.
- In **Sweden**, all four levels of government have the right to tax their citizens. The municipal and county levels have the right to set the local tax rate in the form of a percentage of personal income. All other tax related decisions and administration are handled by the central government.

In **France**, sub-national governments enjoy considerable autonomy. They have some latitude in setting tax rates which leads to substantial disparities in local tax rates from one area to another. Since 1979 State grants have gradually shifted from being specific to general. In **the Netherlands**, changes to municipal taxes require the approval of central government; and in **Ireland**, local tax powers are limited to levying a property tax (but not on residential property).

In the **United Kingdom** a system of “capping” operates. Where the central government considers that a local authority’s budget for a year is excessive, or represents an excessive increase over the previous year, a maximum or “cap” can be set. It must be either agreed by the authority concerned or approved by the House of Commons. It requires that the local authority reduces its budget to conform with the maximum and makes commensurate reductions in its council tax.

2. *Variety or uniformity?*

Decentralisation presumes that a degree of variety is healthy. Marketisation introduces competition and choice to public services in the interests of efficiency and responsiveness, irrespective of which level of government is involved. In many Member countries both decentralisation and marketisation are taking place to some degree at the same time. This may result in widening disparities between areas and between individuals in the quality and quantity of services provided. Decentralisation and marketisation have, therefore, encouraged governments to move away from seeking *uniform and stable* national standards, and towards desirable *minimum* levels of service.

If central government is to monitor performance effectively and retain control over aggregate public expenditures across levels of government, it must develop new steering and reporting systems -- at the same as it marketises and decentralises. Without such tools it cannot ensure policy co-ordination and coherence. This challenge to redesign the information and accountability systems is the key factor in contemporary inter-governmental management and is dealt with further in the next section of this report. Harnessing computer technology and revising management processes and instruments are essential if this challenge is to be met effectively. If not, administrative costs may rise, transparency decline, and unethical behaviour be encouraged.

Few countries have as yet faced up squarely to the management challenges of seeking a happier marriage between differentiation (responsiveness and flexibility) and uniformity. Moves to more use of targets, standards and guidelines go in the right direction but their design and application must be accompanied by adequate consultation processes.

3. *Responsiveness or efficiency?*

Improving responsiveness and efficiency are two cornerstones of decentralisation. But, at least in the context of local level “rationalisation”, there is an inherent incompatibility between increasing the size of units of government to achieve economies of scale, and reducing their size to shorten distances between citizens and elected representatives. There is no optimum size, but over recent decades many countries have encouraged significant amalgamation of small local authorities with a view to providing more and better services at the lowest level of government. Such restructuring has often been related to the growing range of responsibilities at the local level and the need for units of a sufficiently large size to employ suitably specialised staff. In this context, there has been a reaction in some countries to improve

the quality of local democracy by facilitating citizen participation in finding good local solutions (for example, “district committees” in **Sweden**).

The challenge, therefore, is to find the size of unit and number of levels which can at the same time meet economic criteria and satisfy the need for responding to specific local demands. Thus, for example:

- In **Denmark**, the move to restructure and reduce the number of local authorities was driven by the principle of having municipalities with sufficient population for an efficient primary school system, and counties the right size for the efficient running of hospitals.
- In **Norway**, there is debate about amalgamation in the context of a wider range of municipal responsibilities, need for economies of scale, and a grant distribution system that favours the smallest municipalities. (There was a wave of amalgamations from the late 1950s which reduced the number of municipalities by about 40 per cent.)
- In **Sweden**, the sharp increase in the range of tasks carried out by municipalities resulted in many municipalities being too small to bear the costs. As a result amalgamations (some imposed) took place in the 1950s-60s.
- In **New Zealand**, the number of territorial local authorities was reduced from over 200 to 74 in 1989 by a Local Government Commission using a set of demographic, social, cultural, administrative and efficiency criteria.
- In **Germany**, extensive administrative and territorial reform in the western *Länder* between 1965 and 1977 aimed at creating bigger units with more administrative capacity and more capable of a wide range of services. Municipalities reduced in number from 24 000 to 8 500.
- In the **United Kingdom**, a major process of reorganisation has removed a tier of government in Scotland and Wales and in some parts of England. This has changed the size of some local authorities and reduced their number, with the aim of improving local government administration, providing better value for money, and improving authorities’ responsiveness to their citizens.

In **Iceland**, amalgamation is seen as part of the process of decentralisation in that both the Union of Local Authorities and the central government see it as a prerequisite to any further modifications in the division of responsibility between central and local government. In this context, territorial fragmentation may be said to support centralisation. The number of local authorities has been reduced from 229 in 1950, to 171 in 1994, but attempts to impose amalgamation have not met with great success. As a result there are many co-operative bodies which enhance efficiency, but may also blur lines of accountability.

This solution is also favoured in **France**, where the very large number of local units is detrimental to achieving economies of scale. Co-operation is encouraged between local authorities, particularly for the provision of basic services such as water supply and sewerage. This is also the case in **Finland**, where there has been little success in merging municipalities, so joint municipal boards are used for functions which are too extensive or expensive for a single municipality; and in the **Netherlands**, where inter-municipal co-operation has been the preferred option for dealing with regional problems and there has been much debate about the minimum population size for municipalities with respect to the quality of local services.

In both approaches, information technology can play a key role in bridging the gap between responsiveness and efficiency by enhancing transparency and communication.

Recent Developments in Norway

Norway is a relatively small, consensus-oriented country where much emphasis is now being placed on informal mechanisms and more negotiation is taking place. This is in part due to the **1992 Local Government Act**, which seeks to balance effective local democracy and regard for national control. The Act reflects considerable debate over the *raison d'être* of local government, and is in part based on the experiences of a "Free Municipalities" experiment. The view of the centre tends to be that the local level is primarily a service delivery system, therefore the key task is to make it as efficient as possible. The other view is that, while service provision is important, local government is legitimate in its own right as an essential part of the democratic system.

The main objectives of the Act are to strengthen sub-national autonomy while establishing conditions that enable local authorities to become efficient suppliers of services. This is being achieved by giving them more freedom to organise their activities based on local needs and by reducing the centre's supervision and control. This has involved, for example, abolishing the requirement for central approval of local budgets.

II. *Implications for managers at the centre*

The ongoing challenge to effective inter-governmental relations is to monitor and manage the balance between the above tensions. For central governments to rise to this challenge, requires judicious use and regular adjustment of the instruments of control, co-ordination, consultation and accountability. These, the key tools determining the shape of inter-governmental relations, are dealt with in turn below.

Improving the efficiency of public services requires those in charge at each level to have clearly defined objectives, adequate freedom of action in management, and for results to be regularly assessed.

Marcel Pochard, Public Management Committee, March 1996.

1. *Control*

Decentralisation is not only about transferring tasks and resources from one level of government to another. It is also about reducing and changing the nature of involvement by central government in the tasks performed by sub-national authorities. The nature and number of controls operating across levels of government are key factors in the autonomy debate. But control is not an easy term to define. It has many interpretations across administrative and political cultures; particularly according to whether one is in control or being controlled.

There are two basic types of control: performance-based and administration- or rule-based. Both have their role in the present climate which favours managerial flexibility tempered with financial constraint. On the one hand controls become less strict, on the other limits must be set and adhered to.

a) Performance-based control

There is growing recognition that it is desirable to move away from detailed rigid regulation and financial control and towards managing for results. Performance-based controls focus on output and process. This involves merging the objectives and techniques of financial and performance management. And, perhaps even more than within central government, this is particularly pertinent to the management of inter-governmental relations. At the same time sub-national governments themselves have, in a number of countries, started to develop performance indicators and regular reporting practices on quality management which could serve as useful examples at all levels of government.

Specific earmarked grants are becoming less common in favour of general grants. This shift provides the incentive and opportunity for central and sub-national governments to consult more on appropriate guidelines and minimum standards. It also helps to achieve agreement on for which functions a high degree of national uniformity or supervision is necessary; and those where more account should be taken of local or regional priorities.

In particular, the opportunities for benchmarking and better review of implementation facilitate smoother inter-governmental relations provided that there are clear lines of accountability and appropriate consultation. The following examples illustrate some of the developments in this field:

- In **Australia**, a Steering Committee for the Review of Commonwealth/State Service Provision has published its first two reports (1995 and 1997) containing much performance data (on both efficiency and effectiveness) for key social services. The new focus is on monitoring outcomes rather than inputs or outputs.
- In **Canada**, national standards exist, or are being developed, in a number of sectors and the standards are being reviewed for their relevance. Provincial and other stakeholders are increasingly being involved when these are formulated. At the provincial/local level, although there are already often detailed performance standards for municipalities to obtain provincial grants, an issue is how to focus provincial controls more on quality and performance mechanisms.
- In **Ireland**, a framework of performance indicators has been suggested to local authorities and their role in setting objectives underlined. It is felt that less central involvement in detailed approvals gives more time for maintaining an overview and monitoring standards throughout the local government system.
- In **Denmark**, there is much concern with quality standards and the Ministry of Local Government publishes a yearly set of national statistics on service standards, productivity and output levels which are used as a benchmark for local decisions. Service and quality objectives are set involving citizens. Performance initiatives have been developed at the local level, without central monitoring or control. There is some concern over disparities in service levels from one part of the country to another.
- In the **Netherlands**, new methods of performance monitoring are being examined with less focus on details and more on self-regulation. Some local authorities use performance measures and budgeting is increasingly being based on results using comparisons of costs and benefits between municipalities.
- In **Norway**, the performance monitoring system is still being developed and service standard objectives are seen as an integral part of performance management reform. Local governments are

required to supply much information to central ministries but, as yet, there is little systematic analysis of data designed for comparing performance or productivity -- either across time or local authorities. There is debate on whether or not to introduce national minimum standards. (Some sectors have minimum legal standards, others have recommended standards.) A recent tendency (especially in health and education) is to use charters and guarantees which clarify the legal rights of individuals to specific services.

- In **Finland**, minimum standards for services are usually specified, and recent reforms have opened the door to the possibility of some variation in services between municipalities.
- In **Iceland** contract management is being developed to give more freedom from government rules and regulations in return for more managerial responsibility using performance indicators.
- In **Italy**, the crisis in public finances has created more interest in performance. Sector-specific agreements are now being signed between central and regional governments which establish priorities, quantify funding levels, set completion times, and assign tasks to each level of government.
- In **Sweden**, detailed rules on how to carry out activities have been replaced by sectoral goals set by the centre as broad guidelines and supplemented by specific targets able to be monitored for results. Municipalities can decide what means to use to achieve the objectives. The new central government funding system combines numerous special grants for specific purposes into a general grant, thereby reducing the restrictions imposed by central government and allowing local priorities to determine how the money will be spent. But at the same time the switch has been linked to a general reduction in central grants to municipalities.
- In the **United Kingdom**, the independent Audit Commission has developed a set of indicators for measuring the performance of local government service provision. Councils must publish details of how they perform in terms of these indicators and the Commission publishes comparative data annually.
- In the **United States**, “performance partnerships” between the federal and state/local governments are increasingly being used to promote inter-governmental agreement on goals, performance measures, and the means to achieve them. In Oregon, for example, a memorandum of understanding has been signed between federal, state and local officials aimed at identifying benchmarks to improve service delivery -- and many critical indicators are now measuring performance against agreed targets and standards. At the same time, federal agencies are giving their state counterparts more freedom in how to spend federal money in exchange for commitment to be accountable for achieving measurable results.

The important relationship between performance management and accountability is discussed later under the heading of “accountability”.

b) Administrative control

At the same time as the above managerial changes are taking place, there remain, to varying degrees across countries, more traditional forms of institutional oversight of sub-national governments, which put the emphasis on legality and regularity -- but also the appropriateness of actions. The institutions involved comprise: Parliaments, which set frameworks for action and have the authority to

make investigations; central management bodies, in particular Ministries of Finance and of the Interior (or their equivalents) which exercise considerable supervision over the activities of sub-national governments; and various forms of more or less independent bodies charged with jurisdictional control. The latter is primarily in the hands of independent courts exercising *ex ante* rather than *a priori* control.

There are many modes of administrative control in OECD countries. The nature of vertical monitoring is evolving -- generally away from detailed interference in local affairs and towards broader policy orientation. In the **United Kingdom**, for example, the Audit Commission appoints to each local authority an independent auditor who has responsibilities in relation to financial regularity and value-for-money. The existence of a form of guardianship (*tutelle*) between central and sub-national governments, where it remains, is being challenged, as for example with the evolution of prefect-type institutions. In countries, such as **Belgium** and **Spain** where there has been major structural reform of the public sector, the process has been accompanied by a move away from the traditional techniques of control set up in a more centralised framework. Jurisdictional controls are also changing in that, along with checking the “regularity” of actions, increasingly there is also a concern for results and performance. Such control reinforces proportionality and cost/benefit assessment.

The notion of “subsidiarity” is relevant in federal countries such as **Switzerland** where the increase of shared responsibilities has, over time, blurred the division of tasks, and **Canada**, where the appropriate role of the federal government is being reconsidered in the context of providing services at the level best able to respond to the needs of the public.

The place of deconcentrated administration in the control of sub-national governments

Relationships between prefectural-type institutions, deconcentrated and decentralised administrations vary depending on the country. The prime function of deconcentrated administrations has never, however, been to exert guardianship (*tutelle*) over sub-national governments. In **France**, there is a strict separation between the two. Prior to the 1982-3 reforms, the prefect had *tutelle* over sub-national governments. Since then the only type of control exercised over sub-national governments has been jurisdictional -- but they do not have the right to contest local actions by the central government.

In other countries, control relationships between sub-national governments and deconcentrated administration may be more complex in that their respective areas of responsibility are not always clear. This seems to be particularly the case in countries where the prefectural tradition is not strong. In **Ireland**, for example, while Boards are part of the central government administration, some members are nominated by local authorities, and this local presence gives the Boards a certain influence in local policy-making. In **Finland**, the district administrations of the central government participate in the monitoring of local governments and there is a wide range of shared responsibilities, which favours inter-action. Similarly, in **Sweden**, sectoral agencies are responsible for monitoring and evaluating municipal activities.

These differences raise the question of the extent to which deconcentrated administrations might, in the future, be more involved in some form of supervision of local government. Given the methods of performance management and use of general grants often applied by agencies, greater coherence between central and sub-national policies may be built upon the experience of the deconcentrated administrations. But any such roles should take account of the extent to which the authority is directly exercised by a democratically elected body.

Less hierarchical forms of monitoring, which are often informal and sometimes encouraged by joint financing, also exist in many countries. In **Denmark** and **Sweden** for example, vertical controls are traditionally weak and local government associations have a partnership type of relationship with the centre which encourages forms of “self-monitoring”. In **Japan**, while governors are elected, they act as agents of central government in implementing mandated functions. And in **Switzerland** the principle of “confederal courtesy” imposes considerable constraint on the federal level in its relations with the cantons, but without excluding an influence by the centre over cantonal decisions, for example in the parliamentary consultation procedures between the Confederation and the cantons. And sometimes controls are externalised, as in **Canada** with joint financing for example, where control functions are increasingly given to a third party rather than the administration.

One of the new challenges in this area is how to control the “privatised” and private actors which are playing an increasing role in local governance. The rights of the traditional controlling institutions in these cases remain unclear.

2. *Co-ordination and consultation:*

a) The need for more co-ordination and consultation:

The more complex distribution of tasks between levels of government demands better policy co-ordination. Relations based on collaboration between levels rather than on direct vertical controls also call for improved co-ordination mechanisms. Traditional control mechanisms (themselves being significantly modified) are often no longer sufficient to guarantee the coherence of the whole system. Thus, co-ordination is directly related to both the “style” of the relationship between levels, which is often evolving towards more collaboration and the systems of “control” which operate.

The less directive nature of current modes of management in most Member countries, suggests that the sub-national perspective should be taken more into account to make public sector activities more coherent and policy more relevant to real needs. The proliferation of more-or-less independent actors involved in implementing public policies also produces a greater need for co-ordination.

The creation of new levels of government may reflect efforts to enhance governance through responsiveness, but can also add to already complex inter-governmental relations. The founding of the European Union, for example, calls for considerable co-ordination at both the infra- and supra-national levels, particularly for managing regional funds. And in the federal countries, where there is a particular risk of excessive fragmentation and overlap, co-ordination remains a key challenge.

More effective co-ordination mechanisms may thus be justified on several grounds:

- to help clarify broad national goals;
- to bring diverse actors together around compatible goals and programmes;
- to benefit from the local experiences which abound when responsibilities are decentralised.

It is difficult to establish a direct correlation between the degree of (de)centralisation and the need for co-ordination. The dilemma is how to allow sub-national authorities to freely exercise their rights and avoid divergent actions harmful to existing coherence. No countries escape this problem. The co-ordination mechanisms which result vary according to the type of inter-governmental relationships.

b) Duplication

Different levels of government are liable to have policies which overlap, duplicate or even compete. Although the problem occurs to different degrees across Member countries, as it is closely related to the way in which responsibilities are divided. Duplication appears more frequently in sectors such as education, health and environment where responsibilities tend to be spread more across different levels of government. In **France**, for example, sub-national governments are responsible for the construction and maintenance of schools, while education policy remains a central government responsibility. In **Spain**, there are numerous “grey zones” where the State and the Autonomous Communities are both involved, although there has been recent progress towards resolving some of these overlaps. In the **Netherlands**, duplication problems are reported to have been largely avoided by regular communication between levels of government -- although it is admitted that the information flows are complicated as there are many participants.

There are a number of current efforts to address these problems. In **Australia**, for example, an Audit Commission has recently examined the extent of duplication across levels of government; **Finland** is currently making efforts to clarify responsibilities at all levels; and in **Canada**, there is a public perception that there is wasteful overlap and duplication between federal and provincial governments. In 1994 First Ministers agreed on an “Efficiency of the Federation Initiative” in which areas for increased administrative efficiencies were identified, objectives agreed, and a timetable to address the issues of overlap and duplication negotiated.

The problem of duplication is not present to the same extent in all countries, but is a particular issue in the federal context. And even there, it has been suggested that the phenomenon of overlap can be beneficial by creating a dual accountability -- i.e. to both federal and state levels of government -- in the same programme area.

c) Need for consultation

Formal and informal mechanisms of consultation stimulate information flows between levels of government. Measures have been taken in a number of countries to improve and make such exchanges more systematic. The centre may want the policies it defines to have an impact on sub-national management without necessarily strengthening directive mechanisms. This calls for better information flows to convey the message. At the same time, it is also desirable that the centre is kept informed of sub-national policies so as to clarify its own priorities and to draw conclusions for its own activities. This is particularly relevant to collecting statistics which allow local policies to be reliably evaluated.

There are also some disadvantages in setting up consultation mechanisms. Too many requirements may slow down the decision-making process; and the involvement of too many “pressure groups” can detract from the general interest. This is a problem in **Japan**, for example, given the many modes of informal consultation and the networks of influence which result. But, as their name suggests, the mechanisms are consultative, and the centre is rarely bound by sub-national decisions. Moreover the centre often remains the master of whatever consultation procedures are created, even when they are not discretionary -- which is often the case.

d) Different co-operative cultures

In the context of more inter-dependence, most OECD countries are seeking new forms of collaboration between levels of government rather than strengthening formal controls. This requires the

cultural specificities of each system to be taken into account -- in particular the traditional distinction between countries primarily seeking consensus and those where an adversarial approach is more common. Two distinct cultural attitudes, which may be caricatured as being “co-operative” or “conflictual”, have a major impact on how the political system operates and on relations between levels of government.

A *co-operative* approach tends to seek consensus, which fosters collaboration. In political terms, this is reflected in coalition governments based on political compromise, as in the Nordic countries, for example. Consensus building promotes understanding between those in power as, for example, in **Japan** where open conflicts between levels of government are uncommon. It may, on the other hand, sometimes encourage a degree of decision-making “paralysis” due to the large number of consultations, meetings and committees which consensus building calls for.

A more *adversarial* approach is often associated with bipartisan political systems. This tends to favour clear decision-making, but often with little consultation, and it can involve costly legal procedures. Collaboration is less well catered for, although important co-ordination mechanisms may exist. In this context there is frequently a degree of mistrust between levels of government -- the centre, for example, claiming that sub-national governments don't have enough know-how to participate in central government decision-making processes. As a consequence the relationship between central and sub-national government can be very hierarchical.

In the Nordic and German-speaking countries, there is a strong tradition of both vertical and horizontal collaboration. In **Sweden**, for example, this has permitted the regrouping as “one-stop-shops” of both central and sub-national bodies involved in service provision.

Strong associations of local authorities are a factor in promoting horizontal collaboration, but they may also encourage vertical collaboration based on “partnerships” between different levels of government. Thus, in **Denmark**, where a negotiation culture has developed with a focus on co-operation, a key role is played by the national association of local governments. In the **Netherlands**, “partnership” is manifest as a growing number of agreements in the form of conventions (*convenanten*). This is also happening in **Mexico** between the federal and state levels. And in **Australia** the current Government intends to conclude a “Memorandum of Understanding” between federal and local governments. (An “Accord” between the two levels had already been signed by the previous Government at the end of 1995.)

In countries traditionally having a strong prefect-type institution, if control by that body is weakened, it may well be replaced by a more collaborative approach. Thus, in **France**, for example, the prefect is increasingly a key player in the centre's initiatives to co-operate with sub-national governments. And in **Norway**, the role of the county governor (who represents central government in the counties) is moving towards one based more on advising and encouraging dialogue between central and local government.

The growing complexity of tasks and overlapping of policies at different levels raises the dilemma of whether to seek rationalisation or inexpensive but effective mechanisms for collaboration between levels. In countries such as **Canada** the search for cost efficiency is the driving force behind the desire to improve collaboration. In all cases, the result is a growing need for co-ordination mechanisms which are at the same time sufficiently formal to be stable, and sufficiently supple to avoid further bureaucratisation.

e) Forms of co-ordination and consultation

Co-ordination may be:

- horizontal and/or vertical;
- more or less formal (based on informal practices or more formal “understandings” or conventions);
- structural or procedural (using special co-ordinating bodies or achieved through procedural means);
- institutionalised versus ad hoc (in principle either open-ended or limited in duration);
- mandatory (legal requirements) or voluntary;
- binding or non-binding;
- primary or subsidiary (inter-institutional co-operation may be the primary mode of policy-making or only come into play under certain conditions).

Particularly effective vertical co-ordination is needed when the centre is engaged on an ambitious programme which calls for implementation by local actors. There are even greater coherence problems when the political majority at the centre differs from that at the sub-national level(s). This may give rise to significant divergence of policy priorities. Generally, what is considered necessary at the local level may not be desirable at the national level for reasons of national priorities or overall expenditure control.

In **Japan**, although guidance is generally provided by the centre and followed locally, there is relatively little need for vertical co-ordination -- there are enough informal consultation mechanisms to ensure sufficient policy co-ordination. There is however, a need for better horizontal co-ordination at the centre as is the case generally in all Member countries.

The involvement of several levels of government in joint programmes encourages mixed financing and action, and this also requires effective co-ordination. Such arrangements are desirable as they promote a clear division of responsibilities between all participants and avoid the emergence of “hidden tutelles” based on the financial and other influences of each actor. The centre may in this case, as in **France** for example, impose some horizontal co-ordination on sub-national bodies.

In a growing number of countries co-ordination is now being encouraged by new management methods based on performance and result-oriented control, standards and incentives for providing more uniform services. In **Ireland**, for example, the Department of the Environment’s Strategic Management Statement puts the focus on, inter alia, developing co-operation and partnership with the local level.

Some mechanisms for vertical and horizontal co-ordination in OECD countries

Vertical co-ordination seeks mainly to assure top-down policy coherence. There is usually some broad co-ordination by the legislative authority, but of variable intensity. In **Australia**, the COAG (Council of Australian Governments) gathers together Commonwealth and state and territory ministers as well as the President of the Australian Local Government Association. Its role is to increase co-operation among governments on reform of the economy and ongoing structural reform of government, and to provide a forum for consultation on major issues of governance. In the **United Kingdom**, financial centralisation and an emphasis on effective vertical co-ordination go hand in hand. Central ministries also play an important co-ordinating role.

Some form of “jurisdictional co-ordination” based on court decisions exists in most countries. In countries with prefectural systems, the representative of the centre generally has significant co-ordination functions; although that role can be reduced by direct relationships between central ministries and their field agencies. In most federal countries, but also increasingly in unitary countries (especially those with regional systems) co-ordination mechanisms have been created at more than one level. In **Germany**, for example, there are “high-level councils” between the federal and the *Länder* level as well as inter-ministerial co-ordination meetings.

Horizontal co-ordination is a particularly big challenge in federal countries. In **Australia**, the Conference of State Premiers and meetings of state ministers are very important for co-ordination at the state level; and **Canada**, has an annual meeting of its provincial/territorial First Ministers. Some initiatives promote both vertical and horizontal coherence (for example the sectoral “Strategic Result Areas” in **New Zealand** and the “Strategic Management Initiative” in **Ireland**).

f) Consultation

The extent to which consultation is formalised and extensive varies across countries. In **Iceland**, for example, no political or management decision which affects local interests can be taken without prior consultation. In **France**, on the other hand, there are requirements for the centre and sub-national levels to consult in specific legislation, but there is no general obligation for consultation. While in **Norway**, since 1995, new control processes have been set up in the form of instructions asking the main ministries involved with sub-national governments to consult with them concerning the implementation of any new measures. The Ministry of Finance should consult on costs, the Ministry of Public Administration on administrative effects, and the Ministry of Local Government and Labour on local impacts.

There are several means whereby sub-national representation can play a consultative role at the central level. Associations of local authorities, for example, may play major formal and informal roles in consultation processes with the central level of government. But, particularly in federal countries, second chambers in Parliament constitute the most important consultation mechanism and a way to guarantee sub-national interests at the centre. In **Germany**, for example, the Bundesrat comprises members of the *Länder* governments or their delegates.

Informal modes of consultation also abound, but practices remain a function of the culture of each country. In **Greece**, for example, the administrative system generally prefers conflicts to be resolved in an informal way; and in **Australia**, contact and informal negotiation have developed in specific policy areas. The role of staff is often important in informal networking -- as in **France**, where such networks of central and sub-national elected officials are an important element in co-ordination, along with multiple mandates, which are particularly well developed in Napoleonic countries.

Existing institutional relations and co-ordination mechanisms, and the cultural context all influence the modes of consultation employed between levels of government:

- In **Canada** there is an increased willingness on the part of the federal government to enter into partnership arrangements with the provinces and to develop frameworks with them. Co-ordination between the provinces and the local level, on the other hand, tends to take the form of directives and mandates which leave a minimum of place for consultation with local authorities.
- In **France**, the principle of equality amongst sub-national authorities results in fewer obligations for consultation between sub-national levels compared with those with the centre. And while the prefect may be the advocate of the centre, the role played *vis-à-vis* sub-national affairs is increasingly consultative.
- In **Italy**, regional statutes require that the region consults the provinces and local communities when annual and multi-year budgets and sectoral plans are established. Consultation also extends to unions and chambers.
- In **Spain** important Bills are normally presented to the Autonomous Communities before being submitted to the legislative authority, even if they clearly refer to central government responsibility.
- In **Japan**, despite strong centralisation of most powers, the place given to seeking consensus involves important participation by sub-national authorities in decision-making. Local and national networks, based on permanent informal consultation, permits influence to be exerted in both directions.
- In **Ireland**, the regional authorities, whose role is to promote co-ordination between levels of government, have also become a forum for consultation.

The role of local authority associations in consultation

In many countries local government associations are the main interlocutor with the centre when it consults with sub-national governments. But the role they play varies considerably.

In the **Nordic** countries the local authority associations are relatively strong and are consulted on all Bills which concern them. In these countries such consultation is an integral part of the policy-making process between levels of government. In **Denmark**, in particular, there is an annual negotiation ending in an agreement on general grants and other financial matters affecting local authorities. Key actors in this process are the Ministry of Finance and the National Association of Local Authorities.

In **Luxemburg**, in addition to the association of towns and communities, another body (SYVICOL) participates in the legislative and regulatory process. Bills are sent to it for comment, it is recognised by the central government as an interlocutor, and it participates in a number of committees and groups. Local authority associations often play a strong role as a pressure group. This is the case in **Italy** and **Portugal** (where the National Association of Communities will be involved in the next debate on transferring responsibilities).

3. Accountability

Accountability may be defined as the “management of responsibility”. However, to make lines of accountability as clear as possible, it is important to distinguish between the public accountability of elected officials and that of managers who are hierarchically accountable for results. The definition of accountability used for the OECD’s ministerial symposium on “The Future of Public Services”, organised in March 1996 by the Public Management Committee, was as follows:

Accountability: Exists where there is a hierarchical relationship within which one party accounts to another for the performance of tasks or functions conferred. It goes hand in hand with devolution and flexibility: managers are held accountable for results once they are given the authority to make decisions that are part of producing those results. Another important aspect of accountability is the public accountability of those who govern to elected bodies and thence to the public at large.

(OECD, 1997)

The two facets of accountability are dealt with here in turn, firstly in terms of the relationship between accountability and performance management, and secondly from a more political and client perspective.

a) Accountability and performance management

All levels of government are obliged to perform the tasks and manage the resources allocated to them as efficiently and effectively as possible, and there are institutions in all countries charged with ensuring that this is the case, although their mandate does not always range across all levels of government. **Australian** states, for example, have their own auditors; and in **France**, the 1982-3 decentralisation reform was accompanied by the creation of regional chambers of accounts (*Chambres Regionales des Comptes*) responsible for monitoring local finances by preparing reports which are in turn submitted for comment to the national Court of Accounts (*Cour des Comptes*). This type of financial accountability is primarily concerned with checking compliance with legal procedures and rules, but managerial and qualitative functions are also being developed. It is still to be found, legitimately, in the inter-governmental relations of all countries. The present economic climate is, however, generating strong pressures for improving the mechanisms of accountability in its managerial dimensions.

If the sense of accountability for federal funds is different from that for funds raised through state or local taxes, federal grants may be spent unwisely....One approach is to ensure accountability through results-oriented measures, rather than conventional rules and regulations. This allows states more flexibility ... subjecting government expenditure to this discipline is likely to be the best way to improve government efficiency....but this enhanced flexibility must be provided in a way that protects the national interest and advances the objectives of the programmes.

Economic Report of the President, Washington DC, February 1996.

Managerial accountability is particularly pertinent in the context of inter-governmental management given that “true accountability requires autonomy and flexibility” [Governance in Transition]. The shift away from accountability for compliance with procedures towards accountability for performance or results, is putting more emphasis on evaluating the efficiency with which resources are used and the extent to which targets have been achieved. This implies defining common goals and setting performance standards as discussed in the earlier section on performance-based control. Problems are

likely to arise if funding is reduced at the same time as sensitive trade-offs between accountability and flexibility are agreed. But by “trading” specific levels of performance (which can be monitored) for greater administrative discretion, a bridge can be built between accountability and flexibility.

- In **Australia**, the state governments have subjected local governments to greater accountability requirements and performance management relying on various indicators.
- In **Canada**, the reduction and capping of federal funding requires lower orders of government to do more with less, and makes them solely accountable for any cost over-runs. On the other hand, they benefit from flexibility to innovate and to retain efficiencies realised through their own policy and administrative initiatives.
- In the **United States**, a problem perceived with revenue-sharing arrangements or pure block grants is that they introduce a separation of functions -- for example, when the federal government finances a programme but policy decisions are made at the state level. This may increase the likelihood that taxpayers’ money is not well spent. The 1996 Economic Report of the President notes that state taxpayers are content to give state government officials more discretion over funds coming from Washington than over funds contributed by their own state tax dollars. This means that, while the federal government can influence the pattern of state spending more easily (and it is the federal desire to do so that justifies a federal role), if the substitution of federal for local funding leads to less diligent monitoring by taxpayers, the money may not be spent as well as it could and should be.
- Questions being asked in the **United Kingdom** on this subject include whether the relationship between central and local governments should be based on publicly accountable contracts, or whether there should be some formal mechanism for mediating disputes arising within the relationship; and if accountability at the local level can be an effective alternative to regulation from the centre.

b) Improving public accountability

The shorter distance between citizens and elected representatives sub-nationally, and the scope for greater transparency about how and where money is spent locally, together make accountability generally a more tangible issue at the sub-national level. And, while election processes and terms of office vary considerably across countries, one factor which all countries have in common is that sub-nationally it is possible to “vote with one’s feet” by moving to another area to live, work, study or receive treatment. Debate about the accountability of sub-national governments should not, therefore, be limited only to considerations of economy, efficiency and effectiveness. It should also be recognised that in many countries new structures have evolved in response to more political than financial preoccupations.

- In **Spain**, for example, the creation of the Autonomous Communities was mainly motivated by political concerns: economic factors were secondary. But the new administrations were set up according to the traditional central management pattern resulting in the creation of new local bureaucracies. Initiatives have now been taken to break with this tendency, for example in the health sector, where steps have been taken to improve transparency.

There are, in fact, two aspects of public accountability sub-nationally. One relates to concerns for more participatory democracy, the other is more focused on serving the citizen better as a client. In both cases diverse national traditions and political cultures give rise to a wide variety of approaches.

Democratic accountability has at least three dimensions:

- representation (e.g. the weight of elected councils or directly elected heads of administrations);
- participation (e.g. referenda and consultative neighbourhood fora);
- transparency.

Some traditions give much importance to democratic processes which are participative. This is especially the case in **Switzerland**, for example, where citizens are consulted directly on some cantonal bills and cantonal expenditures are subject to a referendum. In other countries (e.g. **Belgium, Italy, the United States**) direct democracy involves representative bodies such as unions and lobby groups participate in some decision-making. There is a strong tradition of local democracy in the **Nordic countries**; and the new ““Political Reform of the State” initiative in **Mexico** aims to improve local democracy and in particular to improve the participation of the Indian communities. In countries such as **France**, electoral accountability is guaranteed by the Constitution and/or a “constitutional judge”. And in many countries, public consultation processes have increased in recent years, particularly in fields such as land-use planning.

The focus on client satisfaction is another facet of improving public accountability, but client-oriented mechanisms and feed-back information must be distinguished from democratic mechanisms. In the **United Kingdom**, for example, one of the first initiatives inspired by the Citizen’s Charter was to give the Audit Commission a legal duty to draw up each year a list of indicators measuring the performance of local government services. Councils are obliged to measure and report their own performance against these indicators. The more client-oriented approach is also illustrated in **Australia** by attempts to make sub-national authorities more accountable to financial markets. In **Canada**, as the order of government “closest to the people”, municipalities are directly accountable to the public for the programmes and services they provide themselves or on behalf of other levels of government. The proliferation of special purpose bodies funded by a mix of revenue and often with a high degree of autonomy presents some problems of accountability. For example, primary and secondary schools claim a large part of local tax revenues but local government cannot interfere with the policy decisions of school boards so are denied effective means of exercising budgetary control. Similarly, the extent to which local hospital boards should be more accountable to the public (provincial and local government) is being debated.

Both approaches may be present at the same time but to different degrees: **Denmark**, where there is a high level of accountability to the electorate, is also studying client satisfaction; and **Finland**, where recent reforms have strengthened the political accountability of the municipal manager, municipal audits are carried jointly by the elected council and professional accountants who are closer to market-type mechanisms.

And when amalgamation of local units in the interests of economies of scale takes place, it results in a distancing of citizens. This needs to be compensated for by, for example, more scope for representation of neighbourhood and lobby groups.

Finally, shifting responsibility down to lower levels of government does not necessarily improve performance. In the **United States**, for example, a Job Training Partnership Act was designed in 1982 to

reduce the role of the federal government, enhance that of the states, and retain a strong role for local policy-making and initiative. But it became overly bureaucratized and new legislation in 1992 reasserted federal accountability. A new Bill is now being proposed based on a different model. It seeks to replace bureaucratic accountability with market-driven accountability based on individual empowerment, informed customer choice, and competition; and to establish appropriate and complementary roles for all three levels of government in the design, implementation and oversight of the programme.

D. Concluding comments

The emerging trends described in Part B of this Overview underline evolving patterns in the structures and division of responsibilities across levels of government; and changing fiscal/financial relations. Structural reorganisation often takes the form of “regionalisation” (adding or strengthening the intermediary tier of government) and/or “rationalisation”. The latter may involve reductions in the number of local units through aggregation in the interests of economies of scales; and/or associations of existing units to create larger bodies better able to provide infra-structure efficiently and to deal with economic development policy. One of the main challenges for central managers in this area, is to deal with the fragmentation which results from the creation of new tiers of government, the growing importance of deconcentrated agencies, and the emergence of new non-governmental local actors.

The distribution of responsibilities across levels shows that central and local levels generally have basically similar “core” functions, but there are many grey areas where (to differing degrees) an intermediate tier is involved. While it is difficult to identify a clear trend in the redistribution of responsibilities across levels, most interest has been shown in the education, health and welfare sectors. There is also an increasing number of shared responsibilities. Central managers must, therefore, face the challenge of managing a more complex distribution of responsibilities. The cultural context is particularly important in how tasks are distributed and, together with financial and political considerations, is at the heart of the debate on autonomy. The degree and nature of sub-national autonomy may vary a lot from one sector of responsibility to another. This diversity is a richness, but can make it difficult to determine the appropriate trade-off between autonomy and ensuring that national objectives for the governance of the public sector as a whole are not compromised.

Evolving fiscal and financial relations across levels of government reflect a more pronounced inter-dependence between levels, given the limitations of local authorities to generate their own revenues and, in most countries, the growing number of tasks being performed sub-nationally. This situation is leading to new forms of partnership between levels of government; and revisions of tax sharing schemes and of equalisation policies. In parallel, transfers to lower levels are generally shifting away from specific-purpose grants, thereby providing opportunities for broad goals and targets to be agreed and in particular underlining the importance of setting national objectives and achieving fiscal strategies.

The issues identified from the country chapters highlight a number of basic tensions in inter-governmental relations which are evident, to some degree, in all OECD Member countries in the mid 1990s. These challenges may be summarised as finding the right balance between:

- encouraging more *autonomy* at lower levels of government, while providing overall *direction*;
- allowing for *differentiation* through flexibility, yet ensuring some minimum degree of *uniformity*;

- catering for more *responsiveness* to local needs, but not to the detriment of *efficiency and economy*.

These inherent tensions have important implications for central governmental management *vis-à-vis* sub-national levels:

- adjusting financial and administrative *controls* away from detailed, top-down requirements and towards broadly-agreed frameworks and *ex post*, result-oriented instruments;
- developing *co-ordination and consultation* mechanisms for a more comprehensive and coherent approach to target-based governance and which fit the cultural context and the “style of relationship” in each country and sector;
- promoting *accountability* procedures which combine managerial responsibility for financial results with political accountability to the public which are in accordance with the shift towards greater participation by citizens.

These conflicting pressures are often exacerbated by a basic lack of confidence between levels of government in all countries. The problem of mistrust across levels of government, although not directly addressed in this report, is mutual in that it operates in both directions. Such suspicion does not augur well for improving synergies in governance -- but the problem can be reduced if transparency and communication is improved.

Judging which level of government is best placed to be responsible for a particular activity or decision involves a complex mix of factors, and demands effective consultation and negotiation. It is central government which ultimately decides on many financial matters and which must take the initiative to build the partnerships needed. The bottom-line challenge to public managers in central government is, therefore, to incorporate appropriate and clear lines of accountability into its decision-making processes.

To sum up, there is clearly no single “best” model for how power and responsibility should be distributed vertically across governments. Each country has its own cultural, economic and political contexts which largely determine what is desirable and possible. Equally, while economic imperatives and new public management philosophy encourage more devolution, it is for each country to ascertain its own strategic mix of decentralisation and deconcentration -- and how, where, and at what speed it will be realised. Only broad goals such as improving responsiveness and subsidiarity are generally shared. Other objectives such as actively “enabling” lower levels of government to take on additional responsibilities require further efforts in collaborative governance.