

Spending responsibilities across levels of government

Subnational governments account for more than 60% of public spending in the areas of culture, housing, and environmental protection.

The distribution of competencies across levels of government in a country can be measured by the proportion of subnational spending by sector. However, the assignment of responsibilities to SNGs does not imply that the latter have full autonomy in exercising those responsibilities. Education is a shared competency across levels of government. As a share of total public spending on education, subnational expenditure on education represented 47% on unweighted average in the OECD in 2015. It is above this average in 18 countries (Figure 5.9, panel A).

In most countries, SNGs are responsible for construction and maintenance of educational infrastructures and the financing of school-related activities, commonly for the primary level schools. There are however exceptions, such as in New Zealand, Turkey, Ireland or Greece where education is provided by central government entities and local governments have a negligible role in this area. The same frequently applies to secondary schools, as well. In other countries, SNGs are also in charge of paying the salaries of administrative and technical staff and teachers. In this case, local governments have little control over their budget in an area regulated by the central government level. By contrast, in Spain, Germany, Switzerland, the United States and Belgium, subnational educational expenditure accounted for more than 80% of public spending in this sector. They are all federal countries, with state government having a high level of autonomy in educational matters, including vocational teaching and higher education (universities). Finally, in some countries, education is decentralised directly at the level of education institutions, which may be independent special-purpose entities (e.g. school districts in the United States and school boards in Canada).

In the health sector, subnational expenditure accounted for 24% (unweighted average) of public health spending across OECD countries in 2015 (Figure 5.9, panel B), yet there are significant differences from one country to the next. Health remains a highly centralised responsibility in numerous

countries, with subnational governments spending less than 10% of the public outlay in 16 countries, and even less than 1% in eight countries, including Greece, Ireland, New Zealand, Israel, Luxembourg, Turkey and France, among others. On the other hand, subnational health spending exceeds 85% of total public health spending in Sweden, Spain and Switzerland. Wide responsibilities for planning, organising, delivering and financing healthcare services and infrastructure are decentralised to the municipal level (primary care centres) but especially to the regional level (hospitals).

SNGs accounted for approximately 34% of public spending on economic affairs on unweighted average in the OECD in 2015, more than 50% in Japan, Switzerland, Spain, Australia, Belgium, Germany, and the United States where it reached 71% (Figure 5.9, panel C). Transport is the main component of this area, representing 73% of economic affairs expenditure on unweighted average in 22 OECD countries for which data are available, and even more than 80% in nine countries. This sector encompasses a wide range of activities from the definition of policies, regulations and standards, to financing, construction, maintenance and administration. Such activities can cover transport networks, public transport, facilities and services in various sub-sectors and at various geographic scales.

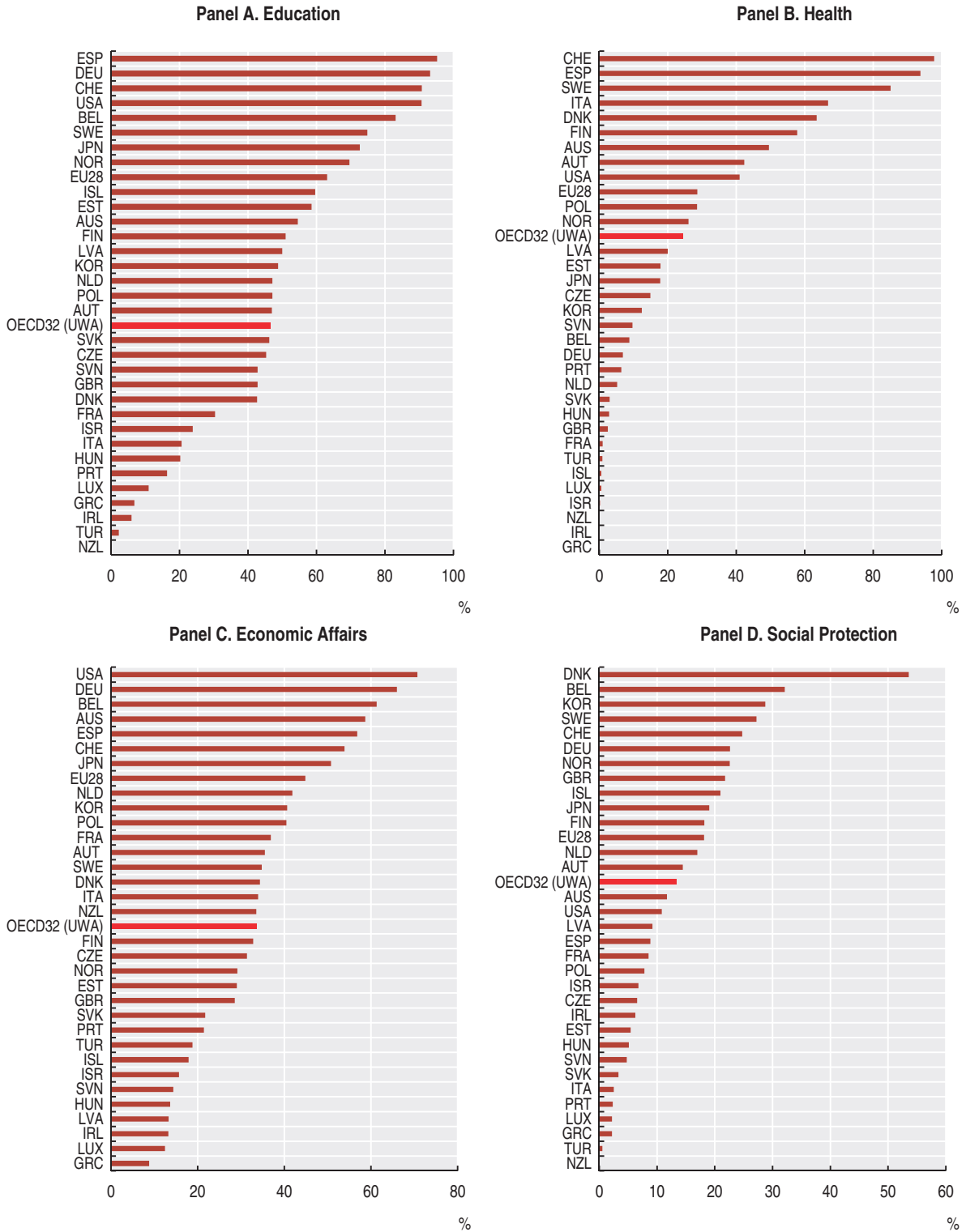
Subnational social expenditure corresponded to 13% of total public social spending on unweighted average in the OECD (Figure 5.9, panel D). In most OECD countries, social protection and benefits are mainly provided by the central government, social security bodies or by insurance institutions. Only Denmark stands out from the other countries with a ratio of 54% as local governments are responsible for the administration of cash benefits. However, in this area, there is a significant disconnect between the large share of decentralised social expenditures and the real power of Danish municipalities over them. This is because social protection schemes are largely determined by regulations and standards set at the central level. Other countries have a high ratio of subnational intervention such as Belgium (especially since the 6th State Reform), Korea and Sweden.

5. SUBNATIONAL GOVERNMENT FINANCE AND INVESTMENT

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5.9. Subnational expenditure: education, health, economic affairs, social protection

% of total public expenditure by economic function, 2015



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5. SUBNATIONAL GOVERNMENT FINANCE AND INVESTMENT

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SNGs are key public actors in providing (sometimes exclusively) housing and community services, which is one of their major functions. Subnational government expenditure amounted to 72% of public spending in the area of housing and community amenities on unweighted average in the OECD in 2015, and more than 80% in 14 countries (Figure 5.10, panel A). Community development is the biggest line item of this sector (29% of spending in 21 OECD countries for which data are available), followed by housing development and water supply (24% each) and street lighting (13%). In these fields, SNGs play a major role in Sweden, Slovenia, Spain, Norway, Switzerland, Estonia, Belgium, and Israel. In the social housing sector, there has been a widespread privatisation process, which reduced subnational involvement, particularly in central and eastern European countries.

The share of SNGs in total public environmental expenditure is also sizeable reaching close to 65% in the OECD on unweighted average in 2015 (Figure 5.10, panel B). It confirms the key role of SNGs in this field, especially in Italy, Spain, Turkey and the Netherlands where subnational spending in environmental protection represented more than 90% of total public spending in 2015. On average, in 22 OECD countries for which data are available, 52% of subnational environmental spending was dedicated to waste management, 26% to waste water management, 8% to the protection of biodiversity and landscape and 7% to pollution abatement.

Definition

General government includes four sub-sectors: central/federal government and related public entities; federated government (“states”) and related public entities; local government i.e. regional and local governments and related public entities; and social security funds. Data are consolidated within these four sub-sectors. Subnational government is defined as the sum of state governments and local/regional governments.

Expenditure (current and capital) by economic function follows the Classification of the ten Functions of Government (COFOG): general public services; defence; public order and safety; economic affairs; environmental protection; housing and community amenities; health; recreation, culture and religion; education; and social protection.

The OECD averages are presented as the weighted average of the OECD countries for which data are available, unless otherwise specified (i.e. unweighted average, arithmetic mean, OECD UWA).

In some sectors (e.g. waste, sewerage, parks and green spaces) the competence is almost fully devolved to local governments or specific decentralised functional bodies (e.g. water boards in the Netherlands). It is also often outsourced to agencies, external entities or private providers through public-private partnership contracts (e.g. in France).

Subnational expenditure dedicated to recreation, culture and religion amounted to 60% of public expenditure in the same area on unweighted average in the OECD countries, even exceeding 90% in Switzerland, Japan, Germany and Belgium (Figure 5.10, panel C). In contrast, central government remains the main public funder in this area in Ireland, the United Kingdom, and Hungary.

In most OECD countries, public order functions remain mainly the central government’s responsibility. SNG expenditure accounts for only 26% of public spending in this area on unweighted average (Figure 5.10, panel D). However, federal countries, such as Australia, the United States, Germany and Switzerland but also a unitary country (Japan) record particularly high ratios with more than 80% of total public spending in this area.

Source

OECD (2018), *National Accounts Statistics* (database), <http://dx.doi.org/10.1787/na-data-en>. Estimates from the IMF Government Finance Statistics for Turkey and New Zealand.

OECD (2018), “Subnational Government Finance”, *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>.

See Annex B for data sources and country-related metadata.

Reference years and territorial level

2015: National Accounts; levels of government.

Further information

OECD (2018), *Subnational Governments in OECD Countries: Key data* (brochure).

Figure notes

No data for Canada, Mexico and Chile. For the United States, data showed in the function “Housing and community amenities” include the “environment protection” function data.

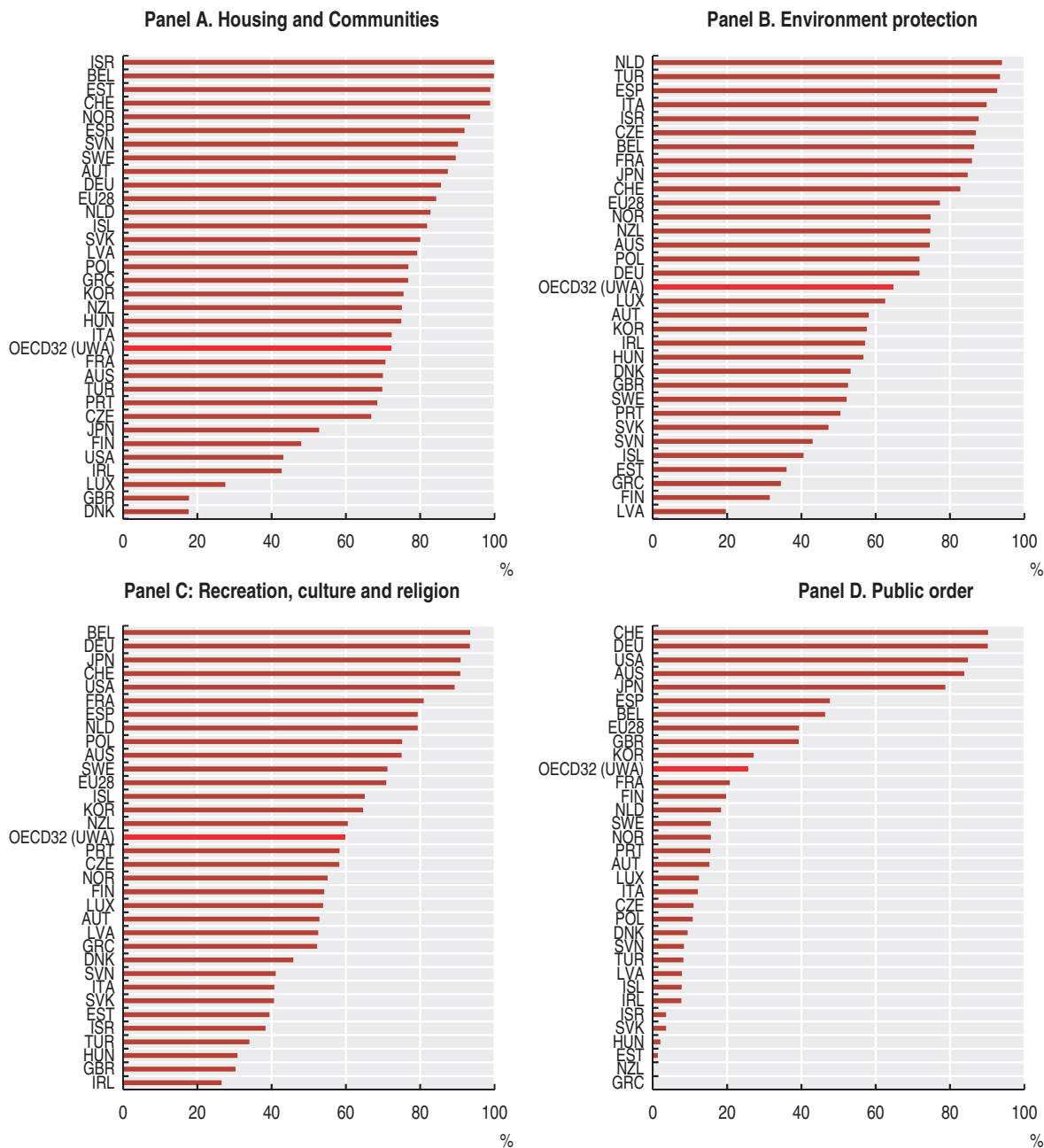
5.9: OECD average is unweighted. The total of public spending is non-consolidated.

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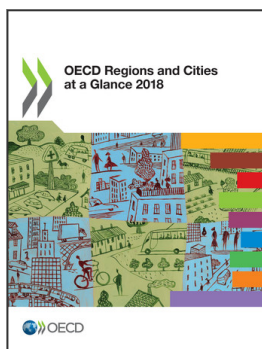
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5.10. Subnational expenditure: Housing, Environment, Recreation, Public order

% of total public expenditure by economic function, 2015



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