

Scope and funding of local government: an international comparison

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Te Kōmihana Whai Hua o Aotearoa¹

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Key points

- This paper compares New Zealand with other high-income countries, in the distribution of functions across central and local government; and in the sources of funding for local government.
- The scope of local government in New Zealand and its sources of revenue (mainly property taxes) are much more constrained than in most other high-income countries.
- International data on local government scope and revenue streams show that:
 - there is no clear relationship between income levels and scale and scope of local authorities in high-income countries;
 - local government in more decentralised countries tends to rely heavily on central government grants and transfers, the more so if they have responsibility for health, education and social services; and
 - the types of local taxes used vary greatly across high-income countries.
- Sweden is an example of local government providing health, education and social services. Local government there contrasts strongly with New Zealand in having these responsibilities and in having access to local income taxes as its main source of revenue.
- Even so, in practice local government in Sweden is constrained by:
 - income equalisation and cost equalisation systems. These redistribute resources across municipalities and counties to compensate for differences in taxable income, the demand for services and the cost of providing those services (central government revenues contribute strongly to the equalisation system);
 - central government regulation of the design and delivery of services and central monitoring of local government service performance; and
 - delegation of many key decisions to local service providers, who are in the best position to make detailed decisions about service design and allocation of resources to meet the needs of service users.
- The formal differences in scope and funding of local government in Sweden and New Zealand are large. In practice, the control of key decisions in the design and operation of local services in each country has much more in common than first appears. New Zealand and Sweden face similar trade-offs between centralised and decentralised decision rights over the provision and resourcing of local services. The approaches taken by each country reflect differences in history, culture and the influence of geographic neighbours.
- New Zealand has alternative local democratic institutions (health boards and school boards) to administer health and education services. Central government agencies also contract a wide variety of non-government organisations to provide local social services.
- Where local services have wider impacts on national social and economic outcomes; and/or where there are significant differences in local economic resources, central governments in high-income countries will likely regulate standards and redistribute resources to tackle inequalities in outcomes.

Local government in New Zealand has both narrow scope and a limited funding base compared to many other high-income countries (section 2). Promoters of a wider role for local government in New Zealand argue that excessive centralisation of funding and control of government functions is harmful for economic performance and local democracy (Craven, Goldingham-Newsom, & Hartwich, 2019; Forbes, 2019; Krupp, 2016).

This paper compares New Zealand to other high-income countries in the distribution of functions across central and local government; and in the sources of funding for local government. The pattern is complex. Yet, unsurprisingly, a wider scope for local government – particularly including education, health and other social services – requires both broader funding bases and greater contributions from central government (section 2).

To get a better understanding of what devolution of funding and administration of health, education and social services involves, this paper looks in more depth at local government scope and funding in Sweden. Sweden and New Zealand are opposite ends of the scope and funding spectrum. Local government in Sweden administers most health, education and social services and funds a large proportion of them through local personal income taxes (set in the order of 30% of taxable incomes) (section 3).

Even so, arrangements for policy design and local administration of these services in Sweden look less different from New Zealand than first appears (section 5). This is largely because governments in both countries face the same sorts of trade-offs between centralised and decentralised decision rights over the provision and resourcing of local services (section 1). The different formal arrangements reflect differences in history, culture and the influence of geographic neighbours.

1 Allocating roles and revenue raising powers across levels of government

This paper compares the scope of local government and its revenue bases internationally (sections 2 and 3). An extensive economics literature helps explain the allocation of roles and revenue sources across different levels of government. The Commission considered some of this literature in its inquiry into local government regulation (NZPC, 2013). It also looked at the fiscal federalism literature in its inquiry into local government funding and financing (NZPC, 2019).

This literature sets out factors that, taken together, should influence the allocation of roles across different levels of government. These include:

- Whether the outcomes of services in local jurisdictions have wider effects (Oates, 1999). For instance, people are free to move within a national jurisdiction. If their local health and education services have poor outcomes and they later move, then other localities will take on some of the continuing risks and costs of those poor outcomes. Local transport provision will also have effects (for instance safety, comfort and cost) on people travelling on the network from other parts of the country.
- The extent to which local circumstances and preferences for service levels and quality vary. Local design and administration of services, based on local information, is likely to provide a better fit when relevant preferences and circumstances vary across localities (Besley & Coate, 2003; Oates, 1999).² Conversely, central government involvement can help secure any gains available from national coordination and economies of scale.
- Whether citizens accept variation in local service levels and outcomes as equitable. Typically, people expect to have access to similar levels of public health and education services, and income support services, wherever they reside in a country.
- The ability of people to hold service designers and providers to account for the quality of services. For instance, local service provision funded by local taxes may provide a powerful accountability mechanism. But this will depend on the availability of good information on service performance and on effective participative and representative democratic institutions (NZPC, 2019, Chapter 5).
- The capabilities of institutions at different levels of government, the information they hold, and whether there are, for instance, economies of scale in the design, monitoring or actual provision of services.

Even so, these factors do not necessarily align nicely, and a balance of judgments should determine policy. For instance, local design and provision of services may best reflect local circumstances and preferences. But if local institutions are weak, or outcomes vary widely across the country, or are poorly monitored with weak feedback to service improvement, a case for involvement of higher levels of government could exist. These factors are also likely to vary in their strength and importance across countries at different stages of development.³

Higher levels of government can be involved in a variety of ways that have different effects on local autonomy. For example they can provide grants and subsidies, tied or untied; they can regulate and monitor achievement of standards; they can provide services directly from the centre; or use a

² The principle of subsidiarity (as adopted, for instance, by the European Union) in effect creates a presumption in favour of local provision, partly for this reason. Unless an area of action is reserved to the EU, or action by the EU is necessary to achieve the objective or would provide greater benefits, the action should be undertaken by member states (NZPC, 2013).

³ For instance, lower levels of government in developing countries may lack technical expertise, which may be one explanation for greater centralisation of service design and provision in such countries.

combination of mechanisms. Local government can use a wide variety of bases to raise revenue, and, for some of these, central government involvement may aid efficient administration.

The fiscal federalism literature adds some further considerations:

- Income redistribution should primarily be the responsibility of the national government. Otherwise, if the per capita costs and generosity of provision vary across local jurisdictions, people will have incentives to move to avoid costs or to access more generous provision (Oates, 1999).
- Economies of scale and scope may exist in the administration of some types of taxes (eg, income taxes) and in welfare transfers which may favour administration by a higher level of government (Oliver, 2016).
- Some taxes are more efficient economically than others, because there are weaker incentives for behavioural responses to avoid them. Because land is immobile, a tax on land is economically more efficient than most other forms of tax (NZPC, 2019, Chapter 7).
- Where a central government provides grants and subsidies to lower levels of government (for instance to even out differences in service provision) it needs to do so carefully to avoid perverse incentives (Oates, 2008). Unconditional grants can weaken performance and accountability incentives at the lower level of government. Such grants can give lower levels of government (and their voters) an expectation of being “bailed out” should they run into fiscal difficulties. Conversely, conditional grants and subsidies limit the discretion of lower levels of government to allocate resources to different services and to vary the quantity, quality and mix of services.⁴

⁴ Oates (2008) argues that grants should be limited, to promote local accountability. Decisions to adjust services at the margin and funding such decisions should be done locally. Matching grants helps align incentives between levels of government. Oates points to literature that suggests that large-scale fiscal equalisation across regions can hinder economic adjustment and convergence.

2 Varying scope of local government across the world

The size, structure and responsibilities of subnational government (SNG) vary considerably in different countries. This section looks at the scale of SNG in selected countries, explores the distribution of responsibilities across levels of government, and examine whether there is a clear link between the assignment of responsibilities and the prevailing funding streams. The term SNG covers both local government and middle-level state, provincial and regional government in two- and three-tiered systems. In unitary countries (such as New Zealand), SNG and local government are the same.⁵

2.1 SNG size and structure

This paper uses data from the World Observatory on Subnational Government Finance and Investment (SNG-WOFI).⁶ This data covers almost 640 000 elected, general purpose SNGs in 122 countries. The data includes over 624 000 municipal entities (more than half of which are villages and small towns in India and Indonesia), almost 12 000 intermediate governments and around 1 800 state and regional governments. About 50% of the countries have both municipal and regional governments, while 27 also include intermediate governments (OECD & UCLG, 2019a).

Municipalities vary considerably in population size

The average population size of municipalities varies greatly across the world. Municipalities are very small in some countries (eg, in the Czech Republic, Mongolia, Slovak Republic and France they have fewer than 2 000 inhabitants on average). Municipalities are very large in other countries (eg, in Sierra Leone, Rwanda, Malawi and Mozambique they have more than 300 000 inhabitants on average).

While municipalities vary greatly in size within every group of countries, in general:

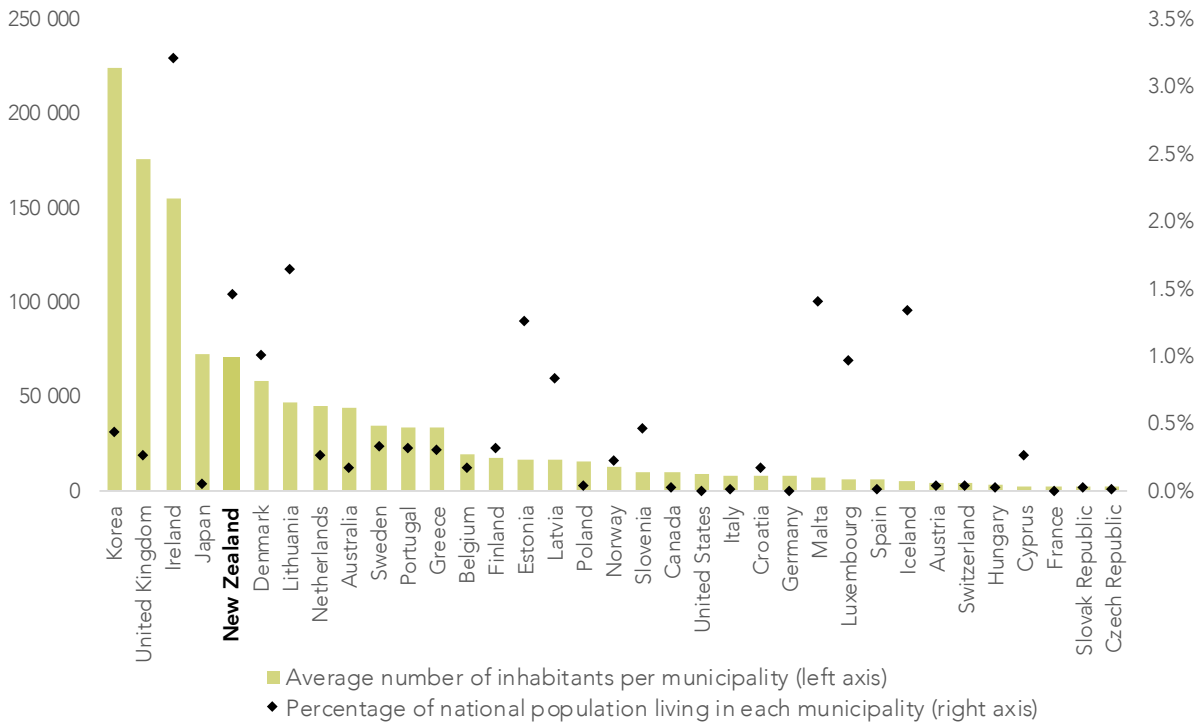
- high-income countries, on average, have smaller municipalities (about 34 000 inhabitants) than middle- and low-income countries (70 000 and 148 000 inhabitants);
- in unitary states municipalities are larger than in federal states (74 000 compared to 57 000);
- three-tiered SNG countries on average have smaller municipalities (about 22 000 inhabitants) than single or two-tiered systems (90 000 and 65 000 inhabitants); and
- by regions, Africa and the Asia-Pacific have the largest average municipal size of around 130 000 inhabitants, compared to just over 27 000 in Europe and Euro-Asia and below 10 000 in North America.

No clear link exists between the average size of municipalities and the total population, the urban share of total population or population density.

Figure 2.1 compares the average size of municipalities in New Zealand with selected high-income countries.

⁵ All countries with single-tiered SNG are unitary states but some unitary states have multiple tiers of SNG.

⁶ The dataset was launched in November 2017, as a joint endeavour of the Organisation for Economic Co-operation and Development (OECD) and United Cities and Local Government (UCLG). It is available at www.sng-wofi.org.

Figure 2.1 Average municipal size in selected high-income countries, 2017

Source: Authors' calculations based on SNG-WOFI database (OECD & UCLG, 2019b).

Note:

1. High-income countries in the Middle East and Latin America are not included.

Variation in the scale and scope of SNGs is particularly evident in high-income countries

SNG expenditure (as a percentage of GDP or total public spending) is an indicator of the scale and scope of the SNGs. SNG expenditure varies greatly across countries. While SNGs in Denmark and Canada spent over 30% of GDP in 2016, SNG in six OECD countries (Ireland, Greece, Chile, Turkey, New Zealand and Luxembourg) spent less than 5%.

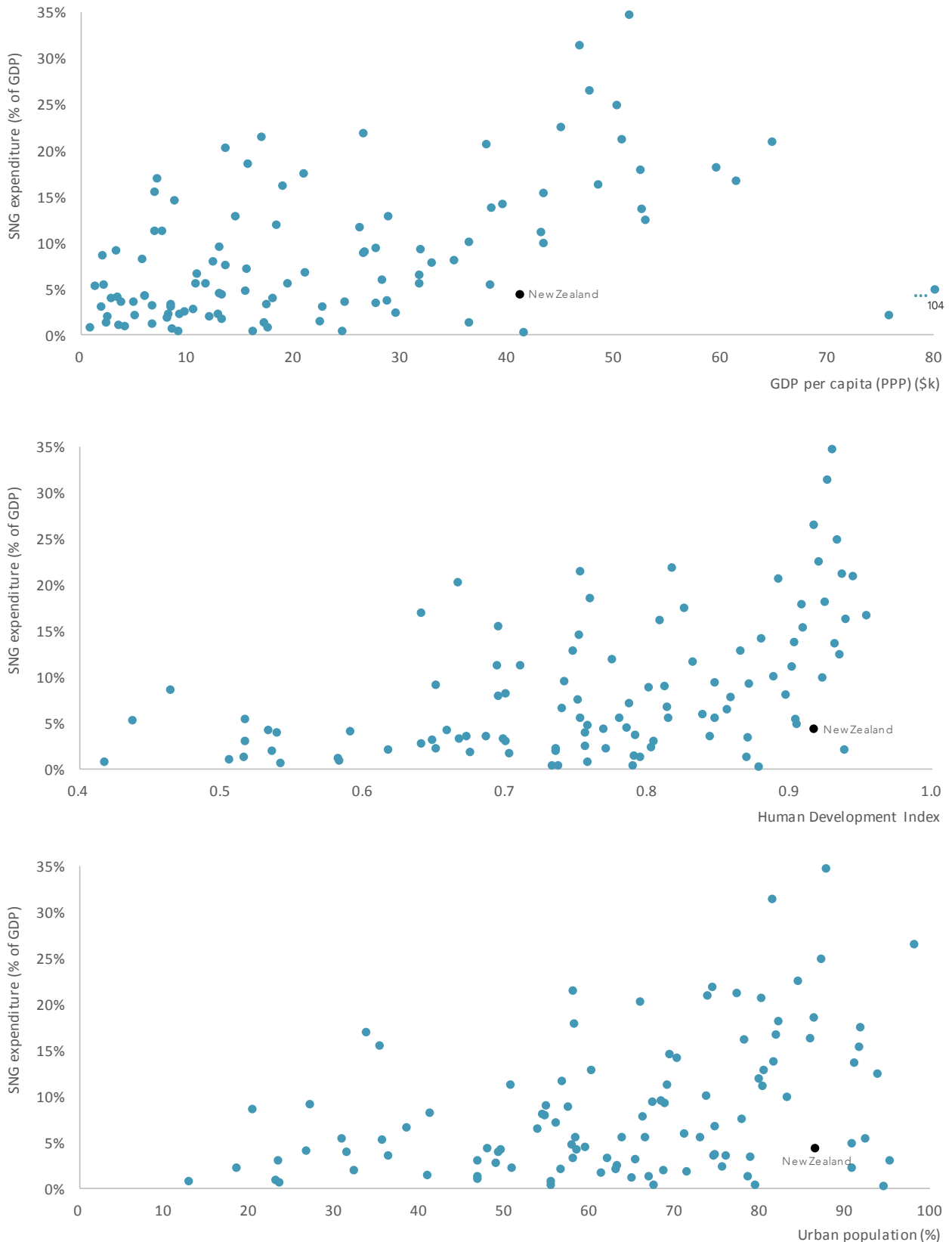
SNGs in federal states spend almost half of total public expenditure (17% of GDP) but in unitary states they spend only about 20% (7% of GDP). Federal states (usually larger in area and population) devolve more responsibilities to their state or provincial governments.

Developing countries often have more centralised government than developed, high-income countries. Yet among **high-income countries**, visual inspection of data does not reveal any clear link between the SNG expenditure and levels of income, human development or urbanisation (see Figure 2.2).

The direction of causality between income levels and decentralisation is, in any case, not clear.

It is important to note that the cause-effect link between decentralisation and the level of development... may not be always clear, in particular which way the causation works. Some high income countries are centralised while several low or middle income countries are decentralised. In fact, decentralisation is not a panacea for any type of problem a country can face. It may offer opportunities, but it also entails risks in terms of efficiency (public policies and services delivery), representation (political governance) and national unity. It may produce perverse effects and fail to deliver on the promise of improved efficiency and political gains. Therefore, decentralisation is not good or bad in itself. Its outcomes much depend on the way the process is designed and implemented, on the degree of maturity of institutions, on adequate subnational capacities and on the quality of multilevel governance, including efficient coordination mechanisms across levels of government. (OECD & UCLG, 2016, pp. 22–23)

Figure 2.2 SNG expenditure vs GDP per capita, human development and urbanisation



Source: OECD & UCLG (2019b).

The cross-country variation in SNG expenditure relates in part to the different forms of government (eg, federal and unitary states), how sovereignty is shared between the levels of government, and what responsibilities each level of government undertakes. More importantly, the size and structure of SNGs often have geographical, cultural and socio-economic roots that evolved through unique historical trajectories and socio-political paths (OECD & UCLG, 2019a).

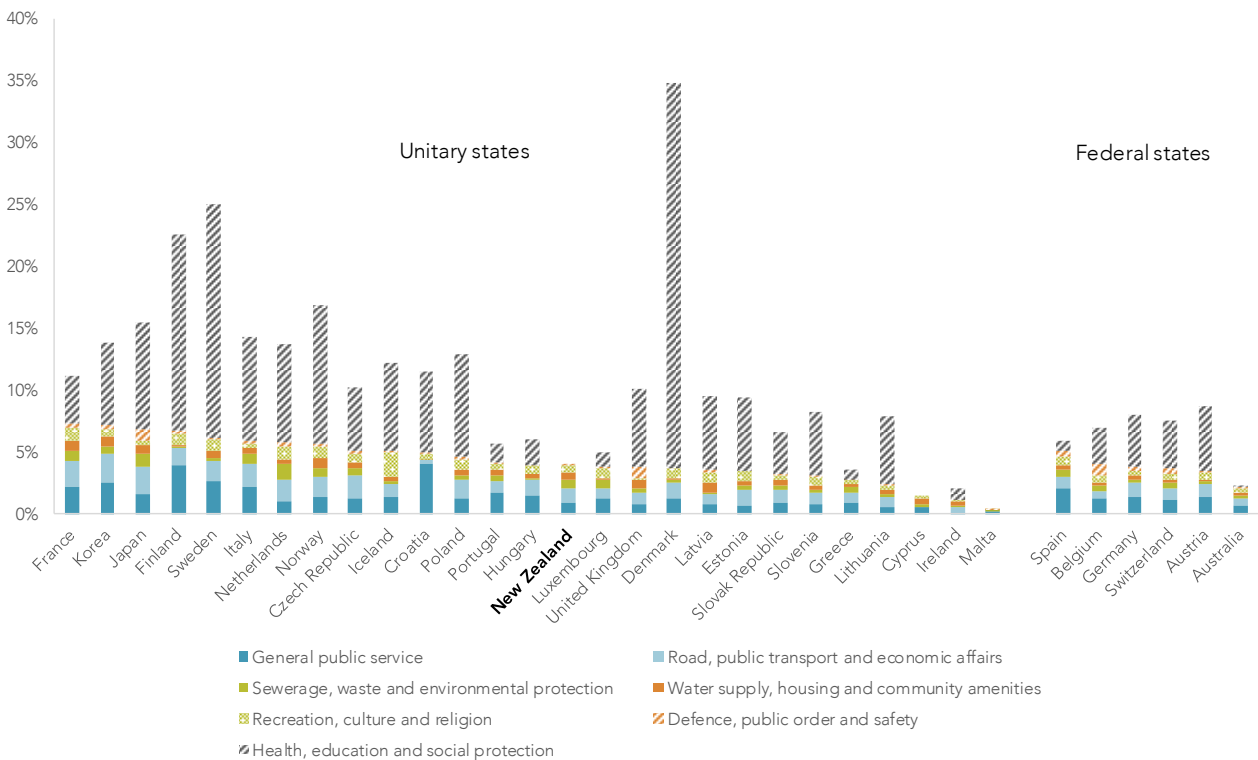
2.2 Local government functions and revenue streams

The functions of each level of government vary widely across countries. In federal states, the constitution usually defines the different responsibilities of the federal and state governments. State or provincial constitutions and laws usually define the responsibilities of local government. In unitary states, national laws generally define local government responsibilities (though they may also grant local government powers of general competence) (OECD & UCLG, 2019a).

Local government in New Zealand does not provide some of the services common elsewhere

Around the world, most local government spending is on education, social protection, general public services (mainly administration) and health, both as a share of GDP and share of local government expenditure. These four categories account for about 70% of total local government expenditure.⁷ Local government in New Zealand does not provide education, social protection and health services, and therefore lacks funding streams to support those activities (section 4).

Figure 2.3 Local government expenditure by function as a percentage of GDP



Source: OECD & UCLG (2019b).

Notes:

1. The figure does not include high-income countries in the Middle East and Latin America. Disaggregated data for USA and Canada are not available.
2. In Denmark (an outlier), local governments spend a little over half of their budget on social protection (or 20% of GDP), with a further 24% on health (8% of GDP). Central government grants are the primary source (60%) of Danish local governments' revenue (or 21% of GDP).

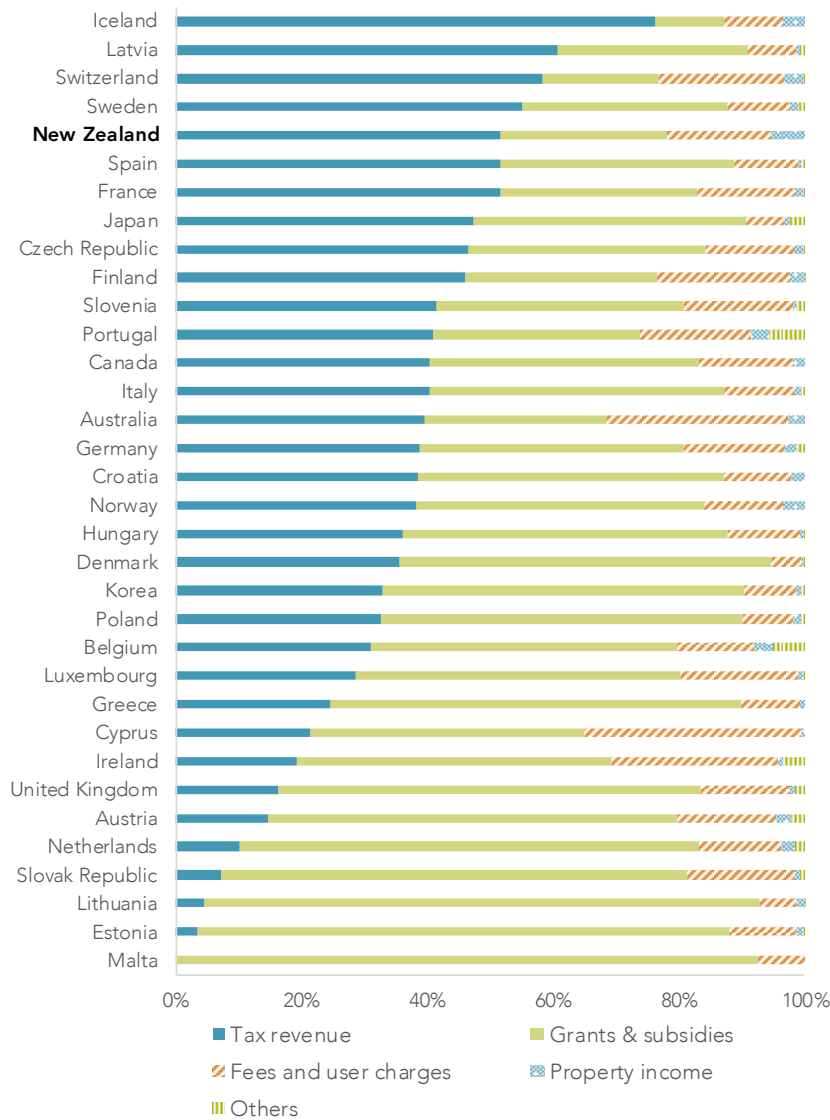
⁷ Authors' calculations based on the 67 countries with available data on the SNG-WOFI database (OECD & UCLG, 2019b). Education, as the largest spending category, accounts for about a quarter of local government expenditure (24%).

Revenue streams are linked to local government functions

Local government revenue sources vary across countries. Sources range from those with high autonomy (eg, own-source taxes) to those with very little autonomy (eg, earmarked grants). Figure 2.4 shows this variation across selected high-income countries.

Grants and subsidies are about half of local government revenue across the world, followed by taxes (a third) and user charges and fees (14%). Property taxes (eg, on land and real estate) provide a quarter of local governments tax revenue.

Figure 2.4 Local government revenue sources across high-income countries by share



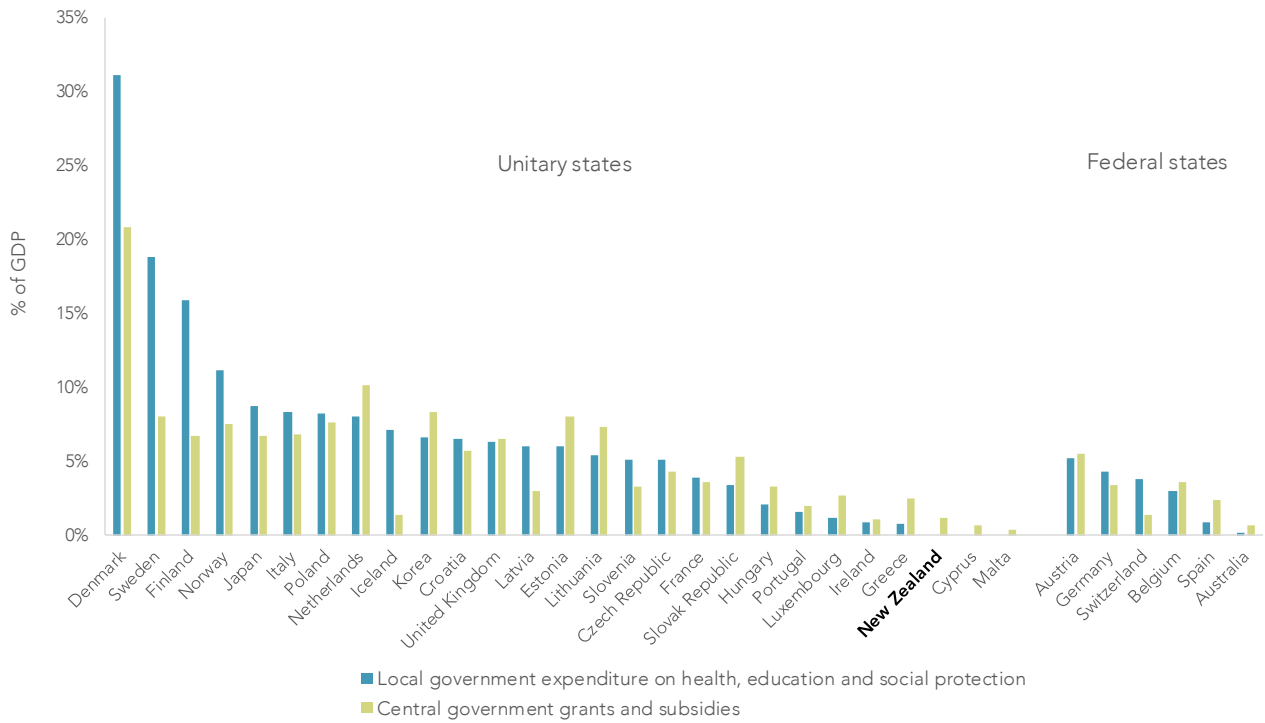
Source: OECD & UCLG (2019b).

Notes:

1. Tax revenue comprises taxes on production and imports, current taxes on income and wealth (including on land and other property) and capital taxes. Tax revenue includes both own-source taxes and shared taxes (tax revenue shared between central and local governments).
2. Property income refers to income derived from property, such as interest on financial assets and rents from buildings.

Local governments rely more heavily on central government grants and subsidies in countries where they deliver health, education and social services (Figure 2.5).

Figure 2.5 Reliance on central government grants and subsidies



Source: Authors' calculations based on SNG-WOFI database (OECD & UCLG, 2019b).

Note:

1. The figure does not include high income countries in the Middle East and Latin America. Disaggregated data for USA and Canada are not available.

The types of local tax revenues are highly variable

Local governments in high-income countries, both unitary and federal, derive their tax revenues from a variable mix of property, personal income, corporate and sales taxes (Figure 2.6).

Kitchen (2004) notes that, from data on local government tax sources and as a proportion of GDP, for OECD countries:

there are no definitive conclusions that can be drawn about patterns of local taxation... nor can anything be concluded about the appropriateness of one tax over another tax. There is nothing in the data to suggest that local government is more or less efficient, effective and accountable if it has access to a range of taxes as opposed to only one major tax. Local government access to a specific tax or taxes is dependent on a number of things including the local government's capacity to administer the tax; the types of expenditures that local government must fund; the willingness of a senior level of government to assign taxes to local government; constitutional and legislative requirements; and a variety of other factors. (p. 4)

Figure 2.6 Local government tax revenues across high income countries



Source: OECD (2019a).

Note:

1. High income countries in the Middle East and Latin America are not included. Disaggregated data for Australia and Greece is not available.

Even so, Kitchen argues that local property taxes have the advantage of being based on an immobile tax base and can be suitably targeted with different rates

to capture differences in the cost of providing local services to different locations within a taxing jurisdiction, different property types and any other property trait that affects local service costs. (Kitchen, 2004, p. 26)

Kitchen also notes that, in large jurisdictions with a wide scope of local government services, property taxes may need to be supplemented by other taxes to avoid distortions.

Decentralisation trends and the asymmetric assignment of responsibilities

OECD & UCLG (2019a) identified decentralising trends across the world. This sometimes involves assigning responsibilities to a certain level of government in one location, while retaining services at a different level of government elsewhere. For example, capital or other large cities may provide a service, but central government provides the same service elsewhere (particularly in unitary states). This can result in complex, competing and overlapping competences and unclear accountabilities for public policies.

3 Case study: Local government in Sweden

The great variety of constitutional arrangements, funding sources and responsibilities of local government make it difficult to draw out the implications of international practice for New Zealand. Local government in New Zealand is both small and limited in scope compared to many other high-income countries, and its sources of revenue are highly constrained (section 4).

In contrast, Scandinavian countries (Sweden, Norway and Denmark) are highly decentralised. Their local government expenditures (as a percentage of GDP) are among the highest in the world, largely because they are responsible for the provision of health, education and social protection services. While a number of revenue sources exist to support these activities, a large share comes from local income taxes.

Sweden stands apart from the other Scandinavian countries, as income tax is their only source of local government taxation. Over half (55%) of local government revenue comes from this tax, supported by central government grants (33%) and tariffs and fees (10%).

This case study looks at the roles and responsibilities of Swedish local governments (and how they work in practice) to draw out differences and similarities with New Zealand arrangements. It describes the mechanisms to maintain service standards and consistency across the country. These mechanisms materially affect the extent of strategic, fiscal and operational autonomy afforded to Swedish local governments in undertaking their role.

3.1 Local government structure, duties and finance

The Swedish constitution provides for self-government at municipal and county (regional) levels, guided by the European Charter of Local Self-Government. The 1991 Local Government Act sets the “democratic rules of the game” for municipalities and county councils, as well as their powers and duties (Ministry of Finance, 2004). It also sets a framework for inter-municipal cooperation.

County councils

Sweden is divided into 21 counties/regions.⁸ Counties are geographic units for both sub-national government (headed by elected county councils) and for the regional presence of central government (headed by a governor and a county administrative board) (Government Offices of Sweden, 2019).⁹

The key responsibilities of the county councils are:

- public health and medical services,
- regional public transport,
- regional development, and
- regional cultural institutions (Ministry of Finance, 2004).

County councils have a more limited role than either central government or the municipalities. Even so, the role of counties has been evolving in recent decades. Currently, for example, the central government is devolving its regional development responsibilities to counties in all parts of the country (effective from the beginning of 2019) (OECD & UCLG, 2019a).

⁸ The Swedish government unsuccessfully attempted to amalgamate counties into six larger regions in 2017 (OECD & UCLG, 2019a).

⁹ The central government organises police, employment, social insurance and forestry services on a county basis.

Municipalities

Each county contains a number of municipalities. There are 290 municipalities in total, ie, on average, 14 municipalities per county.¹⁰ Elected councils govern municipalities through executive and other committees. Municipal responsibilities include:

- education (childcare, primary and secondary schools),
- social protection (care for families, children, the elderly and people with disabilities),
- environmental protection, water supply, sewerage and solid waste,
- local roads and public transport,
- planning and building issues,
- recreational and cultural activities, and
- rescue services (Ministry of Finance, 2004; OECD & UCLG, 2019a).

Table 3.1 shows the responsibilities of Swedish county and municipal councils.

Table 3.1 Responsibilities of Swedish county and municipal councils

	Counties	Municipalities
1. General public services	General administration	General administration
2. Public order and safety		Emergency and rescue services
3. Economic affairs /transport	Public transport (via a regional public transport authority); regional development; tourism (optional)	Public transport (shared with regional public transport authority); economic development; road maintenance; employment (optional); industrial and commercial services (optional)
4. Environmental protection		Environmental protection; refuse and waste management; sewerage
5. Housing and community amenities		Planning and building issues; housing (optional); energy (optional); water supply
6. Health	Healthcare and medical services; primary care; hospitals; outpatient care; dental care	Preventive healthcare
7. Recreation, culture & religion	Cultural institutions	Recreation; culture (optional)
8. Education		Pre-school; primary and secondary education; vocational training
9. Social protection		Care for families; children, the elderly and the disabled

Source: OECD & UCLG (2019a).

The Swedish government has always preferred inter-municipal cooperation over amalgamation, particularly for providing services in the smallest and poorest municipalities. Municipalities often cooperate through contracts, establishing a “common committee” to run joint services in healthcare or education, or establishing a “municipal federation”. The OECD noted that:

There are around 90 entities active in rescue services, schools, water supply and sewage. These inter-municipal cooperative organisations are legal entities, whose tasks and obligations are formally agreed upon by their members. The cooperative organisations are

¹⁰ Swedish municipalities vary significantly in land area and population size as well as tax base and age structure. For example, the smallest municipality covers only 9 km², whereas the largest municipality has an area of 19 155 km². Municipal populations vary between 2 450 inhabitants and 923 520 inhabitants (OECD & UCLG, 2019a).

usually run by boards, whose members are nominated by the member municipalities. Over the years, inter-municipal collaboration among Swedish municipalities has increased steadily. (OECD & UCLG, 2019a)

Local government finance

Total local government **expenditure** in Sweden is similar in size to central government expenditure. Municipalities manage two thirds of this expenditure, as they have a wider range of responsibilities than county councils.

The largest local government spending is on social protection (28%), healthcare (27%) and education (21%), followed by general public services (11%). The remaining spending (14%) is on infrastructure services. For instance, road, public transport and economic affairs make up 7% of local government spending, water supply, housing and community amenities is 3%, and sewerage, waste and environmental protection is 0.6%. Healthcare is the main category of county spending and covers about 90% of their budget (OECD & UCLG, 2019a).

Over two thirds (67%) of local government revenue comes from own-source taxes, tariffs and fees and property income. Local income tax (97% of taxes) is levied on personal income from employment, self-employment, interest and dividends, pensions, payments from health insurance and unemployment benefits.¹¹ Municipalities and counties are free to set their own income tax rates but central government defines who is liable to pay income tax and the incomes that are liable to be taxed.

Municipalities, counties and central government share the same income tax base. Municipal income taxes are a flat rate of around 20% of liable income, on average; counties take an average of 11%; while central government takes a tax of 20% on incomes above SEK 490 700 (NZD 78 512) and 25% above SEK 689 300 (NZD 110 228). Combined municipal and county income taxes vary between 29% and 35% across localities (Wiles, 2019).

All income taxes are collected by the Swedish Tax Agency and local taxes are remitted to the municipalities and counties (net of equalisation payments and charges). Individual income tax records are available on request to members of the public, which likely reduces the scope for avoidance by misreporting income and residence (Marçal, 2017).

The central government strengthened the local government **fiscal policy framework** in 2016 to improve long-term sustainability and transparency. The framework requires local governments to adopt guidelines for, and exercise, good financial management. A balanced budget requirement (introduced in 2000) strengthens the budget process by specifying the lowest acceptable level of net surplus or deficit.

The central government has also agreed on a “**financing principle**” to ensure that local governments have financial capacity to provide the services delegated to them, and curb the practice of imposing unfunded mandates:

[I]f the central government decides to delegate a new task to subnational government, the central government must increase grants or provide other revenues to the subnational governments in question in order to finance the new service. If, however, an existing subnational task is centralised or abandoned, the subnational grants may be reduced. The financing principle is applied only to those central government decisions that affect subnational service costs directly... While the principle is not legally binding, it is agreed upon by all political parties and routinely used by the government. The principle is applied only to new tasks. (OECD & UCLG, 2019a)

Central government also runs a comprehensive grants system to ensure citizens have equal access to public services regardless of their place of residence (section 3.2).

The local government outstanding **debt** as a percentage of GDP is lower than the OECD average:

¹¹ The central government recently introduced a real estate fee to support local government. The central government sets the fee and its base.

[Local governments] have the legal right to make autonomous decisions on their borrowing, without scrutiny or approval by the central government. Borrowing is nevertheless indirectly limited because all costs associated with the debt must be included in the balanced budget. (OECD & UCLG, 2019a)

Kommuninvest i Sverige AB is the main lender to local government. Kommuninvest, which is a not-for-profit credit association owned by county councils and municipalities, was established in 1992 to help municipalities finance their investments at lower interest rates.

3.2 The Swedish equalisation system

Swedish municipalities and counties are responsible for a wide range of social, education and health services. Yet considerable disparities exist across localities in revenue-raising abilities and in service-delivery costs. The equalisation system tackles these disparities.

The equalisation system has three main grant components – income equalisation, cost equalisation and structural grants. Central government also provides support to local government through earmarked grants and direct investment in specific projects.

Grants and subsidies totalled about one third of local government revenue in 2016 (OECD & UCLG, 2019b). Central government grants are an important source of revenue for low-income, smaller municipalities and counties.¹²

General grants

General grants, introduced in 1990s, make up about two thirds of total grants to local governments. The majority (over 70%) of general grants are paid to municipalities.

- Income-equalisation grants (85%) (mainly funded by central government) are based on variations in taxable income per capita across local governments compared to the national average.
- Cost-equalisation grants (9%) are funded by transfers among municipalities and counties. Central government uses ten different models to calculate these grants for a variety of services. The grants reflect differences in the costs of providing services across localities.
- Central government also provides structural grants (3%) to support regional policies and tackle issues such as a declining population or a weak labour market.

Other general grants include a transition grant (introduced to reduce the impacts of the 2014 grant reform), and an adjustment grant or charge that allows the government to set a fixed budget for its contribution to income equalisation. The central government also uses the adjustment grant to compensate local governments when it transfers new responsibilities to them (OECD & UCLG, 2019a; OECD, 2017b; Tingvall, 2007).

General grants, taken together, result in a range of fiscal outcomes for municipalities. This varies “from one municipality paying SEK 13 635 (NZD 2 182) per capita to the system, to the municipality that receives SEK 30 403 (NZD 4 864) per capita from the system” (OECD, 2017b, p. 171).

1. Income-equalisation grants

Income-equalisation grants compensate for local differences in per capita taxable income relative to the national average. Local authorities with a per capita taxable income below 115% of the average receive a grant while local authorities with a higher taxable income pay a fee. In 2015, only 38 municipalities had a tax base higher than 115% of the average – half of them in the Stockholm County area. Central government funds most of the income-equalisation grant (OECD, 2017b; Tingvall, 2007).

¹² Central government grants to counties and municipalities totalled SEK 144 billion (NZD 23 billion or NZD 2 300 per capita) in 2014. Dependency on intergovernmental grants varies among municipalities between -20% and 32%. The negative figure means the local authority must pay the central government (OECD, 2017b).

The OECD noted that the income-equalisation system may create undesirable incentive effects. It may discourage local governments from developing their own tax bases, both in the poorest and in the wealthiest municipalities and counties. Even so, using taxable income rather than actual tax revenues as the base for calculations mitigates these effects. The OECD also suggested using phase-ins and lags to weaken this disincentive (OECD, 2017b).

2. Cost-equalisation grants

Cost-equalisation grants tackle differences in the cost of delivering compulsory services. For instance, some localities have greater need for services (such as for the elderly) or higher cost of producing services (such as schools in rural areas) (Tingvall, 2007).¹³ Some local authorities are net contributors to the cost-equalisation system, while others are net recipients of grants. The central government does not contribute to the cost-equalisation system.

The system uses ten separate sub-models to reflect differences in costs across localities (each model reflecting a specific service area – such as compulsory school and elderly care). Each sub-model uses a considerable number of demographic, socio-economic and geographic variables to reflect cost drivers. Each sub-model is fully funded by transfers between local authorities.

Transfers through cost equalisation are smaller than through income equalisation (OECD, 2017b). In 2015, the highest contribution was SEK 4 987 (NZD 798) per capita, while the highest grant was SEK 11 370 (NZD 1 819) per capita.

According to the OECD, Sweden's cost-equalisation model is complex, lacks transparency and is inefficient. Local authorities can influence the size of their grants by changing the factors that determine them (eg, the share of the population receiving economic assistance). Yet, simplifying the model may reduce the effectiveness of grants in reducing inequalities (OECD, 2017b).

3. Structural grants

Structural grants are relatively small funds provided to local authorities to support regional policies. The grants aim to “strengthen municipalities with a small population, with decreased population and/or with a problematic labour market... A bit surprising is that most municipalities – 280 out of the 290 – received these grants in 2015” (OECD, 2017b, p. 173). The average structural grant was SEK 391 (NZD 63) per capita. The maximum grant was SEK 5 046 (NZD 807) per capita. The OECD recommended a review of the effectiveness of the structural grants model (OECD, 2017b).

Earmarked grants

The Swedish central government has a long tradition of using earmarked grants to support specific services or activities. Between 1974 and 1992 there was a discretionary grant programme for municipalities in financial distress. Similar programmes in the late 1990s tackled local government budget deficits, which municipalities claimed were caused by external factors. Temporary committees (set up by the central government) identified the municipalities that required discretionary grants. The central government made the final grant decision.

Total earmarked grants to municipalities have been growing. An example of an earmarked grant is the specific grant for elderly care, which amounted to nearly SEK 1 billion (NZD 160 million) in 2015. Most of the grants are targeted at education. Even so, the Swedish National Audit Office found that earmarking has not been a very effective way to fund local education services (OECD, 2017b).

The use of earmarked grants has been a controversial issue as greater reliance on these grants “can draw local government's attention away from local needs and preferences, distorting decision making and impacting allocative efficiency” (OECD, 2017b, p. 148). Earmarking (compared to general grants) may also weaken the transparency and accountability of local decision making. The OECD

¹³ Local governments are free to provide more costly or less costly services than the national averages; however, “[i]f a municipality or county council has higher costs because it provides a higher than average service level this must be financed through higher taxes, more efficient services or a higher level of charge-financing” (Tingvall, 2007).

recommended that the central government only use earmarked grants when significant positive externalities exist, or quick adjustments are required (OECD, 2017b).

Direct public investment

Swedish direct public investment is about 4.4% of GDP (which is 0.5 and 1 percentage points higher than New Zealand and the OECD average, respectively) (OECD, 2017b). Central government's share of direct public investment was about half in 2014; however, this has been decreasing over the last two decades.¹⁴ Local government investment has recently exceeded central government investment, and is expected to grow more, mainly to support the increasing demand for welfare and social services (OECD, 2017b).¹⁵

The OECD noted that co-ordinating public investments is not an easy task in Sweden.

Due to the autonomous position of subnational governments, the central government does not directly intervene in subnational investment activity. The vertical co-ordination of public investment and regional growth policies is mainly handled through open dialogue and networking between various stakeholders. (OECD, 2017b, p. 189)

Review of the equalisation system

Sweden has a long history of grants for municipalities and county councils to tackle economic and fiscal inequalities. A more formal equalisation system was first established in 1966. This was substantially adjusted in 1993, by effectively putting "all the money in one pot" (Tingvall, 2007, p. 4). The government has since reformed the equalisation system in 1996, the early 2000s, 2005, 2008 and 2014. The major 2005 reform resulted in approximately the current equalisation arrangements, with relatively smaller adjustments since (OECD, 2017b; Tingvall, 2007). The 2005 reform saw a significant shift towards central government funding for the equalisation system. The system is complex and so susceptible to changing views about the most appropriate arrangements.

3.3 The Swedish education system

Before the 1990s, Sweden had one of the most centralised education systems in Europe. In the 1990s, far-reaching reforms devolved responsibility for primary, secondary and adult education to municipalities, and transformed Sweden's education sector into one of the most decentralised systems in the world. Since then, central government has given even more responsibility to schools; while imposing measures to guide, monitor and control the education system.

A 2017 OECD survey found that schools make about one third of the key decisions in public lower secondary education.¹⁶ Municipalities, which fund and often run schools, make another one third. While central government makes only 21% of the decisions (OECD, 2018), these have significant impacts on the education system and its performance. This section looks at the roles and responsibilities of different levels of government in the Swedish education system, before briefly reviewing the ongoing policy issues and debates.

Role and responsibilities of central and local government

Central government steers the Swedish education system. It sets overall education priorities and the national curricula, issues guidelines and syllabuses, and operates a grading system and oversight of schools (through regular inspections) and national tests in certain levels of schooling. The government has recently put in place further reforms, to improve Swedish students' performance in international comparisons. A new education act (2011) sets out principles and provisions for preschool and compulsory education, allows parents and students to choose a school, and promotes greater oversight as well as student safety and security. It requires professional certification for school and

¹⁴ In comparison, the share of the New Zealand central government in direct public investment has also reduced between years 2000 and 2014, but at a slower pace. The New Zealand central government was in charge of about 60% of total public investment in 2014.

¹⁵ A growing and ageing population was the main cause of increasing demand.

¹⁶ The indicator is based on a set of 23 key decisions, organised across six domains. The level of government in charge of these decision and their autonomy are presented in Figure 5.1.

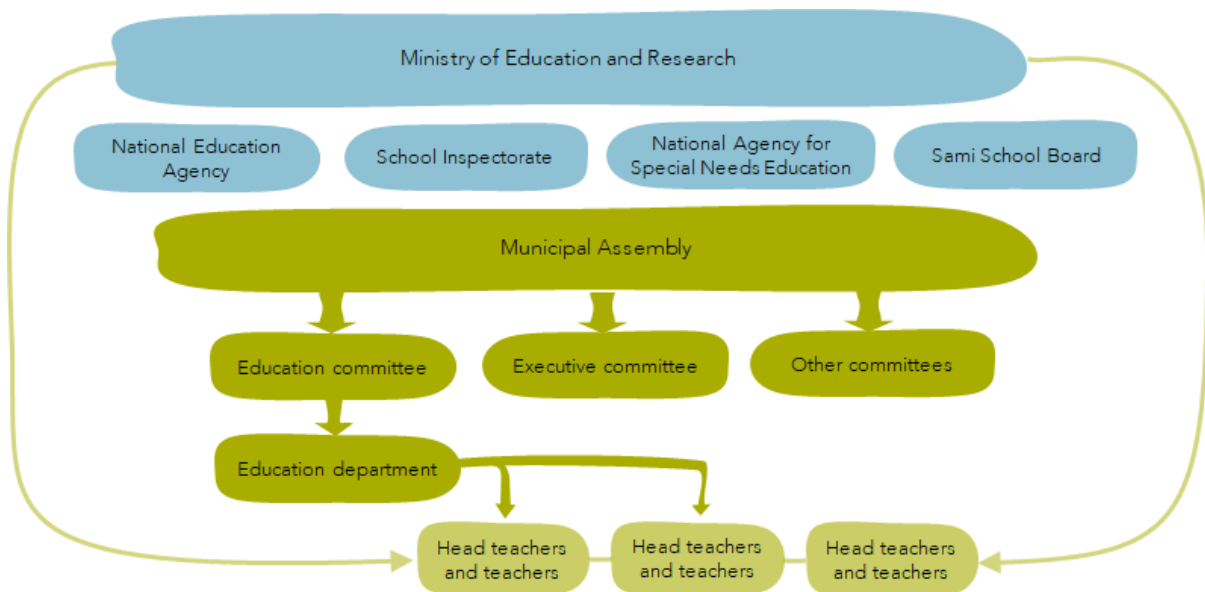
preschool teachers on permanent contracts. The reforms provided new national curricula and a new grading system.

The education system has national agencies that:

- promote public awareness of the education systems and administer public funding and grants;
- support children, young people and adults with disabilities;
- decide on programmes to be included in higher vocational education, assess the providers and allocate public funding to them, and analyse labour-market demand for workforce education; and
- support Sami schools (state-owned schools for indigenous Sami people). While these schools follow the same national curriculum, minor differences with standard primary schools exist (such as in the timetable and language of instruction).

Sweden's 290 **municipalities** are responsible for organising and operating school services, allocating resources and ensuring that the national goals for education are met. In each municipality, the elected council appoints an **education committee** to govern its public education system. School leaders in municipal schools report to the education committee. Municipalities are the main funders of all preschools, primary and secondary schools irrespective of whether they are publicly-run (by the municipalities) or privately-run.¹⁷ Local income taxes are the main source of municipal revenue for schools. Central government grants cover about 15% of the budget (OECD, 2017a; Swedish Institute, 2019).¹⁸

Figure 3.1 Governance of the Swedish public school system



Source: OECD (2015).

Schools employ teachers and set their salaries individually based on competence, qualifications, experience and the market situation. Schools do not use age, experience in the profession, teaching subject and the age of the students, when setting salaries.¹⁹ The **collective agreement** determines the procedure for annual review of teachers' salaries, where such an agreement exists. Swedish teachers' unions support teachers in this regard. Teachers' working hours are regulated by law and by the collective agreement (Swedish Teachers' Union, 2019).

¹⁷ Municipalities own and operate about 84% of schools (OECD, 2017a).

¹⁸ Parents may need to pay some fees for preschools, often depending on their income and their child's age. There are also a handful of tuition-based private schools in Sweden.

¹⁹ Following the discussions organised by the "Coalition for the Teaching Profession", the government of Sweden earmarked an additional SEK 3 billion (NZD 480 million) per year, started from the 2016 budget, to boost teacher salaries. Even so, the government has stated that they do not intend to move towards a state salary policy (Minister for Education and Minister for Higher Education and Research, 2015). The fund is, therefore, paid to local principals/employers to decide how to allocate the increase to teachers (OECD, 2017a).

Ongoing policy issues

While key decisions, such as resource allocation, are made locally, statutory requirements, rules and regulations limit **local autonomy** in the Swedish education system. These requirements weaken the relationship between municipalities and schools (Johansson, Nihlfors, & Steen, 2014). The OECD also argues that local autonomy in the Swedish system is not matched with adequate **public accountability** (OECD, 2015).

Municipalities also face challenges in the allocation of resources between schools. Local politicians control the allocation of resources to activities and units. As there is no general model for resource allocation, municipalities may not always have the knowledge or capabilities to allocate funding effectively. National evidence shows that few municipalities reallocate resources to schools with low-performing and/or socially underprivileged students, and state grants often do not reach the schools that most need them (NAE, 2012; OECD, 2017a).

The National Agency for Education (NAE) (in 2009) found that many municipalities did not have a resource allocation model based on evaluation. Even so, in 2011, NAE found that “the majority of Sweden’s 50 most segregated municipalities took into consideration the structural differences between compulsory schools in their resource allocation for 2011” (NAE, 2012; OECD, 2017a).

3.4 The Swedish health system

According to the World Health Organisation (WHO), “[t]he Swedish healthcare system is a socially responsible system with an explicit public commitment to ensure the health of all citizens. Quality healthcare for all is a cornerstone of the Swedish welfare state” (WHO, 2019). The 1982 Health and Medical Services Act promotes the vision of equal health for all.

Role and responsibilities of central and local government

All three levels of Swedish government are involved in the health-care system. The state is responsible for overall health policy, while the funding and provision of services lie largely with the county councils.

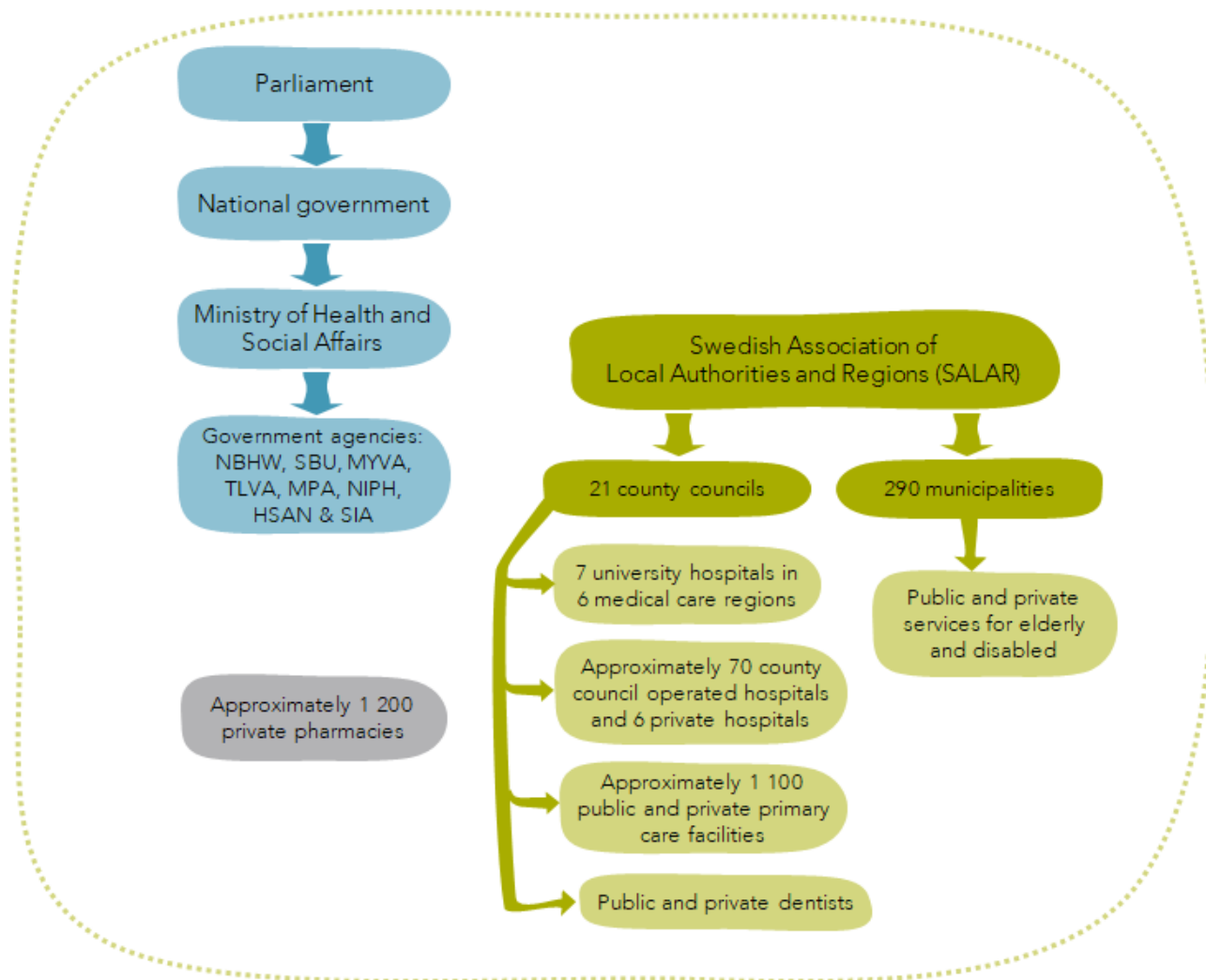
- At the **national level**, the Ministry of Health and Social Affairs is responsible for overall health and health-care policy, working in concert with eight national government agencies.
- At the **regional level**, 21 county councils are responsible for financing and delivering healthcare and medical services (through primary care centres, hospitals and dental clinics).
- At the **local level**, 290 municipalities are responsible for health prevention and care of the elderly and people with disabilities (OECD & UCLG, 2019a) (Glenngård, 2019).²⁰

The Health and Medical Services Act specifies that county councils and municipalities are responsible for ensuring that everyone living in Sweden has access to good healthcare. County councils own the majority of primary care centres, almost all hospitals and some dental care centres (Anell, Glenngård, & Merkur, 2012).

About 83% of health expenditure was publicly funded in 2014. Of this, counties spent 68%, municipalities 30%, and the central government 2%. The counties and municipalities use income taxes to help cover the cost of healthcare services (Glenngård, 2019).²¹ User charges fund the remaining 17% (Anell et al., 2012). Counties provide only limited subsidies to patients for dental care (Information om Sverige, 2019a).

²⁰ Under the Social Services Act (1980) and the Act Concerning Support and Service for People with Certain Functional Impairments (1993), municipalities are obliged to meet the care and housing needs of older people and people with disabilities (Anell, Glenngård, & Merkur, 2012).

²¹ In 2015, 69% of the county councils’ total revenues came from local taxes and 17% from subsidies and national government grants. Meanwhile, 89% of county councils’ total spending was on Healthcare (Glenngård, 2019).

Figure 3.2 Overview of the Swedish health system

Source: Anell et al. (2012).

Notes:

- 1- The government-established Swedish Association of Local Authorities and Regions (SALAR) (Sveriges Kommuner och Landsting) is a member and employer organisation representing and advocating for the country's county councils and municipalities. The SALAR Congress runs the association through a board of elected municipal and regional representatives (SALAR, 2019b).
- 2- Abbreviations:
 NBHW: National Board of Health and Welfare,
 SBU: Swedish Council on Technology Assessment in Health Care,
 MYVA: Swedish Agency for Health and Care Services Analysis,
 TLVA: Dental and Pharmaceutical Benefits Agency,
 MPA: Medical Products Agency,
 NIPH: National Institute for Public Health,
 HSN: Medical Responsibility Board, and
 SIA: Swedish Social Insurance Agency.

National rules and mechanisms

Central government (through relevant agencies) sets national health objectives and policies, develops norms and standards, regulates the production and sale of pharmaceuticals, provides care and treatment guidelines, promotes the use of cost-effective health care technologies, maintains health data registers and official statistics, governs licensing for health care staff, and undertakes national public health policy evaluations and cross-sectoral follow-ups (Anell et al., 2012).

As the responsibility for organising and financing health care rests with the county councils and municipalities, services (and subsidies) vary throughout the country. Central government regulates and

uses mechanisms to improve consistency across the country and to ensure the health system abides by the principles of *human dignity, need and solidarity*²² and *cost effectiveness*.

The national mechanisms to maintain consistency include:

1. The Healthcare guarantee

The Healthcare guarantee is written into the Health and Medical Services Act and means people have a right to receive care within a set time period. This includes the right to:

- speak to someone at the primary care centre on the same day;
- visiting a doctor in seven days;
- visiting a specialist in 90 days; and
- receive the treatment (eg, operation) in 90 days following the doctor's advice.

The Healthcare guarantee does not apply to emergency care (Information om Sverige, 2019b).

2. The healthcare quality system

Primary care quality improvements are supported by a national Primary Care Quality system. The system automatically retrieves patients' data (from the electronic medical records) and calculates national quality indicators. The indicators are available to both professionals and the public,²³ aiming to support public debate about the health system. Practitioners at the health centre, also have access to live data on their own patients, and can compare their performance with the national average (SALAR, 2019a).

The national quality system is jointly funded by the central government and county councils.

3. High-cost protection

A patient pays a maximum of SEK 1 100 (NZD 176) per year for care. Once this amount is paid, the care is free for the rest of the year. A similar rule applies for obtaining prescription medicines, with a maximum payment of SEK 2 200 (NZD 352) per year. The state covers half the cost of dental care over SEK 3 000 (NZD 480). This increases to 85% if the treatment costs over SEK 15 000 (NZD 2 400) (Information om Sverige, 2019b, 2019a).²⁴

All children in the family are counted as one and are included in the same high-cost protection. Medicines for children under the age of 18 are free (Information om Sverige, 2019b).

Central government grants and local income taxes jointly fund general health-care cost protection. Even so, central government subsidises prescription drugs through designated grants to county councils. Central government provides support for dental care through the Swedish Social Insurance Agency (SIA). The SIA, funded by employer payroll taxes, is the government agency responsible for providing financial security in the event of illness, disability and for families with children (Anell et al., 2012).

Anell et al. noted that

[i]n the past, the Achilles heel of Swedish healthcare included **long waiting times** for diagnosis and treatment and, more recently, **divergence in quality of care** between regions and socioeconomic groups... Reforms are often introduced on the local level, thus the pattern of

²² The principle of need and solidarity asserts that resources should first be committed to those fields, activities, or individuals where needs are greatest (Liss, 2006).

²³ The Healthcare data can be obtained from a dashboard available at www.vardenisiffror.se.

²⁴ County councils offer dental care for people with special needs or long-term illness or disability if they are covered by the Act Concerning Support and Service for People with Certain Functional Impairments (1993).

reform varies across local government, although mimicking behaviour usually occurs (Anell et al., 2012).²⁵

Central government also offers earmarked grants to support specific initiatives, such as reducing waiting times, and improve the health system across the country (Glenngård, 2019).

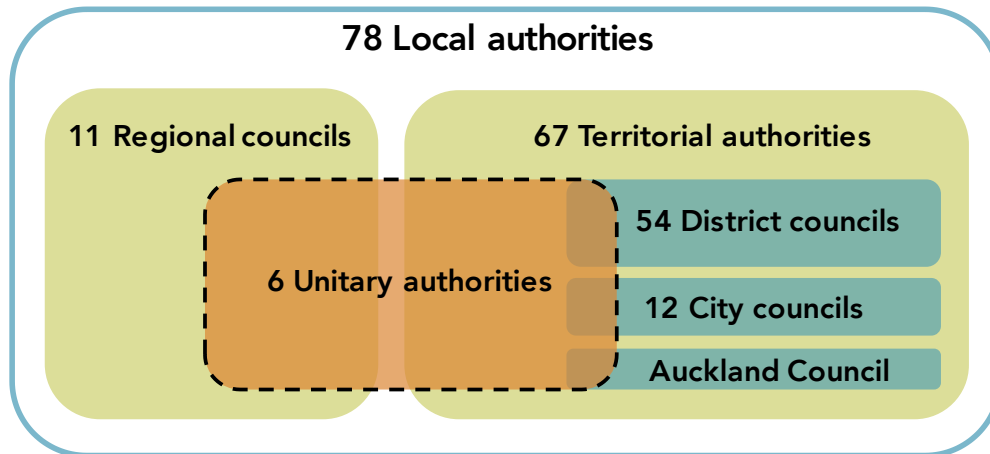
Finally, highly specialised care, requiring the most advanced technical equipment, is concentrated in the seven regional / university hospitals. Central government and the county councils collaborate extensively for the planning and funding of these services. The central government has grouped counties into six medical care regions to facilitate cooperation in providing tertiary medical care (Anell et al., 2012). Central government also funds the total cost of medical education mostly through these university hospitals (Anell et al., 2012).

²⁵ Health reforms over the past decade include: concentrating hospital services; regionalising Healthcare services; better coordinating care; increasing choice, competition and privatisation in primary care; privatisation and competition in the pharmacy sector; changing co-payments; and increasing attention to public comparison of quality and efficiency indicators, the value of investments in Healthcare and responsiveness to patients' needs (Anell et al., 2012).

4 Local government in New Zealand

New Zealand's 78 local authorities are set up under statute to enable democratic local decision making by their communities, to provide local infrastructure and to undertake specified regulatory functions. Under the Local Government Act 2002 (LGA), promoting the social, economic, environmental and cultural wellbeing of communities is a main purpose of local government.

Figure 4.1 Local authorities in New Zealand



Note:

1. The 67 territorial authorities include 54 district councils (four of which are unitary authorities), 12 city councils (one of which is a unitary authority) and Auckland Council (which is a unitary authority).

Scope and scale of local government in New Zealand

Regional councils are responsible for the physical environment and cross-boundary functions that require an integrated approach (such as regional land transport, flood protection, biosecurity and civil defence). Territorial authorities (city and district councils) provide physical infrastructure (such as roads, and for water supply, wastewater and stormwater), recreation and cultural activities; and regulate land-use planning, building standards and some public health and safety functions. A unitary authority is a territorial authority that also has all the responsibilities of a regional council.

Local authorities in New Zealand are accountable to and largely funded by their own communities. The LGA provides local authorities with the power of general competence (the ability to choose the activities they undertake to fulfil their statutory role and how they should undertake them, subject to public consultation). The LGA and other Acts set out the powers of councils (including the powers to make local bylaws and to raise revenue) and councils' planning and accountability requirements.

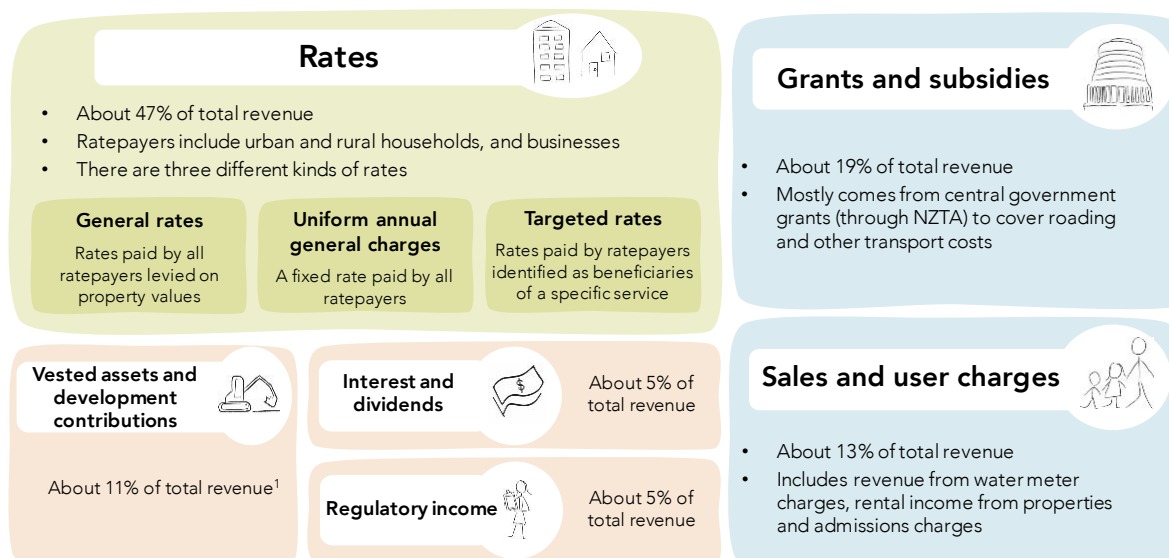
The scope of local government in New Zealand is much narrower than in most other high-income countries. Many of the functions of local government in other countries, such as health services and education, are funded centrally in New Zealand and provided through Crown entities (such as District Health Boards and schools) (section 5). Local government in New Zealand spends a much smaller proportion of total government spending than in most other jurisdictions.

Even so, the scale of local government is significant. Providing physical infrastructure dominates local government operating and capital expenditure, though the details vary greatly across councils. In June 2018, local government owned fixed assets worth \$123 billion, and had a yearly operating expenditure of \$10.3 billion and an operating income of \$9.9 billion (Stats NZ, 2019). Local government employs around 23 000 staff (DIA, 2019).

Local government funding in New Zealand

Councils can access a variety of sources of revenue to fund infrastructure and other services (Figure 4.2). These can pay for both operating costs and the costs of any debt attached to infrastructure assets. Total revenue across all local authorities in 2018 was about \$12.4 billion. This does not include \$3.8 billion in income generated by valuation changes and other non-operating income.

Figure 4.2 Main sources of funding available to local authorities, 2017-18



Source: Stats NZ (2019).

Rates

Under the Local Government (Rating) Act 2002 (LGRA), local authorities may set a general rate for all rateable land within a district. Rates are councils' major revenue source, making up 47% of total revenue in 2018. Rates revenue is used mainly to fund opex, but it can be used in a variety of other ways, including funding new infrastructure assets or the interest costs on debt incurred to finance those assets.

Fees, user charges and regulatory income

Under the LGRA, councils can set volumetric charges for drinking water. Charges may be calculated as either a constant price per unit of water supplied and consumed, or according to a scale of charges. Councils can also charge for services such as solid waste collection, swimming pools, facilities hire, regulatory services (eg, building consent and liquor licensing fees), and other council-provided services. Such charges help recover operating costs and may contribute to capital costs.

Fuel taxes are also a source of income for local authorities, and recent legislation allows for the collection of regional fuel taxes.

Central-government subsidies

Central government subsidies provide around 19% of local government revenues. Most of this is delivered through the Land Transport Fund and the New Zealand Transport Agency for roading and public transport.

How the scope of local government and funding has changed over time

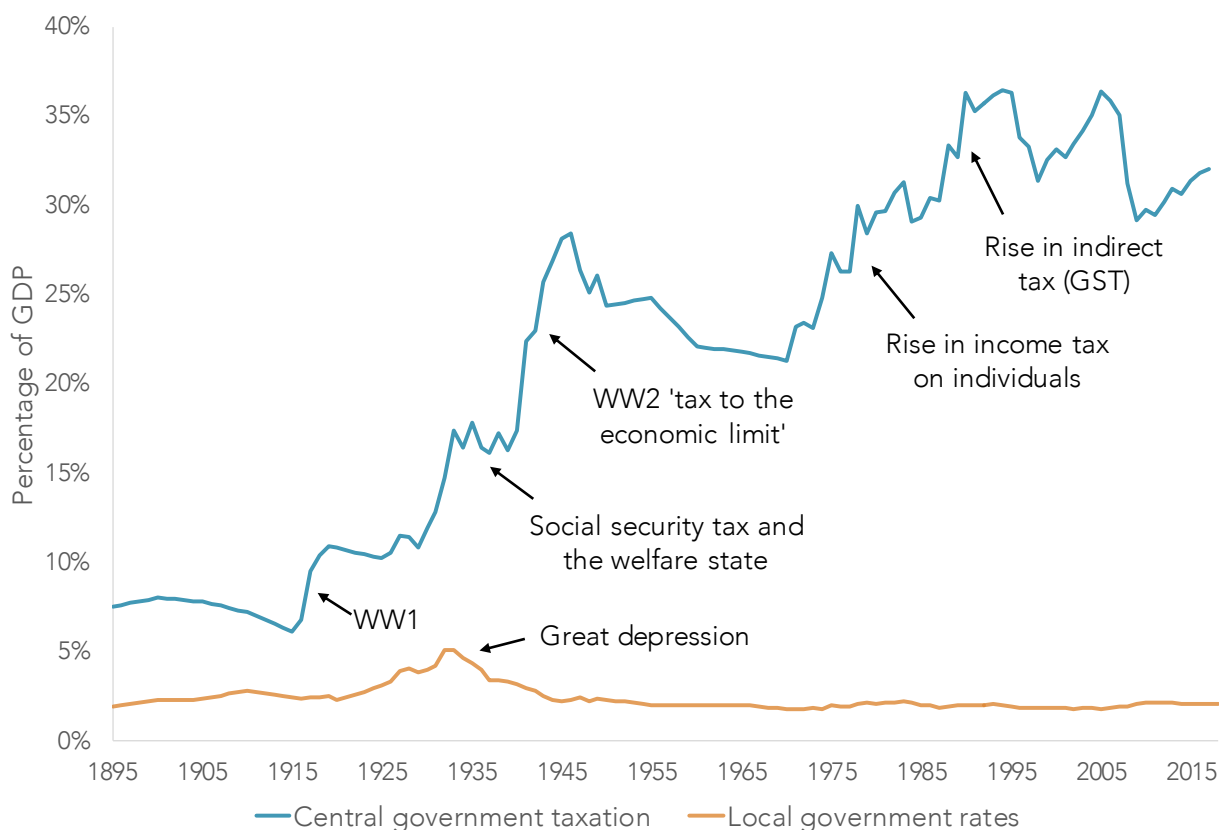
History has shaped the scope and role of local government in New Zealand. Prior to European settlement, Māori managed their interests according to custom (tikanga). Kin-based local groups (whānau, hapū and iwi) were responsible for decisions of varying geographic scope and covering the social, economic, environmental and cultural aspects of their communities' prosperity. Early European settlements (with limited geographic scope) had both formal and informal institutions to manage local affairs. In some places (eg, Wellington) voluntary contributions were raised to fund roads; in other areas local government entities were set up with formal rating powers to fund public works (Derby, 2015).

While local government in the 19th century produced a variety of social and economic services, provision of local public infrastructure to support expanding populations of settlers was central. The last thirty years of the 19th century saw a proliferation of local government entities, many with statutory revenue-raising powers. In addition to municipal corporations and county councils, there were education boards, hospital boards, rabbit boards, drainage boards, road boards and eventually electric power boards among others (Goldsmith, 2008).

Until the 1870s, local government provision of education and health services was rudimentary and heavily reliant on fees and charitable donations. After age-limited free education and regular hospital boards were established in the 1870s, central government gradually assumed a greater role in funding and regulating these services. The introduction of a comprehensive welfare state in the 1930s accelerated these trends. Even so, the last vestiges of local funding for hospital boards survived into the early 1950s (Goldsmith, 2008).

Over the last 130 years, local government taxation (principally property rates) reached a peak of around 4.0% of GDP in 1930 and has remained around 2.0% over the last 70 years (Figure 4.3). In contrast, central government taxation (increasingly derived from personal and business income taxes) expanded dramatically from the beginning of the first world war. The introduction of the welfare state and the urgent needs of the second world war drove central government taxation ever upwards, reaching a peak at around 35% of GDP in 1990.

Figure 4.3 Taxation as a percentage of GDP in New Zealand, 1895-2018



Source: Chart adapted from Craven et al. (2019), historical data from Goldsmith (2008), recent data (1993 and onwards) are authors' calculations based on Stats NZ (2018, 2019) and OECD (2019b).

The large proliferation of local government entities existing around 1900 was reduced during the 20th century through successive waves of rationalisation and amalgamation, resulting after 1988 in approximately the current configuration (Figure 4.1) (Derby, 2015). Entities that carried out commercial activities, such as electric power boards, were privatised or semi-privatised. Other entities, such as health boards, and local school boards evolved to operate outside the local government framework, substantially funded and regulated by central government.

5 Local autonomy in Sweden and New Zealand

Local government has much broader responsibilities in Sweden than in New Zealand; and commands a correspondingly larger share of tax revenues. Formally, local government in Sweden raises just over half of its revenue from local income taxes. In contrast, local government in New Zealand derives around half of its revenue from rates on property.

Section 4 explained the scope of local government in New Zealand. Section 5.1 describes the local administration of health, schools and social services in New Zealand to provide a better basis for comparing New Zealand arrangements with Sweden (section 5.2).

Local government has broader responsibilities in Sweden than in New Zealand. Even so, in both countries, local government is responsible for road and water infrastructure, waste, public transport, environmental protection, recreation and aspects of economic development (Table 5.1). Local government in New Zealand spends slightly less (3.0% of GDP) than Swedish local government (3.3%) on these services.

Table 5.1 Local government expenditure in Sweden vs. New Zealand, as a percentage of GDP

	Sweden	New Zealand
General public service	2.7	0.9
Road, public transport and economic affairs	1.6	1.2
Sewerage, waste and environmental protection	0.2	0.7
Water supply, housing and community amenities	0.6	0.6
Recreation, culture and religion	0.9	0.5
Defence, public order and safety	0.2	0.0
Health	6.7	0.0
Education	5.3	0.0
Social protection	6.9	0.0
Total	25.0	3.9

Source: OECD & UCLG (2019b).

5.1 Health, education and social services in New Zealand

The scope of local government is narrow in New Zealand compared to many other high-income countries (Section 4). Commentators make this point in support of expanding the scope of local government in New Zealand and so reducing the supposed “centralisation” of service provision (Forbes, 2019; LGNZ and the NZ Initiative, 2019). Yet New Zealand has developed alternative ways of devolving health, education and social services.

Health

New Zealand currently has 20 locally elected District Health Boards (DHBs) to deliver health services (including hospitals and community-based care) within nationally determined health objectives. While DHBs have a majority of elected members, the Minister of Health may appoint up to four members for each board. DHBs are primarily funded according to formulae that reflect the health needs of the local population; and have the autonomy to determine how best to achieve the defined objectives. The New Zealand government is currently reviewing the health system, including the roles and operation of DHBs.

Schools

New Zealand has over 2 500 primary and secondary schools, each governed (within national policies) by a locally elected school board of trustees. Boards are responsible for governing school operations to promote student achievement; and are the employers of school staff. Each school receives an operations grant determined by a formula reflecting the student roll and the schooling level of students, as well as socio-economic factors that relate to educational outcomes. Teachers are paid directly by the central government according to conditions negotiated with the teacher unions (but with some discretion for boards of trustees to recognise additional responsibilities undertaken by staff). The central government (through relevant agencies) is responsible for setting the curriculum and national educational qualifications, as well as reviewing how well schools perform in terms of regulatory requirements and meeting student needs.

The government has recently announced refinements of the New Zealand school system to balance local school autonomy with better coordination of school zoning policies, property maintenance and support for principals and boards of trustees (Ministry of Education, 2019).

Social services

New Zealand has a wide range of social services delivered locally by numerous non-government organisations and by iwi and other Māori organisations (NZPC, 2015). Services are targeted to meet a variety of needs such as reducing domestic violence, improving educational and labour market outcomes for young people not in education and training, reducing homelessness and preventing suicide. In most cases, delivery organisations operate under contract with funding from central government organisations such as the Ministry of Social Development and the Ministry of Health. Central government has also experimented with more devolved forms of delivery and broadly defined wellbeing outcomes, such as through the Whānau Ora programme.

Local government has been and continues to be involved in social services initiatives – often playing a role in bringing together a variety of players at the local level and providing local administrative support for services funded by central government. Notable examples include the social sector trials (NZPC, 2015) (now discontinued) and the Southern Initiative (Auckland Council, n.d.). The current Government contemplates further initiatives of this sort under its community wellbeing programme. However, the Government does not envisage large-scale devolution of social service programmes to local government (Minister of Local Government (Hon. Nanaia Mahuta), 2019). The Commission has argued for substantial devolution of social service responsibilities for people with complex needs, that would involve establishing dedicated agencies with control of local budgets and service design (NZPC, 2015).

Local government also provides social housing, often for elderly residents, and sometimes for other low-income tenants. Provision differs across councils, with some councils administering social housing at arms-length so that tenants are eligible for central government rent subsidies. About a third of local government social housing units are in the Wellington region (Johnson, Howden-Chapman, & Eaqub, 2018).

5.2 Local government in New Zealand and Sweden has more in common than first appears

Although the decentralised Swedish system looks very different from New Zealand's at first sight, its funding, regulatory and administrative design pushes it towards an allocation of roles and funding responsibilities that is much more like New Zealand in practice.

Local government in *Sweden*:

- provides and/or funds most local education, health and social protection services; and
- raises around half of all government revenue to fund about 70% of the cost of these services (section 3).

Even so, national rules and mechanisms limit local government’s freedom to adapt its services to local circumstances. The Swedish central government sets national priorities for and regulates education, health and social protection. It monitors the performance of local government in providing these services.

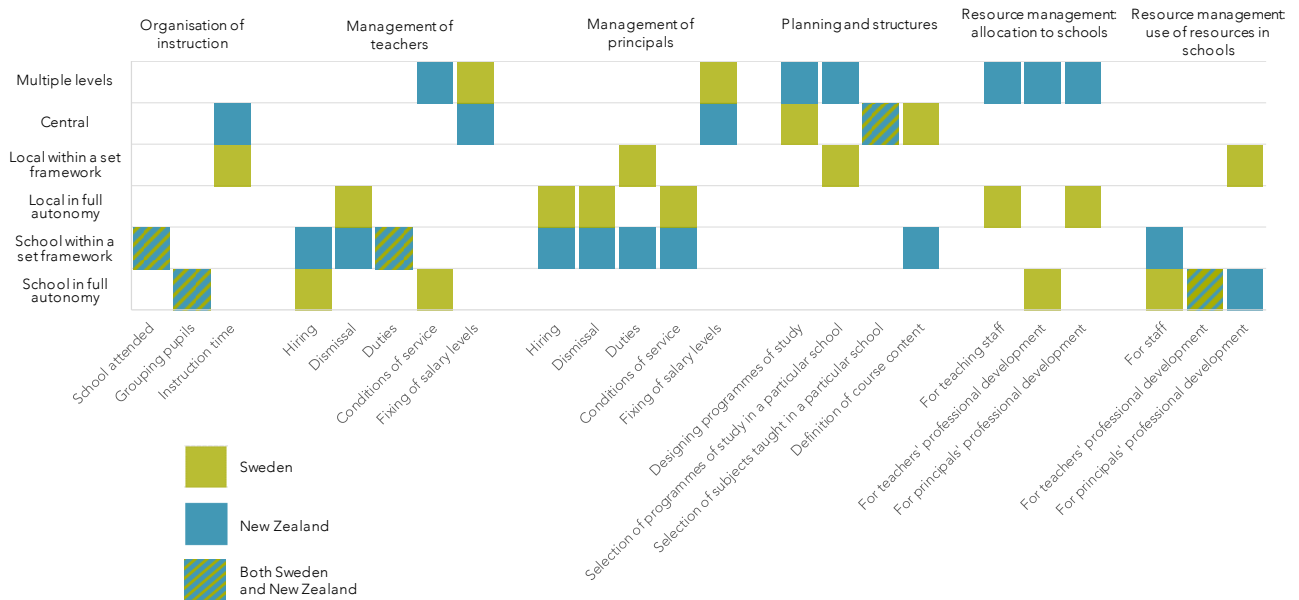
The central government provides about one third of local government revenue. It uses the income equalisation system and other grants to compensate local governments for differences in average incomes. In addition, through the cost equalisation system, more advantaged municipalities and counties provide funding for services in areas where the cost of provision is higher because of demographic and geographic differences. Taken together, this equalisation system resembles redistribution through standard national income tax and fiscal systems. In New Zealand, central government funding for health and education is allocated to local governing bodies according to population-based formulae that reflect assessment of need and costs.

Swedish schools, health centres and other service providers make many key decisions about service design and delivery

Also, while local government in Sweden provides much of the funding, other local stakeholders (eg, schools and health centres) make a large proportion of key decisions about service design and delivery. Central government and provider choices constrain local government discretion over setting the direction and over how services are delivered in practice.

As an example, Figure 5.1 shows the locus of key decisions on public lower secondary schools in Sweden and New Zealand. The figure shows, for instance, that while central government has a greater role in the allocation of resources for teachers to schools in New Zealand than in Sweden, schools in New Zealand have direct control over the management of principals. Many of the decisions that are in the hands of municipalities in Sweden are devolved to schools in New Zealand.

Figure 5.1 Key decisions in public lower secondary school, by level and mode of decision making



Source: Data from OECD (2018).

The New Zealand and Swedish systems involve similar trade-offs between central and local control

In practice, delivery of education, health and social protection services in seemingly “centralised” New Zealand and “decentralised” Sweden involve similar trade-offs between central and local government control.

Local school boards in New Zealand govern the operations of primary and secondary schools, subject to national policy and funding. Local schools in Sweden also make many of the key operational decisions, constrained both by municipal administration and by national policy and regulation. In scope and mandate, New Zealand's DHBs look little different to the 21 counties in Sweden that are responsible for most local health services.

The result of formulae-based funding from central government revenues in New Zealand looks broadly similar to the funding outcomes of the Swedish equalisation system. Central government funding policies in Sweden substantially modify the contribution of local taxes to funding for local services. Ultimately, in both countries, the effect across localities of differences in incomes, demand for and the cost of services, are redressed from pooled national revenues.

Trade-offs reflect well-understood principles for the devolution of service and revenue-raising responsibilities

The economic literature identifies factors that should influence the allocation of roles and revenue-raising powers across levels of government (section 1). These play out in similar ways in countries with similar levels of development, irrespective of the formal allocation of roles.

For example, central governments need to protect national interests in the outcomes of health, education and other social services. Free movement of people within a country over their lifetimes means that residents in any locality can benefit from every other locality's support for good health and education outcomes. Poor outcomes also have ongoing fiscal costs which are borne beyond the borders of the localities where they first emerged. As a result, in both Sweden and New Zealand, central government retains a role in regulating and monitoring standards, and in redistributing national resources to support more equitable provision across different localities.

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