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COUNCIL OF EUROPE
COMMITTEE OF MINISTERS

**Recommendation Rec(2000)14
of the Committee of Ministers to member states
on local taxation, financial equalisation and grants
to local authorities**

*(Adopted by the Committee of Ministers
on 6 September 2000
at the 719th meeting of the Ministers' Deputies)*

The Committee of Ministers, under the terms of Article 15.b of the Statute of the

Considering that the aim of the Council of Europe is to achieve a greater unit
safeguarding and realising the ideals and principles which are their common h
social progress, and that this aim can be pursued, *inter alia*, by the adoption of c
administrative matters;

Considering that local self-government involves a certain degree of financial auto

Considering the provisions of Article 9 of the European Charter of Local :
international treaty on 15 October 1985 and which has so far been ratified by
Council of Europe;

Taking account of Recommendation 79 (2000) of the Congress of Local and Regic
in the context of its monitoring of the implementation of the European Charter
local authorities' financial resources in relation to their responsibilities;

Taking account of CLRAE Opinion 14 (2000);

Considering that local taxation, financial equalisation mechanisms and state gra
communities in order to optimise the effectiveness of the activity of their auth
conduct applicable at national level;

Considering that the solutions given to financial problems of local authorities sho
resulting, *inter alia*, from its structure, territorial organisation, distribution of pov
and traditions;

Considering that the changes that have taken place since its adoption justify
Committee of Ministers to member states on the equalisation of resources bet
recommendation,

Recommends the governments of member states:

to ensure a fair distribution of public financial resources between the different responsibilities assigned to each of these tiers and their evolution;

to guarantee local authorities a system of financing their expenditure which is ba:

- local authorities' resources and their allocation must be consistent responsibilities effectively;
- a substantial proportion of transfers, as well as, in general, own resource:
- local authorities are entitled, within the national economic policy, to raise possibility of sound competition in tax levels should be maintained, whilst a
- the amount of state grants must be fair and foreseeable;
- the system of financing as a whole must be consistent with the constraint

3. to review – if necessary – the legal and administrative framework for local t local authorities having regard, *inter alia*, to the guidelines appended to this reco a distribution of grants which is fair and encourages the improvement of services

4. to involve local elected representatives in the debate on reforms to be underta implementing such reforms.

Appendix to Recommendation Rec(2000)14

Guidelines on local taxation, financial equalisation and grants to local authorities

1. Guidelines concerning local taxation

a. Tax-revenue level

Financial autonomy of local authorities implies a level of own resources which is they are defined by constitution or law. In general, the most important own re: which a certain degree of fiscal decentralisation is required.

In order to estimate this degree, the following parameters may be used:

- the ratio between the local authorities' tax revenue level and the total tax
- the ratio between the local tax revenue and the total local revenue;
- the weight of tax revenue compared to the weight of grants (both gen other public authorities.

When the degree of fiscal decentralisation appears to be low on the basis of t examine, with the local authorities, measures which will make it possible to incre and shared tax revenues, without increasing the global fiscal pressure.

b. The structure of local taxation

The structure of local taxation should meet the following conditions:

- a fair distribution of the tax burden according to the taxpayers' ability to |

- an appropriate yield and low administration and compliance costs;
- visibility of the tax burden for contributing individuals and enterprises (effective distribution of resources according to citizens' preferences);
- the right for local authorities to vary – where appropriate, within a pre-tax rate – the taxes they levy;
- the difference in tax rate between the various local authorities should not be influenced by such factors as a different level of services;
- low negative economic distortions (minimum impact on the growth of the municipality), demographic distortions (the fiscal structure should not stir social distortions (it should not weaken further social groups in difficulty);
- a degree of buoyancy allowing for the adjustment of tax revenue according to changes in circumstances.

It is possible to satisfy these requirements both with a system based on own taxes or a combination of own taxes and shared taxes, where the share allocated to local authorities is determined by law.

2. Guidelines on financial equalisation

A substantial degree of financial equalisation is a necessary condition of good government. At the same time, it may contribute effectively to the achievement of the objectives of policies for a balanced sustainable territorial development.

a. Methods of estimating spending needs with a view to equalisation

When estimating spending needs, criteria should be favoured which:

- are objective and over which individual local authorities have no direct control;
- are not liable to affect the local authorities' freedom of choice, within the limits of the law;
- do not penalise local authorities which attempt to streamline the management of their services, improving efficiency and do not create unintended incentives to particular actions, but are consistent with the objectives of local accountability and efficiency in the provision of services;
- take into account as far as possible the demographic, geographic, social and economic differences and to disparities in their costs.

The formulae used when estimating spending needs should meet the following conditions:

- the weighting given to the individual indicators should be set on the basis of the relative variations generated by the variations of these indicators;
- inasmuch as the assessment of needs nevertheless involves value judgement, and as different indicators of need, it is necessary to identify and assess the results of the formulae with representatives of the local authorities concerned or their associations;
- formulae (models) for the estimation of needs should be as simple as possible, transparent and accountable, but complete and precise enough so as to be reliable;
- formulae for the estimation of needs should remain as stable as possible so as to make long-term forecasts and so that changes in assessed needs reflect changes in circumstances of the local authorities;

b. Financial equalisation mechanisms

Governments should periodically verify the functioning of their equalisation systems and make improvements which could be made with a view to remedying the adverse effects of income and expenditure requirements and granting local authorities genuine freedom and responsibilities.

These systems should be designed so that they can at least partially equalise the financial capacity to enable them, if they wish, to provide a broadly similar range and level of services and taxation.

However, it is necessary to ensure that such equalisation of financial capacity does not induce local authorities in practice to provide the same level of services or apply the same level of taxation.

Financial equalisation must not discourage local authorities from developing the tax base or introducing new taxes.

Financial equalisation of spending needs should take into account as much of local needs as possible.

Appropriate information should be given to local authorities on the functioning of the system. Authorities cannot accept a system they do not know or understand.

It is also appropriate to favour voluntary redistribution mechanisms for certain areas. Such mechanisms, if introduced, in particular, in urban areas between the central city and surrounding areas.

In general, equalisation by means of grants is less likely to create ill-feeling because local fiscal capacity varies so greatly that the decided level of equalisation of resources. If, instead of government grants, it may be useful to consider having recourse to resource transfers (consistent with the principle of solidarity among authorities of the same level) from wealthy authorities is transferred to the less wealthy.

Where there is more than one local tax, financial equalisation should be made for the total tax burden and local authorities have little say in the balance between their various taxes.

3. Guidelines on financial grants to local authorities

a. General grants

Government (and regional authorities) financial support to local budgets should take the form of (un) earmarked grants.

The total amount of general grants should be determined on the basis of criteria such as economic growth and the increase in costs, especially when the level of local authority resources and manoeuvre on these resources do not allow for their adjustment to the growth factors.

It would also be appropriate if government guaranteed local authorities a certain minimum amount, possibly by law or within the framework of agreements aiming at ensuring the financial stability of all tiers of government.

The criteria for distributing general grants must, as a rule, be clearly defined and applied on a discretionary basis. This should allow local authorities to calculate in advance the amount of grants they will receive and to adopt their budgets accordingly.

b. Specific grants

Specific (earmarked) grants limit local authorities' policy discretion and are less effective than general grants.

of equalisation. Consequently, the use of specific grants should be limited, in the following objectives:

- (co-)financing capital expenditure, within the framework of policies for development;
- ensuring that certain local public services are provided at a standard level
- compensating the spillover effects which may affect the supply of certain
- funding certain public services which local authorities provide on the expenses covered by local and regional authorities when implementing certain other authorities.

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