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The economic and financial crisis

Impact on local and regional authorities

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Council of European
Municipalities and Regions



In order to assess the impact of the financial and economic crisis upon the local and regional governments, the Council of European Municipalities and Regions (CEMR) has conducted a survey among its members, in March 2009, asking the following questions:

1. Has the financial crisis (bank failures, withdrawal of credit facilities etc.) affected your local or regional governments? If so, in what ways?
2. Is the economic downturn having a major impact on your local or regional governments? If so, in what ways? Additional demands for services / benefits? Loss of tax or other revenues? Other?
3. Has your association taken any specific actions in relation to either the financial or economic crisis, or both? If so what?
4. Are there any other matters related to the financial and economic crisis, as they affect local and regional governments, that you wish to draw to CEMR's attention? Or are there any ways CEMR could be of assistance in these matters?

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Introduction

Since September 2008, the global financial and economic crisis has made its impact felt more and more on Europe's towns and regions. An increasing number of local or regional authorities find themselves affected by the credit crunch and falling resources at time when many of their citizens face economic problems due to the recession, and nobody can forecast what will be the full extent and duration of the current crisis.

The crisis has spilled over to affect the global economy at all levels, threatening a lasting economic recession, affecting companies and employment, and therefore social cohesion. According to the Commission's recent estimates (19th January) the European Union's GDP will fall by 1.8%, with only a modest increase (0.5%) foreseen for 2010. However, in several countries, the situation looks even more difficult, especially those that had had specific housing and excessive debt/credit "bubbles".

The Council of European Municipalities and Regions (CEMR) believes that a comprehensive economic recovery cannot be initiated without the involvement of Europe's towns and regions; therefore, the first step should be to try and have a broad view of how it is already affecting towns, cities and regions across Europe.

CEMR's Executive Bureau has discussed the impact of the financial and economic crisis at its meeting on 24th March, and stated that the potential contribution of local and regional governments in combating the crisis has not been fully harnessed by the EU or most states. It has proposed a "local and regional new deal" to strengthen Europe's economy, environment and society. The message is included in the "Athens communiqué", a political document outlining the position of CEMR; it calls on national governments to ensure that local and regional governments be involved as partners in addressing the crisis and be empowered – especially in their financial situation – to carry out their responsibilities towards Europe's citizens, especially the victims of the crisis.

In order to contribute to the discussion on the financial and economic crisis, as well as its impacts, CEMR as the umbrella organisation of Europe's towns, municipalities and regions undertook this attempt to map the effect of the crisis on the local and regional authorities across Europe. We have asked our member associations to provide us with their views and preliminary analyses on the direct and indirect impact, in their respective countries, and to outline their specific actions in relation to the crisis. Many of them have provided valuable information about their activities and lobbying with national governments – in particular for the local and regional governments to be included in their national crisis recovery plans. Some associations have even drafted their own plans and suggestions which they have offered to the national government.

In order to provide a document as updated as possible, we were able to produce an English-language only version. The information is provided "as is" and endeavours to show a snapshot of the current situation in Spring 2009. Please note that several contributions were originally drafted in German or French.

This study also presents a short overview of the European economic recovery plan, which is the Commission's proposal to tackle these effects at the European level, which sums up the parts of the plan which we believe are relevant to local and regional authorities.

CEMR wishes to thank all its member associations for their responses and contributions.

Austria

The financial and economic crisis has now hit also the Austrian municipalities and remains a major challenge for them. The first alarming signal has been the bankruptcy of the Kommunalkredit Austria AG (a daughter company of the Volksbanken AG), a state-owned bank mostly involved in the financing of public, mainly municipal investment areas, such as water and sewage. It has been kept alive by a generous support by the state and through a takeover by the Austrian Republic (the Austrian Association of Municipalities still owns 0.22 %).

It may be reported, that the Austrian cities and municipalities invested about € 2 billion in the year 2007, and they need to make further investments in 2009. There are many infrastructural projects in the 'pipeline' which have to be financed quickly. This would support economic growth and strengthen Austria's international position, wealth and social balance.

The priority investments should be financed through a Municipal infrastructure investment package (*Kommunales Infrastrukturinvestitionspaket – KIIP*), endorsed by the Austrian association of cities, worth € 3 billion over the coming two years:

1. The federal government should enable Austria's cities and municipalities to access favourable financing possibilities, e.g. through provision of loans. This should be possible by adopting a simple federal law empowering the federal government to provide guarantees for municipalities in the area of infrastructure investments.
2. The federal and regional (Länder) levels should financially support these efforts by the municipalities providing covering the loan interest by 50 % (federal) and 25 % (Länder).
3. When these financial means provided by the federal government are exhausted, further infrastructure investment needs should be assured by improving the framework access conditions to bank loans.
4. A quick implementation could be enabled by establishing a central managing office in the Kommunalkredit bank, which is now owned by the state and has the necessary know-how. The applications could be quickly assessed in terms of their eligibility and the contributions by the federal and regional governments could be arranged in a coordinated manner.
5. Within the administration it is necessary to strive for accelerated procedures, so that possible delays could be minimised. The framework conditions, under which the municipal controlling authorities assess loans for additional investments, should be aligned with the programme objectives.

The Austrian public procurement laws have been amended by the federal government in 2006 in line with the European rules, to facilitate access to public contracts by SMEs and to strengthen Austria's economy. In Austria, 92 % of businesses are in the SME category and especially in these times it is necessary thus to support the economy.

1. Has the financial crisis (bank failures, withdrawal of credit facilities etc.) affected your local or regional governments? If so, in what ways?

Within the banking system some institutes have asked for federal loans and two banks have gotten into serious problems. Whereas the *Constantia Private Bank* was rescued by other financial institutes, the *Kommunalkredit*, a specialised bank for financing local and regional project was nationalised. We have various reports from our member cities that it has become more difficult to obtain reasonable short and medium-term financing. This of course is counterproductive to any attempt to foster growth by speeding up local investments.

2. Is the economic downturn having a major impact on your local or regional governments? If so, in what ways? Additional demands for services / benefits? Loss of tax or other revenues? Other?

The demand for social benefits will rise, whereas the tax revenue of the communities will shrink, not only due to the direct effects of the crisis but also because of the Tax Reform Agenda presented by the federal government.

3. Has your association taken any specific actions in relation to either the financial or economic crisis, or both? If so what?

Our Association has proposed two ways to back up local authorities: First and foremost the federal government is asked to secure the access to the needed funds. This could be obtained by permitting the ÖBFA (Austrian Federal Financing Agency) to loan directly or via the above named *Kommunalkredit* to local governments. We have also requested that the states (*Länder*) and the federal government take over some of the interests costs of this loans.

4. Are there any other matters related to the financial and economic crisis, as they affect local and regional governments, that you wish to draw to CEMR's attention? Or are there any ways CEMR could be of assistance in these matters?

Our Association also likes to suggest a simplification of public procurement procedures for a certain period of time to speed up local and regional investment.

Belgium (Flanders)

Local authorities in times of crisis¹

'Crises are challenges' once was the title of a book by André Leysen. Are also the Flemish municipalities and CPASs (Centre for Public Social Assistance) about to get into trouble now that the financial and economic crisis is expanding more and more? An attempt to answer that question.

Last year it was stated more than once that the major impact of the financial crisis was behind us. But shortly after that, often a new problem emerged, especially as a consequence of the worldwide links of all actors affected by the crisis. It is also becoming more and more obvious that the depression will not remain restricted to the financial world, but also will have a major impact on the real economy.

Dexia

The most obvious consequences for the municipalities of course are related to their participation, especially through the *Gemeentelijke Holding* (Municipal Holding), in Dexia. The bank, like many other banks, is suffering heavily from the market turbulences. Part of the American daughter company FSA had to be sold; there is a contaminated debt securities portfolio that already had to be depreciated several times, there were major liquidity problems for some time, as the banks no longer trusted one another, etc. In the end, first a six thousand million Euros capital increase and then a state guarantee on the provided capital was necessary, so as to relatively stabilize the situation.

The municipalities are most of all affected in terms of dividends, although the effects of the slackening Dexia share price should not be underestimated.

In 2008 the Flemish municipalities received 42 million Euros in dividends from the Gemeentelijke Holding, plus 10.7 million Euros for the Dexia certificates they own. The Dexia certificates are shares with respect to which the Gemeentelijke Holding holds the voting rights and the municipalities hold the dividend rights. So total revenues amounted to 52.7 million Euros.

There is little chance that Dexia will pay out dividends in 2009 (so over 2008), simply because there probably will not be any profit. This has very far-reaching consequences. First of all, of course the municipalities will not receive any dividends on their Dexia certificates either. Secondly, the Gemeentelijke Holding as such will not receive any Dexia dividends, so that the Holding will have insufficient liquidities, so as to pay out any dividends in 2009 over the financial year of 2008. Despite the costs of financing the 500 million capital increase on the one hand and the depreciation of approximately 50 million Euros of participation that the Gemeentelijke Holding took early 2008 in Fortis, the financial year of 2008 would still show a positive result. Thirdly, the absence of a Dexia dividend over 2008 will most probably lead to a deficit for the Gemeentelijke Holding in 2009, so that the chances of a holding dividend being paid out in 2010 (over 2009) will also become very small.

For most municipalities the dividends from the Gemeentelijke Holding represent less than 1 % of their total revenues, so in the end the financial prejudice isn't so bad. A few municipalities, such as Oostende, Blankenberge and Knokke-Heist, because of historical reasons (a lot of loans contracted with the former Gemeentekrediet in the period from 1860 to 1948), are major shareholders, when compared to others. There the (temporary) absence of the dividend will

¹ Article published in the VVSG- fortnightly Magazine LOKAAL (January 2009), Author: Jan Leroy (VVSG – finance)

indeed have a major impact budget-wise. By the way, the Gemeentelijke Holding believes it may take many years for the dividend to amount to 300 Euros per share again, if at all. As a matter of fact, the capital increase also resulted in a dilution of the participation in Dexia.

The Gemeentelijke Holding shall probably not be obliged to adjust its book valuation of the equity participation in Dexia to the share price. This is a strategic participation, which is now entered at 8.1 Euros per share. If the (latent) losses were to be entered, this would mean a total loss of approximately 900 million Euros for the Holding, taking into account 4 Euros per share. Considering its own property of over 812 million Euros (situation at the end of 2007), this would seriously endanger the future of the Gemeentelijke Holding. As for today, this is not yet the case, but it is a scenario that cannot be fully excluded either. In the meantime, the Gemeentelijke Holding has been looking for help. For example, the Holding addressed the Regions for a 400 million Euros security for the 500 million Euros of loans it contracted in order to finance the Dexia capital increase. But again, of course, there is a price tag attached, because Europe does not allow such a government guarantee to be granted below the price.

Ethias

Directly related to the Dexia problems, are the difficulties that appeared in the middle of October with Ethias. This insurer is a major shareholder of Dexia and also participated in the bank's capital increase early October for an amount of 350 million Euros. The decline in the Dexia share price resulted in serious solvency problems with Ethias. In addition, there were the consequences of the American Lehman Brothers going bankrupt. The latter provided the capital guarantee with respect to a number of investment products that Ethias had issued. Finally, there was the poor rate of return of the so-called First account, a very successful Tak21 investment offered by Ethias.

Initially, the media reported that the local authorities, as major customers of Ethias, should participate in the necessary capital increase of 1.5 thousand million Euros. In the end, only the Federal Government and the Flemish and Walloon Regions have participated in the Ethias capital. In the future, the insurer is also to be converted from a mutual society into a public limited company, in which the Belgian State and the two Regions, through Ethias Finance, hold 75 % of the shares. There are no direct financial consequences involved here for the local authorities, because Ethias has never paid out any dividend. Given the precarious financial situation of part of the insurance activities, perhaps municipalities and CPASs may have reasons to fear for a decrease in insurance premiums refunds, if these were not to disappear all together.

The Ethias First account was also a popular investment with local authorities. The insurer has already announced that the very interesting conditions will be reduced, so that in the end also this will have a financial impact.

Finally, there is the scheduled reorganization within the many agencies and divisions of Ethias. Most probably, in the course of time this will also mean the end of some remunerated mandates that are now performed by local officials.

Iceland

The Iceland banks have encountered severe problems in the last couple of months. They had mainly addressed the international capital market for financing, and had turned only to a limited extent to deposits. When the credit supplies were shut down, they were incapable of fulfilling their own obligations, which resulted in deposits that were blocked for several months. In Belgium, especially Kaupthing Bank was operating. We do not have any knowledge of any blocked bank balances of municipalities or CPASs with this bank, although this was certainly not to be excluded (considering the overall praised rates of return until a short time ago).

With our northern neighbours, however, the situation is indeed a catastrophe, with more than 200 million Euros in deposits of municipalities and provinces on blocked accounts. In the Netherlands, it has even been suggested to require local authorities in the future, similar in a way to the situation in France, to do their banking activities with the Central Government. The latter could obtain cheaper financing than on the market, and the local authorities could receive a nice return on their (safe) investments. Whether the municipalities will agree to such a drastic change in their autonomy, still remains to be seen. By the way, is it desirable for one authority to be able to closely monitor the bank transactions of another authority?

Credits

Until about a year ago, receiving credits for municipalities and CPASs was actually quite simple. Indeed, they had to take into account the competition rules, but at the same time they were sure that a lot of banks were interested. At a certain time competition between the financial institutions was so high that the margins against funding costs (the financing that the bank as such is to find on the market) were limited to a few basis points or hundredths of percents.

Today's situation is completely different. After the adventures experienced with all kinds of junk bonds, banks are now seeking high-quality investments without too high a risk. Loans to local authorities perfectly qualify to this effect, so that in first instance you would expect a huge offer. However, this is not the case, as we also have to take into account liquidity, which is still extremely low. As the capital markets and the supply of credits among banks have not quite recovered yet, credit institutions only have limited possibilities to onlend funds. Furthermore, this type of financing (because of the higher risk assessment by their credit suppliers) has become more expensive for them. As a result, today margins of 60 up to 110 basis points are common.

However, this does not necessarily have to lead to an increased credit price, because estimates on the long-term interest rate to which the basis points are added, seem to indicate a continuous decrease for the time to come. The fear of inflation has gone, and furthermore the economic recession shall reduce the demand for credits. In addition, for the time being thousands of millions of Euros in liquidities are searching for new destinations, now that nobody seems to be willing to invest in all kinds of derived products with unclear risk profile any more. The huge offer should further decrease the long-term interest rate, even if authorities will have to enhance their efforts in terms of debt financing as a result of higher budget deficits.

Other types of loans

So what does this mean for local authorities? Municipalities and CPASs now receiving credits that were granted in 2007 or 2008 against low margins, for the time being will not be affected by the higher margins. In the short term, this means a profit. However, more than ever before, today we need to question the way many local authorities apply debt financing. Partly as a result of accounting laws, contracting loans is still basically linked to what the budget says. This in most cases constitutes the basis for the government's decision to contract loans. In general, receipt of the credits as such is realized much later.

Fortunately, the time that municipalities or CPASs already take up the loan upon allocation of the investment, which, according to the budget, is to be financed with the loan, is mainly over. Some of the administrations take up the loans when the (first) invoices are received. Still others almost entirely cut the link with the investment and only appeal to the allocated funds when the liquidity situation really requires the same.

Taking into consideration the current credit crisis, in our opinion municipalities and CPASs had better shorten the period between the granting of the credit package and the actual taking up of the money. As a matter of fact, this would reduce the degree of uncertainty for the bank, and may also have a downward effect on the margin. So, in practice, we suggest that municipalities and CPASs have their loan policy based upon their liquidity expectations in first instance, and only appeal to external financing when in terms of liquidity (and therefore not (only) budget-wise) it is really required. We hereby recall that it is absolutely not forbidden for the budget account to show an extraordinary deficit, as the investment has already been authorized without the municipality actually having taken up the loan.

The adjusted loan policy may somewhat reduce the demand for credits from local authorities in the next couple of months, in the hope that in the meantime margins start decreasing again.

Another consideration is that in this time of insecurity banks are not very keen on making long-term commitments, as they cannot find any financing on the market for terms longer than 15 to 20 years. Therefore, municipalities and CPASs – if possible – had better keep the duration of their credits as short as possible. Otherwise, chances are real that they will just not find any financing.

And what about economy?

In the meantime, it has become more than obvious that the international credit crisis has expanded beyond the limits of the financial world a long time ago. Growth expectations are not good at all, which means that municipalities will receive lower revenues from additional personal income tax as from 2010 (income of 2008) and 2011 (income of 2009). The size of the decrease will partly depend on the economic sectors where the inhabitants of a municipality are operating. For the time being, especially some industrial sectors seem to suffer the most, but it is not to be excluded that also other sectors will suffer.

The stagnating economy will also affect the construction industry, which may result in a decrease in the growth of the cadastral income volume, and therefore a decrease in the revenues from supertaxes over real property tax. This phenomenon is further reinforced by the expected deflation, on account of which the Cadastral Incomes shall hardly be indexed or not at all.

More unemployment automatically means more expenditures for CPASs, and therefore for the municipalities. In general, economic crises are not periods of decreasing poverty.

The budget

Not only local authorities are facing certain budgetary threats, also the budgets of the Federal and Flemish Governments are under more and more pressure. So, as a local sector we can expect for all kinds of subsidies for municipalities and CPASs to be questioned, reduced or simply cancelled. It really is no coincidence that the federal allocation to the police zones in 2009 in first instance is increased with only 2.1 %, whereas the wage costs (representing 85 to 90 % of all police costs) are increasing with 6 to 7 %. And the fact that assessment of individual income tax is starting on a slower pace than last year probably has something to do with the budget as well. As a matter of fact, earlier assessment also means earlier payments to tax payers and municipalities for the State.

When the next Flemish government will assume office, the refinancing of local authorities shall be a central theme, Flemish minister Marino Keulen has already clearly stated on several occasions. It will not be easy to incorporate this essential point within the budget margins that are also shrinking with the Flemish Government.

So, there are only negative consequences, then? No, that is not true. First of all, there is the global cool-down of prices. After the huge increases in 2008, deflation appears to become the central word in 2009. This not only has a positive effect on the evolution of personnel costs, but also on what authorities have to foresee in terms of operating costs. The decrease in raw materials prices also seems to have an impact on what will have to be paid for investments.

Apart from that, there is the already mentioned decrease in long-term interest rates. Administrations using their common sense (and avoiding the current high margins for loans), can take advantage of that.

And finally, as said before, crises are challenges. They appeal to creativity, as many obvious things are no longer obvious. It is up to the municipalities and CPASs to show that they have sufficient resilience to survive these difficult times. The best way to do this is without taboos, not only within the local authorities as such, but also within the numerous structures, organizations and instances they are associated with. Those who deal with this in a serious way can come out stronger.

Belgium (Wallonia)

The current economic climate is characterised by the worldwide financial crisis. Globally, three elements can be highlighted: the strong inflationary tendency of the first quarter of 2008, the crises in the banking and financial sectors and the general slowdown in economic growth. This new climate is already affecting administration in the municipalities, both in terms of income and expenditure. Future financial planning is necessary as never before in order to maintain a healthy financial balance in the medium term. It is in this context that we would like to make the following points.

Rising inflation

The evolution of energy costs and those of food products has given rise to inflation at levels not seen for 15 years. Thus, between May 2008 and September 2008, the annual inflation rate based on the consumer price index (CPI) remained constantly higher than 5 %. Globally, the inflation rate for 2008 should be between 4.5 % and 5 %.

This evolution weighs heavily on municipal budgets, mainly in the increase in administrative costs, but also importantly in the concomitant automatic salary increases.

On this subject it is important to highlight two elements when considering future financial planning.

First of all, as a result of the current economic slowdown this inflationary tendency is gradually coming to an end. In addition, the growth in the price index should take a downturn in the coming months. The extent of the slowdown is such that some experts are even projecting the spectre of deflation, that is, a price decrease. In consequence, the probability of high inflation in 2009 seems unlikely, a view confirmed by the Bureau du Plan with its prediction of an annual inflation rate of 2.7 % for this country next year, a prediction recently amended to 1.5 %.

Secondly, even in the context of a slowdown in inflation, the towns and municipalities of this country will continue to feel in 2009 the effects of rising inflation in 2008. Indeed, the effect of the inflationary episode on certain elements of the municipal revenue, notably additional PPIs, has been delayed, while its effect on expenditure, in particular salaries, is already being felt. Therefore, we calculate that, for the Wallonian municipalities, the cost in 2009 of the rise in inflation in 2008 would amount to half the substantial investments already made during the fiscal year currently coming to an end.

It is worth noting that the Government of the Region of Wallonia took the decision to index the global budget of the municipalities at the sum of 34 million Euros. This sum does not, however, allow for the full effect of the inflationary episode in the sense that it is not based on the 2008 budget adjusted to take into account the actual inflation rate, but on the 2008 budget with a theoretical inflation rate of 2 % as initially predicted by the Bureau de Plan.

In conjunction with the Government of the Region of Wallonia we are seeking a solution which will, in the future, allow the indexation mechanism to take into account a rise in inflation such as that encountered in 2008.

The crisis in the banking sector

Belgian financial institutions were hit especially hard by the financial crisis of the last few months in the week of 29th September 2008.

Dexia Bank, an important partner of Belgian Local Authorities, was one of the victims.

As for other banking institutions, the government intervened to reassure the financial market and guarantee the continued operation of the bank. This was necessary to protect all those, both public concerns and private individuals, who had investments in Dexia Bank.

As a result, the Union of Towns and Municipalities of the Region of Wallonia, which followed the case with interest, was very happy with the support provided by the Belgian, French and Luxemburg Governments as well as by the institution's shareholders which included the municipal holding company.

Such an intervention does, however, have certain consequences for the towns and municipalities. Various elements should be highlighted.

The value of Dexia shares

The first consequence to consider is that linked to the fall in price of Dexia shares.

This is only relevant should you wish to sell said shares and otherwise should not have any immediate effect on current revenue and expenditure.

The current value of Dexia shares (or others) could encourage certain parties to buy them.

We remind you that Article 30 of the General Regulations of Municipal Accounting expressly requires the provision of a replacement warranty of any capital invested.

Future dividends

The most pressing concern is without a doubt the future dividends to be paid to the municipalities. It must be borne in mind that the payments made by the municipal holding company directly linked to the activities of Dexia amount to nearly 100 million euros, 37 % of which goes to local authorities in Wallonia.

Two recent changes will probably result in a decrease in income in this area.

The first is structural and unavoidable. The presence of new shareholders in Dexia will inevitably result in a decrease in the proportion paid to the municipal holding company.

Thus, whilst prior to the recapitalisation the municipal holding company held approximately 16.2 % of Dexia shares, the proportion is currently 14 %, a relative decrease of around 15 %.

This means that for the same number of dividends paid by Dexia, the amount received by the municipal holding company is reduced by 15 %. This results in an approximate loss of 5.5 million euros for the totality of local authorities in Wallonia, and thus has a relatively small impact.

The second change, potentially with a larger impact although difficult to predict, is linked to the effect of the current financial crisis on the number of dividends.

Although it is almost certain that income in this area will be affected by recent events it is impossible to predict by how much at the present time. Of course, the sums paid to the municipalities are affected by Dexia's performance, but also by its policy on dividends and that of the municipal holding company, as well as by other less obvious factors.

We advise our members to be extremely cautious when drawing up the budgets for 2009 and to consider Minister Courard's recommendation that the 2009 dividends should be kept at the same level as those received in 2008 as an indication of the maximum to be expected.

The government of Wallonia has recently put aside the sum of 20 million euros, intended to soften the blow.

Recapitalisation

The agreement reached on 30 September 2008 provides for an investment of 500 million euros by the municipal holding company in the recapitalisation of Dexia.

In order to honour this agreement the municipal holding company has been obliged to borrow.

This new obligation, coupled with previous decisions made in conjunction with a sharp decline in the value of Dexia shares, has put the municipal holding company, having invested heavily in Dexia, in a delicate position regarding guarantees in the event of non-payment.

For this reason the three regions of the country have jointly intervened to offer their guarantees in support of the policies adopted by the municipal holding company. We are very happy with this intervention which ensures the continued operation of the municipal holding company in all its activities.

The municipalities will not be directly required to participate in these operations. Indirectly, however, the inherent burden will in all likelihood be reflected in the results of the municipal holding company.

Loans and interest charges

The last areas of concern for local authorities are the availability of credit and interest rates.

Insofar as Dexia Bank is concerned, the various contacts we have had have proved reassuring: the granting of loans to the local authorities is enshrined in the bank statutes and those responsible have recently voiced support for an adjustment in favour of "core activities" (métiers de base). It seems very likely therefore, that money will be available, as was always the case, to finance as a priority the granting of loans to the towns, municipalities and provinces of our country.

The difficulties encountered by other financial bodies will doubtless affect the amount of money available, which could lead to the loss of certain grants. We note, however, that in this context the peculiar status of the local authorities places the towns and municipalities in an advantageous position.

The evolution of interest rates is certainly more difficult to predict. The rates applied are dependent on two criteria. It is certain that, given the situation, the margins on loans offered by lenders will be increased. Currently, talk is of margins between 90 and 100 points (around 10 before the economic crisis). This tendency could however be counterbalanced by a decrease in interest rates for banks, following rate reductions at the ECB, designed to boost economic activity. In this connection it is to be noted that the current rate, fixed at 3.25 %, gives the Euro-zone a latitude that the Federal Bank of America, for example, no longer has.

The economic crisis

The financial crisis has progressively become an economic crisis. There is little doubt that the consequences will be severe and our economy will be seriously affected for some time to come.

Although better protected from the ups and downs of the economic environment than other levels of government, the towns and municipalities will nonetheless feel the effects of this crisis.

It should be noted, however, that, taking into account certain aspects of financing peculiar to them, these effects will be spread out over time.

The local authorities are aware of the effect of the crisis on CPAS (Centre for Public Social Assistance) expenditure. The growing economic insecurity ahead is placing an increasing burden on social aid.

To this effect the government of the Wallonia Region has put aside the sum of 5 million euros, intended to strengthen the welfare fund (le Fond Spécial de l'Aide Sociale).

On the subject of the availability of funds, the slowdown in economic activity will lead to a limited growth in tax revenue.

As far as the own revenue of the municipalities is concerned, it is the revenue linked to economic activity which will be affected.

Regarding local taxes, in general the impact will be delayed for a year, since the economic slowdown will reduce activity in 2009 and be established at the beginning of 2010 (often on 1st January). This is not the same for taxes levied on certain activities (for example la taxe toutes-boîtes -a tax on the delivery of non-addressed advertising material) which have already been affected by a reduction in such activities.

The revenue from property taxes follows a similar path to that of local taxes, however, it seems to be very difficult to link construction activity (or rather the tax imposed thereon) to economic growth.

Finally, as regards revenue from additional PPIs, we remind you that a slowdown in the growth of business tax revenue from taxpayers resident in your municipality will not have an effect on municipal income for two years, given the delay between declaration and imposition for this tax. Please note that some studies have shown that a loss of growth of 1 % would reduce revenue from additional PPIs by between 0.3 % and 0.7 %.

Bulgaria

In the Republic of Bulgaria there have been no bankruptcies of banks and none are expected. Government and financial institutions consider that the banking system is relatively stable.

At the national level in 2009 it is expected:

- Substantial reduction in the rate of economic growth, including export and domestic demand;
- Restrict access to and appreciation of credit resources;
- Reduction of foreign investment;
- Increased unemployment;
- High current account deficit of the balance of payments;
- Increased risk for non-revenue in the fiscal program and the need for restriction of public expenditure;
- In early 2009, further major damage to the economy has been caused by the gas crisis.

Basic principles and guidelines of state policy in 2009 to counter the global financial and economic crisis:

- Measures to safeguard the financial and banking stability by establishing and implementing fiscal and financial buffers;
- Conducting a more active policy by implementing a package of measures: expansion of public investment program, increase in the flexibility in the field of income, providing flexibility and security on the labour market;
- Conducting fiscal policy to counteract the imbalances caused by the crisis through: maintaining a positive balance in the consolidated fiscal program; retaining of 10 % of the State transfers designated by law, provided in case of achieved certain macroeconomic and budgetary parameters.

Influence on the world economic crisis on the Bulgarian municipalities

Negative effects of the global crisis on the Bulgarian municipalities began to appear in the final months of 2008. The expected impact on municipal finances in 2009 is mainly a significant reduction of the own revenue of municipalities due to stagnation of the property market and in particular of local tax revenue to the acquisition of property for consideration, on sales of facilities and municipal property rentals;

The outline forecasts are:

- Reduction of income from municipal taxes due to reduced demand;
- Increasing difficulties of individuals to pay municipal taxes and fees in due time;
- Increased demand of citizens for social assistance from the municipalities due to growing unemployment;
- Increased difficulties of the municipalities to serve loans from banks and other financial institutions;

- The most significant impact on municipal finances is established by law for the state budget in 2009: A fiscal buffer to provide state transfers to municipalities in the amount of 90 %. The remaining 10 % can be given if the subject has difficulties to achieve the attainable macroeconomic indicators. In these fiscal constraints, municipalities are not exempt from responsibility for the performance of duties assigned by the state for services to citizens.
- Limited sources and costs of municipal investment projects.

Measures taken by the NAMRB to support the activities of the Bulgarian municipalities in the conditions of global crisis:

- NAMRB organised a training for municipal councillors, mayors of municipalities and financial experts.
- A sample method has been and recommended on the preparation, adoption and implementation of municipal budgets for 2009 in terms of the consequences of the global economic crisis.
- The association also continuously keeps monitoring of the impact of the crisis on the municipalities.

NAMRB approaches recommended for the municipalities' actions include:

- Application of conservative policies and approaches in planning their own income;
- Application of restrictive approach to forecasting and execution of the expenditure of the budget;
- Restructuring of operations and closure of inefficient units;
- Providing sufficient reserves;
- Improving public financial management and control in the performance of public finances;
- Assessment and review of investment plans and programs;
- Full use of opportunities for participation in EU programs and national programs;
- Greater involvement of citizens and businesses in the management of public finances.

NAMRB action to improve the interaction of local authorities with the authorities in terms of global financial and economic crisis include :

- Inclusion of municipal projects in the national anti-crisis investment package;
- Negotiating with the government and relevant institutions of the program to include municipalities in the absorption of funds from European and national investment programs and funds;
- Justification and protection of municipalities to provide the full amount of state transfers for 2009;
- Submission of the necessary changes in legislation, reflecting the activities of local authorities in terms of the global crisis;

NAMRB fully supports and will work consistently to implement the decisions of the Committee of Regions and the activities of local and regional authorities in terms of crisis. In this complex environment, developing common assessments, opinions and concerted measures is key to tackling the challenges of global financial and economic crisis.

Denmark

The main areas of impact of the financial crisis on Danish local and regional authorities are related to:

- Local and regional investment plans (short term)
- Local and regional budgets (long run)
- Tax revenues /social allowances/unemployment benefit
- Recruitment
- Regional development

Over the last couple of months the Danish government has taken a number of measures to help stimulate the economy in the wake of the increasing downturn in the global as well as the national economy. In December, a 100 billion kr. (€ 13.4 bn) "bank package" was launched in order to stimulate credit facilities. In March the Government also presented a fiscal package for stimulating the economy, including among other things reduced tax on labour income financed by increased "green" taxes, and measures to push forward investment plans already agreed with local and regional authorities. The package also opens up for all Danes to cash in their savings in a special national pension fund, which existed in 1998–2003, amounting to a total of 47 billion kr. (€ 6.3 bn).

Investments plans

As part of the fiscal package to stimulate the Danish economy the government wants to increase the municipal investments in 2009, and the conditions for such a short term increase in municipal investments are being negotiated between the central government and Local Government Denmark (LGDK), which represents all 98 municipalities.

Furthermore it's planned that the central government and LGDK this summer in the annual negotiations about the economic conditions for the municipalities for the coming year will negotiate a further increase in the investments in 2010.

Prior to the launch of the national fiscal package regional authorities agreed with the government an investment plan for building and modernising public hospitals for a total sum of 40 billion kr. (€ 5,3 bn) over a period of 10 years. In addition regional authorities have suggested to push forward to 2009 other regional authority investments for a total amount 1.5 billion kr. (€ 200 mil.). It is estimated that this may create 3,000 jobs in the building sector.

Budgets

The recent measures taken by the government means that public spending exceeds the limits contained in the national long term fiscal plan. Combined with the rise in public spending regarding public benefits in consequence of the rising unemployment this in turn implies that fiscal restrictions on local and regional authority budgets may be accelerated, not least on the tax financed health care sector. Due to the demographic development the public health care sector might consequently experience greater budgetary pressure sooner than might be expected.

The economic downturn will eventually lead to rising unemployment figures and more people depending on social allowances and unemployment benefits. For the municipalities this means increasing expenditures due to the fact that they contribute to financing of the most social allowances. Meanwhile the municipalities as a whole will be compensated for the increasing expenditures by a mixture of reimbursements and general state grants.

Also the municipal tax revenue will be affected negatively by the financial crisis. But again, the municipalities as a whole will be compensated by an increase in the general state grants.

Recruitment

Structural conditions with an ageing works force and small younger generation, combined with growing employment opportunities as a result of the past period of economic growth, mean that local and regional authorities have for some time experienced problems of recruiting staff to central welfare services. Shortages of staff have furthermore been predicted to grow significantly, particularly within the fields of health and elder care, schooling and day care. In so far as the economic crisis reduces employment opportunities elsewhere, this problem is expected to ease.

Tax cuts on income from 2010 introduced by the recent government fiscal package is also expected to increase the number work hours amongst the middle income groups who predominate in public welfare services in the local authorities and in the regional public health care. A substantial share of public employees in these areas of work is currently working part-time.

Regional Development

Danish Regions has initiated a discussion with the national authorities on how the EU Commission's temporary framework for State aid measures can be used as a tool for an extraordinary effort to support economic growth and employment with the structural fund initiatives in the current crisis situation.

The Regional Growth Forums are expected to stick to their regional development strategies and action plans that support the growth drivers; innovation, entrepreneurship, the use of new technology and human resources.

Furthermore, the regions and the Growth Forums currently consider whether they can play a role in the short-term in relation to the many layoffs and the economic crisis in business. It is being discussed how to make a more direct and rapid response, including dissemination of capital and encourage investment in venture capital for entrepreneurs and especially small and medium sized businesses with growth ambitions. In addition, development of skills, upgrading and expansion of the workforce are highly prioritised. It is also considered to strengthen lending instruments and to relaunch programmes for export oriented companies in order for them to find other markets, for example Asia or South America, and to strengthen the incubator programmes and technology advisory programmes.

Estonia

1. Has the financial crisis (bank failures, withdrawal of credit facilities etc.) affected your local or regional governments? If so, in what ways?

Due to the economic crisis but mainly because of the financial crisis local governments in Estonia have faced several problems. Smaller municipalities have problems getting credit from the banks as the bank rates for loans have risen notably. Also the banks lack interest in giving out small credits. Also due to the recession the banks distrust against the financial credibility has severely fallen. At the same time also the central government has stricken the loan measures for local municipalities, for example a bank which gives a loan must have high international rating, and local municipalities are prohibited until 2011 to take loans for investments. Taking loans is possible only upon the approval of the Ministry of Finance and only for financing co-financement for the EU financed projects. Also the tax payers have showed the tendency to be late with taxes.

2. Is the economic downturn having a major impact on your local or regional governments? If so, in what ways? Additional demands for services / benefits? Loss of tax or other revenues? Other?

As local governments incomes in Estonia are not very much connected with the indirect taxes the first year of the economic downturn did not affect the local governments as much as on the second year. The fall on the second year will be especially distinct because direct taxes, for example the income tax accrual has fallen already 6 % over the years average and may continue down to 13 %. The central governments activity can be also considered as a problem as it has reduced the amount of income tax local government gets by 300 million EEK (€ 19 million), which makes 11.93–11.4 % from the taxpayers gross income to stabilize the state budget. Besides that the central government reduced the grant-in-aid for local governments from the state budget through negative supplementary budget by 650 million EEK (€ 41 million). And therefore due to the reductions in grant-in-aids and the diminished tax accrual the local government's budgets will decrease in comparison to the year 2008 in more than 16 % and will stay almost on the year 2007 level. The economic downturn has had its effect also on other local incomes as fewer services are needed.

3. Has your association taken any specific actions in relation to either the financial or economic crisis, or both? If so what?

Due to the economic crisis the Association of Rural Municipalities of Estonia has started intensive negotiations with the Estonian government to minimize the decrease of local governments' income at least during the next year. Also the association continues to search for possibilities to complement the income basis through increasing the relative importance of the local taxes, although facing the complicated situation where the citizen's incomes constantly decrease. Also together with local governments we are searching for ways to cut down the expenses through more rationally rendered services. The association tries not to increase the membership fees and therefore not to put extra pressure on the local governments budgets. But due to that associations also find it difficult to finance their representative in Brussels.

4. Are there any other matters related to the financial and economic crisis, as they affect local and regional governments, that you wish to draw to CEMR's attention? Or are there any ways CEMR could be of assistance in these matters?

In extreme financial situation the central government has found a simple ways to carry out the involuntary administrative-territorial reform referring to the possible cost saving as the result of the reform. The plan of the reform is to decrease the number of local governments ten times, although in the present situation the Estonian local governments' size is comparable with general size of other local governments in Europe. While advertising the reform plan in the media populism and half-truths are widely used.

If a reform in such ways should be carried through the democracy on the local level and citizens involvement in local politics and decision making will be seriously decreased as subsidiarity will diminish and peripherity increase. The association is fearful that those kinds of tendencies have effect on the young people's migration to the bigger cities and migration to Central and Northern Europe.

Finland

1. Has the financial crisis (bank failures, withdrawal of credit facilities etc.) affected your local or regional governments? If so, in what ways?

Local government access to finance safeguarded for now

Export accounts for about 45 % of the Finnish economy. The global financial crisis has a particularly strong impact on countries such as Finland, which are dependent on export.

To combat recession, central governments and banks are implementing unprecedented extensive recovery measures. As a consequence, governments all over the world are getting deep into debt. They are active in the global loan market, which complicates normal corporate financing and also local government financing. In all likelihood, central governments will also fund enterprises either directly or indirectly during the financial crisis.

The Finnish local government sector is prepared for the future responsibility for pensions: pension assets have been funded since 1988 to Local Government Pensions Institution, a public corporation responsible for the pension cover of municipal employees.

Municipality Finance, a credit institution specialising in the local government sector, started its operations in 2001 when its predecessor and another municipally-owned company providing housing loans for municipalities, merged into one company. Like its predecessors, Municipality Finance was established to ensure that the local government sector has access to inexpensive financing services in all market situations. To safeguard local government finances, the Municipal Guarantee Board can grant sufficient guarantees and security for the sector.

In a financial crisis, these measures have proved to be right. After commercial banks ceased financing local government operations, the functioning of financial management in the local government sector has been secured through Municipality Finance, whereas the Local Government Pensions Institution mainly guarantees municipal operations and financial management.

The Finnish local government sector has not so far plunged into financial crisis, as the availability of funding during the economic slowdown is secured through a municipally-owned financial institution and guarantee arrangements associated with it.

2. Is the economic downturn having a major impact on your local or regional governments? If so, in what ways? Additional demands for services / benefits? Loss of tax or other revenues? Other?

Local authorities are faced with the problem that, while there is a risk that an upward expenditure trend continues, revenue will be declining.

For local authorities the situation is very challenging despite the fact that the overall local economic situation at the start of 2009 is quite good. However, there are great regional differences and especially local authorities dependent on export industry are hard-pressed.

The international financial crisis is causing great problems for entire regions. Eastern Finland may be confronted with a difficult situation, if the depreciation of the Russian rouble continues and the economic growth in Russia slows down following the fall in crude oil prices. Finland's trade with Russia employs directly some 50,000 people.

Tax revenue will decrease – government support expected to be more than previously foreseen

In Finland, about a half of municipal revenue is generated through taxes, the most important of which is the local income tax. Although the economic situation is deteriorating and unemployment is on the rise, a steep decline in tax revenue is not expected. The impact of unemployment on municipal tax revenue will be visible after about a year. Therefore, year 2010 will be more difficult than this year as regards local economy balance.

Next year, local authorities will raise their income tax rates from the current average of 18.59 per cent. But whereas local authorities want to raise the level of income tax, the Finnish government wants to reduce the tax burden. The share of local authorities of the revenue generated by income tax is about 70 %. If the crisis continues, the tension between local authorities and the Finnish government is likely to grow.

The rising earnings of the employed and a tolerable level of employment maintained by domestic demand provide a reasonable income tax base for this year. As the inflation declines, the purchasing power of employees will grow by about 4.5 % during the current year. So there is potential for domestic demand in Finland, but a decline in export has led to recession and, consequently, to extensive lay-offs and also redundancies. In such circumstances, the savings rate is rising, which for its part may weaken the domestic market and make it more difficult to recover from the recession.

In Finland, local authorities receive 22.03 % of the corporate tax paid by corporations for the profit they make. The decline in business has led to an abrupt drop in corporate tax revenues. There are estimates that they will be reduced to half from last year. This would be particularly fatal to those cities and municipalities that are largely dependent on corporate tax revenue, such as regions with forest industry. Several local authorities are also dependent on large companies such as Nokia. Despite changes in its employment and economic structure, Finland, modelled as an open national economy, is very vulnerable to any drastic changes in the international economy.

What is more, as the local government's tax base for the current year was reduced by increasing local tax deductions, the total municipal tax revenue as a whole will decline by about 2–3 % as compared to last year. Local authorities were, however, compensated for the cuts in the municipal tax base by the fact that central government transfers to local government were correspondingly increased.

The government support to local authorities has, measured in euro, increased sharply in recent years, but has not had any great impact on local government finances. Government support has mainly consisted of compensation for the loss of tax revenue, and of specified transfers to compensate for the changes caused by rising costs and the changing age structure.

The state's share of funding for local government services is about one-fifth. According to the central government spending limits for 2009–2012, the government's share of funding is still decreasing. Now that the economic situation is rapidly changing, there is a growing pressure to increase government support for local authorities.

Finnish local authorities and local economy are confronted with dramatically growing expenditure. In the third quarter of 2008, local government expenditure grew by about 8 % compared to the previous year. The level of pay agreements in the local government sector is high. Last year municipal employees' pay was upgraded by 5 % and also this year an upgrade of nearly 4 % is expected.

The ageing of the population is exerting upward pressure on expenditure especially in the social welfare and health services.

The gap between the expected revenue and expenditure is getting increasingly wider. There will also be greater economic differences between regions and municipalities.

If the weak economic performance continues, local authorities may be under considerable pressure to increase the income tax rate over the next few years as they are taking action to curb expenditure growth. In the labour-intensive local government sector this inevitably means more lay-offs.

Also redundancies may become necessary over time unless both central and local governments take special measures.

During the economic upturn, the growing expenditure could be adjusted to growing revenue. Now that revenue is decreasing and there is little flexibility in expenditure, local authorities are faced with a difficult situation.

The economic situation of local administration deteriorated in the first half of the decade. However, when considered as a whole, the economic situation of local authorities has improved in recent years and now, at the beginning of 2009, it is satisfactory. The principle reason for the continuous improvement of local economy since 2006 is the strong increase in tax revenue. There has also been positive development in the central government transfers to local government.

But the local government sector is very heterogeneous. Annually, more than a third of all local authorities apply for discretionary government transfers. The revenue regularly generated by these local authorities did not even before cover the costs incurred by operations.

Economic problems have primarily accumulated in the municipalities with a small population. Although their service provision is often quite efficient, many small municipalities are no longer as viable as before. It is obvious that many of them will not be able to cope alone as the economy slows down. Small municipalities are also more dependent on government support.

Increase in local government borrowing

Despite their favourable revenue developments, local authorities are running into debt at an increased pace. There has been a great need for investment and the level of investment is expected to be high also over the next few years. The outstanding debt of local and joint authorities has risen close to 5 % in relation to the national product.

The majority of the investment plans of local and joint authorities for the near future have already been decided on. As the costs of financing are rising and the revenue is most likely to be less than foreseen, local authorities may opt to put off investments until better times. This is easy to understand from the perspective of a single municipal economy, but regrettable when considering society's overall interest and balancing of the economic situation.

3. Has your association taken any specific actions in relation to either the financial or economic crisis, or both? If so what?

The Association of Finnish Local and Regional Authorities has actively started to formulate a strategy to cope with the recession. It is of utmost importance that Finland take heed of the lessons learnt from the deep recession of the early 1990's during which our national product decreased by over one-fifth. At that time, local government personnel was drastically cut back, by almost 10 per cent. Investments were suspended and unprecedented wide-ranging savings measures were implemented.

The current situation has been caused by a prolonged global financial crisis, with the consequence that the real economy is now in recession. The starting point and strategy adopted by the Association of Finnish Local and Regional Authorities is completely different than that of the early 1990's.

The Association stresses that the Finnish government and central and local government actors will now have to act together to overcome the recession and to formulate an action plan where obligations and responsibilities are assigned to the central government as well as to the local government to improve the effectiveness of operations.

The starting point must be to secure the availability of basic services and to maintain a high level of investment and modernisation. Local government should promote a policy of moderation in personnel issues and avoid redundancies, but also lay-offs, where possible.

A programme by the Association of Finnish Local and Regional Authorities to ensure local government services:

Starting point

An assessment of the situation of Finnish local authorities in a fast changing local economy, the differences between local authorities and how the current situation compares to the early 1990's recession. An evaluation of those experiences, for instance, as regards access to personnel, and investments.

Measures by central government: Safeguarding the revenue base of local authorities

The central government is to substantially increase transfers to local government already during 2009.

The revenue base of local authorities should be built up by extending their right to a portion of the revenue accrued from vehicle tax and the excise duty on fuels and to the complete revenue from the tax levied on waste. The upper limits of real estate tax should be raised; local authorities should have a right to a portion of capital income tax revenue from natural persons; and local authorities should receive a larger share of corporate tax revenue.

- Special countercyclical measures to support investment and renovation activities by local authorities.
- Relaxation of government control that obstructs the efficiency and performance of municipal operations.
- Necessary amendments to legislation to ensure efficient operations.

Measures by local authorities

- Instant reassessment of municipal budgets and the implementation of necessary measures to balance the budget.
- Personnel policy – to avoid redundancies, stricter control of expenditure.
- Improved productivity and performance, achieved through, for instance, municipal mergers; more efficient co-operation between local authorities, best practices etc.

France

1. The financial crisis has obviously had repercussions for French local authorities.

Certain local authorities, having taken out "toxic" loans, are now confronted with serious difficulties and some of these bodies intend to take legal action, notably against Dexia Bank;

The slowdown in the housing market has resulted in a severe decrease in transfer duties which constitute an important source of income for the municipalities and even more so for the départements;

The economic crisis has led to redundancies and the closure of businesses, seriously affecting local budgets which benefited from their taxes. It will also result in an increase in welfare expenditure for local authorities.

2. Faced with these problems, local authorities have already adjusted their budgets by reducing certain expenditures or by rethinking their investments. Other local authorities, on the other hand, have decided to increase their investments.

3. No specific policy regarding the local authorities is detailed in the government's plans for boosting the economy. Certain associations deplore this lack given the important role that local authorities play in investment. The government has, however, taken two initiatives which affect the local authorities.

1000 investments projects are to be specifically underwritten by the state as part of the plan to reboot the economy, some of which directly concern local authorities;

the government has decided on early repayment of the VAT compensation fund for the local authorities, thus increasing their investments in 2009. Those payments normally made in two years time will be made available from this year, subject to a signed agreement with the Prefecture.

4. In France debate has focused on the prospective suppression of business tax. The President of the Republic has indicated that this tax should disappear in 2010. This tax forms an essential part of the resources of a large majority of local authorities, particularly the municipalites and the intercommunal bodies. This announcement, made without prior consultation and without any indication of compensation to cover the resources lost, has greatly disturbed local politicians and their associations, who have protested against the process.

The French government has undertaken to open the debate with the large national French associations in order to clarify the situation. The local authorities have been particularly shaken up by the announcement, even though each is aware of the necessity to review the handling of this tax.

5. The AFCCRE (French Section of the Council of European Municipalities and Regions) has not yet taken any specific initiatives relating to the present financial and economic crises. It is worth noting, however, that, in the course of forums organised with the aim of discussing European elections and supported by the European Parliament, a large number of delegates have highlighted, with regret, Europe's unwillingness, and particularly that of the European Commission, to address the situation, and the danger of returning to nationalist and protectionist policies.

Germany

1. Has the financial crisis (bank failures, withdrawal of credit facilities etc.) affected your local or regional governments? If so, in what ways?

The financial crisis affects local authorities in Germany in many ways. Local authorities suffer from the depreciation of financial products in which they have invested money and which now proved to be toxic.

Another concern are so called cross border leasing (CBL) activities which are very complicated financial products and may now also cause problems and additional costs originally not foreseen.

As a lot of local authorities rely on credits to finance their budgets they also suffer from rising interest rates for credits. On the other hand the liquidity squeeze on the market makes it difficult for local authorities to get access to credits.

According to newspaper reports German local authorities also were affected by the Lehman Brothers bankruptcy where they had assets which are now lost.

2. Is the economic downturn having a major impact on your local or regional governments? If so, in what ways? Additional demands for services / benefits? Loss of tax or other revenues? Other?

The financial crisis which has in the meantime evolved into an economic crisis again affects local authorities in Germany. The decline in economic output will have a direct impact on the amount of trade tax companies pay to local authorities. The trade tax is one of the main pillars of local government income and is to a certain degree linked to the economic well-being of local companies.

The economic downturn will eventually lead to rising jobless figures and more people depending on social allowances. This also will affect local authorities in Germany as social support for the poor is one of their key responsibilities.

3. Has your association taken any specific actions in relation to either the financial or economic crisis, or both? If so what?

The German government has adopted an economic stimulus package which still needs approval by the Parliament. The package contains several actions one being directly targeted to local authorities: roughly € 10 bn are earmarked for education and infrastructure expenditure at local level.

Greece

1. Has the financial crisis (bank failures, withdrawal of credit facilities etc.) affected your local or regional governments? If so, in what ways?

The economic crisis of the financial system has not affected Greek banks in the same way as the European ones. What can be considered as the main impacts on the Greek local authorities are the lack of cash liquidity, as well as the high cost of money, despite its recent reduction by the Central European Bank.

2. Is the economic downturn having a major impact on your local or regional governments? If so, in what ways? Additional demands for services / benefits? Loss of tax or other revenues? Other?

The main impacts of the global financial and economic crisis on the finance of Greek local authorities are the followings:

- The reduction of local tax revenue, mainly due to the cut back of consumption.
- Difficulties in the cash flow of the grants that come from the Central Government, due to Greece's current financial situation.
- The rise of local deficits, mainly because of the new responsibilities that have been transferred from the Central Government to Local Authorities. We should point out that the cost of these responsibilities should have been covered from the State, according to the Constitution.
- The violation of Central Government's financial obligations towards Local Authorities.

3. Has your association taken any specific actions in relation to either the financial or economic crisis, or both? If so what?

At its last Annual Congress, the Central Union of Municipalities and Communities of Greece (KEDKE) has formed an operational project titled "The contribution of Local Authorities to fighting the financial and economic crisis". KEDKE's operational project that rises up to € 2,300 million, will be co-financed by the EU, national resources, local authorities' own resources and, last but not least, by borrowing. Its main sub-projects are the following:

1. The investment project

Budget: € 1 billion. The project refers to investments made to support local sustainable development

2. The employment project

Budget: € 700 million. The project finances 20,000 jobs, for three years and concerns projects of environmental protection, local infrastructure's maintenance and repair etc. Its main priority is unemployment, as well as local communities characterized by seasonal employment and descending economic and social situation.

3. The operational project regarding municipal transports

This pilot project lasts 14 months (1/1/09–1/3/10) and provides transportation among distant villages and administrative centre.

4. The operational project regarding energy saving by local authorities

Budget: € 300 million. Financing actions by local authorities regarding energy saving

5. Social structures

The project aims at supporting the operation of social structures which address at specific groups that are facing social exclusion.

6. Project studies for small municipalities and communities that are not qualified to certification

The projects aims at financing small municipalities (>5,000) in order to formulate and support specific investment plans.

7. The operational project regarding Local Authorities and its cultural activities

This is a pilot project aiming at helping public libraries become the local cultural development pole.

8. Protected areas (Natura 2000)

The project deals with the management of Natura 2000 areas. It finances actions such as monitoring and local authorities' cooperation with universities and NGOs.

9. Borrowing services

A special project aiming at facilitating Local Authority's access to the financial system

4. Are there any other matters related to the financial and economic crisis, as they affect local and regional governments, that you wish to draw to CEMR's attention? Or are there any ways CEMR could be of assistance in these matters?

CEMR should consider the creation of a European network of local finance experts, which will diffuse information; best practices etc and will provide answer to questions that come from local authorities. In order to establish a better communication among the local authorities in Europe, the operation of a forum is also a considerable idea, by which the members could have free access to a European data base.

Iceland

General overview of the Icelandic situation

The whole community of Iceland is severely affected by the financial crisis. The crisis is though hitting the Reykjavik area harder than other parts of the country which have not benefited as much from the economic growth of recent years.

Inflation is 19 % and after a long-period of having one of the lowest unemployment rate in Europe, unemployment in Iceland has risen from 1.3 % in September to 4,8 % in December (7 % in January) and is expected to rise considerably in the next few months. The general government's net debt is expected to rise from around 7-8 % of GDP in 2007 to over 70 % by the end of 2009.

Many Icelandic companies are considered to be on the verge of bankruptcy because of the crisis. The recession and the increase in unemployment have also resulted in many households facing considerably reduced income and this will of course affect the revenues of local authorities. Pension funds, individuals and municipalities have lost investments and savings. The devaluation of the krona and the resulting increase in inflation has already had a serious effect on the economy of many homes, businesses and local governments since their debts are either tied to exchange rate or cost-of-living indexes (CPI).

The new national banks, that replaced the three largest commercial banks that collapsed, have had difficulties in fully taking over the roles of the failed banks as their access to credit is very limited and transactions with banks outside Iceland are still problematic.

Multilateral assistance from the International Monetary Fund (IMF) is playing an important role in creating a platform for the restructuring of Iceland's economy. Among the key challenges ahead are preventing sharp depreciation of the Icelandic krona, implementing a comprehensive and collaborative strategy for bank restructuring, and ensuring fiscal sustainability.

The foundation of Iceland's economy is considered to be strong despite the current economic crisis. Iceland's clean energy, its marine resources, strong infrastructure and well-educated workforce, will provide a good basis to overcome the current economic difficulties and implement necessary reforms. It is however evident that the recovery will take some years and the fear is that young and well educated people will leave the country and not return. As a result of public anger and demonstrations a new government was formed in February and general elections will be held on 28 April.

Answers to CEMR 's questions

1. Has the financial crisis (bank failures, withdrawal of credit facilities etc.) affected your local or regional governments? If so, in what ways?

The devaluation of the Icelandic krona (ISK) and high inflation have caused rising financing costs for the municipalities. Loans in international currency have risen by almost 100 %. Leasing contracts for municipal property and equipment are often tied to the value of international currencies which has resulted in higher payments. Access to new loans is greatly reduced and lending terms are in general very unfavourable in the short term, base interest rates are 18 % which is the highest after the Central bank became independent. Some municipalities also lost considerable amounts in money market funds due to the failure of the banks.

2. Is the economic downturn having a major impact on your local or regional governments? If so, in what ways? Additional demands for services / benefits? Loss of tax or other revenues? Other?

Tax revenue will fall considerably from previous years. Local income tax is expected to fall by 7 % in 2009 and it is forecast that local property tax will fall considerably in 2010 as property markets are practically frozen and market value is very likely to fall.

The Local Equalisation Fund (LEF) receives a fixed proportion of Government tax revenue, which is expected to fall by 12–15 % in real terms (i.e. adjusted for inflation). This will mainly affect rural municipalities, which are dependent on contributions from the LEF. A special contribution for municipalities in financial difficulties will also be lower in 2009 than in previous years.

Based on preliminary financial statements from the municipalities for 2008 and their budgets for 2009, we expect their total income to fall from 169 billion ISK to 161 billion ISK.

Due to unfavourable economic conditions and high debt levels of companies and households it is foreseen that tax collection will become more difficult. This development, which started in late 2008, will affect municipalities' cash flow to some extent.

Many new housing projects are either unfinished or vacant which may cause new challenges for municipalities. Many municipalities' income has also been adversely affected by the fact that many individuals and developers have returned building sites they bought from municipalities and according to laws and regulations the municipalities are obliged to repay the purchase price with the addition of cost-of-living indexes. Total outflow from municipalities due to this was more than 10 billion ISK in 2008.

Many municipalities expect higher expenditure in social benefits and more demand for social housing or housing benefits due to high unemployment and financial difficulties of many households.

3. Has your association taken any specific actions in relation to either the financial or economic crisis, or both? If so what?

The Association struck an agreement with the Minister of Municipal Affairs in early October to increase coordination during the crisis. There was a crisis meeting in mid-October with all the municipalities and a two day conference in November to discuss reaction and fiscal planning during the crisis.

The Association has initiated monthly gathering of financial information from municipalities, in cooperation with the Ministry of Communications and Municipal Affairs and Statistics Iceland. We have requested to become a direct participant in economic planning with the central government and have received good reaction from the Prime Ministry's economic department. The Association had a meeting with an IMF delegation in January to discuss how the municipalities should react and be more involved in economic planning.

The Association has issued guidance to the municipalities on how to define basic welfare services in order to assist them to prioritize. It has also published a newsletter to the municipalities about the financial aspects of the crisis.

The Association is participating in numerous cross-sectoral working groups that have been established by the various ministries to address the difficult tasks the crisis has brought about. In fact a kind of new public sub-system has been established with the participation of NGOs.

The Association has established a database on its homepage about the reactions of the various municipalities to the crisis. The municipalities which have been most severely hit have made emergency plans, especially in the social sector. Many have established special taskforces to address the situation and sought cooperation with state agencies and voluntary organisations.

The Association has taken steps to establish cooperation with regional development agencies in order to facilitate coordination and spread of best practices on how to create new jobs. The country has not for a long time experienced unemployment of this scale so there is lack of knowledge about how to address the issue. Regional development aid, unemployment insurances and agencies are the responsibility of the state while the municipalities are responsible for basic social assistance. It is evident that the situation calls for a more active involvement of the municipalities in these fields and more cooperation and coordination between the state and the municipalities. The difficult financial situation of the municipalities will of course be an obstacle to this.

4. Are there any other matters related to the financial and economic crisis, as they affect local and regional governments, that you wish to draw to CEMR's attention? Or are there any ways CEMR could be of assistance in these matters?

The agreement with IMF concerning the municipalities was negotiated and completed without consulting the municipalities. We believe this was a serious mistake by the Central Government as the agreement will definitely affect the municipalities. However, the municipalities will participate in the execution of the agreement in a responsible manner. The municipalities have shown this intent in their operating plans for the year 2009. The local authorities have shown great responsibility and reacted swiftly to meet the current crisis. Their budgets show their determination to cut costs but giving priority to prime services, such as education and social welfare while less important projects are postponed.

However, local authorities believe it is essential to increase consultation and trust between the central government and local authorities in economic matters. The crisis may in fact provide an opportunity to achieve these goals. The Association is also aware of the need to develop financial goals or rules for the local authorities. According to the Local Government Act the municipalities should not operate with deficit. Further rules and targets should however be developed but detailed discussions with the central government have not yielded results.

Consultations between central and local government must become more regular to ensure that local authorities' finances are in line with the overall fiscal policy of the government. Flexible goals should be set for the years 2010, 2011 and 2012, which local authorities must collectively strive to meet.

Great consideration must also be taken to ensure that the two levels of government both receive a fair share of costs and revenue. Rules regarding the calculation of costs of new legislation and regulation should be revised and become part of the legal framework governing relations between the central and local government, according to the Local Government Act. The Association is optimistic that discussions with the Prime Ministry and the IMF will help to resolve the above matters and strengthen cooperation between central and local government.

It remains to be seen what effect the crisis will have on the structure of the local level, whether it will be a catalyst for municipal amalgamation and what the effect will be on the division of tasks between the state and the local level. The optimists see the crisis as an opportunity to create a more efficient, more integrated and more ethical public sector.

Italy

1. Has the financial crisis (bank failures, withdrawal of credit facilities etc.) affected your local or regional governments? If so, in what ways?

In Italy there have no been bank failures as has been the case in other states, although certain banking groups have had to carry out recapitalisation programmes in order to reinforce their financial foundations, in particular regarding accumulated debts. The situation is not perfect, of course, especially for those banks that have not resorted to recapitalisation; at the end of the financial year 2008 these banks are faced with a considerable decrease in the dividends they are able to pay to their shareholders. At present, however, the banks have received no direct injection of funds from the State.

2. Is the economic downturn having a major impact on your local or regional governments? If so, in what ways? Additional demands for services / benefits? Loss of tax or other revenues? Other?

The effects of the economic recession have started to be felt at the local rather than the regional level. The demand for social services has increased, especially at the local level, to which the citizens feel closest; this increase derives particularly from those needing financial aid in order to pay for basic services such as electricity, gas, rent, schooling, etc.

3. Has your association taken any specific actions in relation to either the financial or economic crisis, or both? If so what?

The AICCRE – the Italian Section of the Council of European Municipalities and Regions – has always played a role, via documents and campaigns relating to local and regional authorities, in numerous areas; the implementation of supportive fiscal federalism, the policies of structural investment by the municipalities in the fields of the environment and of energy efficiency, as well as actions against any form of social marginalisation and the support of administrative simplification.

4. Are there any other matters related to the financial and economic crisis, as they affect local and regional governments, that you wish to draw to CEMR's attention? Or are there any ways CEMR could be of assistance in these matters?

CEMR should insist primarily on the following:

- the opposition to banking and financial speculation, ever present in periods of recession, taking into account the difficulty many families and businesses have in obtaining credit;
- the exemption, for a limited period, of local authorities from the strictures of the economic stability pact, in order to give them the time to improve their investments;
- the promotion of administrative simplification in the member states and especially in the European institutions. The latter should, given the current situation, show themselves to be more attentive to the problems of the citizens;
- the understanding that the current crisis can only be resolved by the member states standing together, and that individual efforts will be ineffectual in boosting the economy and making it stable;
- the development and implementation of savings programmes and the rationalisation of expenditure within the European institutions. This would send a strong signal to the institutions that they are implicated in the economic and financial difficulties currently affecting the citizens of Europe. The savings thus realised could be used to aid the "Active and Responsible Citizenship" programme.

Latvia

1. Has the financial crisis (bank failures, withdrawal of credit facilities etc.) affected your local or regional governments? If so, in what ways?

The financial crisis influenced Latvian local and regional governments indirectly. The main effects could be divided into four stages:

- End of 2007 was characterised by fast inflation, which partly was a result of problems with speculation on the real estate market, partly with the measures of economic "cooling", proposed by the Bank of Latvia (Central Bank) and implemented in cooperation with central government.
- Taking into account the abovementioned aspects and the global financial crisis, we could start to observe slowdown of economic activities and reduction of local government revenues. Therefore, instead of +13 % planned increase for 2009 of local government own revenues in November 2008 the law on state budget in 2009 provided for 9 % own revenues of local governments. That prognosis was not realistic and was accepted for political purposes.

2008 can be characterized by the highest inflation in EU and a further slowdown of economics. In December 2008 the ministry of Finance had to review the prognosis according to the real situation. Own-income prognosis of local authorities was reduced (compared to 2008) by 16 %, which concerns also all autonomous public functions of local and regional governments. Approximately the same reduction was applied for state earmarked grants for local governments.

- End of 2008 has been marked by the influence of the breakdown of international capital market. In Latvia it led to the purchase by the state of a (controlling) block of shares of one of the bank sector leaders, the "Parex bank". After decision of purchase by the state, the investment of state money to save the bank was more than € 1 billion during two months. That is only beginning. For that purpose and other stabilization measures Latvia asked support from IMF, EU and other organizations of approximately € 7 billion.

At the same time, the central government prepared a law on the reduction of public sector remuneration fund during 2009 by 15 %, excluding from that reduction teachers and persons with salaries below 2 minimal salaries (below 360 LVL/ 512 EUR).

However in practice, February financial reports reveal the reduction of remuneration fund by 19 %.

- After first monitoring of national fiscal policy results (2nd IMF mission), the prognosis was changed again. Now the prognosis for next reduction of own incomes is approximately 23 % (compared to 2008). Taking into account real inflation of 9 % (February, 2009) it implies a decrease of self-governments expenditure at least by 31.2 %.

2. Is the economic downturn having a major impact on your local or regional governments? If so, in what ways? Additional demands for services / benefits? Loss of tax or other revenues? Other?

It is not simple to detach the economic downturn from results of central government activities. Deeper analysis is necessary in this respect than provided in the previous answer.

Loss of tax and other revenues was described in the previous answer.

Additional demands, concerning local governments are:

1. To compensate absence of state grant for preschool teachers salaries. The Ministry of Education and Science stopped the grant for those salaries in order to decrease the overall salaries for civil servants of the ministry. That means additional financial burden for local authorities: of 23 million LVL or 2 % of total local government expenditure. In addition, the target grant for municipal roads and streets has been substantially decreased;
2. there is decrease of payments for heating, hot water, water supply, waste management by the inhabitants, this leads to increase of demand for local government subsidies for communal payments;
3. the increase of local government expenses for all kinds of public utilities, after increase of state taxes (e.g. VAT from 18 % to 21 %).

3. Has your association taken any specific actions in relation to either the financial or economic crisis, or both? If so what?

The Council of the association approved on 4 February a resolution concerning the necessary measures during economic crisis. This resolution is addressed to the national government and the national parliament. The main content consists of:

1. Introduction of an extraordinary law on the "Status of legal norms concerning self governments during economic crisis", which shall change imperative norms to optional.
2. Stabilization measures for local and regional government budgets in order to ensure at least a minimal provision of self government public services.
3. Ensuring of financial resources for a decentralised procurement of works for local infrastructure in order to facilitate the recovery of the internal market.

The draft law was proposed to national government on 17 February.

As a main stabilization measure a state guarantee was proposed for 90 % of planned personal income tax revenues for local authorities.

As the main internal market stabilization measures, grants were proposed from the state budget of 100 million LVL (€ 143 million) per year for energy performance investments and 100 million LVL per year for local roads and streets.

4. Are there any other matters related to the financial and economic crisis, as they affect local and regional governments, that you wish to draw to CEMR's attention? Or are there any ways CEMR could be of assistance in these matters?

CEMR could support the idea of facilitation of internal market by decentralized procurements of works for local infrastructure.

CEMR should urge the Commission to draw up and submit to the Council of ministers of the European Union, a draft directive "On changes to Community rules in situation of economic crisis", thereby providing a single document for all Member States, in a form readily understood by and accessible to the public and all public servants,

enabling amendments to be made to particular provisions in directives, regulations and other legislative texts, with a view of giving Member States greater autonomy and responsibility for managing the problems related to the crisis on their territories;

suspending particular provisions that would restrict Member States' capacity to act in accordance with the law in situations of significant budgetary restrictions;

change the status of particular directives, regulations and other legislative texts, replacing binding provisions with recommendations that Member States would comply with in so far as the existing financing allowed.

(Explanation: If we wish the rule of law to be respected in situations of financial crisis, responsibilities need to be devolved and a certain number of Community legislative provisions maintained in the form of recommendations, rather than as binding rules. In order to overcome the consequences of the current crisis within the European Union, Member States need to be empowered as far as possible to react flexibly to local conditions, by meeting primary needs and reducing their activities in areas that are less vital for the population. This would allow the Member States to become involved as rapidly as possible in the process of improving the economic and social situation in each country and in the EU as a whole.)

Lithuania

1. Has the financial crisis (bank failures, withdrawal of credit facilities etc.) affected your local or regional governments? If so, in what ways?

The impact of the financial crisis can be felt in Lithuania, although until now its effect on the local governments is merely of indirect nature. Until now no Lithuanian bank went bankrupt or faced significant withdrawal difficulties. An absolute majority (if not all) Lithuanian municipalities have their accounts in Lithuanian banks (or banks registered in Lithuania), therefore they are not affected by the bank liquidity crisis. The financial issue of more urgent importance is the credit crisis, as the interest rates for credits in Lithuanian Litas (LTL) have increased significantly, thus making borrowing highly expensive.

2. Is the economic downturn having a major impact on your local or regional governments? If so, in what ways? Additional demands for services / benefits? Loss of tax or other revenues? Other?

The economic downturn has the impact on Lithuanian local authorities. The main impacts are felt as the decrease of tax revenues and increased unemployment. Although the payment of unemployment benefits is not an issue of municipal competence, the municipalities feel increased demand for other types of social services they are providing.

3. Has your association taken any specific actions in relation to either the financial or economic crisis, or both? If so, what?

The Association of Local Authorities in Lithuania encompasses Municipal Finance and Economy Committee as an advisory body, dealing with the financial issues of the importance for the municipalities. During past several months the Committee has convened several times, discussing the effect of the financial crisis. The issues of the financial crisis and economic downturn were also among the top issues discussed in recent meetings of the Board and the Council of the Association (January 2009). The Council has adopted a set of measures and addressed to the national government with the request to assist in solving the issues of balancing the municipal budgets (according to the law, the municipal budget cannot be in deficit). The proposed measures include amendments in the budgetary methodology, balancing of financial flows, decreased limitations on municipal loans, adequate financing of state functions transferred to the municipalities, reduced required municipal co-financing rate for the EU-funded projects.

The government has positively assessed this request and currently the respective measures are being developed by respective ministries.

4. Are there any other matters related to the financial and economic crisis, as they affect local and regional governments, that you wish to draw to CEMR's attention? Or are there any ways CEMR could be of assistance in these matters?

CEMR is making positive steps in implementing such surveys across Europe, and in our opinion, Europe-wide sharing of practice would be the foremost job CEMR could implement. Other issue, we would like to attract the CEMR attention to, is the cooperation between national, regional (if such exist) and local authorities in searching for the way out of the financial crisis and economic downturn. We think that a balanced representation of interests and a search for common solutions is a key reason for success in a single country, while Europe-wide consultations and timely sharing of best practice would do the respective job on the Union level. We would also like to propose to you to address the EU institutions with the request to develop European level measures, aimed at the stimulation of supply and job creation, especially in less favourable regions of the European Union.

Luxembourg

The position of the Association of Towns and Municipalities of Luxembourg (SYVICOL)

At the beginning of 2009 no one can deny the impact of the worldwide economic slowdown on Luxembourg. The government has undertaken a proactive policy of counteracting, wherever possible, the negative effects of the crisis: with the adoption of a state budget characterised by sustained public investment, with a call to lenders to facilitate credit availability to companies and individuals, and with the early implementation of certain projects originally planned for the medium term.

Given the important role that it plays in the Luxembourg economy, particularly as a client of small and medium commercial and creative businesses, the local sector must align its policies with that of central government so that government action as a whole remains coherent and that its effectiveness is maximized.

At present, the government has not yet replied to a letter addressed to the Minister of the Interior and of Land Management, dated 2nd December 2008, in which SYVICOL proposed a joint initiative at all levels of government to counteract the effects of the crisis. The Board of Finance concerned with the local level, which only meets sporadically and has not sat since November 2007, could constitute an appropriate platform for considering and developing ideas for a contribution from the local sector to this effect. Equally, from SYVICOL's point of view, the government should have envisaged representation from the local level at the tripartite co-ordination committee's debates, concerning an analysis of the country's economic and financial position.

SYVICOL welcomes the opportunity given to it by the special commission "economic and financial crisis" of the Chamber of Deputies to present its propositions.

1. Pursuing a policy of sustained investment at the local level

The investment policy of the municipalities in 2009 should essentially revolve around the following:

- an effective implementation of investment projects earmarked for 2009 (as opposed to an austerity policy which would potentially aggravate the economic situation);
- the early implementation of projects planned for the medium term (in particular maintenance and modernisation projects) so as to maintain small business and commercial enterprises and ensure their sustainability.

These principles meet with the requirements of the Chamber of Works which, after consulting with SYVICOL, wrote to all the municipalities on 3rd December 2008 requesting that they follow a resolutely counter-cyclical investment policy in order to prevent a potentially serious fall in the activities of small businesses for which the economic situation poses a real threat.

It must be underlined, however, that there is no question of encouraging the municipalities to ignore the long-term consequences of decisions made in 2009. Nor is there any question of inciting them to put in peril the stability of future budgets as a result of policies of uncontrolled spending or by the initiation of unnecessary investment projects which would place a long-term burden on municipal budgets. Moreover, it is important to subject proposed projects or those in the planning stage to an analysis based on their potential for sustained development, in order to maximise the benefits for future generations.

2. Expedition / reduction of state bureaucracy

The expedition and indeed the reduction of state bureaucracy is an ever-present hope of municipal bodies. In the last few years new legal conditions and procedures have considerably increased the amount of red tape with which the municipalities must contend before initiating the implementation of their projects. To this burden is added the sluggishness with which the relevant state bodies process the necessary documentation. More discipline is needed on the part of the state in order to reduce these delays and thus aid the speedy realisation of municipal projects and help re-energise the construction sector.

In the short term, the following measures could significantly speed up and reduce bureaucracy:

State subsidies

At the end of 2007 SYVICOL asked its members to evaluate the efficiency of state administrative procedures. The survey revealed evidence of inexplicably long delays between the submission of documents by the municipalities and their final approval by the supervisory authority. The rapid passage of a dossier appeared to be the exception rather than the rule.

SYVICOL could, together with the government, put together a list of those municipal projects requiring state subsidies which could be fast-tracked. This approach assumes that the government will instruct the relevant departments to give priority treatment to a certain number of dossiers already in the final stages of the procedure and thus susceptible to early completion. Also, rather than spreading subsidy payments to the municipalities over a period of 10 years, they could be paid as soon as the relevant sum is agreed upon and approved. Generally, the Government should expedite the processing of applications for subsidies, to give municipalities greater budgetary predictability.

Public procurement

Article 156 of the Grand Ducal Regulation of 7th July 2003, implementing the Law of 30th June 2003 on public procurement and amending the threshold laid down in Article 106 paragraph 10 of the municipal law of 13th December 1988, provides for an approval process by the municipal council and the government in two stages – at the pre-project stage and at the final draft stage of the project. The text does not specifically imply that government approval is required at each stage. In the interests of simplifying and expediting the process, the government could abandon its interpretation, under which dual approval is required, and approve the initial and final drafts of the project at the same time.

Adoption of a particular development project (Projet d'aménagement particulier – PAP)

As stated by the Minister of the Interior and of Land Management in reply to a parliamentary question tabled by MP Fernand Etgen, 432 PAPs have been proposed since the entry into force of the amended law of 19th July 2004 on municipal planning and urban development. According to the minister himself, the time allowed by law - the minister has three months to give his decision on the PAP - has not been respected for 235 of these cases. SYVICOL considers that this non-adherence to the time period, which the government has itself imposed, is unfortunate and inconsistent with the image of an efficient public administration. If these delays are due to its services being overburdened, the government should take immediate steps to strengthen the relevant departments. Finally, it proposes that, within the framework of the afore-mentioned law, Article 30 be modified such that, in the absence of ministerial approval within three months of receipt of the full dossier, the PAP can automatically be submitted to municipal council vote by the college of mayors and aldermen.

Procedures relating to listed buildings (commodo/incommodo)

These remarks are also valid regarding procedures relating to listed buildings, where the time for a dossier to be approved is often excessively long. If an internal re-organisation of work practices in the relevant departments does not reduce these delays, the government should recruit additional personnel.

3. Increasing the financial flexibility of the municipalities

SYVICOL has two proposals designed to increase the financial flexibility of the municipalities by freeing up additional revenue which can then be invested in new projects, according to the principles already mentioned:

- extension of repayment periods for loans taken out by the municipalities (for example, from 20 to 25 years);
- authorization for municipalities to sign contracts for fixed rate borrowing

4. Reform of municipal finances

SYVICOL has been campaigning for years for a reform of municipal finance systems. This issue will inevitably be at the top of the agenda again as the municipalities start to feel the effects of the financial and economic crisis. It must not be forgotten, of course, that the effects of the economic slowdown on municipal revenue will take time to be felt.

A third of municipal revenue comes from municipal business tax (l'impôt commercial communal – ICC). Depending as it does on the profits of the companies, this tax is therefore particularly sensitive to changing conditions. It follows that municipal income is likely to undergo a major shift in 2009 or even beyond, if the ministerial circular No. 2751 of 16th December 2008 is to be believed. In 2004 SYVICOL submitted to the Minister of the Interior and of Land Management "Proposals for the reform of municipal finance systems", a document in which particular attention was drawn to the large fluctuation in revenue from the ICC, and which proposed a plan designed to give greater stability and predictability to municipal revenue. In essence, the plan proposed the reduction of ICC income as a proportion of municipal income and that the resulting shortfall be made up by a larger share in state revenue. This idea was incorporated into the government programme of 4th August 2004 as follows: "Municipal finances will be reorganized once the municipality of the 21st century and its role in the state have been defined. They will take into account the basic tasks to be performed by municipalities and revenue will be linked more closely to state revenues so that a part of the income of municipalities can develop in parallel to the revenues of the State." It must be noted that these statements of intent have not been fulfilled and that no reform proposal based on this principle has been tabled by the government.

SYVICOL also calls for a change in fund allocation to the municipalities. The level of funding from state taxes has remained unchanged since 1967, while the tasks of municipalities have continued to expand. Finally, the fundamental reform of property taxes, partially initiated in the "housing pact" remains a SYVICOL demand.

5. Increasing the productivity of municipal administrations

Promotion of overall quality management

An efficient municipal administration, responding rapidly to the citizens' needs, is a key element in the national strategy to contain the crisis. SYVICOL has recently taken an interest in the CAF initiative (Cadre d'auto-évaluation des fonctions publiques – a framework for self-evaluation of public functions). CAF is a tool of European management designed to address the overall question of quality within public administrations. Its declared aim is to stimulate and support administrations in their efforts to improve, with particular attention paid to the satisfaction of the beneficiaries of services and those affected by the quality of services and their implementation. Successfully used by some state departments and administrations, SYVICOL intends to promote the use of this model among its members.

Reducing administrative supervision by the State

It must be pointed out that a major obstacle to greater efficiency in municipal administration is the burden of state administrative supervision on the municipalities of Luxembourg. This was the issue unanimously identified by local elected officials in the discussions that SYVICOL had with its members prior to elaborating its position on the territorial reorganization of Luxembourg.

This is not just the subjective opinion of municipal officials; the view is shared by the Congress of Local and Regional Authorities of Europe (CLRAE). In its recommendation 172 on local democracy in Luxembourg, adopted in 2005, the Congress states in paragraph (vi) "that the number of actions subject to approval by the State is hardly compatible with Article 8 paragraph 3 [of the European Charter of Local Self Government], which requires a balance to be made between the level of state control and the interests to be preserved; and that the submission for prior approval of relatively modest actions seems to imply a disproportion between the severity of this mode of control and the public interests which may thereby suffer." CLRAE recommends that "the Luxembourg authorities modernise the laws concerning local authority control in order to limit the supervision to a posteriori for strictly legal reasons." Therefore, SYVICOL asks the Government to respond to this appeal and adapt procedures for supervision in accordance with the European Charter of Local Self-Government.

Finally, SYVICOL endorses the proposals of the Special Commission "territorial reorganization of Luxembourg", which, in its report of 19th June 2008, p. 61 suggests "the elimination of the double degree of control exercised by the District Commissions and the Department of the Interior. To this end, state control should be reorganized through consolidation of certain departments of the Ministry of Interior with the district police stations."

6. Publication of sectoral master plan "areas of economic activities"

The ability to establish themselves in areas of economic activity is for many companies a condition sine qua non for their expansion. Uncertainties due to the delayed publication of the sectoral master plan "areas of economic activities" constitute an obstacle to the development of certain companies. The government should make every effort to ensure that the sectoral plan in question is published without delay.

7. Beyond the economic role: the municipalities as guarantors of social cohesion

In times of crisis, the municipalities are called upon more than ever to fully participate in promoting social cohesion. The proposed adoption by the Chamber of Deputies of the draft law organizing social welfare, will enhance the role of municipalities in providing assistance to those in need. The initiatives taken by certain municipalities in aiding the unemployed to find work should be maintained and even extended where necessary. Particular emphasis should be put on the integration of the foreign population, who risk being the hardest hit by the deterioration in the economic situation since, compared with the native population, they occupy far fewer secure jobs in the public and state sectors.

On a general level, it is important that the municipalities continue to initiate projects and activities in the areas of sport, culture and leisure, which unite the citizens, promote interaction and ensure social cohesion. While not putting into question the principle of cost recovery in certain well-defined areas, municipalities should nonetheless refrain from imposing non-essential tax increases, and thus contribute to maintaining the purchasing power of citizens.

SYVICOL welcomes the efforts of the Special Committee "economic and financial crisis" to mobilise all those concerned to develop a common response to the challenge posed by the current economic situation. Fully aware of the importance of the contribution of the municipal sector, it stands ready to help the municipalities join forces with the state and thus trigger the necessary mechanisms to stimulate the economy.

Netherlands

Dutch municipalities have been affected by the financial crisis. Fourteen municipalities owned deposits in Icelandic banks, with a total value of € 85 million. In the meantime, a small sum has been salvaged, while municipalities have started procedures to receive a larger share. The financial crisis has furthermore reduced the possibility of municipalities to borrow money. Access to the capital market is not an immediate problem, though rates have risen, making borrowing more expensive.

In the past months the Netherlands Association of Municipalities (VNG in the last three months) has acted to counter the consequences of the financial crisis. This contribution will present an overview of the activities of the VNG versus its members.

December 2008

VNG has informed its members on the possible consequences of the financial crisis for the municipal budgets. These entail:

- Rising unemployment and social benefits
- Lower profits from sale of land
- Lower dividend on share holdings
- Lower tax revenues on building activities
- Higher expenses on culture and sport benefits in anticipation of lower contributions from private sponsorship

The response of the national government has so far been unclear, leaving the possibility of cuts on the national level, in turn affecting the income for municipalities

January 2009

VNG has informed its members on the possibilities to cushion the consequences of the financial crisis for its citizens and companies:

Municipalities could advance planned investments from 2010 and 2011. These 'shovel ready' projects comprise replacement of sewage systems, roads, maintenance of municipal buildings (mostly schools). These investments on local level show results much more quickly than investments on national level. A municipality can start with the replacement of the roof of a school building faster than the national government could build a new railroad.

On top of direct investments the municipalities can also stimulate private investments through subsidies or cutting fees citizens and companies have to pay. The wide arrays of possible measures include lowering fees for permits and local taxes. Another possibility would be to introduce 'tax holidays' for certain areas or start-ups, or extending opening hours for retail businesses. Finally, municipalities could speed-up the payment of their own bills.

February 2009

The national government has requested VNG to draw up a list of possible investments which could be advanced. A quick scan revealed projects with a total value of more than € 2 bn. Important recurring investments are:

Public lighting

In the Netherlands an aging public lighting structure nears the end of its current life cycle. Normally these structures would be replaced between 2012 and 2020, but municipalities could advance these investments. This would also enable cities to meet the climate goals that require local and regional governments to decrease their energy use by 30 % in 2015. Current technology makes it possible to achieve this, while innovation will raise this number after 2015.

Public lighting has a short procurement cycle. Investments could reach producers, pipe fitters, energy companies and retail within a matter of months. On top of that 95 % of the investments would involve national companies. A go ahead for those projects in April/May could mean investments start flowing to the companies from the summer, both forming a so-called anti-cyclical business cycle policy and contributing to climate policy.

Energy performance of public buildings

Many investments deal with energy performance measures concerning municipal buildings, school buildings and foundations that are (for a large part) funded by municipalities

Energy performance of private buildings

On top of their public building stock municipalities encourage owners of private buildings to take measures. In the well-organized sector of social housing raising the energy performance of their building stock is relatively easy and efficient.

Energy efficiency has been at the heart of national climate and energy policy, but could serve as a strong instrument in dealing with the financial crisis as well. The construction sector and related sectors consist of many small and medium enterprises and investments will boost their employment. Furthermore energy efficiency will lower the energy costs raising the monthly income of the tenants and owners of buildings.

Renovation of national and local monuments

Renovation of monuments in the Netherlands still faces a shortfall. Ramping up renovation efforts could keep up employment levels.

Norway

1. Has the financial crisis (bank failures, withdrawal of credit facilities etc.) affected your local or regional governments? If so, in what ways?

In Norway, we have two banks directly oriented against the local government sector (municipalities and counties), *Kommunalbanken* and *Kommunekreditt*. The owner and founder of the latter bank has got funding problems due to the financial crisis, and *Kommunekreditt* has stopped offering new loans to the sector. The effect for the sector has so far been mitigated due to injection of extra equity capital in the other bank (*Kommunalbanken*, which is 100 % owned by central government, and with the same credit rating as the central government), enabling it to increase its lending to the sector.

Another effect was increased interest rates last autumn due to the crisis.

2. Is the economic downturn having a major impact on your local or regional governments? If so, in what ways? Additional demands for services / benefits? Loss of tax or other revenues? Other?

The local government sector had securities (stocks, bonds, etc) for some 50 bn Norwegian kroner (€ 6 billion, or approximately 16 % of the sector's annual income) at the start of 2008. It's estimated its value has been reduced by 7 bn kr due to the downturn in the markets. However, most of these assets are treated as "anleggsmidler", i.e. assets held for long term, strategic reasons. Only a small portion is "omløpsmidler", i.e. assets held as pure financial positions. Only such assets should be "marked to market" value in the local government's accounts. We estimate the accounted loss to be 2–2½ bn kr (less than 1 % of annual income). However, for some municipalities the losses are big, and will influence their spending this year. Six municipalities have experienced particularly large losses (in late 2007, early 2008), due to leveraged investments in structured products in the US.

Local governments are also affected due to loss on securities by their pension providers (be it private companies or their own pension entities). In Norway, the accrued pension obligations in the local government sector are fully funded. The size and specific consequences of these losses are not yet known; however, it certainly will make pension funding more expensive this year than in previous years.

As a consequence of the downturn, the central bank has reduced its interest rates by some 2½ percentage points compared to last year's average, and more may come this week. Most, but not all local government credit has floating rates. We assume that 1 percentage point lower interest rates reduces the sector's net borrowing costs by ¾ bn kr. Hence, lower rates may reduce net borrowing costs by some 2 bn kr this year (approx. 0.7 % of annual income).

The downturn will certainly reduce taxes compared to the Government's assumption in their last budget, which seemed to be based on information only up to early September last year. However, at the same time the cost increases for the sector will be lower. More on this below.

Unemployment in Norway is expected to increase from an average of 2½ % of the labour force last year, to 3½ % this year and 4–4½ % in 2010. We estimate that this in the end may increase local government's outlays on social welfare provisions (not unemployment benefits) by 1.2 bn kr (approx. 0.4 % of annual income).

3. Has your association taken any specific actions in relation to either the financial or economic crisis, or both? If so what?

Last autumn, we concluded that if the Ministry of Finance overrated the local government tax income as they "normally" do in severe economic downturns, the revenue on local government income tax in 2009 could be 2 bn kr lower than estimated in the government's proposed budget. This made us send a letter to the Standing Committee for Finance in the Storting (the parliament), where we asked for an increase in local government tax rates (and a corresponding reduction in the central government's rate), just to secure the tax income levels for local governments this year. The initiative resulted in a promise from the Government to guarantee the income level for the local sector for 2009.

One week ago the government presented a fiscal package for stimulating the economy. Among one of its elements was a 2 bn kr increase in transfers to local governments, to compensate for assumed tax loss, according to the Government's revised economic forecasts. However, since part of the reason for lower tax income is lower growth in wages, also the estimated costs on the local government activities were reduced, by 0.8 bn kr. Hence, the net effect is a 1.2 bn kr increase in transfers (approx. 0.4 % of annual income).

Before the "stimulation package" was presented, we had been asked by the Government to give proposals for its content, and we were pleased to notice that the package also included many other elements regarding the local government sector. Among them, a 4 bn kr transfer (1.3 % of annual income) directed to increase extraordinary maintenance and "small scale investments" in the sector, in order to stimulate the construction sector in Norway, and at the same time improve the quality of the local sector's capital stock, and a 2 bn kr increase in "free" (not earmarked) transfers, making it possible for the sector to utilize other investment stimulating elements in the package.

Some of the losses of municipalities mentioned above are assumed to be a consequence of an improper financial practice. As a consequence, KS has during the last year worked out a manual ("*finansveileder*") for good financial practice in local governments.

Portugal

The National Association of Portuguese Municipalities (ANMP) acknowledges receipt of your letter and applauds your initiative to try and outline and to measure the impact of the crisis in our towns and municipalities and also – most importantly – above all else for our citizens.

In this context of a shake-up of the status quo of the world as we know it, the Local Authority is now the spokesperson closest to the needs and expectations of the people, of our citizens.

It seems obvious, therefore, that the Council of European Municipalities and Regions (CEMR) should be in the forefront of the debate and act as the direct contact between local and regional authorities and the European Commission and, in this context, promote the political dialogue needed to provide the concrete answers required for the future.

In our opinion, the political core of CEMR must, immediately, take the lead in this process and ensure that there will be precise and concrete answers necessary to safeguard our independence and counteract the negative impact of the crisis in our country at the local and regional levels. The Meeting of of the Secretaries General in Prague next February represents, therefore, a key opportunity for a debate on the consequences of the crisis and for discussion as to the future of the local and regional authorities in Europe. We ask you to establish a political dialogue and an institutional policy which will enable us to advance in the struggle against the current economic and financial crisis.

In addition, the General Assembly in Malmö should address the current situation, taking a different approach to the precarious position in which we find ourselves, at all levels, today.

1. Has the financial crisis (bank failures, withdrawal of credit facilities etc.) affected your local or regional governments? If so, in what ways?

Yes, the financial crisis has affected the Portuguese municipalities, particularly as regards the following:

- the increase in new loans;
- the increase in the number of unemployed, in every region, linked with the growing pressure on the municipalities to create new jobs;
- the closure of businesses.

2. Is the economic downturn having a major impact on your local or regional governments? If so, in what ways? Additional demands for services / benefits? Loss of tax or other revenues? Other?

The economic recession has had a serious impact on the Portuguese municipalities, particularly in the following areas:

- in the social services field the increase in aid applications, even in areas which are outside the municipal jurisdiction, especially from low-income families, the elderly and the unemployed;
- the reduction in revenue from the municipal tax on transfer of assets, as a result of the slump in the housing market;

- the reduction of income from license fees due to the decline in economic activity;
- the reduction in the Municipal Contribution (additional to the business tax, also a source of municipal revenue).

3. Has your association taken any specific actions in relation to either the financial or economic crisis, or both? If so what?

The measures to be adopted include:

- aiding the municipalities to meet with economic agents with the aim of identifying problem areas and implementing proposed solutions.
- voluntary measures to reduce revenue of € 555 million, including: tax relief for those paying municipal housing tax; a reduction in the Municipal Contribution; a refund to taxpayers of a portion of taxes on assets; the non-implementation of the new Law on municipal taxes that would have greatly increased their value; the freezing of municipality rent concessions in EDP (Electricity of Portugal), thus avoiding an increase in rates.
- local measures, dependent on specific situations, such as support for the acquisition of drugs for the elderly, support for the mobility of persons with disabilities, reduced water rates for low-income families, rent support, aid in obtaining food products...

4. Are there any other matters related to the financial and economic crisis, as they affect local and regional governments, that you wish to draw to CEMR's attention? Or are there any ways CEMR could be of assistance in these matters?

We leave to the discretion of CEMR other important matters, including:

- the defence of a policy of additional support from central government for municipal investment, ensuring the geographic "democratisation" of investment promotion and distribution throughout the country (a policy already formulated by the Spanish and German Governments);
- the use of surveys and other measures in all CEMR countries with a view to understanding and disseminating the various tools used in each country to combat the crisis;
- a meeting between CEMR and the European Commission to discuss the suggestions made in this document.

Spain

1. Has the financial crisis (bank failures, withdrawal of credit facilities etc.) affected your local or regional governments? If so, in what ways?

Since the Spanish government revised their forecasts for growth downwards in September 2008 influencing with it in a decrease of one of the main financial resources of local bodies, the Participation in the Income of the State (PIE), that is, the financial situation of local entities has worsened in the last months. To this must be added a heavy reliance on local financing of income from real estate (tax on building and construction facilities, fees, tax increment in land value of urban nature, and to a lesser extent, real estate tax, land use planning for end use) which since 2007 has caused a decline in revenues for these concepts.

To the above situation we must add a structural financial failure resulting from an outdated model of local financing. This model does not take into account services that local councils are providing on behalf of other levels of government, in particular the autonomous communities. As a result, local authorities are now facing a decline in their income.

One of the possible solutions to get out of this situation is to go into debt, but local governments have to deal on one hand with the limitations established by Law on Local Government Finances and on the other hand with the implementation of the General Law on Budgetary Stability, which is very strict for the local administration.

In order to level the expense budget with the income, without affecting the "welfare of citizens" and to meet payments to suppliers, local authorities try to resort to credit from banks and savings banks. Larger authorities resort to the issuance of public debt whenever such emissions are permitted in their case by the Ministry of Economy and Finance.

But although no comprehensive data are available, the banks are starting to deny credits to the councils, which results in the government studying the implementation of emergency measures, in principle to facilitate payment to vendors for local governments.

2. Is the economic downturn having a major impact on your local or regional governments? If so, in what ways? Additional demands for services / benefits? Loss of tax or other revenues? Other?

The model of local financing and a new Law on Local Government are the two most important issues that have not been solved by the successive central governments. The current model of local financing has proved to be insufficient as means of providing resources to local governments even more inadequate because the current model of competence is much higher in terms of public expenditure to which that financial model adopted in 1988 refers.

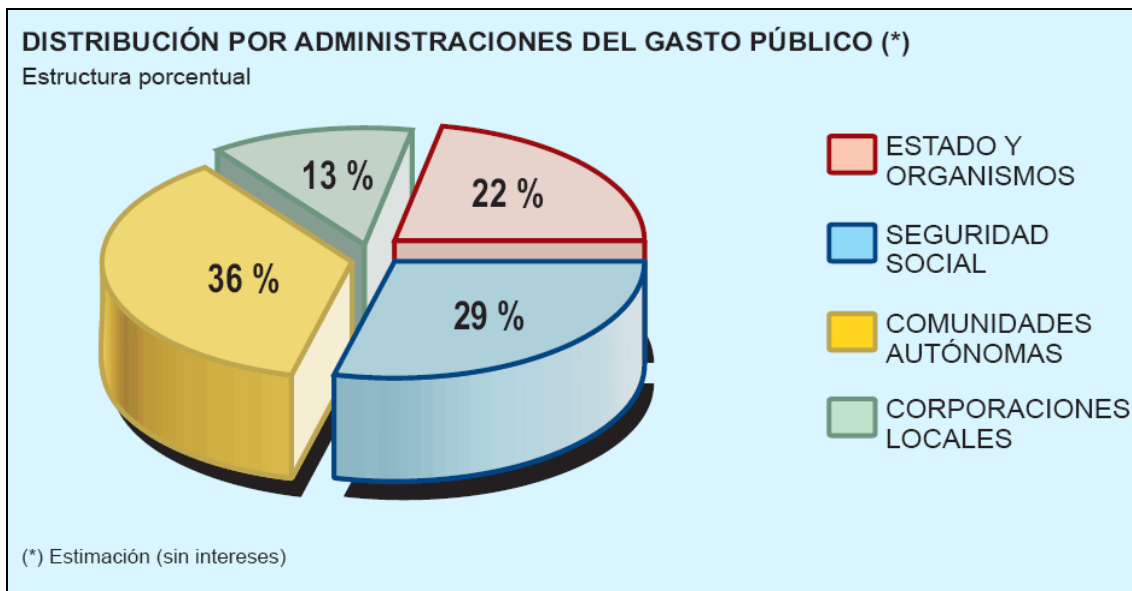


Fig. 1. Public spending distribution by administration.

Although the current crisis is affecting both the local and regional governments, in the Spanish case, the impact on local governments is actually higher as a result of having to provide services which relate to other competition authorities (mainly regional) but also by a model performance (financial and budgetary) which is much more rigid than for the regions.

Cuadro 4.1.1. Gasto liquidado de la muestra de municipios de España. Liquidación 2003.

	Gasto por habitante (euros per cápita)	Gasto agregado (euros)
Gasto no obligatorio	227,20	9.013.448.359,05
Gasto total	850,07	33.723.917.011,19
%	26,7%	

Fuente: Elaboración propia a partir de los datos de población y del cuadro 2 del anexo 1

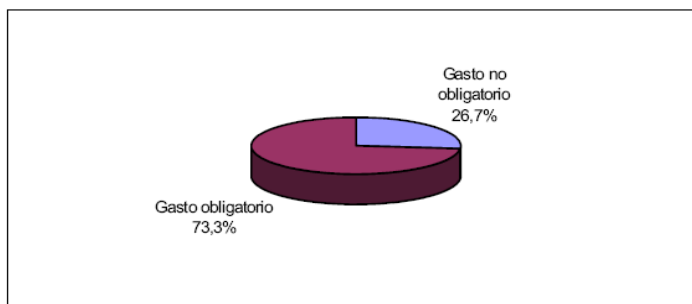


Fig. 2. Expenditure paid from the sample of counties.

3. Has your association taken any specific actions in relation to either the financial or economic crisis, or both? If so what?

FEMP has asked for a new model of local financing to resolve the structural problems of local governments in response to their actual competencies.

As regards the economic aspects, FEMP has suggested to the central government measures to facilitate access to credits and to ease the limits of the public deficit in accordance with the provisions of the legislation on budgetary stability.

On the other hand, in 2008, FEMP persuaded the Spanish government to bring forward a share of the PIE funding (Participation in the Income of the State) which had been programmed to be paid in July 2009.

Also with reference to the use of the "PIE" it has been requested by FEMP for the local governments to receive advance payments of monthly deliveries into which the PIE is divided.

In order to avoid paralysis and/or declining investment in the municipalities, the FEMP asked the President of the Government to adopt a measure to respond to this problem, which resulted in the creation of a state subsidy for € 8,000 million for local investments.

Additionally, to tackle the problem of the use of credit FEMP has asked the central government to adopt a number of measures such as increasing the capacity to increase the share of treasury operations, converting short-term debt into long-term debt with the backing of the state and opening the channel of the Institute of Official Credit (ICO) to local authorities.

4. Are there any other matters related to the financial and economic crisis, as they affect local and regional governments, that you wish to draw to CEMR's attention? Or are there any ways CEMR could be of assistance in these matters?

In addition of simplifying the procedures for recruitment as suggested by Austria, it would be desirable to study the development of BEI financing lines that fit the current situation of our local governments. Furthermore it is desirable to analyze the impact of the crisis in the programs, plans and initiatives to support local economies.

Sweden

1. Has the financial crisis (bank failures, withdrawal of credit facilities etc.) affected your local or regional governments? If so, in what ways?

The financial crisis has directly affected Swedish municipalities and county councils. During the autumn of 2008 several municipalities were denied credit and had to postpone investment projects. The situation has improved but still it's difficult to get access to long term funding. The market for bonds issued by municipalities or county councils is almost dead.

Many municipalities and county councils have funds destined to pension liabilities. As a consequence of the downturn in the stock market the booked value of these funds had to be reduced substantially. This had a negative effect on the result for 2008.

2. Is the economic downturn having a major impact on your local or regional governments? If so, in what ways? Additional demands for services / benefits? Loss of tax or other revenues? Other?

The main impact of the financial crisis stems from the weak development of tax revenue. Compared with the projections made before the financial crises became evident the forecast of tax revenue have been revised downwards by more than 5 per cent. Next year looks even worse and a reduction in tax revenue in real terms. We expect reductions of employment in municipalities and county councils.

3. Has your association taken any specific actions in relation to either the financial or economic crisis, or both? If so what?

SALAR has demanded from the government to raise the state grant to municipalities and county councils. It seems that we have been successful as the minister of finance recently has indicated additional support in the spring budget bill.

SALAR has several projects to support the municipalities in this situation. These include economic analyses of individual municipalities, workshops to share experiences from each other etc.

Switzerland

1. Has the financial crisis (bank failures, withdrawal of credit facilities etc.) affected your local or regional governments? If so, in what ways?

Of course, Switzerland has not been spared the effects of the current crisis, felt all around the world.

However, at present, the local and regional governments have not yet been seriously affected. It is important to remember that tax income is linked to the previous year's revenue and that 2008 cannot be considered as a (very) bad year compared to previous periods. In regard to the future, certain governments have already taken measures to limit spending, in the hope of avoiding serious problems in years to come caused by the double effect of growing costs and falling income. For example, in the canton of Zurich, the location of many bank headquarters, a smaller budget has been voted.

2. Is the economic downturn having a major impact on your local or regional governments? If so, in what ways? Additional demands for services / benefits? Loss of tax or other revenues? Other?

In addition to the elements already mentioned in response to the previous question, we recognise that our local and regional governments will soon be obliged to respond to requests for additional services, particularly in the field of assistance to the unemployed and social support.

3. Has your association taken any specific actions in relation to either the financial or economic crisis, or both? If so what?

The Swiss section of CEMR (ASCCRE) has not taken any specific actions, since insofar as the distribution of tasks between the various associations of the municipalities and cantons of Switzerland is concerned; it is for other groups to act. These groups have already taken measures to provide information and coordination. The federal, cantonal and municipal authorities have already started to take various measures, particularly in regard to investments designed to increase economic and trade activities which in turn will maintain employment levels, skills and living standards.

4. Are there any other matters related to the financial and economic crisis, as they affect local and regional governments, that you wish to draw to CEMR's attention? Or are there any ways CEMR could be of assistance in these matters?

In addition to the purely financial and economic effects of the crisis, it must be recognised that it has other, more delicate, repercussions for society. Fear of losing one's job and of a reduction in purchasing power can lead to social withdrawal, rejection of others and opposition to foreigners. These reactions – not unusual in this sort of situation – can seriously affect human relationships in local, and even regional, society.

CEMR certainly has a role to play here in highlighting the wealth (in every sense of the word!) inherent in the relations between communities, in the free movement of persons and property, etc. within our continent and beyond.

Finally, for further information, the Union of Swiss cities has recently published a study on this topic. A press release can be found under www.staedteverband.ch under "News."

Ukraine

1. Has the financial crisis (bank failures, withdrawal of credit facilities etc.) affected your local or regional governments? If so, in what ways?

Unfortunately, the financial crisis in Ukraine is aggravated by the long term political crisis and it has already caused the extensive damage to the territorial communities. Revenues to local budgets are significantly reduced, national and regional programs of social and economic and cultural development are not being financed. Energy itself and, respectively, the utility services become more and more expensive and the consumers are not able and willing to pay. That is why in the Ukrainian cities' heat and water supply is at risk.

The expert evaluation shows that in 2009 the crisis of the Ukrainian economy will deepen. It will obviously influence local budgets filling and their capacity to finance the estimated expenses.

Besides, revenues and expenses of local budgets, which are taken into consideration while calculating the amount of intergovernmental transfers (for the performance of delegated functions), are regulated by the State and defined by the Ministry of Finance of Ukraine. If the annual estimated revenues are not achieved, the State must provide local governments with the compensation of the lacking amount to enable them to perform delegated functions meeting at least minimum social needs. Unfortunately, it does not happen in practice. It is envisaged that in 2009 the State will not have enough financial resources to provide at least the same funding as in 2008.

Ukraine faced serious bank crisis resulting to the limitations of credit issuance and access to deposit resources. Sixteen Ukrainian banks are being managed by Temporarily State Administrations. For the first time within almost twenty years after yearly 90s Ukrainian population faced the impossibility to receive salary from the bank (from bank cards including). There are limits for money cashing from bank machines.

The situation is worsened by the currency ranging (Ukrainian Hryvnia lost about 70 % since November 2008) that results into panics and problems with the foreign currency purchasing. Real problems have those for obtained credits in foreign currency in mid 2008 which were promoted by the majority of banks due to low credit rates and strong Hryvnia at that time.

The important negative factor during the financial crisis is a lack of local government competencies to control the management of current processes in local communities, both in economy and finance, and in other fields (i.e. land, construction, tariff policy etc). For instance, the issues related to the privatization of objects of state property, which are situated on the territory of local communities, are not adjusted with the local governments and so such a privatization often has a negative influence on the social and economic status of communities.

2. Is the economic downturn having a major impact on your local or regional governments? If so, in what ways? Additional demands for services / benefits? Loss of tax or other revenues? Other?

Reduction in manufacturing in export-oriented and related to them industries has a sufficient negative influence on local budgets. As of December 1, 2008, almost 90 % of local budgets were not executed, whereas in January 2008 the part of such budgets was less than 6 %. The budgets are not executed, first of all, because of reduced revenues from the personal income tax (PIT) that is a basic source for local budget revenues. For example, in 2007 PIT took 55.7 % of consolidated local budgets (including almost 60 % for cities and more than 70 % for towns and rural communities). The biggest reduction of tax return may be expected in cities, where big industrial enterprises — the most affected by the crisis — are located.

The considerable PIT reduction is also conditioned by the employment layoffs, switching full-time employees to part time, and providing non-paid leaves. In addition, one has to expect the increase of salary debts in all the industries, including the budget-funded ones. That will also increase the financial deficit of local authorities and will cause the social tension. Taking in account all these factors we may face the considerable reduction of total returns of this tax.

Since the beginning of 2009 we have about UAH 1.5 bln salary debts (UAH 275 million at state and UAH 54 million at communal enterprises). Both salary debts and their reduction resulted to the refusal to pay for the communal services received (in January and February only about 60 % of the population paid). That's the reason for a series of cut out of gas supply in several big Ukrainian cities in February – now when Russia-Ukraine gas agreement has to be strictly followed with the price increased about 2 times.

The World Bank expects that in 2009 the GDP will be reduced by 5 % in Ukraine. That will cause the reduction of salaries by 10 % and as a result the revenues to local budgets will be reduced by 30 %. According to the calculations of the Ukrainian Accounting Chamber made in late February 2009 we expect the GDP reduction by 15–18 % until the end of 2009, consequently resulting into up to 60 % of local budgets decrease.

Worsening of credit ratings of Ukraine, both of the State and of its leading commercial banks, will not foster the attracting of debt funds to local budgets for the implementation of investment projects, except for objects of EURO-2012.

The decrease in business activity in the majority of industries of public economy will result in the reduction of returns of local taxes and dues. The reduction of returns to the State Budget evidently will cause the reduction of donations and subsidies to local budgets.

3. Has your association taken any specific actions in relation to either the financial or economic crisis, or both? If so what?

The AUC Board approved the priority measures to support the territorial communities in the conditions of the financial and economic crisis. The relative petitions of the AUC Board about the necessity to take urgent measures oriented to weaken the financial and economic crisis for territorial communities were submitted to the Chairman of the Parliament, Prime Minister of Ukraine and the President of Ukraine. The urgent measures have been prepared by AUC are to be taken in the budget, housing and utilities spheres, and economic development (the list of measures is available at the AUC).

United Kingdom

1. Has the financial crisis (bank failures, withdrawal of credit facilities etc.) affected your local or regional governments? If so, in what ways?

Yes. Local authorities across England, Scotland and Wales (including fire and police authorities) had over €1bn invested in four of the Icelandic / UK subsidiaries which collapsed in October, and both the principal amounts invested and the expected interest yield are at risk.. Efforts to regain the monies are being made via the creditor processes established in relation to each bank. The outcome of talks is currently uncertain but government has said clearly that it has no plans to compensate local authorities that invested in Iceland, in contrast to its position in relation to retail creditors. Government has however produced a draft regulation allowing local authorities to not make provisions for losses from Icelandic banks when preparing their budgets for 2009. This is helpful, but postpones rather than solves the problem.

2. Is the economic downturn having a major impact on your local or regional governments? If so, in what ways? Additional demands for services / benefits? Loss of tax or other revenues? Other?

Yes. The LGA group has undertaken a survey of councils on the implications of the recession. More than 150 councils replied. The findings were:

Impact on councils – reduced income for local authorities (due to investments in failed banks). More than 70 % of councils have revised their budgets. A majority of councils are facing increased demands for a range of services, particularly welfare and advice services. In addition, councils are reporting a significant loss of income, due to reduced income from fees and charges (largely due to falls in income raised from property and planning related fees and parking fees) and reduced investment income due to falling interest rates.

Impact on development – most councils report a reduction in the number of planning applications received and that capital programmes and private sectors schemes have been adversely affected.

Impact on communities – most councils report that the recession has not yet had an impact on community cohesion, but a range of indicators, from growing unemployment to increased use of council services, is evidence of an increasing impact on many local communities.

Impact on local economies – almost 90 % of councils have noted the impact of the recession on local businesses and more than half anticipate local employment levels falling over the next 12 months.

Action by councils – more than a third of councils have taken action to protect vulnerable households and a further three-fifths are planning to do so. Similar numbers of councils have taken action to protect local businesses.

Regional differences – the response to the survey adds to the evidence about the differential regional impact of the recession and its implications for local authorities and local communities.

The survey also showed the impact of the recession on people and businesses more generally. The report (links below) shows a rise or an expected rise in:

- People applying for housing benefit in nine out of ten of council areas
- Homelessness in eight out of ten council areas

- Demand for free school meals in two out of five council areas
- Mental health problems in two out of five council areas
- Debt advice in nine out of ten council areas
- Businesses asking for support in three out of four council areas

The report shows a fall in:

- Planning applications in three in five areas
- Large-scale construction projects in almost four out of five areas, with a lack of developers' finance the main reason given

3. Has your association taken any specific actions in relation to either the financial or economic crisis, or both? If so what?

Development and delivery of an LGA group work plan on the recession:

Completed actions include:

- a "credit crunch" summit at Local Government House, London. Received media coverage.
- publishing a collection of case studies, "Global Slowdown, Local Action", showing action taken by councils;
- publishing research showing the possible local impact of recession, "From Recession to Recovery", which received extensive media coverage including in the tabloids and the UK's "Today" programme;
- carrying out a survey of councils which has been reported back to all councils and has also given rise to a number of press releases which have been well-reported;
- publishing a guide to the recession and a 'recession checklist' to support councils' understanding of the possible local interventions;
- getting the agreement of the Communities Secretary that a meeting of the Central-Local Partnership should be held in February to discuss the economic situation;
- published a joint report with the British Chambers of Commerce (BCC) on how councils will work with business: 'Back to Business - Local Solutions';
- published 25 additional case studies on the IDeA website.

Future work includes:

- developing a second version of the recession checklist;
- developing a more systematic system for gathering intelligence to help councils keep up-to-date on latest thinking on the recession;
- carrying out a survey of council leaders;
- publishing a joint report with third sector organisations, setting out how councils can work effectively with the third sector in mitigating the effects of the recession, including a wide range of case studies;

- work to support councils interested in various kinds of proposals to deal with market failures in bank lending, either to local businesses or to fund public infrastructure projects;
- establishing of action learning sets on dealing with the recession.

Discussions with the government are also underway about:

- closer working between councils and Jobcentre Plus/HMRC in order to manage the expected increases in benefit caseloads;
- integration of employment and skills provision;
- improving take-up of benefits and tax credits.

At the EU level:

- Local Government Summit (Nov 2008) in Brussels & ongoing work with the Foreign & Commonwealth Office (FCO) to respond to jointly to economic crisis;
- Development and delivery of an EU level lobby strategy on economic slowdown & internal market rules;
- Engagement with recent changes around structural funds & other EU policies designed to help tackle economic slowdown;
- Quick survey of other LGAs across the EU to see which had invested funds in Icelandic banks (very few);
- Meeting with the British Chamber of Commerce in Brussels to explore the SME dimension to recession and joint work.

4. Are there any other matters related to the financial and economic crisis, as they affect local and regional governments, that you wish to draw to CEMR's attention? Or are there any ways CEMR could be of assistance in these matters?

LGA work on the financial crisis and recession has shown that solutions must be tailored to local circumstances. Resources and actions must be targeted at functional economic areas which are likely to be sub-regional or local in nature. To this end, government has committed itself to a programme of devolution – handing greater power over economic issues to local authorities. This process is welcome but needs to go further in light of the economic downturn. These issues will form an important part of the LGA's campaigning work during 2009.

CEMR can help this devolution process by promoting certain principles at EU level: subsidiarity in the decision-making process and the right to local self government.

More specifically, CEMR can also help by facilitating engagement of its membership with the European Institutions on the new measures designed to help public bodies tackle the economic crisis (such as internal market and structural funds reform). It would, for example, be helpful for CEMR to organise a discussion session with the European Commission to discuss the EU's responses to the economic downturn, and to discuss what else needs to be done.

Efforts to integrate the cross-cutting issue of tackling the recession into the various CEMR thematic working groups are welcome.

Finally, a CEMR extranet area on economic slowdown to exchange experiences and information would also be helpful.

United Kingdom (Scotland)

COSLA has recently undertaken a survey of its members and their work in this area. All councils are either tweaking their current services or creating new ones, to deal with the downturn. There has been significant reassessment of the use of local budgets, a considerable emphasis on economic matters in the Single Outcome Agreements (SOAs) – agreed last year between the Scottish Government and the Local Authorities to improve delivery of public services and common accountability – and an undoubted use of the financial flexibilities within the Concordat, which is the policy development and financial agreement that currently governs the relationship between the Scottish Government and the Convention of Scottish Local Authorities.

Councils are clearly anticipating the effects of the downturn and the significant role that they have to play. They are keen to shield communities, businesses and individuals from the worst effects and the social stress it will cause. The majority of interventions fall into one or other of the following categories:

- Supporting businesses and stimulating the economy
- Managing the effect of the downturn on communities
- Managing the effect of the downturn on council services, and
- Improving employability and preparing for economic recovery

Many of our members are concerned about us revisiting the high unemployment levels of the mid 1980's, and the long term effects this would have. From elsewhere we know that the growing numbers of newly unemployed come from across the Scottish Central Belt. Demand for some services is already increasing. The additional stress that this is placing on already stretched Council budgets is widely felt. Many councils are working pragmatically to enhance the scope and resilience of their services. However from where we are it is difficult to predict how the downturn will develop.

At a Scottish level considerable emphasis has been placed on the £ 60 m Town Centre Regeneration Fund, this complements efforts already underway to support town and city centres across Scotland, which were facing crises before the economic downturn. Other activity that might help includes the local home insulation scheme made up of £ 15 million of new Government funding and £ 15 million from other partners to provide up to 90,000 homes with energy efficiency advice and assistance and with insulation.

At a political level, the bi-monthly meetings between COSLA, Scottish Finance Secretary John Swinney and Education Secretary Fiona Hyslop allow us to keep this under regular review. At an officer level COSLA is engaged with high level groups cross Scottish Government, COSLA and other stakeholder groups, to review action being taken to respond to growing unemployment levels. A new group of a similar structure is being formed to overview progress on the more economic side. This will probably consider the use the recently relaxed EU rules on State Aid within existing budgets and how Scottish Investment Funds can be used to maximize EU Structural Funds in regeneration projects and business growth and support.

Broad conclusions from associations' responses

Based on the contributions from CEMR's member associations, a number of trends emerge. These are summarised in the following paragraphs.

Loss on investments. This type of direct impact is quite rare across the responding countries, but has major impact on the affected countries and/or municipalities. The heaviest direct loss occurred in the United Kingdom, where due to bankruptcy cases of Icelandic banks the local governments lost € 1 billion in financial investments, with further loss in unrealised income from interests.

Local governments in Belgium were affected by the crisis of Dexia, as they are – through the Communal Holding – shareholders of the bank. The Belgian Dexia SA has received support worth € 3 billion from the Belgian federal Government, the 3 Regions and the 3 institutional shareholders. For local governments, this means a drop of share market value, dilution of their share in the bank and loss in unrealised income from dividends. Some municipalities suffered a substantial loss, due to their high investment share in Dexia and/or the Communal Holding. Besides Belgium, loss on value of financial securities is also reported from Norway.

Loss on tax revenues. The general economic downturn is expected to affect the volume of tax revenues across Europe. The actual loss volume cannot be estimated due to lack of data for the fiscal year 2008, it is however expected, that this will continue throughout 2009 and further. Actual loss volume depends on the type of tax levied or shared by the local or regional government in the respective countries (personal income tax, company income tax, etc.), and the proportion of this income in total budget revenues. For illustration, Ukraine reports, that income tax represents 55–70 % of revenues of municipal budgets, and the final volume of the municipal income for 2009 is estimated to drop in as much as 30 %.

Apart from immediate effect on the revenues, a mid- or long-term impact is expected upon local and regional authorities. The direct effect may continue in the coming years due to expected lower consumption during the time of crisis and loss on income tax due to increasing unemployment. A general economic slowdown is also immediately manifested in lower investments in the construction. In the near future, this would adversely affect the income from real estate tax.

Lack of credits and high cost of borrowing. The global financial crisis and financial difficulties in the banking sector affect the availability of credits. Even if the municipal sector has generally high ratings as borrower, the requested volumes of credits are not available, or are available only at high cost, due to liquidity shortage on the market. It should be noted, that in some countries especially banks, which traditionally provided loans to the municipal sector, have been affected by the crisis (e.g. *Kommunalkredit* in Austria, *Kommunekreditt* in Norway, *Dexia* in Belgium, France and Luxembourg).

Cash liquidity. From some countries, difficulties in cash liquidity are reported. This is often a secondary effect, due to poor payment discipline by the national authorities in the transfers of grants or compensations for transferred competencies (Ukraine, Lithuania, Greece).

Increased expenditure. The main source of worries, as expected by the authorities, is increased expense due to higher demand for social and welfare services requested as a consequence of the economic unease. This has been reported universally by the responding associations. Especially local authorities will have to plan for increased expense for services provided to citizen due to shortage of income and loss of employment. Also authorities, who throughout the year 2008 levied forward payments on tax, will now face the need for reimbursement to tax payers who report loss and claim back the excess tax paid.

Cuts in local authorities' staff. The municipalities and councils, especially those severely affected by the direct impacts, find themselves in the need to cut back on the number of employees in order to facilitate savings and decrease the personnel expenditure. Depending on the country and the extent of the cuts, this might contribute to the overall balance on the local job market and aggravate the social situation. Interestingly, the Network of Associations of Local Authorities of South-East Europe (NALAS) urges its members not only to avoid dismissals of staff, if possible, but also use the opportunity to recruit qualified personnel who might be in the labour market during the recession.²

Reduced development. The credit crisis is affecting ongoing investments in infrastructure and development projects. The reduce rate of investments by both the private and the public sectors will result in a general slow-down of local and regional development.

Actions by national associations in support of local and regional authorities

Lobbying and negotiations with the national governments.

Many of the responding associations report involvement in negotiations with their governments or legislative bodies, since the role and interests of local and regional authorities are not necessarily taken into account at national or EU level when decisions are being taken on how to face the crisis. The objective of the negotiations is generally to demand the government to

provide guarantees for local/regional governments in access to funding,
provide grants to cover partially or fully the increased cost of funding (loan interests),
provide extra grants to help balance the municipal budgets or cash flow,
provide extra grants for, or to cover directly the co-financing requirement for EU funds,
lift limits on municipal loans,
increase local tax rates to secure income levels for 2009,
introduce support programmes in view of expected growing unemployment,
simplify public procurement regulations,
simplify or adjust budgetary rules for municipalities to compensate for expected deficits.

Advisory and consultation services.

Most associations are providing advice to municipalities on financial and tax issues. These reach from general advice on planning conservative budgets for 2009, through drafting of crisis manuals, guides or priorities lists, exchange of best practice, impact analyses up to designing comprehensive programmes and projects to address the crisis at local level and to secure investment and development in various areas. The latter was the case in Austria (*Municipal Infrastructure Investment Package*, € 3 billion) or Greece (*Crisis Operational Project*, € 2.3 billion).

² Policy Brief: South-East Europe Responds to Global Crisis – NALAS Recommendations, 23–24 November 2008, Tirana

European economic recovery plan

In response to the financial and economic crisis, the European Commission proposed³, and the Council approved⁴ in late 2008, a European Economic Recovery Plan. It consists of two interlinked elements:

- Short-term measures to support demand, protect jobs and restore confidence;
- "Smart investments" towards long-term growth.

The plan envisions a package of ca. € 200 billion (1.5 % GDP of the EU), of which € 170 billion at Member State and € 30 billion at EU level, within the EU budget and through the European Investment Bank. The Plan proposed to accelerate payments of up to € 6.3 billion under the structural and social funds. For energy and broadband infrastructure projects the Commission proposes to spend € 5 billion in the period of 2009–10.

The European Central Bank and other central banks have considerably reduced their interest rates to support non-inflationary growth. (ECB from 4.25 % in September 2008 through 2 % in January 2009 to 1.5 % in March 2009).

The Council approved in particular:

- an increase in intervention by the European Investment Bank of € 30 billion in 2009–10, especially for small and medium-sized enterprises, for renewable energy and for clean transport; the creation of the 2020 European Fund for Energy, Climate Change and Infrastructure ("Marguerite Fund");
- simplification of procedures and faster implementation of programmes financed by the Cohesion Fund, Structural Funds and the European Agricultural Fund for Rural Development with a view to strengthen investments in infrastructure and in energy efficiency;
- support for a list of specific priority projects presented by the Commission, for investments in energy (€ 3.5 billion, of which € 1.75 billion for gas and electricity interconnectors, € 1.25 billion for carbon capture and storage, and € 500 million for offshore wind schemes) and broadband access in rural areas (€ 1 billion), as well as help to rural areas for climate change, renewable energy, water management and dairy sector restructuring projects (€ 500 million);
- additional action by the European Social Fund to support employment, especially for the benefit of vulnerable groups and smallest undertakings by reducing non-wage labour costs;
- mobilisation to promote employment in key sectors of the European economy, in particular by the European Globalisation Adjustment Fund (improvement and speeding up of procedures).

³ Communication from the Commission to the European Council: A European Economic Recovery Plan [COM(2008) 800], 26 November 2008

⁴ Presidency Conclusions, Council of the European Union [17271/08], 12 December 2008

VAT rate

The Council also approved the possibility for the Member States of applying reduced VAT rates in certain sectors: Whereas the minimum standard rate is 15 %, Member States may apply a reduced rate (minimum 5 %) to certain goods and services. The proposed revision of the rules is to allow all member states to apply the reduced rate on a permanent basis to certain locally-provided labour-intensive services. The Council has also requested the ECOFIN Council to settle this issue by March 2009.

In March 2009, the ECOFIN Council acknowledged, that reduced VAT rates may have both positive and negative economic effects and suggested that alternative solutions be considered. It has, however, reached political agreement to allow the Member States to apply reduced VAT rates on a permanent basis to certain services (repairing of bicycles, shoes and leather goods, clothing and linen, cleaning of windows and private households, domestic help and care services, hairdressing, private home renovation and repair, restaurant services, books).⁵

State aid

Also the Council approved a temporary exemption of two years from the *de minimis* threshold for state aid in respect of an amount of up to € 500,000 to increase support of enterprises, especially SMEs.

Public procurement

Of particular importance for local and regional authorities, the proposed remedies for the financial and economic crisis include the mechanisms and rules of public procurement.

In the general public procurement framework, the Commission and the Council both consider it justified for local authorities to use the accelerated procedure - under Article 38(8) of the Public Procurement Directive⁶ - as a general rule during the crisis. Under this procedure, contracting authorities may, in case of urgency, reduce considerably the overall time limit of the procedure (including the standstill period under the Remedies Directive⁷ between decision and signing of the contract) from 87 days to 30 days. The Commission recognised that such presumption of urgency should apply throughout 2009 and 2010 for all major public projects.

Additionally, in the European Economic Recovery Plan, the Commission proposed:

In connection with the car industry, a "European green cars initiative", under which the Commission will support the development of a procurement network of regional and local authorities to pool demand for clean buses and other vehicles and speed up the implementation of the CARS21 initiative;

In the construction sector, a "European energy-efficient buildings" initiative, which should have an important regulatory and standardisation component and would involve a procurement network of regional and local authorities;

⁵ Press Release, 29321st meeting of the Council: Economic and Financial Affairs [7048/09 (Presse 54)], 10 March 2009

⁶ Directive 2004/18/EC of 31 arch 2007, OJ L 134/114 of 30.4.2004

⁷ Directive 2007/66/EC of 11 December 2007, OJ L 335/31 of 20.12.2007 (this is an amendment of the existing Directives 89/665/EEC and 92/13/EEC which the Member States have to transpose by 20 December 2009)

CEMR in a nutshell

The **Council of European Municipalities and Regions (CEMR)** is the broadest association of local and regional authorities in Europe.

Its members are national associations of local and regional governments from over thirty European countries.

The main aim of CEMR is to promote a strong, united Europe based on local and regional self-government and democracy; a Europe in which decisions are taken as closely as possible to its citizens, in line with the principle of subsidiarity.

CEMR's work covers a wide range of themes, including public services, transport, regional policy, the environment, equal opportunities...

CEMR is also active on the international stage. It is the European section of the world organisation of cities and municipalities, United Cities and Local Governments (UCLG).



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