



Congress of Local and Regional Authorities of Europe
Congrès des pouvoirs locaux et régionaux de l'Europe

Strasbourg, 19 October 1995
s:\delai.fdb\session\acpl.2.21



CPL (2) 21

SECOND SESSION

DRAFT OPINION

ON

**THE DRAFT RECOMMENDATION
ON LOCAL AUTHORITIES'
BUDGETARY DEFICITS
AND EXCESSIVE INDEBTEDNESS**

**(Rapporteurs: Mr Gabor DEMSZKY, Hungary,
and Mr Jochen DIECKMANN, Germany)**

Secretary: Mr György Bergou

502
95/4559

For debate in the Standing Committee
Pour débat à la Commission Permanente
See Rule 12 (4) - Voir article 12 (4) du Règlement

* Objections to the Standing Committee procedure must reach the Head of the Congress Secretariat a clear week before the meeting of the Standing Committee; if 5 members object, the report will be submitted to the Plenary Session.

Les éventuelles objections à l'examen en Commission Permanente doivent parvenir au Chef du Secrétariat du Congrès une semaine avant la réunion de la Commission Permanente; si 5 membres du Congrès présentent des objections, le rapport sera soumis à la session plénière.

The Chamber of Local Authorities of the CLRAE,

1. Acting upon the request from the Committee of Ministers of the Council of Europe that the CLRAE should submit an opinion on Draft Recommendation No. on local authorities' budgetary deficits and excessive indebtedness;
2. Bearing in mind paragraph 1 of Article 9 of the European Charter of Local Self-Government, stating that "Local authorities shall be entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers";
3. Bearing in mind paragraph 8 of the same Article, stating that "For the purpose of borrowing for capital investment, local authorities shall have access to the national capital market within the limits of the law";
4. Considering that for reasons of sound financial practice or because of the need to co-ordinate national monetary policy or maintain price stability, some forms of control on the short-term and long-term debt position of local and regional authorities may be justified;
5. Recalling Recommendation (92) 5 of the Committee of Ministers, stating that "the total amount of long-term and short-term loans that can be contracted by local and regional government should be limited only as part of a general programme to reduce public expenditure as a whole";
6. Stressing that local authorities must first have sufficient non-debt-creating cashflows, especially tax revenues, to be able to fulfil their responsibilities without engendering undue financial constraints;
7. Considering that, in several countries, the contribution of local taxes, that is to say taxes for which local authorities are free to set the rates, is largely inadequate;
8. Considering that, in some countries, the redistribution of resources by the state to local authorities is still based on data selected arbitrarily by central government;
9. Considering that in many cases local authorities' revenues (taxes and grants) are based on rapidly changing central government regulations;
10. Considering that in the case of economies in transition, where inflation is high and market interest rate trends are largely unpredictable, some form of index-linking is the only possibility for longer term borrowing;
11. Considering that excessive indebtedness can jeopardise the financial autonomy of local authorities and that specific controls by supervisory authorities can be less stringent if general principles governing debt are clearly established;

12. Agrees with the principles laid down in the draft Recommendation from the Committee of Ministers to member States on local authorities' budgetary deficits and excessive indebtedness;

13. **Recommends** that the following amendments be incorporated into the Appendix entitled "Guidelines on measures to be taken in order to avoid excessive debt jeopardising the financial situation of local authorities":

a) Add a new paragraph to article 1 as follows:

Such terms of reference should first of all ascertain that:

- i) *local authorities' non-debt resources are largely commensurate with their responsibilities provided for by the constitution and the law;*
- ii) *local authorities are entitled to raise their own tax revenues and to determine the rate of such local taxes;*
- iii) *the financial regulations determining the resources available to local authorities (taxes and grants) are sufficiently stable and predictable.*

b) Article 4 should change as follows:

Repayment of the sums borrowed should not *normally* be index-linked, *except in specific national economic situations where such index-linking is the only possible way of obtaining long term loans for financing capital expenditure.*