The Congress
of Local and Regional Authorities

25th SESSION
Strasbourg, 29-31 October 2013

CG(25)5PROV
10 October 2013

Local and regional authorities responding to the economic crisis

Current Affairs Committee
Rapporteurs: Svetlana ORLOVA, Russian Federation (R, EPP/CCE)
Barbara TOCE, Italy (L, SOC[1])

Draft resolution (for vote).. 3
Draft recommendation (for vote) 9
Explanatory memorandum 13

Summary

The financial and economic crisis has had a particularly severe dual impact on local and regional authorities as they have had to face substantial decreases in their budgets – due to a shrinking revenue base caused by the economic downturn, cuts in budgetary transfers from national governments, decreasing local tax authority and the need to manage sometimes excessive debt burden – and, at the same time, an obligation to increase social assistance to citizens in economic distress. The report examines the current situation, takes stock of existing local and regional responses to the crisis, and puts forward recommendations to both national governments and local and regional authorities for further strategies and policy measures.

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[1] L: Chamber of Local Authorities / R: Chamber of Regions
EPP/CCE: European People's Party Group in the Congress
SOC: Socialist Group
ILDG: Independent Liberal and Democratic Group
ECR: European Conservatives and Reformists Group
NR: Not registered

The report calls for local and regional authorities to be recognised as fully-fledged stakeholders in dealing with the crisis, and for the establishment of regular consultations between them and national governments to ensure coherent development policies and measures in response to the crisis, focusing on reviving investment to stimulate local and regional economic growth, innovation and employment. The report recommends greater decentralisation of competences and fiscal devolution to the local and regional levels, in particular in terms of budgetary autonomy and local tax authority, reinforcement of equalisation mechanisms, revision of government financing to ensure a steady level of transfers to local and regional levels, and exemption of local and regional social services from fiscal consolidation programmes, among others. The report urges that governments stop using the crisis as an excuse for recentralisation and forced mergers of local and regional authorities, and calls for increasing citizen participation in decision making at local and regional levels.

Specific recommendations to local and regional authorities concern local expenditure management, revival of investment, promotion of entrepreneurship and business development, rationalisation of service networks and improvement of service cost efficiency, greater transparency in governance (in particular in public procurement), social assistance management (in particular through partnership with the voluntary sector), development of inter-municipal and inter-regional co-operation to benefit from economies of scale, and the building of partnerships with both the private and non-governmental sectors.

DRAFT RESOLUTION[2]

1. The financial and economic crisis which hit the world in 2008 has had a particularly severe impact on local and regional authorities as they have had to face at the same time a shrinking revenue base due to the economic downturn, cuts in budgetary transfers from national governments, decreasing local tax authority, mandatory participation in fiscal consolidation programmes and the need to manage debt – excessive sometimes because of so-called “toxic loans” – as well as the obligation to increase social support to citizens, against the background of growing demands for assistance to vulnerable groups affected by the crisis.

2. In 2009-2010, local revenues fell in many countries across Europe, in some by as much as 20%. Regional output also shrank on average by 3.4% in 2008-2009, with such extremes as a 20% fall in Latvia, but saw an upswing in most regions in 2010-2011. A weak economic recovery in 2010, with a 2% GDP growth in the EU, tapered to 1% in 2011 and reversed into 0.1% recession in 2012, with a further 0.4% recession forecast for 2013. Over 2008-2012, local budget investment fell by an average 14%, with as much as 30% in some countries, against the backdrop of an almost 5% decrease in intergovernmental transfers in 2011 alone, which almost completely offset a 5.5% rise in local tax revenues.

3. Local and regional authorities are faced with increasing social costs such as housing and utility allowances, safety net payments to the unemployed and others eligible for minimum income guarantees, and emergency aid to distressed families. In 2012, the number of households where essential household costs (such as rent, mortgage payments and utility charges) exceeded 40% of income grew by 13%, pushing local social expenditure on these households up by 16%, against the background of rising unemployment, which exceeded 12% in 2013 in the Eurozone alone, with a high end of 27% in Spain and Greece. Extremely high unemployment, in particular among young people, who reached 62% in Greece and 56% in Spain, is threatening to undermine prospects for long-term sustainable growth.

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[2] Preliminary draft resolution and preliminary draft recommendation approved by the Current Affairs Committee on 26 June 2013.

Members of the committee:

F. Mukhametshin (President), A. Kordfelder (1st Vice President), A. I. Alos Lopez (2nd Vice President), S. Madzharova (3rd Vice President), *E. Ozkarsli (4th Vice Président)*, *A. Boff (5th Vice-President),* C. Abela Baldacchino, S. Aliyeva, *A. Ambros, E. Ampe,* A. Antosova, P. B. Andersen , L. Andrysiak, *G. Arnardottir,* E. Argiris, *S. Barnes,* J. Barska*, A. Beskow,* L. Blaskovicova, *, S. Bohatyrchuk-Kryvko,* K. Bille, *E. Campbell-Clark*, M. Catovic, L. Caveri, *Y. Celik,* P. Chesneau, *A. Cook,* Z. Dragunkina, *N. Dirginciene,* J.-N. Gaultier, *J. V. Den Hout,* B. Fleck, D. Ghisletta, K. Gloanec-Maurin, G. Grzelak, M. Gombosi, *D. Healy-Mcgowan,* H. Himmelsbach,A. Koopmanschap, M. Kazandzhiev (*alternate: H. Hristov*), L. Kovacs (alternate *: G. Illes*), *V. Konstantinov*, H. Kuhn-Theis, V. Lazary (alternate: *A. Magyar*), J. Landberg, *I. Linge*, M. S. Luca, M. Mahnke, H. Marva (alternate*: S. Janatuinen*), Y. Mishcheryakov, M. Miros, C. Naudi Baixench, *J. Neumann,* C. Oppitz-Plörer, S. Orlova, I. Parea, E. Pajaziti, A. Pellizzari, L. Perikli, *N. Pilius* C. Popa, N. Rafik-Elmrini, C. Raimbert, A. Ravins, F. Ramos, M. Reyes Lopez, P. Receveur, R. Rohr, N. Rosu, Y. Renström (alternate), *N. Rybak,* M. Ryo, *Y. Rzayeva,* E. Sahin, A. Sokolov, *J.-L. Testud, G. Tkemaladze,* R. Toccaceli, *B. Toce, M. Toscani,* V. Udovychenko, L. Vecchi, *R.Vergili* ,L. S. Vennesland, P. Vrizidou, J. Warmisham, J. Watson, *P. Weidig, E. Yeritsyan*

N.B.: The names of members who took part in the vote are in italics.

Secretariat of the committee : D. Marchenkov, J. Hunting

4. The Congress of Local and Regional Authorities is deeply concerned about the impact of the crisis on local communities and regions of Europe, and in particular about the significant social problems caused by the reduction of social welfare programmes in many European countries and lower investment levels in strategic policy areas, such as education, health and social assistance to vulnerable population groups.

5. The Congress is convinced that local and regional authorities are crucial stakeholders and actors in ensuring European economic revival, due to both their economic and social roles. Local and regional authorities represent 65% of all public investment and 30% of public spending (including 60% of all public spending on education and more than 30% on health), and account for some 16% of public debt and almost 13% of public deficits. They hold key responsibilities with regard to social protection of citizens, including housing, health care, education, sickness and disability, care for the elderly, family and children, measures against unemployment and exclusion.

6. The Congress welcomes the fact that the important role of local and regional authorities in economic recovery was recognised by the Ministers of the Council of Europe member States responsible for local and regional government at their Conference in Utrecht (Netherlands) in 2009, and reaffirmed at their Conference in Kyiv (Ukraine) in 2011, with the approval of the “Kyiv Guidelines” and proposal for an Agenda in Common, which identifies as the top priority joint action by national governments and local and regional authorities in responding to the economic crisis.

7. The Congress expresses its concern that the crisis has had an adverse impact on the financial autonomy guaranteed under the European Charter of Local Self-Government (CETS No. 122), in particular its provisions relating to the financial resources and budgetary authority, equalisation, devolution of competences, as well as consultations with local authorities on matters affecting them and local financing in particular. The Congress stresses that the full implementation of the Charter must be ensured in particular in this time of crisis, when local and regional authorities face greater responsibilities in providing services and assistance to households in need.

8. In this context, the Congress is particularly concerned about the tendencies for recentralisation of local and regional competences, forced municipal amalgamations and regional mergers, imposition of severe austerity measures and fiscal consolidation rules, and slow-down of decentralisation and regionalisation processes as a response to the crisis.

9. The Congress shares the position of the EU Committee of the Regions, expressed in its Opinion of 12 April 2013 on “Devolution in the European Union and the place for local and regional self-government in EU policy making and delivery”, that the economic crisis and austerity measures cannot be used as an excuse to further centralise or devolve powers without providing corresponding financial resources, and that the allocation of powers not linked to corresponding financial resources or to income-raising powers cannot be used as an argument for centralisation.

10. The Congress is convinced that decentralisation is a key to better economic performance and growth and that many local communities and regions in fact did not have enough means and responsibilities to respond adequately to the crisis. The five years of the crisis have shown that, while decentralised economies are no more immune to its impact than the centralised ones, they recover better as they adapt more quickly to changing circumstances and show greater resilience overall. Local and regional authorities know best the needs and circumstances of their communities, and they are in a position to act more effectively and efficiently and to ensure an optimal use of local resources – not least also for reason of better transparency and accountability to citizens.

11. The Congress is therefore convinced that any crisis exit strategies must be based on the following principles:

a. recognition of local and regional authorities as key stakeholders in joint action of all tiers of governance to devise common responses and to ensure coherence of response policies and measures as well as solidarity in equitable burden-sharing, through the process of regular consultations and dialogue;

b. further decentralisation of competences in keeping with the principle of subsidiarity, as well as greater budgetary autonomy and tax authority at local and regional levels;

c. reviving investment to stimulate employment, innovation and economic growth;

d. increasing citizen participation in decision making at local and regional levels through elements of direct democracy, in particular through greater use of new information technologies;

e. building partnerships with the private and non-governmental sectors, as well as with other local and regional authorities in the process of voluntary inter-municipal and inter-regional co-operation.

12. The Congress notes with deep concern the 2013 findings of the International Labour Organisation, indicating that government austerity policies have been accompanied since 2010 by increasing wage inequalities, in which middle-income groups' revenues declined while those of top salary earners began to grow again, posing a threat to the social fabric of European societies and increasing the risk of social unrest, which rose within the EU alone from 34% in 2006-2007 to 46% in 2011-2012.

13. In this context, the Congress supports the position of the Council of Europe Parliamentary Assembly, expressed in its Resolution 1886 (2012) on the impact of the economic crisis on local and regional authorities in Europe, as well as in its Resolution 1884 (2012) on austerity measures – a danger for democracy and social rights, and welcomes the recent recommendations of the European Commission aimed at shifting the economic policy emphasis from austerity to structural reforms.

14. The Congress also welcomes with caution reform measures entailing decentralisation of competences, being undertaken or planned in a number of member states, while expressing its concern that they are not always accompanied by the decentralisation of resources to finance new competences.

15. The Congress further welcomes the 10 recommendations for regions to overcome the crisis, adopted at the 3rd Summit on Regions and the Economic Crisis (Paris, 16 May 2013), organised by the Assembly of European Regions, which are aimed at using the potential of future-oriented sectors as a key for the regional economic revival, designing youth-oriented regional policies to reinvigorate the economy, promoting regional entrepreneurship, assuring a more sustainable regional and local financing, developing socially inclusive regional economies, regaining citizens' trust and building partnerships with other tiers of governance.

16. In view of the above, and in reference to its Resolution 347 (2012) on the right of local authorities to be consulted by other levels of government, the Congress calls on European local and regional authorities and their national associations to lobby their national and, where appropriate, regional governments to establish mechanisms for regular consultations and dialogue on developing anti-crisis policies and measures, in order to ensure coherence of policy responses to the crisis and to provide their input and innovative ideas aiming in particular to:

a. obtain greater competences, especially in local and regional economic policy and social protection areas, and in particular in the fields of infrastructure, health care, education and research, social welfare, and recreation and culture, including first and foremost an increase in local and regional tax authority and greater budgetary autonomy, also within internal stability pacts where appropriate;

b. obtain in particular local tax authority over property taxes based on statutory real estate values in countries where this is not yet the case, and reduce the dependence of local budgets on highly volatile tax bases such as corporate profits and property transactions, using as guidance the 2005 Committee of Ministers' Recommendation REC (2005)1 on the financial resources of local and regional authorities;

c. ensure a steady level of intergovernmental transfers into local and regional budgets, without disproportionate cuts, and a minimum one-year advance notice from national authorities in cases when such transfers are to be reduced;

d. maintain a balanced mix of intergovernmental transfers and local and regional taxes to finance local and regional budgets;

e. reinforce the equalisation and regional solidarity systems among states, and revise national equalisation systems and programmes to improve burden sharing between different tiers of governance and to alleviate better the excessive strain on economically weaker regions and local communities;

f. revise government financing of the local and regional levels to provide a balance between allocations into social support programmes and investments into projects to stimulate innovation and economic growth;

g. revive investment in local and regional infrastructure and generally increase local and regional budget investment as a priority in order to promote local competitiveness, encourage private sector investment and stimulate employment;

h. follow the example of some countries and exclude priority social services such as health, education and social protection for vulnerable groups (families in economic distress, the unemployed, children, young people, people with disabilities, the elderly) from local and regional budget expenditure limits, and exempt them from fiscal consolidation programmes and rules, as well as ensure that vulnerable groups are well protected and that their opportunities in life are not diminished by budgetary measures;

i. remove legal requirements which impose expensive service provision or make sure that, in cases when central authorities do impose uniform standards of service provision at local and regional levels, such as for health care, education and social welfare, the required expenditure is matched by national government financing;

j. design special measures and programmes to alleviate the excessive local and regional debt burden, through a combination of budget deficit limits and 'debt ceilings', restrictions on borrowing and on the issue of municipal or regional bonds, creation of special funds for dedicated local government loans, and the introduction of 'debt brakes' to ensure that local and regional budgets are financed without structural deficits;

k. make sure that restraints on local and regional government borrowing are based on prudential criteria, which assess capacity for repayment on an objective and non-discretionary basis, and that every tier of governance is responsible for financing its own deficits and debt positions;

l. design special measures to deal with the recovery of local and regional authorities in financial difficulty, including cases of insolvency, using as guidance the 2004 Committee of Ministers' Recommendation REC (2004)1 on financial and budgetary management at local and regional levels, and including the availability of special financial assistance;

m. achieve a balanced level of centralisation of competences and put a stop to the trend for recentralisation of competences towards central authorities and for slowing down decentralisation and regionalisation processes;

n. put a stop to forced amalgamations at local and regional level while encouraging and facilitating voluntary inter-municipal and inter-regional co-operation aimed at sharing administrative resources, service provision and procurement between adjoining authorities;

o. make sure that decisions on territorial reforms, including on the creation of new tiers of governance or abolition of existing ones, are taken only after consultations with the authorities and citizens concerned, and promote a regional governing guideline, allowing regions and local communities in general to directly manage their development policies.

17. The Congress welcomes the strategies and measures already developed by local and regional authorities in response to the crisis, and further calls on local and regional authorities to:

a. in partnership with local and regional economic actors including banks, business enterprises and research and training institutions, develop a shared vision of economic opportunities and a strategy for the economic development of the community, aimed at reviving investment in infrastructure and environmental quality to promote competitiveness, encourage private sector investment and stimulate employment, and paying particular attention to the development potential of future-oriented sectors such as green economy, e-health and creative industries;

b. increase citizen participation in decision making by introducing elements of direct democracy, including through greater use of new information technologies, regular consultations with citizens and their associations, and the use of participatory budgeting;

concerning efficiency savings:

c. develop stronger inter-municipal and inter-regional co-operation to benefit from economies of scale by seeking efficiency gains through shared service provision and administrative costs as well as through joint procurement, and to facilitate labour mobility, cross-investment and business networking;

d. devise procedures to increase transparency in public procurement and other uses of public funds through, for example, online competitive bidding, electronic auctioning, the use of benchmarking to restrain expenditure, etc.;

e. to develop, at regional level in particular, competition between regions, using as incentives tax rates on income and profits, supply policies and service delivery costs, to increase effectiveness and efficiency of public spending;

f. seek efficiency savings through innovation and greater use of new technologies by, for example, computerising public services, ensuring online service provision and developing e-governance in general;

g. pay particular attention to investing in energy efficiency and developing strategies for cost-saving energy uses;

concerning business development:

h. give priority to promoting local and regional entrepreneurship and providing assistance to enterprise development, in particular to small and medium-sized enterprises, through, for example, simplified administrative procedures for setting up a company, assistance to new enterprises during the start-up process, development of micro-credits, tax exemptions or discounts, interest rate subsidies, employment subsidies, lease of business incubator premises, and free or subsidised provision of land and/or utility connections;

i. develop policies and projects aimed at the regeneration of disused public areas;

j. increase allocations to vocational training, including through apprenticeship, with a focus on digital skills, to improve employability, the skills base and thus competitiveness;

concerning fiscal policies:

k. take measures to increase their own taxes or fees (when they have sufficient autonomy to do so), and further increase revenue by fighting tax evasion;

l. improve the administration of property taxation and maintain local and regional taxes on business enterprises, while making sure that their rates do not exceed those of personal taxes;

concerning social responsibilities:

m. use good practices in cutting employment costs, but not employment thus avoiding layoffs, including through salary cuts, pay or vacancy freezes, fewer work hours or abandoning bonus payments, among others;

n. take great care when closing underused service institutions so as to avoid adverse social consequences (for example, in cases of rural schools or minority language schools);

o. give consideration to targeting social assistance subsidies for the provision of public services to those most in need, by applying means tests and allocating subsidies directly to households and individuals based on their financial means, rather than to service providers;

p. also give consideration to using community care rather than institutional care for the elderly and people with disabilities, with the support of voluntary and family carers and non-governmental organisations active in community care;

q. increase partnership with the non-governmental sector, in particular organisations involved in specialised forms of social and health care, through special partnership agreements for service provision.

18. The Congress instructs its Monitoring Committee to continue including in its monitoring and post-monitoring activities the question of the impact of the economic and financial crisis at local and regional levels, and in particular its consequences for the effective implementation of the European Charter of Local Self-Government, and to address this issue in its draft recommendations to national governments.

19. The Congress further instructs its Governance Committee and its Current Affairs Committee to keep the question of the impact of the economic and financial crisis and responses at local and regional levels under constant review, and to ensure the dissemination of relevant good practices to local and regional authorities, including through their European and national associations.

DRAFT RECOMMENDATION[3]

1. The financial and economic crisis which hit the world in 2008 has had a particularly severe impact on local and regional authorities as they have had to face at the same time a shrinking revenue base due to the economic downturn, cuts in budgetary transfers from national governments, decreasing local tax authority, mandatory participation in fiscal consolidation programmes and the need to manage debt – excessive sometimes because of so-called "toxic loans" – as well as the obligation to increase social support to citizens, against the background of growing demands for assistance to vulnerable groups affected by the crisis.

2. In 2009-2010, local revenues fell in many countries across Europe, in some by as much as 20%. Regional output also shrank on average by 3.4% in 2008-2009, with such extremes as a 20% fall in Latvia, but saw an upswing in most regions in 2010-2011. A weak economic recovery in 2010, with a 2% GDP growth in the EU, tapered to 1% in 2011 and reversed into 0.1% recession in 2012, with a further 0.4% recession forecast for 2013. Over 2008-2012, local budget investment fell by an average 14%, with as much as 30% in some countries, against the backdrop of an almost 5% decrease in intergovernmental transfers in 2011 alone, which almost completely offset a 5.5% rise in local tax revenues.

3. Local and regional authorities are faced with increasing social costs such as housing and utility allowances, safety net payments to the unemployed and others eligible for minimum income guarantees, and emergency aid to distressed families. In 2012, the number of households where essential household costs (such as rent, mortgage payments and utility charges) exceed 40% of income grew by 13%, pushing local social expenditure on these households up by 16%, against the background of rising unemployment, which exceeded 12% in 2013 in the Eurozone alone, with a high end of 27% in Spain and Greece. Extremely high unemployment, in particular among young people, which reached 62% in Greece and 56% in Spain, is threatening to undermine prospects for long-term sustainable growth.

4. The Congress of Local and Regional Authorities is deeply concerned about the impact of the crisis on local communities and regions of Europe, and in particular about the significant social problems caused by the reduction of social welfare programmes in many European countries and lower investment levels in strategic policy areas, such as education, health and social assistance to vulnerable population groups.

5. The Congress is convinced that local and regional authorities are crucial stakeholders and actors in ensuring European economic revival, due to both their economic and social roles. Local and regional authorities represent 65% of all public investment and 30% of public spending (including 60% of all public spending on education and more than 30% on health), and account for some 16% of public debt and almost 13% of public deficits. They hold key responsibilities with regard to social protection of citizens, including housing, health care, education, sickness and disability, care for the elderly, family and children, measures against unemployment and exclusion.

6. The Congress welcomes the fact that the important role of local and regional authorities in economic recovery was recognised by the Ministers of the Council of Europe member States responsible for local and regional government at their Conference in Utrecht (Netherlands) in 2009, and reaffirmed at their Conference in Kyiv (Ukraine) in 2011, with the approval of the "Kyiv Guidelines" and proposals for an Agenda in Common, which identifies as the top priority joint action by national governments and local and regional authorities in responding to the economic crisis.

7. The Congress expresses its concern that the crisis has had an adverse impact on the financial autonomy guaranteed under the European Charter of Local Self-Government (CETS No. 122), in particular its provisions relating to the financial resources and budgetary authority, equalisation, devolution of competences, and consultations with local authorities on matters affecting them and local financing in particular. The Congress stresses that the full implementation of the Charter must be ensured in particular in this time of crisis, when local and regional authorities face greater responsibilities in providing services and assistance to households in need.

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[3] See footnote 2

8. In this context, the Congress is particularly concerned about the tendencies for recentralisation of local and regional competences, forced municipal amalgamations and regional mergers, imposition of severe austerity measures and fiscal consolidation rules, and slow-down of decentralisation and regionalisation processes as a response to the crisis.

9. The Congress shares the position of the EU Committee of the Regions, expressed in its Opinion of 12 April 2013 on “Devolution in the European Union and the place for local and regional self-government in EU policy making and delivery”, that the economic crisis and austerity measures cannot be used as an excuse to further centralise or devolve powers without providing corresponding financial resources, and that the allocation of powers not linked to corresponding financial resources or to income-raising powers cannot be used as an argument for centralisation.

10. The Congress is convinced that decentralisation is a key to better economic performance and growth and that many local communities and regions in fact did not have enough means and responsibilities to respond adequately to the crisis. The five years of the crisis have shown that, while decentralised economies are no more immune to its impact than the centralised ones, they recover better as they adapt more quickly to changing circumstances and show greater resilience overall. Local and regional authorities know best the needs and circumstances of their communities, and they are in a position to act more effectively and efficiently and to ensure an optimal use of local resources – not least also for reason of better transparency and accountability to citizens.

11. The Congress is therefore convinced that any crisis exit strategies must be based on the following principles:

a. recognition of local and regional authorities as key stakeholders in joint action of all tiers of governance to devise common responses and to ensure coherence of response policies and measures as well as solidarity in equitable burden-sharing, through the process of regular consultations and dialogue;

b. further decentralisation of competences in keeping with the principle of subsidiarity, as well as greater budgetary autonomy and tax authority at local and regional levels;

c. reviving investment to stimulate employment, innovation and economic growth;

d. increasing citizen participation in decision making at local and regional levels through elements of direct democracy, in particular through greater use of new information technologies;

e. building partnerships with the private and non-governmental sectors, as well as with other local and regional authorities in the process of voluntary inter-municipal and inter-regional co-operation to benefit from the economies of scale and to facilitate labour mobility, cross-investment and business networking.

12. The Congress notes with deep concern the 2013 findings of the International Labour Organisation, indicating that government austerity policies have been accompanied since 2010 by increasing wage inequalities, in which middle-income groups’ revenues declined while those of top salary earners began to grow again, posing a threat to the social fabric of European societies and increasing the risk of social unrest, which rose within the EU alone from 34% in 2006-2007 to 46% in 2011-2012.

13. In this context, the Congress supports the position of the Council of Europe Parliamentary Assembly, expressed in its Resolution 1886 (2012) on the impact of the economic crisis on local and regional authorities in Europe, as well as in its Resolution 1884 (2012) on austerity measures – a danger for democracy and social rights, and welcomes the recent recommendations of the European Commission aimed at shifting the economic policy emphasis from austerity to structural reforms.

14. The Congress also welcomes with caution reform measures entailing decentralisation of competences, being undertaken or planned in a number of member states, while expressing its concern that they are not always accompanied by the decentralisation of resources to finance new competences.

15. In view of the above, and in reference to its Recommendation 328 (2012) on the right of local authorities to be consulted by other levels of government, the Congress asks the Committee of Ministers to invite member States of the Council of Europe to establish mechanisms for regular consultations and dialogue with local and regional authorities on developing anti-crisis policies and measures, in order to ensure coherence of policy responses to the crisis and to take into account their input and innovative ideas aiming in particular to:

a. ensure that local and regional authorities receive greater responsibilities, especially in local and regional economic policy and social protection areas, and in particular in the fields of infrastructure, health care, education and research, social welfare, and recreation and culture, including first and foremost an increase in local and regional tax authority and greater budgetary autonomy, also within internal stability pacts where appropriate;

b. ensure in particular local tax authority over property taxes based on statutory real estate values in countries where this is not yet the case, and reduce the dependence of local budgets on highly volatile tax bases such as corporate profits and property transactions, using as guidance the 2005 Committee of Ministers' Recommendation REC (2005)1 on the financial resources of local and regional authorities;

c. ensure a steady level of intergovernmental transfers into local and regional budgets, without disproportionate cuts, and a minimum one-year advance notice from national authorities in cases when such transfers are to be reduced;

d. maintain a balanced mix of intergovernmental transfers and local and regional taxes to finance local and regional budgets;

e. reinforce the equalisation and regional solidarity systems among states, and revise national equalisation systems and programmes to improve burden sharing between different tiers of governance and to alleviate better the excessive strain on economically weaker regions and local communities;

f. revise government financing of the local and regional levels to provide a balance between allocations into social support programmes and investments into projects to stimulate innovation and economic growth;

g. revive investment in local and regional infrastructure and generally increase local and regional budget investment as a priority in order to promote local competitiveness, encourage private sector investment and stimulate employment;

h. follow the example of some countries and exclude priority social services such as health, education and social protection for vulnerable groups (families in economic distress, the unemployed, children, young people, people with disabilities, the elderly) from local and regional budget expenditure limits, and exempt them from fiscal consolidation programmes and rules, as well as ensure that vulnerable groups are well protected and that their opportunities in life are not diminished by budgetary measures;

i. remove legal requirements which impose expensive service provision or make sure that, in cases when central authorities do impose uniform standards of service provision at local and regional levels, such as for health care, education and social welfare, the required expenditure is matched by national government financing;

j. design special measures and programmes to alleviate the excessive local and regional debt burden, through a combination of budget deficit limits and 'debt ceilings', restrictions on borrowing and on the issue of municipal or regional bonds, creation of special funds for dedicated local government loans, and the introduction of 'debt brakes' to ensure that local and regional budgets are financed without structural deficits;

k. make sure that restraints on local and regional government borrowing are based on prudential criteria, which assess capacity for repayment on an objective and non-discretionary basis, and that every tier of governance is responsible for financing its own deficits and debt positions;

l. design special measures to deal with the recovery of local and regional authorities in financial difficulty, including cases of insolvency, using as guidance the 2004 Committee of Ministers' Recommendation REC (2004)1 on financial and budgetary management at local and regional levels, and including the availability of special financial assistance;

m. achieve a balanced level of centralisation of competences and put a stop to the trend for recentralisation of competences towards central authorities and for slowing down decentralisation and regionalisation processes;

n. put a stop to forced amalgamations at local and regional levels while encouraging and facilitating voluntary inter-municipal and inter-regional co-operation aimed at sharing administrative resources, service provision and procurement between adjoining authorities;

o. make sure that decisions on territorial reforms, including on the creation of new tiers of governance or abolition of existing ones, are taken only after consultations with the authorities and citizens concerned, and promote a regional governing guideline, allowing regions and local communities in general to directly manage their development policies.

EXPLANATORY MEMORANDUM[4]

I. Introduction

1. The financial and economic crisis has had a particularly severe impact on local and regional authorities as they have had to face at the same time a shrinking revenue base due to the economic downturn, cuts in budgetary transfers from national governments, a need to manage debt – excessive sometimes because of so-called "toxic loans" – as well as the obligation to increase social support to citizens, against the background of growing demands for assistance to vulnerable groups affected by the crisis. The crisis had a strong impact on the economic performance and the household situation of most countries, regions and local communities in Europe, many of which suffer from substantial deficits and an aggravated debt situation.

2. The crisis represents a major challenge to our democratic system and particularly to our local and regional democracy, based on checks and balances between central governments and local and regional authorities. The prevailing economic criteria in the current situation have distorted the foundations of local and regional democracy, profoundly damaging it.[5] National response measures, in particular austerity programmes and sometimes territorial reorganisation leading to greater centralisation, are further weakening the functioning of local and regional self-government.[6]

3. The crisis has revealed some crucial shortcomings: the question of solidarity and inadequacies in the system of burden-sharing brought to the fore by national budget deficits and the crisis of the euro; and a lack of capacity of our democratic institutions, which are part and parcel of European democratic governance, to deliver on the main promise of democracy – a promise of social justice, equal participation and a fair distribution of resources.

4. Today, social cohesion in our societies is under threat as all levels of governance are struggling to maintain guarantees of key social rights such as employment, education, housing and quality health care. In 2011, 24% of the EU population – almost 120 million people – was at risk of poverty or social exclusion.[7] The crisis brought about a growing need for social assistance to households in economic distress and to the vulnerable population groups – children, young people, people with disabilities and the elderly. This puts a very serious strain first and foremost on local and regional resources that are already very much stretched because of shrinking revenues, cuts in intergovernmental transfers, decreasing local tax authority and the mandatory participation in fiscal consolidation programmes.

5. Local and regional authorities are crucial stakeholders in European economic revival, due to their economic and social roles. They represent 65% of all public investment and 30% of public spending, and account for some 16% of public debt and almost 13% of public deficits.[8] They also hold key responsibilities with regard to social protection of citizens, including housing, health care, education, sickness and disability, care for the elderly, family and children, measures against unemployment and exclusion. For example, local and regional authorities today represent 60% of public spending on education and more than 30% of spending on health.[9]

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[4] This explanatory memorandum is based on the documents prepared by the Council of Europe consultants Mr Kenneth Davey, British expert on local government reform and former Professor of the School of Public Policy at the University of Birmingham, and Dr Urs Müller, Swiss expert on regional government and Professor of economics at the University of Basel, which are available from the Secretariat upon request, as well as on the contribution from the Organisation for Economic Co-operation and Development (OECD), OECD (2012) Restoring Public Finances, 2012 Update.
[5] Committee of the Regions' Opinion CDR2214/2012, "Devolution in the European Union and the place for local and regional self-government in EU policy making and delivery", 12 April 2013, CIVEX-V-034.
[6] Ibid.
[7] http://www.euractiv.com/socialeurope/24-eu-population-risk-poverty-so-news-516413.
[8] OECD (2012) Restoring Public Finances, 2012 Update, Chapter 3, Involving Sub-National Governments in Fiscal Consolidation.
[9] Ibid.

6. This role has been increasingly recognised by both national governments and parliaments. In 2009, Ministers responsible for local and regional government of the 47 Council of Europe member States, at their conference in Utrecht, stressed in the final Declaration that “because of their knowledge of communities, people and businesses at local and regional level, local and regional government can be extremely powerful actors in addressing the needs of citizens and facilitating business in overcoming the economic crisis”.[10]

7. The Ministers reiterated this importance at their conference in Kyiv in November 2011, when they stressed the need for national, local and regional authorities to join their efforts in responding to the crisis. This was reflected in both the agreed Kyiv Guidelines for policy responses to the crisis and an Agenda in Common approved by the Ministers, which identifies joint action in response to the crisis as one of the top priorities.[11]

8. In 2012, the Council of Europe Parliamentary Assembly adopted Resolution 1886 (2012) on the impact of the economic crisis for local and regional authorities, containing recommendations to central governments with proposals for policy action to address the local and regional situation. The Assembly also adopted Resolution 1884 (2012) on austerity measures – a danger for democracy and social rights, calling for measures to stimulate economic growth rather than impose austerity.

9. In April 2013, the EU Committee of the Regions adopted its Opinion on “Devolution in the European Union and the place for local and regional self-government in EU policy making and delivery”, in which the Committee expressed its firm opposition to using the economic crisis and austerity measures as an excuse to further centralise powers or to devolve powers without providing corresponding financial resources. The Committee stressed that the allocation of powers not linked to corresponding financial resources or to income-raising powers cannot be used as an argument for centralisation, while welcoming at the same time the growing trend towards fiscal devolution within the EU.[12]

10. In May 2013, the 3rd Summit on Regions and the Economic Crisis, organised by the Assembly of European Regions in Paris, adopted 10 recommendations aimed at using the potential of future-oriented sectors as a key for regional economic revival, designing youth-oriented regional policies to reinvigorate the economy, promoting regional entrepreneurship, assuring more sustainable regional and local financing, developing socially inclusive regional economies, regaining citizens’ trust and building partnerships with other tiers of governance.[13]

11. The question of the impact of the economic and financial crisis has been on the agenda of the Congress of Local and Regional Authorities since the onset of the crisis in 2008. The Congress has held three plenary debates on its consequences for local communities and regions – in 2009, 2010 and 2012. “Europe in Crisis: Challenges to Local and Regional Democracy” was also chosen as the theme for the Congress’ sessions in 2013, with debates in March on combating social exclusion, fighting local and regional corruption and reviving the local community through greater citizen participation.

12. In the preparation of this report, the rapporteurs benefited from the results of the questionnaire sent out in 2012 to local and regional authorities and their associations, from the contributions of Council of Europe consultants as well as from the report of the Organisation for Economic Co-operation and Development OECD (2012) Restoring Public Finances, 2012 Update.

[10] MCL-16(2009)12 Final, Council of Europe Conference of Ministers responsible for Local and Regional Government (16th Session, Utrecht, 16 - 17 November 2009).
[11] MCL-17(2011)15 Final, Council of Europe Conference of Ministers responsible for Local and Regional Government (17th Session, Kyiv, 3 - 4 November 2011).
[12] Committee of the Regions’ Opinion CDR2214/2012, “Devolution in the European Union and the place for local and regional self-government in EU policy making and delivery”, 12 April 2013, CIVEX-V-034.
[13] http://www.aer.eu/en/media-corner/press-releases/2013/20130516.html.

II. Economic and social impact of the crisis

13. The crisis began to affect local and regional budget revenues in 2008, notably in the Baltic States. The major decline occurred in 2009 when GDP in the European Union as a whole fell by 4.3%, manufacturing production dropped by 19.4%, and unemployment rose by nearly 27%. In 2009-2010, local revenues fell in 16 countries across Europe, in some by as much as 20%, including 19.7% in Bulgaria, 13.1% in Germany and 11.3% in Ireland.

14. The 2009 shortfalls were partially compensated by national budget transfers, which generally increased by 6.9%, partly due to the automatic operation of equalisation mechanisms. A weak economic recovery, which began in 2010 with 2.0% growth in EU GDP, tapered to 1% in 2011, and reversed into 0.1% recession in 2012, with further 0.4% recession forecast for 2013.[14] The focus of economic distress has shifted sharply to national budget deficits, resulting in austerity programmes with radical cuts in intergovernmental transfers and widespread restraints on local and regional tax and fee setting. In 2011, an average rise of 5.5% in local tax and tax share yields was almost completely offset by a 4.9% drop in transfers, although with wide variations between countries: local authorities in the United Kingdom face an overall 26% reduction in grants over the three-year period to 2014, while Russian municipalities, in contrast, benefitted from a 19% increase in transfers in 2011.

15. The situation has also been mixed with regard to local and regional revenues from property and business taxes. In 2009, property transfer tax revenues dropped by 56% in Bulgaria and at a similar rate in French departments but property tax increased by 60% in Russian municipalities. Revenues from taxes on business profits suffered major losses in the Czech Republic, Germany and Russia, with Russian regions showing a 70% reduction in corporate income tax revenues in 2009.

16. The impact of the economic crisis on regional authorities in Europe has been primarily financial and aggravated structural imbalances from previous years. As a consequence, many regions were already indebted at the beginning of the crisis. In some regions, the reason for structural deficits was an insufficient funding in relation to the competences; in others, expenditures were simply too high due to inefficiencies and ineffectiveness of regional policy. In 2008-2009, regional output in Europe was shrinking on average by 3.4%, with such extremes as a 20% fall in Latvia. However, it was on the rebound in 2010-2011, with an average growth of above 3% in most regions.

17. Over 2008-2012, local budget investment fell by 14% on average, with as much as a 30% reduction in some countries, while at the same time capital investment was sustained in central and eastern Europe by EU structural funds.

a. General trends

18. While the impact of the crisis varies considerably from country to country and from region to region – as do policy responses and anti-crisis measures – several common trends can be identified. Among these are:

- the contraction of the economic base and a reduction of local revenues as a result;
- an overall decrease in transfers from national budgets – by 18% in some cases – and significant reductions in earmarked grants for infrastructure;
- a diminishing capacity to raise local revenues due to local tax restrictions imposed by national fiscal policy – such as on introducing or abolishing taxes and charging tax rates – which limits space for tax revenue increase;
- spending limitations and control, with most countries requiring local and regional authorities to participate in national fiscal consolidation efforts, by introducing budget deficit targets and expenditure limits;
- cuts in local public investment after initial stimulus in 2008-2009;
- a rise in social expenditure – in particular for the unemployed and their families as well as for the elderly;

[14] http://www.euractiv.com/euro-finance/commission-forecasts-slower-grow-news-519523.

- finally, in some cases, efforts by national governments to recentralise, taking competences or funding sources away from the regional and local levels.

19. In addition, the crisis revealed the deficiencies of the existing equalisation systems, with many economically weak regions suffering from insufficient programmes for equalisation between regions in their countries.

20. By contrast, the most stable local tax source has been the ownership or occupation of real estate based on fixed values. Russian municipalities increased their property tax revenues by 60% in 2009, Romanian municipalities by 31%. Municipal property taxes have been recently re-introduced in Ireland and Ukraine, which contributed to the current trend for fiscal devolution. As part of this trend, Belgian provinces gained the right to surcharge personal income taxes, the municipal share of three Russian taxes increased by 10%, and the local budget share of Serbian wage tax doubled, with local government in Serbia also sharing yields of excise taxes on oil.

21. However, overall, half of the local government systems are still faced in 2013 with part of the resource losses they first experienced in 2008-2009 and with little immediate prospect of recovery. Local and regional authorities continue to confront increasing social costs while challenged to increase investment.

b. Social consequences

22. The most crucial area of national, local and regional action in this time of crisis is social protection. The crisis is tearing indeed at the very fabric of our democratic societies, threatening to undermine the social rights of our citizens. Social consequences of the crisis cannot be measured by economic indicators alone: growing unemployment and rising costs of living also aggravate the risks of domestic violence, child abuse and other forms of social ills with which local and regional social services have to grapple.

23. Local and regional authorities have key social responsibilities, bearing in particular all or part of the rising cost of housing and utility allowances; safety net payments to the long-term unemployed; emergency aid to families; protection for an increasing number of children from distressed families; care for a growing population of elderly people as well as for people with disabilities; and administering public employment programmes.

24. The Council of Europe’s 2011 report “Local Government in Critical Times: Policies for Crisis, Recovery and a Sustainable Future”[15] recorded the increases in social distress arising from the economic downturn. Growing unemployment (7.15 % of the EU labour force in 2008, 9.7% in 2011, 10.8% of the active population in 2013[16]), has combined with rising utility prices to squeeze disposable household incomes. According to the Eurostat, 24% of the EU population – or 119.6 million people – were at risk of poverty or social exclusion in 2011, with 17% having disposable income below 60% of the national average.[17]

25. In 2010, local social costs such as housing and utility allowances, safety net payments to the unemployed and others eligible for minimum income guarantees, and emergency aid to distressed families rose by 10% in Denmark, 22% in Hungary and 24.5% in Slovakia. In 2012, the number of households where essential household costs (such as rent, mortgage payments and utility charges) exceed 40% of income has grown by 13%, pushing local social expenditure on these households up by 16%, against the background of rising unemployment, which exceeded 12% in 2013 in the Eurozone alone, with a high end of 27% in Spain and Greece. Youth unemployment in the EU broke a new record, with almost 24% of active young people jobless in 2013, ranging from 15% or less in Austria, Denmark, Germany and the Netherlands to more than 55% in Greece and Spain.[18] Demography has also been contributing to the long-term pressures on local social expenditures, with the percentage of Europe’s population over the age of 65 expected to increase by half by 2050.

26. At the same time, the implementation of fiscal consolidation programmes and austerity measures has led to substantial cuts in local budgets in such key social areas as adult social care, children’s services, youth programmes, and culture.

[15] ”Local Government In Critical Times: Policies for Crisis, Recovery and a Sustainable Future”, © Council of Europe, February 2012
[16] EU Employment and Social Situation Quarterly Review, March 2013.
[17] http://www.euractiv.com/socialeurope/24-eu-population-risk-poverty-so-news-516413.
[18] EU Employment and Social Situation Quarterly Review, March 2013.

27. According to the International Labour Organisation's 2013 World Report, government austerity policies have been accompanied since 2010 by increasing wage inequalities, in which middle-income groups' revenues declined while those of top salary earners began to grow again, posing a threat to the social fabric of European societies and increasing the risk of social unrest, which rose within the EU alone from 34% in 2006-2007 to 46% in 2011-2012.[19]

III. Responses to the crisis

28. The Kyiv Guidelines, agreed by Ministers responsible for local and regional government at their Conference in Kyiv (Ukraine) in November 2011,[20] identified the main options for possible national policy responses to the crisis as:

- stabilising local revenue bases;
- improving accountability and efficiency;
- combating social deprivation;
- building partnership in delivering public services;
- enhancing local flexibility and discretion;
- promoting economic recovery.

29. The rapporteurs fully support this approach but stress at the same time that the crisis has also revealed the importance of further decentralisation of competences and greater budgetary autonomy at local and regional levels. A 2009 study by the Assembly of European Regions shows a direct link between decentralisation and better economic performance.[21] The current analysis of the five years of the crisis also shows that, while decentralised economies are no more immune to its impact than the centralised ones, they recover better as they adapt quicker to changing circumstances and new economic conditions, and show greater resilience overall. In fact, many local communities and regions did not have enough means and responsibilities to respond adequately to the crisis when it broke out in 2008.

30. Decentralisation fosters economic performance and welfare through greater consideration of citizens' wishes and needs. Local and regional authorities know best the needs and circumstances of their communities, and they are in a position to act more effectively and more efficiently and to ensure an optimal use of local resources – not least also for reason of better transparency and accountability to citizens. Decentralisation also has an impact on the innovative capacity of regions and local communities, and higher decentralisation means better development of employment and a lower increase in unemployment. Slowing down the decentralisation process is therefore a wrong answer to the current crisis. Regions and local communities need more power and responsibility, with a clear division of competences between national, regional and local levels, full responsibility of local and regional authorities over their revenues and expenditures, and some competition between local and regional communities both regarding revenues (taxes) and expenditures (public services).

31. Decentralisation also provides better opportunities for increasing citizen participation through elements of direct democracy at local and regional levels, in order to tap into the innovative potential of citizens and receive their feedback on public action. Voters are also sometimes more reasonable than politicians and feel more responsible for a longer-term development.

32. Overall, decentralisation strengthens the local and regional governments' capacity to meet the challenges posed by the crisis, which depends substantially on:

- the range of public services they finance;
- the match between their revenues and their competences and responsibilities;
- how much real choice they have in allocating their budget to individual services;
- whether they can determine the rates of their taxes and charges, both allowing them to vary their level of spending and making them answerable to the payers.

[19] "World of Work Report 2013: Repairing the economic and social fabric", International Labour Organisation, June 2013.
[20] MCL-17(2011)15, Council of Europe Conference of Ministers responsible for Local and Regional Government (17th Session, Kyiv, 3 - 4 November 2011).
[21] "From Subsidiarity to Success: The Impact of Decentralisation on Economic Growth", © Copyright 2009, Assembly of European Regions (AER)

a. Economic and fiscal responses

33. Responses to the impact of the crisis on local and regional authorities can be grouped into several broad areas: local/regional expenditure management; social assistance management; economic recovery efforts; and local autonomy issues.

34. In the area of local expenditure management, efforts are focusing on:

- reducing local personnel costs (according to DEXIA, local budget spending on personnel fell in 2011 for the first time in 12 years);
- carrying out territorial re-organisation to achieve cost-effectiveness;
- increasing inter-municipal and inter-regional co-operation to benefit from the economies of scale;
- rationalising service networks (for example, closing underused facilities or cutting down services deemed unnecessary);
- improving transparency, in particular in public procurement, to raise cost-efficiency (which also includes measures to fight corruption);
- improving service efficiency through innovation and use of new technologies.

35. Action to manage social assistance covers the housing and utility benefits, safety net and emergency aid payments, children's protection, care for the elderly and people with disabilities, and public employment programmes; it includes in particular strategies to target social assistance to the most needed, increase reliance on community care and the use of the voluntary sector, and build social partnerships with both the private sector and civil society.

36. The economic recovery efforts are focused on reviving investment, promoting business development (in particular of small-scale enterprises, including through business and employment subsidies), developing the skills base (including through on-the-job apprenticeships and vocational training) and strengthening local infrastructures (including through the regeneration of disused areas, updating of transport networks, etc.).

37. Finally, local autonomy involves such issues as budgetary autonomy and income-raising powers, intergovernmental transfers (including financial assistance through subsidies, grants and equity participation) and benefits under equalisation mechanisms, as well as the revival of local leadership in taking economic and social response measures and changes in the culture of local government, with an increased focus on effectiveness, efficiency and partnership building.

i. National action

38. In response to the crisis, national authorities have been undertaking a wide range of measures to improve the situation at local and regional levels.

39. In Iceland, for example, as was noted in the Congress' 2010 monitoring report,[22] the economic crisis has awakened feelings of social solidarity and co-operativeness among the various administrative bodies, noteworthy as a ground-breaking experiment or as recommended good practice showing how to overcome situations of great difficulty, especially in financial terms, without reducing the independence of local authorities or their capacity to find for themselves differentiated solutions matching their citizens' needs.

40. Some countries are considering the possibility of increasing tax autonomy of local and regional governments, and are encouraging them to explore other types of revenues – such as fees – along with increasing the effectiveness of public spending.[23] However, in some countries – in Italy, for example – this has led to stronger controls by national authorities of regional spending through spending reviews, and a number of sanctions are envisaged for regions breaking the rules for expenditure reduction targets.[24]

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[22] CPL 18(3), 2 March 2010, "Local democracy in Iceland".
[23] OECD (2012) Restoring Public Finances, 2012 Update, Chapter 3, Involving Sub-National Governments in Fiscal Consolidation.
[24] Ibid.

41. A number of countries have carried out equalisation reforms to improve the regional distribution of wealth and therefore regional economic growth – for example, Estonia, the Czech Republic and France, which created new equalisation and intercommunal funds in 2011 and the reinforcement of the capital region fund in 2012.[25] In both Montenegro and Serbia, transfers have been redistributed in favour of less developed regions. In Nordic countries, intergovernmental transfer reductions are negotiated with local government associations in relation to equalisation formula changes. Negotiations are underway in Belgium to improve the burden-sharing between different governments.

42. In Italy, payments to regions are now based on detailed uniform standards of service provision for health care, education and social welfare, and relevant ministries closely supervise local government management in these sectors. At the same time, this country's Internal Stability Pact exempts health care and a number of other sectors from spending cuts.[26]

43. Some countries are also introducing grant system reforms – such as the Czech Republic, Finland and the United Kingdom where local authorities received more control over budgets and earmarking was abandoned, except for school and public health grants. Still others are reforming their local tax systems – examples include France, Slovakia and Ireland, where current reform measures aim to ensure more stable financing (in particular through a new local property tax) and increased efficiency through service-sharing, rationalisation of local government structures as well as greater accountability and oversight.

44. This list of reforms can be completed with territorial organisation reforms and municipal mergers that are being promoted in several countries (Finland, France, Greece, Ireland, the United Kingdom). In this context of territorial reform, certain governments are considering abolishing intermediate government tiers, such as provinces in Italy; pursue radical amalgamation of municipalities, which is the case in Finland; or abandon further regionalisation, for example in Hungary, Latvia, Lithuania, Portugal, Slovenia and Sweden. Finally, the allocation of tasks and responsibilities between different tiers of government is also under review, for example in Hungary, Greece and Ireland. In 2010, Greece reduced the number of local governments from 1,038 to 325 (while increasing at the same time local competences), and Ireland announced a number of local authorities' mergers to take effect from 2014.[27]

45. Another crucial issue has been addressing the debt situation. Borrowing has been subject to greater restrictions in several countries, replaced in some cases by dedicated local government loans from specially created funds. In Finland, for example, the Municipal Finance Limited Company was set up by local authorities themselves, through which municipalities can get loans without prior authorisation from other tiers of government. So-called "debt brakes" are also being introduced, notably in Germany, to ensure that sub-national budgets are financed without any structural deficits.[28]

46. The 2004 Committee of Ministers' Recommendation REC (2004)1 on financial and budgetary management at local and regional levels[29] covers emergency situations in which individual local governments cannot meet their obligations. The guidelines appended to this recommendation suggest that national governments should provide special assistance but only once agreement is reached with the recipient on a financial recovery plan, which would presumably include measures, to reduce expenditure and increase revenues. In Montenegro, for example, procedures provide half-staff redundancy costs as part of an agreed budget restructuring. Some legislation as in Greece and Hungary imposes quasi-judicial procedures with national government appointing an administrator to control municipal finances so long as the insolvency continues.

47. However, the current fiscal consolidation constraints on local and regional governments because of austerity measures may create cascade effects on local labour markets, mainly through public procurement, and threaten local growth possibilities. Consolidation constraints can also provoke or increase inequalities in local public service access and quality.[30]

[25] Ibid.
[26] Ibid.
[27] Ibid.
[28] Ibid.
[29] Recommendation Rec(2004)1of the Committee of Ministers to member States on Financial and Budgetary Management at Local ad Regional Levels, adopted on 8 January 2004.
[30] OECD (2012) Restoring Public Finances, 2012 Update, Chapter 3, Involving Sub-National Governments in Fiscal Consolidation.

ii. Local and regional action

48. Against this range of actions at national level, local and regional authorities have been undertaking significant efforts of their own, in particular:

- taking measures to increase their own taxes or fees (when they have sufficient autonomy to do so);
- increasing revenues by fighting tax evasion – with examples in Ireland, Spain and Greece;
- seeking efficiency gains – for example, by benefiting from the economies of scale through shared -services and administrative costs as well as through joint procurement, with notable examples of Hungary, -Ireland and the Netherlands, as the crisis gave a boost to inter-municipal co-operation;
- increasing transparency of public procurement, ranging from online competitive bidding in Slovakia and electronic auctioning in Russia to extensive use of benchmarking in Denmark, Ireland and the Netherlands to restrain expenditure.

49. Efficiency savings have been achieved through innovation and greater use of new technologies – including by computerising certain public services and using e-governance techniques in service provision. For example, in Orenburg, Russia, patients register their own attendance at the polyclinic, saving time as well as money. In Salford, United Kingdom, staff can work from home to save office space. In Gloucestershire, United Kingdom, library users withdraw and return books themselves, while neighbours can access planning applications and object to them on-line. Much of the progress has also been linked to energy savings – for example, the use of thermal imagery to target improvements in insulation, or "smart" metres to vary the intensity and duration of public lighting.

50. Procurement also offers examples of attempts to restrain expenditure through increased transparency. Slovak municipalities are now compelled by law to use on-line competitive tendering for purchase of goods and services, which resulted in 50% price reductions, according to Transparency International estimates. Electronic auctioning has also been introduced in Russian local government. Performance audit, benchmarking and outsourcing are becoming widespread practices associated with New Public Management. A number of local government systems have made extensive use of benchmarking in restraining expenditure, the Danish, Dutch and Irish being conspicuous examples. Value for Money reforms by Russian municipalities have combined performance standards and targets for agencies and institutions with one-stop-shops and computerised and published information.

51. The crisis has given fresh impetus to inter-municipal and inter-regional co-operation. While some of this co-operation has been imposed, most of it has been, in contrast, a voluntary response to financial pressures and directed to the reduction of administrative overhead costs as well as operational expenditure, in particular through joint procurement, sharing of services (such as waste management) and rationalisation of common service networks (such as transport). This co-operation also offers opportunities for facilitating labour mobility (for example, by removing or simplifying requalification requirements for work permits), cross-investment and business networking.

52. Closing underused service institutions has been another cost-saving strategy, with examples reported by Bulgaria, Denmark, Hungary, Iceland, Moldova, Romania, Ukraine and the United Kingdom. However, this practice must be applied with great care because in some cases, the target was small rural schools or schools providing native language education to ethnic minorities, day care centres for the elderly, etc., which clearly brings about additional social consequences – closing a primary school can rob a village of its social and cultural heart.

53. Efforts are also being made to stimulate business activities through, for example, assistance to enterprises and regeneration of disused public areas. Assistance to enterprises usually include tax exemptions or discounts, interest rate subsidies, lease of business incubator premises, or free or subsidised provision of land and/or utility connections. Regeneration projects common to cities as far apart as Heraklion in Greece and Tallinn in Estonia often involve rebuilding disused areas for commercial use or leisure, or revitalising town centre shopping streets whose trade has been blighted by competition from shopping malls and out-of-town retail parks.

54. Raising local competitiveness is another important area, which is increasingly related to the skills base. Local government, which is often responsible for middle-level vocational training and qualification, can do much in this area to encourage the employment market. The efforts to revive the traditional role of apprenticeships are a good example. In the United Kingdom, some cities – for example Manchester and Southampton – make employment of apprentices a condition for awarding companies contracts or even simply planning consent for major construction projects. Another example is the training of young ex-offenders by companies maintaining public buildings and social housing, which is the case also in the United Kingdom and in Sweden. A Yorkshire social enterprise maintaining social housing, for example, trains 100 ex-offenders a year as housing repairmen equipped after a year's employment with a trade qualification, a toolbox, a driving licence and the all-important on-the-job experience.

b. Social strategies

55. Social protection is one area where the crisis brought about an additional transfer of competences to local and regional levels in several countries: Romanian municipalities have become responsible for most hospitals; Dutch municipalities for specialised social services, in particular child care (although not always with corresponding funding); English and Welsh districts for public health; German Gemeinde for crèches and services to the handicapped. The Kalikratis reforms in Greece devolved child protection, elderly care and preventive health services. At the same time, the trend in Hungary has been in the opposite direction, with much devolved responsibility for teachers' pay and employment, health care and social service reverting to state agencies.

56. At national level, some countries have protected priority sectors (such as education, health or social protection), either by preserving earmarked grants for these sectors, or by excluding these expenditures from the expenditure limits and fiscal rules. This is the case for example in Estonia, Slovakia, Italy and the United Kingdom.[31]

57. Local and regional authorities are implementing a wide range of their own measures to mitigate the social consequences of the crisis. For example, many of them have been cutting employment costs but not employment, avoiding layoffs. These include salary cuts (for example, 25% in Romania in 2010, 20% in Greece in 2011), pay or vacancy freezes, fewer work hours (to four days per week in Latvia) or abandoning bonus payments, among others. These widespread efforts to reduce payroll costs without imposing redundancy are a good example to follow.

58. Overall, we can speak of three strategies variously pursued at local and regional levels for coping with social budget pressures. The first is to target social assistance to those most in need, by allocating subsidies directly to households and individuals based on their financial means, rather than to service providers. In a number of countries this strategy also involves substituting cash benefits for in-kind services to physically dependent people, enabling the beneficiaries to buy the help they most need from whomever they choose. The second strategy is to prefer community care to institutional care for the elderly and people with disabilities. This involves correcting administrative and financial incentives in favour of hospital treatment and large residential homes. It also involves the third strategy which favours co-operation with non-governmental organisations active in community care, as well as support of voluntary and family carers.

i. Targeted assistance

59. The first approach tries to target social assistance to those most in need. In such cases, subsidies are no longer paid to service providers like social housing owners, heating utilities, public transport companies or kindergartens for the benefit of all consumers. Instead they are allocated to low income households, parents, passengers, etc. according to individual financial means.

[31] Ibid.

ii. Community care

60. The second strategy prefers community to institutional care for the elderly and people with disabilities. Except for the most severe cases, institutional care is generally more expensive and often less sympathetic than community care.

61. While compulsory long-term care insurance is widely recognised as a desirable solution and has been pioneered in Germany, fears of additional employment costs have so far prevented its compulsory adoption elsewhere. As an alternative, several countries have now replaced in-kind services to the elderly with cash allowances towards the costs of daily living. Such allowances are graduated by degrees of physical dependence, and can be flexibly used to buy support most needed from anyone able to provide it. They have been introduced in a range of countries such as France, Poland, Serbia, Slovakia, Spain and the United Kingdom. In several countries – for example, Slovakia – employees retiring early to care for a relative may be compensated for loss of pension earning. Residential care may be provided for a brief period to allow regular carers respite, which is the case in Estonia. In practice most family and voluntary carers are women. This needs to be recognised in arrangements which facilitate a combination of wage employment and home care together with re-entry into a full time career at a later stage.

iii. Building partnerships and using the voluntary sector

62. The third strategy, of increasing partnership with the third sector, deserves particular attention as non-governmental organisations, usually charitable, are widely involved in specialised forms of social and health care. In the United Kingdom, for example, the voluntary sector employs nearly 800,000 people, generates a turnover of £37 billion and involves some 20 million people who give up their time to help others every year.[32] In Spain, 80% of residential care is provided by the private sector, with religious bodies particularly specialising in mental health care. The Orthodox Church is expanding provision of residential care in Romania. Home carers in Bulgaria are funded by co-operation between municipalities, the Red Cross and UniCredit Bank. In Greece, some municipalities – for example, Patras – establish networks of social partners for the provision of social care to those most in need (medical assistance in particular) free of charge.

63. Such partnerships usually offer broader expertise, attract voluntary service and donations, and provide services that are often discretionary and less regulated by mandatory standards. However, as provision of social service by private enterprise is often shunned by public opinion, the compromise is increasingly seen to be outsourcing to social enterprise where ownership is vested in employees or charitable trusts.

IV. Conclusions and recommendations

64. The experience of coping with the crisis over the past five years allows for some conclusions to be drawn and recommendations for further action to be made, based on certain key principles.

65. First, local and regional authorities must be recognised as fully-fledged stakeholders in the economic recovery and consequently be involved in decision-making on revival policies and strategies. Iceland is a good example to follow in this regard, where direct consultations between national and local authorities produced excellent results. Furthermore, regions and local communities must have their say in financial policy-making and become partners in national and European financial mechanisms.

66. Accordingly, national governments must involve local and regional authorities in consultations on national anti-crisis measures and policy development, to ensure the coherence between national and local responses, as well as in decision-making on budgetary reductions, and to provide them with an advance warning on the reduction in transfers – if possible, one year in advance.

67. Second, the rapporteurs are convinced that the way out of the crisis is through further decentralisation and greater budgetary autonomy. Accordingly, national governments must reverse the recentralisation trend and provide further decentralisation in budgetary decision-making, giving local and regional authorities more

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[32] Statement by Joe Irvin, Chief Executive of NAVCA (National Association for Voluntary and Community Action), United Kingdom, at the Congress' 24th Session, Strasbourg, 19 March 2013.

liberty to decide how to allocate their budgets and further possibilities to raise their own funds (for example, through local taxation). Regional and local authorities in particular must be given the major responsibilities in such policy areas as infrastructure, education and research, recreation and culture, and health care, where applicable.

68. Third, the debate over austerity vs. growth stimulus must be decided in favour of growth. Reviving investment in regional and local infrastructure must be a priority in order to promote local competitiveness, encourage private sector investment and stimulate employment. Local and regional financing must therefore be seen as an investment in local economic recovery, and it must be revised to provide a balance between allocations into social support programmes and investments into projects to stimulate local innovation and kick-start the local economy. Innovative approaches and practices are one area where local and regional authorities represent a great potential and must play a major role.

69 Fourth, local and regional authorities must introduce or increase elements of direct democracy in order to enhance citizen participation.

70. Finally, the active participation of citizens in community revival also means actively building partnerships between public authorities and the non-governmental as well as private sectors, and pursuing co-operation both horizontally, with other local and regional authorities – including across national borders – and vertically, with other tiers of government, in order to benefit from the economies of scale. However, such co-operation should be encouraged on a voluntary basis and not imposed from a higher level.

71. Today, local autonomy, the clout of local and regional government, cannot be measured solely by revenue growth or legal competence. From national government to the general public, there is an expectation that local and regional government will "do something about" economic recovery, youth unemployment, social distress and the care of a rapidly increasing elderly population. It is this expectation that gives local and regional authorities the opportunity for leadership, influence and innovation. It can only be taken, however, by sustaining two legacies of the last five years:

- a culture of efficiency, of care how priorities are set and money spent;
- and a culture of partnership with neighbouring authorities and agencies, business and social enterprise, the voluntary sector, universities and research institutions, in which power comes not just from legal status but also from political legitimacy and a uniquely comprehensive concern for the local economy and society.