25th SESSION
Strasbourg, 29-31 October 2013

Local and regional authorities responding to the economic crisis

Recommendation 340 (2013)[1]

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.

[1]. Debated and adopted by the Congress on 29 October 2013, 1st Sitting (see Document CG(25)5, explanatory memorandum), rapporteurs: Barbara TOCE, Italy (L, SOC) et Svetlana ORLOVA, Russian Federation (R, EPP/CCE)

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.

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.