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EXECUTIVE SUMMARY

The pandemic has imposed an unprecedented challenge with significant asymmetric and multidimensional economic, social and financial consequences for all levels of government across the EU in 2020.

Local and regional authorities (LRAs) have been at the forefront in responding to this crisis in the EU and thus among the hardest hit by its effects. The Covid-19 emergency has imposed a significant strain on LRA finances. A simultaneous rise in expenditure for public health, social services, social benefits and support for businesses, workers and citizens was accompanied by decreased revenue from a drastic reduction in economic activity as well as tax relief and deferment. The increased costs and reduced revenues have created a remarkable 'scissors effect' on LRA finances.

The crisis had a strong territorial dimension, with impacts varying significantly across and within economies and LRAs. In addition to strong differences in the health situation and its consequences, LRAs within and across Member States faced this crisis from the beginning with very different financial situations, revenue sources, expenditure requirements and responsibilities. The health emergency also interacted with local economic specialisation and the exposure of particular sectors to the crisis, with different consequences on LRA finances from businesses closing. Policy response and support from central governments for LRAs has varied significantly across Member States due to different territorial realities, specificities, needs and challenges.

The crisis impact on LRA finances has been analysed from the beginning of the emergency in spring 2020, mostly at country level. Some EU-level analyses, including by the Council of European Municipalities and Regions (CEMR), the Committee of the Regions (CoR) and the OECD have underlined that a lack of finance was a key challenge for LRAs. The large majority of respondents to surveys in 2020 expected a significant decrease in their revenue as well as a substantial increase in expenditure.

This research is a first attempt to quantify the impact of the crisis on LRA revenue and expenditure for the whole EU, for each Member State, and across different sub-national government levels. The report has also analysed why some regions or municipalities have been more affected than others, by reviewing the division of fiscal powers across LRAs for each Member State as well as the impact of the crisis on local economies. There are no up to date official EU27 statistics at local level on key LRA finance variables. So the report is based on secondary sources such as national institutes of statistics, national and regional documents on LRA budgets, LRA association reports, European and international organisation reports, credit rating agency reports, and academic and research centre reports. Some issues affect comparability between

Member States which should be considered when interpreting the analysis results. Data are mainly based on estimates rather than actual figures and can refer to different periods. In addition, disaggregation at sub-national and LRA budget level varies across Member States.

The picture emerging from this report is that, with very few exceptions, LRAs across the EU found their financial situation very challenging in 2020. **The estimated EU 'scissors effect' is approximately -EUR 180 billion for 2020**, of which nearly -EUR 130 billion was at regional and intermediate levels and EUR -50 billion for municipalities. This corresponds to -7.3% of revenue collected by LRAs according to the latest data (2018) provided by OECD. Due to the size of their economies, the 'scissors effect' is concentrated in Germany, Italy, Spain and France. In relative terms, the highest estimated values are in Cyprus, Bulgaria and Germany and the lowest in Romania, Denmark, Hungary and Greece. A reverse 'scissors effect' is expected only in Estonia, where the increase in income tax revenues from a strong labour market and wage support seems to have more than compensated for the increase in expenditure. In some countries, such as Greece, Hungary, Portugal, Poland, Romania, and Slovakia, information is incomplete and the 'scissors effect' may be underestimated. According to the data, there is no robust relationship between the degree of decentralisation and the size of the 'scissors effect'.

The effect within each Member State has varied significantly across and within sub-national government levels. **The crisis has impacted less developed areas more**. It has particularly affected LRAs with existing financial problems, lacking adequate healthcare facilities and public infrastructure, with more unemployment and poorer citizens. Most urbanised and developed areas, initially heavily impacted, seem to have responded better and show higher resilience to the crisis.

Different ways LRAs are financed throughout Europe (from own resources and state allocations), **diverse sources of their revenues and different responsibilities across levels of government have obviously led to different effects on LRA finances.** The impact of lockdowns and tax deferrals has varied across and within Member States. Some LRAs experienced bigger losses from tourism tax or parking fees, rather than from income or real estate taxes. For some LRAs the increase in expenditure for social spending was higher than the additional costs for healthcare.

The health emergency also interacted with local economic specialisation and the exposure of particular sectors to the crisis. Regions with large manufacturing sectors and higher exposure to international markets have been heavily affected. Metropolitan areas with IT, business services and more jobs that can be done from home, responded better. However, the most affected sector across the EU has been tourism, which is not only a major economic activity but also a key source of revenue for many regions and municipalities.

The report underlines **that current pressure on LRA budgets can affect future investments**. There are few forecasts of the 'scissors effect' for 2021 and the impact of the new Covid-19 waves between autumn 2020 and spring 2021 has still to be analysed, however pressure on LRA budgets is expected to continue. This could pose significant challenges for LRAs to financially recover and invest in the medium and long-term. For LRAs in less developed areas the costs of the crisis could persist for longer and the territorial investment gap, especially for social protection, education, job creation and improved public infrastructure, could widen between and within Member States.

The extent of central government support for LRA finances in 2020 remains uncertain. LRAs received different forms of support including inter-governmental grants, loans, guarantees and laxer fiscal rules. Some measures quickly covered healthcare expenditure and several central governments compensated LRAs for losses of certain revenue. In some Member States stabilisation mechanisms automatically compensated LRA budget changes. Thanks to such support some LRAs were expected to close 2020 with a budget surplus but many nevertheless reported worse finances than in 2019. Moreover, in many Member States, support for LRAs added to direct measures for citizens and enterprises has significantly increased public debt, putting pressure on all government levels to contain public expenditure in the future.

The report makes the following recommendations:

- The EU, Member States, LRAs and their associations should continue to **monitor and quantify the 'scissors effect'** for 2020 and following years and **improve the transparency, availability and communication of data.** The EU and Member States should consider creating an **observatory** to monitor the impact of the crisis on LRA finances. The EU should also track central government support for LRAs and create an **EU-level good practice database**.

- As the crisis could last for longer in less developed areas, Member States should consider **differentiating and tailoring support to LRAs,** considering their diverse territorial needs. Moreover, less developed areas need **targeted investments** in education, healthcare and social protection.

- Since diverse fiscal powers have affected LRA resilience to the crisis differently, Member States should consider **reforming tax systems,** rethinking fiscal rules, LRA revenue structures and equalisation formulas. Member States and LRAs are also encouraged to find new forms of revenue.

- Local economic specialisation has played an important role, so Member States should **design and implement recovery plans through a place-based approach,** with local initiatives and **in close partnership with LRAs.** LRAs should develop consistent recovery plans, programmes and strategies, focused on local economic needs, challenges and priorities and anchored to recovery efforts planned at higher levels of government.

- To avoid current pressure on LRA budgets affecting future investments, Member States should **not withdraw support too quickly,** as the crisis impact on LRA budgets is uncertain but likely to be significant for 2021 and beyond. Moreover, the EU should reform **economic governance rules** considering the diverse impacts of the crisis, increased government and LRA debt, and potential lessons from past financial crisis to avoid austerity and its impact on public investment and public services. The 'economic governance review' public debate should be relaunched by extending the debate on sustainable finance and economic growth, as well as avoiding macroeconomic imbalances, to the LRA level.

- For many Member States the crisis has significantly increased public debt. LRAs will be part of national **fiscal consolidation** and should carry out spending reviews, policy evaluations and impact assessments to prioritise expenditure.

- Finally, as the healthcare emergency decreases, new challenges and opportunities are likely to emerge. The EU, Member States, LRAs and their associations should therefore also work to monitor and analyse the **social consequences of the crisis**, to identify changes that could reshape local planning and economic development.

The report is structured as follows:

- **Chapter 1** presents country fiches for the 27 EU Member States and a final section with an overview for the whole EU. Each country fiche reviews institutional and fiscal decentralisation in the Member States, discusses the effects of the crisis on local economies and territorial disparities, and highlights the effects on LRA finances. The final part highlights central government measures to reduce financial pressure on LRA budgets.

- **Chapter 2** includes five case studies **-** Germany, Italy, the Netherlands, Slovakia and Sweden – exploring the situation in these Member States in more detail. The case study structure mirrors the country fiches.

- **Chapter 3** summarises the report findings and recommendations.

- **Annex I** contains the OECD dataset on LRA revenue and expenditure, which provided key LRA variables used in the country fiches and case studies.
- **References** detail all the documentation used in the report, by Member State.

1. INTRODUCTION

Due to the Covid-19 crisis, LRAs have faced - and are facing - remarkable pressure on their budgets, with a significant rise in expenditure to sustain local communities and economies (OECD, April 2020*a*). Regions and municipalities have suffered increased costs for public health, social services and social benefits, as well as support for SMEs, entrepreneurs and unemployed people. At the same time, the drastic reduction in economic activity due to health emergency measures, tax relief and deferment at all levels of government has reduced LRAs' capacity to cover costs. Together the increased costs and reduced revenues create a '**scissors effect**' on finances – reflecting two curves crossing: downward for revenues and upward for expenses. This effect has differed across LRAs.

The socio-economic consequences of the crisis across the EU have been asymmetric - between countries, levels of government and individual administrative entities (OECD, November 2020*d*). The size and duration of the scissors effect depends on several factors including the division of fiscal power and policy responsibilities across government levels, local economic specialisation and exposure to the crisis, as well as central governments measures to support businesses, citizens and LRAs.

The Covid-19 impact on LRA finances has been studied since the beginning of the emergency in spring 2020. However, most of the estimates are at country level. A first analysis at EU level was made by the Council of European Municipalities and Regions in May 2020 and published in June (CEMR, June 2020). According to the survey[1], all respondents had significant costs due to Covid-19-related tasks. Several respondents mentioned the high costs for protective equipment and other hygienic measures. Many LRAs provided stronger social support to residents, with additional costs. Moreover, national governments were not providing financial help to cover the costs faced by municipalities and regions. Where such support did exist, it was not deemed sufficient. Almost all respondents confirmed that municipalities and regions were facing significant losses of income, from taxes but also from fees related to public services and municipal facilities.

Another survey on EU sub-national governments was carried out between June and July 2020 by the Committee of the Regions (CoR) and the OECD (OECD and CoR, November 2020). A key result of that survey is that a lack of financial resources was the second major constraint reported by respondents and perceived as very or somewhat challenging by 76% of the sample[2]. About 86% of the LRAs expected a

[1] 21 different LRAs across 17 Member States.
[2] 300 representatives of regional, intermediate and municipal governments across 24 EU countries responded.

negative impact on their expenditure, especially on social services, social benefits, support to SMEs and the self-employed, and public health.

Moreover, the survey underlined that municipalities, and especially regions, expected large decreases in tax revenue. Among municipal respondents, 83% expected a moderate to large fall in their tax revenue with small and large municipalities affected alike. Only 10% of respondents expected grants and subsidies to fully cover losses in tax revenue (especially in areas where subnational revenue is most affected). Insufficient technical equipment as well as inadequate vertical and horizontal coordination with other levels of government are the other two main challenges LRAs faced according to the survey.

Similarly, the Network of Associations of Local Authorities of South East Europe (NALAS) conducted a survey of EU and non-EU South-East European local governments based on the questionnaire used in the OECD-CoR survey (see NALAS, KDZ and NAMRB, July 2020). For the LRAs, a lack of financial resources was the single most important challenge (87% of respondents), regardless of their size or EU/non-EU status[3]. Other key challenges included a lack of legal and regulatory authority to act, lack of clear and coherent rules, and lack of human and technical resources. Moreover, expenditure for healthcare, sanitation, social care and protection and support to the local economy have all increased by over 10% - and even exceed 20% - for more than 70% of respondents. On the other side, revenues have fallen because less economic activity, consumption and jobs, the closure of local services and utilities, and fiscal relief measures to support local economies and individuals. At the peak of the crisis during the lockdown period (March-June 2020) local revenues were severely hit for 81% of respondents, decreasing by between 10% and 20% in annual terms.

A key factor explaining the scissors effect is the impact of the crisis on regional and local economies. **The crisis is creating asymmetric effects between Member States** where the decrease in 2020 GDP varied between -0.9% in Lithuania to -11% in Spain compared to 2019 (European Commission, February 2021)[4]. The effects on catching-up and integration in the EU are still unclear. There are significant differences among **but also within Member States** with a risk of increasing EU regional disparities and inequalities. The socio-economic consequences of the crisis may particularly impact areas that already face stagnant economic growth or debt and repayment ceilings. The regional and local economic impact of the crisis was highly asymmetric within

[3] The survey includes also Balkan countries, Albania and Turkey.

[4] Ireland is the only EU country with positive growth in 2020 (+3%), mainly driven by the international tech sector (for instance, Google and Facebook) as well as a surge in pharmaceutical exports, as many large global groups manufacture there. Around 245 000 people in Ireland are employed by global companies. Local expenditure by multinationals was Eur 21.5 billion in 2019. These companies inflate Ireland's GDP, obscuring the impact of the pandemic on the rest of the economy, where severe coronavirus restrictions have led to the loss of hundreds of thousands of jobs and extraordinarily high spending on employment and welfare support. See Financial Times (2020), *Ireland Covid-hit economy boosted by multinational corporations*, 17 November 2020.

countries, and in particular more vulnerable regions, such as deprived urban areas, were harder hit (OECD, November 2020*d*). This has also resulted in a strong and asymmetric fiscal impact on subnational governments.

Moreover, the health emergency has interacted with the economic structure of each territory and its **exposure to particular sectors**. The different impact across industrial and service sectors has multiple socio-geographical implications. As a result, the economic impact of the crisis differs across regions, depending on their exposure to tradable sectors and sectoral specialisations (CoR 2020*a*)[5]. Regions with many manufacturing (and small) businesses, or relying on tourism, experienced significant impact from activities closing (OECD, July 2020*d*; Spatial Foresight 2020; Sapir September 2020). Regions in northern and eastern European countries appear potentially less affected, but within a country differences in regional employment at risk can vary by more than 20% (OECD, April 2020*a*). Furthermore, more non-standard work increases the risk of short-term job losses. Also the policy responses to Covid-19 have a territorial dimension (Spatial Foresight 2020; CoR 2020*b*). Restrictive regional measures, or those adopted at national level and with national coverage, resulted in very different regional and sectoral effects (Sapir, September 2020). Some regions face more intense and longer-lasting consequences of lockdowns than others.

The impact has also varied within regions such as between small and large municipalities or even between urban, rural and remote areas, each requiring specific interventions[6]. For instance, according to the OECD-CoR survey, large municipalities expected greater damage to their revenues than smaller ones (OECD and CoR, November 2020; see also OECD, July 2020*c*). Also for the NALAS survey, larger cities and municipalities were more affected by the crisis, reflecting their higher concentration of people and economic activities.

The labour market could amplify divergences in the crisis effects even further (Verwey and Döhring 2020; Cerqua and Letta 2020*a*, *b*). Differences across and within Member States are pronounced, reflecting not only output losses related to the severity of the pandemic and sectoral exposure to Covid-19, but also institutional features (such as the share of short-term contracts) and employment policy responses. Differences in average firm size may also play a role, with small firms being financially more constrained than larger ones (Doerr and Gambacorta 2020). Moreover, the impact of the crisis was likely to concentrate on the most vulnerable segments of the working population (JRC 2020*a*). Restrictions on economic activity mainly affected workers with lower wages and worse employment conditions. The impact also appeared to be more significant for women and young workers.

[5] See also Doerr and Gambacorta (2020).
[6] See CoR (2021).

Moreover, **the share of jobs that can be done at home** - dependent not only on economic specialisation but also on the availability of technical and digital facilities - also plays a key role on employment (Dingel and Neiman, June 2020). There is a strong, positive relationship between working from home and average income, so the pandemic might have affected poorer regions more (Irlacher and Koch, December 2020). The outbreak of the pandemic has revealed large differences in the prevalence of telework across EU Member States, sectors and occupations (JRC 2020*b*). In many EU countries, more than half of those working from home since the pandemic had no prior experience with teleworking. Digitalisation is also important outside the labour market (CoR 2020*a*). While this has positive aspects such as increased eGovernment services, the ability of territories to benefit from these developments varies. Areas with little broadband infrastructure, where people and public authorities have little experience of digital life, gain less from the positive aspects of digitalisation and may even incur additional costs during the crisis.

Finally, the **division of fiscal powers**[7] between central government and LRAs, especially for health and social welfare, plays a crucial role. Regional and municipal governments can be responsible for day-to-day containment measures, healthcare and social services, as well as economic development and public investment. In the EU decentralisation varies significantly among Member States (OECD, July 2020*b*). For instance, most federal countries as well as unitary countries such as Italy have highly decentralised healthcare systems. In most of the 15 unitary countries, along with Belgium and Germany which are federal, healthcare is mainly managed by central, federal or social security funds (OECD, November 2020*c*).

The division of fiscal powers influences how central governments and LRAs mobilise resources and manage multiple policy sectors. LRA finances are also impacted by the type, amount and pace of support from central governments. Coordination between different public authorities is also crucial, as previously underlined in the OECD-CoR and NALAS surveys. In fact, quality of governance can explain between 30% and 50% of the different crisis economic shocks between northern Member States and southern ones (Sapir, September 2020). Quality of government, and coordination across levels of government, also influencing the type, readiness and appropriateness of support to businesses, people and LRAs.

The Covid-19 crisis continues to have a strong and asymmetric territorial dimension (OECD, November 2020*d*; see also Brinks and Iberti 2020) which this report looks to analyse from the point of view of the 'scissors effect' on LRA finances. The health emergency should progressively, even if slowly, decrease and lessen pressure on local and regional health expenditure. However, the economic and social effects of the crisis are still difficult to predict and their duration is uncertain. The risk is that, as in a vicious

[7] See the CoR project on Division of Powers: https://portal.cor.europa.eu/divisionpowers/Pages/default.aspx.

circle, without prompt and proper intervention, pressure on LRA budgets could push LRAs to cut investments to contain expenditure and the loss of revenues. Jeopardising LRAs' ability to invest for sustainable development in the coming years may exacerbate the negative social and economic effects of the crisis locally with longer-term consequences (CEMR 2020).

2. COUNTRY FICHES

This chapter presents country fiches for the 27 EU Member States, with a final section that provides an overview of results for the whole EU.

As there are no updated official EU27 statistics at NUTS2 level (for instance, Eurostat) on key LRA finance variables, the country fiches are based on secondary sources (see references for detail), such as:

- National Institutes of Statistics,
- National and regional documents on LRA budgets,
- LRA association reports,
- European and international organisation reports,
- Credit rating agency reports,
- Academic and research centre reports.

The first part of each country fiche is taken from the CoR Division of Powers which gives an overview of level institutional and fiscal decentralisation in EU countries[8]. It includes a table with key LRA finance variables, updated for 2017 (expenditure) and 2018 (revenue), reproduced from the OECD (OECD 2019). The complete OECD dataset on LRA revenue and expenditure is displayed in Annex I. In the second part, the fiche discusses the effects of the crisis on local economies and territorial disparities, focusing on effects which could cause pressure on LRA budgets. The third part highlights the effects of the crisis on LRA finance, and includes a table summarising estimated LRA expenditure and revenue changes, including quantification of the potential 'scissors effect' for 2020 due to the crisis. The final section highlights measures adopted by central governments to lessen financial pressure on LRA budgets.

Box 2.1: Data collection, analysis and comparability

Apart from OECD data (OECD 2019), information sources vary across Member States (and levels of government). Some issues may affect comparability between Member States which should be noted when interpreting the analysis results (see section 2.28 summarising findings at EU level):

- Data are mainly based on estimates rather than actual figures. There could therefore be differences in methodologies.
- Data may refer to different periods (for instance, estimates during/after the first Covid-19 wave or during/after the second). There is likely to be limited information on estimates for 2021;

[8] https://portal.cor.europa.eu/divisionpowers/Pages/default.aspx

- Data in some Member States, or for some sub-national government levels, can be only in percentages (i.e. reduction in revenue and increase in expenditure) while other Member States use monetary values (euro or national currency).
- Disaggregation at sub-national level can vary across Member States. Data for the same levels of government for all Member States are not expected. Administrative levels (and therefore the division of fiscal powers) in each Member State beyond regions and municipalities may include counties, provinces and departments.
- Disaggregation at LRA budget level can vary across Member States. For instance, there could be only figures for a loss in municipality revenues from specific taxes (for example, tourism), or, in other cases, a broader picture on decreased budget revenues without further detail.
- If nationwide data are not available, regional or municipality data are provided as a proxy for the country (for instance, where there are no data for LRAs, but only for the capital or a specific municipality or region).

2.1 Austria

Division of fiscal powers. Austria is a federal state where government responsibilities are shared at three territorial levels: federal, regional (nine Bundesländer) and local (2 096 municipalities).

Bundesländer are responsible for social assistance, health care (hospitals) and parts of primary and secondary education. Municipalities are responsible for social services as well as local planning and local infrastructure. LRAs spend more than 50% of their budget on health and social protection.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
35.5%	26.4%	22.2%
LRAs Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
11.4%	72.9%	15.7%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Even though Austria is a federal state, fiscal autonomy for the sub-central governments is relatively low. Nearly 73% of LRA revenues come from central government grants and subsidies. LRAs do not have a significant role in collecting tax revenues and have limited powers in decisions about taxes. Compared to the Bundesländer, municipalities have slightly more revenue autonomy but their discretion on local taxes is very low and mainly restricted to real estate taxes. The federal government receives about 64% of the revenue from shared taxes, the Bundesländer 19% and municipalities about 17%.

Crisis effects on local economies. The pandemic and related containment measures strongly affected the Austrian economy, with GDP growth falling by 7.4% in 2020 (European Commission, February 2021). GDP growth is expected to rebound to 2% in 2021 and 5.1% in 2022. According to IZA (October 2020) the economic crisis had a dramatic impact on the labour market. Unemployment increased, especially among young workers and there was a massive increase in short-time work[9]. In addition, there was a shortage of apprenticeships in most Bundesländer, making it difficult for school leavers to access vocational training (Badelt 2021).

Despite LRA revenues largely depend on transfers from central government, 90% of their tax revenues comes from non-property taxes (OECD, July 2020). A key revenue for municipalities is tax based on gross wages, providing around EUR 2.5 billion (KDZ, August 2020)[10]. Municipalities were thus particularly impacted by unemployment since part-time employees and the unemployed pay less local taxes.

[9] The unemployment rate reached 12.7%, the highest for April since the early 1950s. At end March 2020 already 250 000 people had applied for short time work (KDZ, August 2020). In Vienna, 172 646 people were unemployed in May, an increase of 57.2% compared to the previous year (Stadt Wien 2020). Among 20 to 24 year-olds, unemployment more than doubled with an increase of 8 550 persons to a total of 16 154. The number of apprenticeships decreased by 23% compared to the previous year. Moreover, around 280 000 people were on short-work.

[10] For municipalities excluding Vienna.

The varied impact on employment was also accompanied by sectoral differences in the regional effects of the crisis. For instance, Tyrol and Salzburg, with the highest specialisation in tourism and leisure, were significantly affected (Bachtrögler *et al.*, April 2020*b*). Upper Austria, Lower Austria and Vorarlberg were less affected. In Vienna the loss of labour, even if substantial, was significantly lower than in the rest of the country. The main advantage of Vienna seemed to be its position as a service provider centre and headquarters location for ICT, financial services, and public administration where teleworking is possible (Bachtrögler *et al.*, March 2020*a*).

Crisis impact on LRA finances. The contraction in the Austrian economy was expected to **reduce Austrian Bundesländer tax revenue by 7%-12%** (S&P Global Ratings, April 2020). Compared to the tax revenues collected by Bundesländer in 2018 (OECD 2019, see Annex I for detail), this would be a reduction of **between EUR 0.2 and 0.3 million.** All Bundesländer were affected to a similar extent, regardless of their economic structure. For municipalities, increases in expenditure on social affairs and health were expected, but not in the first months of the crisis. However, municipalities and several Bundesländer quickly adopted complementary support and economic stimulus packages[11].

Estimated change in 2020		Bundesländer	Municipalities
Expenditure, EUR		n/a	n/a
Revenue, EUR		-200 million to -300 million (only tax revenues)	-900 million to -2 billion
Scissors effect	*EUR*	Up to -300 million (only revenues)	Up to -2 billion (only revenues)
		Up to -2.3 billion	
	*%**	Up to -3.4%	

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

On the revenue side, for KDZ (May 2020*a*), **the decrease in municipal revenue for 2020 was expected to be between EUR 900 million (5%) and EUR 2 billion (11%).** The city of Vienna alone declared a decrease of EUR 780 million in revenue[12]. The massive increase in the unemployed and part-time employees was immediately reflected in municipal wage taxes with a decline expected between 20% and 50% (KDZ, August 2020*b*). Municipalities also lost tourist tax revenue of up to EUR 210 million. However, the most affected were municipality revenues from common federal taxes such as income, sales and corporation taxes, expected to decrease between EUR 450 million and EUR 1 billion (KDZ, May 2020*a*). Many companies applied for a municipal tax deferral further

[11] Vienna took measures right at the beginning of the crisis and made over EUR 150 million available in several stages to help the local economy and thus employees (Stadt Wien 2020). For instance, a fund of EUR 24 million to support up to EUR 5 000 for professional development, targeting especially those on short-time work. It also invested EUR 17 million for young people, including intra-company vocational training, qualification passports, assistance for catching up missed time and offers to enter professions in healthcare and IT. In the survey of cities by the KDZ (May 2020) around a third of cities put together an aid package for the economy, and a further 46% were planning one at the time of the survey. In addition to aid packages for the local economy, cities and municipalities also offer additional services (shopping, volunteer coordination, conversion of local public transport) associated with additional expenses (emergency aid for citizens, hygiene and protective equipment, associated renovation work, etc.).
[12] Wiener Zeitung (May 2020).

affecting municipality budgets with an estimated drop in income of more than 5% in one year[13].
<u>Government support for LRAs.</u> To support of municipal investment projects and services of general interest in the Bundesländer and for recovery from the crisis, the federal government approved a municipal package - Municipal Investment Act 2020 - in May 2020 (Federal Ministry of Finance, October 2020). Compared to an earlier programme (2017), the federal grant increased from EUR 175 million euro to EUR 1 billion and from 25% to 50% of the investment costs. Investments[14] are co-financed equally by federal grants and local expenditure and should lead to investments worth EUR 2 billion. The local government share can be further co-financed by other sources (regional or European). According to the Schomaker *et al.* survey (May 2020), municipalities reacted quickly with structural changes and new approaches to the challenges. Home office and digital work increased, and customer contact was increasingly 'digitised'. The personnel structure was also made more flexible, cushioning the overload in many areas. The expansion of outstanding quality networks, especially with other administrations and the ability to fall back on existing connections were all factors helping municipalities cope with the crisis. Nonetheless, municipalities and districts would like more and longer-term financial support as their earnings collapsed due to closed facilities, lowering municipal tax revenues and increased unemployment leading to additional expenditure (Schomaker *et al.*, May 2020).

[13] Up to EUR 500 million for the municipalities including Vienna.
[14] Possible investments include construction, renovation, refurbishment and maintenance in broadband infrastructure, schools and kindergartens, care facilities, renewables, energy efficiency measures for public buildings, accessibility, public transport and e-charging stations There is a focus on green investments that contribute to climate targets.

2.2 Belgium

Division of fiscal powers. Belgium is a federal state divided into six federated entities (the Flemish-, French- and German-speaking linguistic communities, and three regions, Flanders, Wallonia and Brussels Capital), as well as ten provinces and 581 municipalities. Belgium has one of the highest levels of fiscal decentralisation in the EU. Regions and communities have their own governments and are not subordinated to the federal government in matters of budgetary policy.

LRAs spend about 52% of the total public budget, with the regions and linguistic communities accounting for the largest proportion. LRA expenditure is mainly on social protection, culture, public order, safety, environment, housing, community amenities and education. Expenditure on health is low. LRAs depend on grants and subsidies for 57.3% of revenue, on taxes for 25.1% and tariffs and fees for 11.5%. Revenue autonomy varies considerably across sub-national governments[15].

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
51.8%	4.2%	23.0%

LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
25.1%	57.3%	17.6%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Crisis effects on local economies. In 2020 the country saw a GDP contraction of 6.2% (European Commission, February 2021). A recovery in GDP of 3.9% in 2021 and 3.1% in 2022 is expected. Unemployment went from 5.4% in 2019 to 6.1% in 2020 and is expected to reach 7.4% in 2021 (Nordea, March 2021 based on IMF).

The crisis impacted household income significantly, especially for poorer people. There are also regional differences. According to a survey by the National Bank (Banque Nationale de Belgique, June 2020), losses in household income seemed comparable between the three regions of the country with some 50% of households indicating a loss of more than 10%. However, Flemish households claimed to have a greater savings cushion. In the Walloon and Brussels regions, only one third of households with a loss of more than 10% stated they had a savings buffer to be able to cope for at least four months.

The pandemic also affected municipalities differently. It first affected areas with higher per capita income, but the contamination rate was then smaller in these

[15] Regions have full autonomy over taxation and enjoy exclusive competence (rate, basis, and relief) over most regional taxes. By contrast, language-based communities have extremely low revenue autonomy mainly financed by shared tax revenues from personal income tax and VAT, and some non-tax revenue. Provinces and municipalities do not share taxes with the federal authorities, but benefit from grants from the regions that can be either general or for specific projects. These amount to about half their total financing. The rest comes from own-source taxes, which are often surtaxes applied to federal or regional rates (e.g. on personal income and real estate), and from local taxes (e.g. waste and leisure), over which local authorities have full discretion.

municipalities than in poorer ones (Verwimp 2020). Municipalities more exposed to migration and foreign travel for business, leisure or family affairs were affected earlier in the epidemic. Income correlates with the contamination rate in the Flemish Region and the share of foreign nationalities correlates with the contamination rate in particular in the Walloon Region.

Crisis impact on LRA finances. Estimates of the crisis impact on Belgian LRA finance derive from regional reports, especially for Wallonia and Flanders. At **regional level** the expected total **drop in revenues was EUR 1.44 billion in 2020,** while **the expected expenditure increase was EUR 2.85 billion**. For **municipalities, revenues were estimated to decrease by EUR 81.4 to EUR 196.4 million and expenditure to grow between EUR 156 and 213 million in 2020.**

Estimated change in 2020		Regions	Provinces	Municipalities
Expenditure, EUR		+2.85 billion	n/a	+156/+213 million
Revenue, EUR		-1.44 billion	n/a	-81.4/-196.4 million
Scissors effect	*EUR*	-4.29 billion	n/a	-237.4/-409.4 million
		Up to -4.7 billion		
	*%**	Up to -3.9%		

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

In detail, according to the Wallonia Parliament budget revision, regional revenues decreased by nearly EUR 712.7 million in 2020, while expenditure on the health, social and economic emergency amounted to more than EUR 1.13 billion[16]. According to estimates provided by Belfius (June 2020*a*), the increase in municipality expenditure in Wallonia due to Covid-19 was between EUR 5 million (0.1%) and EUR 42 million (0.8%) in 2020. The loss in revenue was forecast at between EUR 50 million (0.9%) and EUR 125 million (2.3%). The report also estimated a loss in municipality revenue between EUR 35 million and EUR 56 million in 2021, and around EUR 40 million in 2022.

Belfius also estimated the impact on municipalities in the Brussels Capital region (June 2020*b*). Expenditure was forecast to be between +EUR 5 million (+ 0.3%) and +EUR 25 million (+0.8%). Revenues could have reduced by EUR 40 to EUR 80 million in 2020 (i.e. 1.5% to 3.2% of total revenues) and fall by EUR 9 to EUR 16 million in 2021 and EUR 6 to EUR 11.5 million in 2022. At regional level, Brussels Capital region expenditure was expected to increase by EUR 322.3 million and revenue from own resources stay stable, with only EUR 5 million more in 2020 with respect to the initial plan according to estimates by CERPE (Kozicki *et al.*, May 2020).

According to the Flanders government (see Flanders State of the Art, September 2020), revenues from regional taxes were expected to decrease by EUR 1.3 billion in 2020, around 2% of total revenues, of which EUR 727 million was due to the Covid-19 crisis. Most losses came from less property registration tax (no houses were

[16] Wallonie.be (2020), *Ajustement du budget wallon 2020: une trajectoire initiale respectée*, 17 July 2020. See also Iweps (March 2021).

sold during the complete lockdown). The regional budget saw also one-off expenditure of EUR 2.5 billion (+5%). For Flemish municipalities tax revenue was expected to be slightly positive in 2020 (EUR 8.6 million) with respect to the original multi-annual plans 2020-2025 (Agentschap Binnenlands Bestuur, January 2021). Taxes on real estate dropped by nearly EUR 7.4 million, additional taxes decreased by EUR 76.4 million, but taxes on personal income were expected to increase by EUR 92.4 million and decrease in the next four years[17]. However, revenue from personal income tax is expected to drop by EUR 24.6 million in 2021 with respect to the original plan. The total estimated drop in tax revenue could be EUR 66.4 million for 2021. Expenditure was EUR 146 million more than planned in 2020 (+1.2%) and expected to be EUR 268 million more in 2021. The estimated debt of Flemish municipalities will rise to EUR 11.55 billion by the end of 2025, compared to EUR 10.52 billion in the original multi-year plans.
Government support for LRAs. Most transfers to municipalities come from the regions through the Municipal Fund. This increases every year according to regional rates[18] and is expected to cover changes in municipality finances during the crisis. Additional support by Wallonia, EUR 4 million, was for municipalities that decided to suspend taxes for businesses (Bruegel, November 2020). The support was then increased by EUR 21 million in February 2021[19]. Moreover, Wallonia's municipalities could increase their budget deficit and were encouraged to use their reserves or to borrow to boost local economic recovery (OECD, November 2020). The Flemish Government adopted several measures to support municipalities (OECD, November 2020), including a grant of EUR 15 million for poverty reduction as a result of the pandemic, an emergency fund of EUR 87 million to support local culture, youth and sport and a fund to stimulate sustainable mobility. Flexibility was allowed for local budgets (subject to monitoring coronavirus impact). No additional funding from the national or regional government has been asked for at this stage, especially since the new Flemish government has significantly increased funding for Flemish municipalities since 2019 (CEMR, May 2020).

[17] The cycle of personal income tax ensures that changes in household income are always spread over 2 financial years.
[18] The Flemish Region applied a 3.5 % increase since 2005, whereas the Walloon Region (except for the German-speaking municipalities) has adjusted each year since 2010 by the estimated inflation in the budget year plus 1%, and in the Brussels-Capital Region, the increase has been a minimum of 2 % since 1999 (See Coppens *et al. Local government finances in Belgium*, June 2018).
[19] Union des Ville et Communes de Wallonie (2021), *Covid-19 - De nouvelles compensations pour les pouvoirs locaux qui allègeront leur fiscalité sur les secteurs du spectacle et des divertissements et autres secteurs plus particulièrement touchés*, 26 February 2021.

2.3 Bulgaria

***Division of fiscal powers*.** Bulgaria is a unitary country divided into regions (oblasts) and 265 municipalities. It has limited fiscal decentralisation, below the EU average. Although regions are defined as administrative units, municipalities are the only sub-national level of government with fiscal autonomy. Municipalities, in contrast to regions, have their own budgets and are allowed to secure their own revenues.

Municipal responsibilities are presently divided into state-delegated activities and own local activities. Delegated services include primary and secondary education, social protection and health care. Municipal own responsibilities for education, housing and community amenities make up significant parts of local government expenditure.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
21.3%	8.8%	28.6%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
12.2%	69.0%	18.9%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Taxes on land and vehicles as well as household waste fees are the most important sources of municipalities own revenue. However, nearly 70% of LRA revenue is transfers from central government.

Crisis effects on local economies. GDP decreased by 4.9% in 2020 but is expected to increase by 2.7% and 4.9% in 2021 and 2022 respectively (European Commission, February 2021).

Municipalities showed varying degrees of vulnerability to the crisis depending on their economic profile and their ability to respond to short-term shocks (Dokov, Milkova, and Stamenkov 2020). Effects on unemployment and therefore on individual income differed. At the end of May, the lowest unemployment rate was in the capital (4.4%). The large share of services, especially in high-tech and trade, means Sofia's economy is more flexible and less affected by the restrictive measures.

Overall unemployment was below 10% in large municipalities thanks to the greater potential for teleworking, with better telecommunications and information technology. Unemployment rates were also relatively low in smaller municipalities with industrial profiles including mining for non-ferrous metallurgy. Instead, municipalities with a pronounced tourism-related identity stood out with increased unemployment. Before the crisis, these were among the Bulgarian territories with better and more stable socio-economic conditions.

Crisis impact on LRA finances. The crisis put local governments to a great test considering the serious existing financial problems of many Bulgarian municipalities. These had to urgently organise anti-epidemic measures and new social services, not planned in the budget[20]. At the same time, revenues were deferred or lost such as the tax on transactions, ticket sales for municipal facilities, tourist tax, waste tax, municipal fees, business rent for municipal property and land.

According to the survey by the National Association of Municipalities (NAMRB, May 2020)[21], **municipality expenditures were projected to increase by over EUR 123 million by May 2020** compared to the same period in 2019[22]. The losses of municipality revenues were estimated at over EUR 102.1 million by May 2020. The main falls were for property tax (EUR 22 million or 51%) and vehicle tax (EUR 19 million, or 42%)[23]. Among non-tax revenues was the household waste fee (EUR 28 million, or 38%). For the NALAS survey in July 2020 (see NALAS, KDZ and NAMRB 2020) on South-East European local governments, **the total loss in Bulgarian municipality revenue** in 2020-2022 would be 30% with respect to 2019. This **corresponds to EUR 519 million in 2020**, EUR 404 million in 2021 and EUR 360 million in 2022.

Estimated change in 2020		**Oblast**	**Municipalities**
Expenditure, EUR		n/a	+123 million (by May)
Revenue, EUR		n/a	-519 million
Scissors effect	*EUR*	n/a	-642 million
	*%**	n/a	-15.3%

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

Government support for LRAs. The central government adopted measures such as support for municipal police and public officials to ensure enforcement of the lockdown and compensation for municipal transport companies (CEMR, May 2020).

For NAMRB (May 2020), additional measures were required. In the short-term support was needed, including advances of transfers from central government, temporary suspension of loan repayments and targeted funds from the central Government budget. In the medium-term, additional support was required such as lifting the moratorium on the sale of agricultural land, eliminating the obligation for municipalities to pay VAT, revising the criteria determining access to the equalisation subsidy, as well as simplified conditions and procedures for declaring a municipality in a procedure of financial recovery during a crisis.

[20] In some municipalities, regional and local donation funds were set up to support the fight against Covid19 (raising funds for consumables and materials, medical equipment, protective clothing, recruiting volunteers, etc.). Some local governments waived certain taxes and rents from sites on municipal land, extended the deadline for paying local taxes (e.g. Dimitrovgrad, Varna, and Sliven), and allowed citizens to use short-term parking zones free of charge during the emergency (Sofia). Local authorities also implemented measures to support SMEs as well as disadvantaged groups.

[21] On 217 municipalities representing 82% of all municipalities in Bulgaria.

[22] Some municipalities have temporarily ceased their activities, reporting savings on their budgets (Karatova 2020). For instance, nurseries, kindergartens and schools or cultural institutes of regional importance such as museums, libraries, galleries, community centres - had no subsistence costs, except for labour (mainly for paid leave). Moreover many cultural and sports events have ceased to operate. Revenues from grants and donations also increased significantly (+137%), despite their low fiscal contribution to municipal budgets (see NAMRB 2020, May). However, these savings are still difficult to predict. In addition, savings from suspended activities delegated by the state could not be used even provisionally by municipalities to provide liquidity for the emergency costs of the municipal budget. Each month all funds allocated for activities delegated by the state from municipal budgets upon receipt of the total subsidy for delegated activities were regularly transferred to the accounts of the respective budget managers. However, municipalities could not use them broadly because they were targeted and had to be spent on these activities.

[23] Other taxes also decreased, as the touristic tax but this has a marginal share on municipality revenues (only 3%).

2.4 Croatia

Division of fiscal powers. Croatia is a unitary State with 21 counties including the capital city of Zagreb[24] and 556 municipalities. LRAs are responsible mainly for health, social welfare and education.

The central government has an exclusive right to determine county taxes. Municipal taxes must be within restrictions set by the central government. The only tax that local authorities can set independently is the tax on public land use. LRA revenue autonomy is below the EU average, which means a higher dependency on central government transfers. Income tax revenue is allocated 60% to municipalities and 17% to counties with the remainder for decentralised functions and fiscal equalisation.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
26.1%	22%	4.1%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
37.6%	49.3%	13.1%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Crisis effects on local economies. A February 2021 estimate by the Croatian Bureau of Statistics shows that national GDP decreased by 8.4% in 2020[25], compared to 2019. This is expected to increase by 4% and 5% in 2021 and 2022 respectively (European Commission, February 2021). Negative trends also in terms of unemployment were most pronounced in coastal counties (i.e. Istria, Split-Dalmatia and Primorje-Gorski Kotar), which made up 95% of tourist overnight stays in the country according to 2018 data[26]. The fall in tourism tax impacted LRA revenues. Moreover, there were repercussions on the price of property (OBC Transeuropa, May 2020), with further consequences for LRA revenues.

The number of unemployed in the first half of 2020 increased by 8.3% compared to 2019. At the end of November 2020, 156 550 unemployed were registered at the Croatian Employment Service, 28 100 (21.9%) more compared to November 2019. Most were in the coastal Split-Dalmatia County and the City of Zagreb but compared to 2019, unemployment increased in all counties. The largest increase was in the coastal counties of Dubrovnik-Neretva (45%) and Istria (38.1%).

LRAs hit by the December 2020 earthquake face additional challenges. These, and the consequences on local budgets, have not been estimated yet.

Crisis impact on LRA finances. Amendments to the Budget Law[27] provided for deferment, payment in instalments and/or release from tax liabilities. LRAs were

[24] The City of Zagreb has a special status, as both city and county.
[25] For the European Commission (2021) this is -8.9%.
[26] Hrvatska Gospodarska Komora (2020).
[27] OJ 115/16, 106/18, 121/19, 32/20 and 42/20.

most impacted by the exemption from paying utility fees for business premises and land used for business activities.

In October 2020, the Ministry of Finance estimated the national budget deficit to be 8% of GDP in 2020 and public debt of 87%[28]. The effects of the earthquake in December 2020 and subsequent government spending supporting the affected areas were still to be considered in possible adjustments of the projections (see also OECD, January 2021). The **budget deficit of counties and municipalities**, in comparison with 2019[29], was expected to increase from 0.1% to 0.6% of GDP. This corresponds to **an increase of EUR 243 million for 2020**. The forecast for 2021 and 2022 are for an increase of EUR 203 million and EUR 191 million respectively. Even if detailed figures by revenue and expenditure are not available by Ministry of Finance, this provides an estimate of the 'scissors effect' on LRA finances over the years[30].

Estimated change in 2020		**Counties**	**Municipalities**
Expenditure, EUR		n/a	n/a
Revenue, EUR		n/a	n/a
Scissors effect	*EUR*	n/a	n/a
		-243 million in 2020	
	*%**	-3.9%	

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

***Government support for LRAs*.** The measures for LRAs directly affected by reduction of income tax revenues, included interest-free loans to address the different inflows and liabilities. The loan funds were used exclusively to finance expenses necessary to perform LRA functions (including the Croatian Pension Insurance Institute and the Croatian Health Insurance Institute).

On request, twice a month the Ministry of Finance would remit loans up to the deferred or exempted income tax amount and/or instalment payment. Loans are repaid directly from the LRA account as the Financial Agency will redirect future payments from income tax to the state budget account.

[28] Ministry of Finance (2020, October).
[29] Ministry of Finance (2019, July).
[30] The survey conducted by NALAS in July 2020 (see NALAS, KDZ and NAMRB 2020) on South-East European local governments, estimated that the cumulative revenue loss for Croatian municipalities was 29% in 2020-2022 compared to 2019, or EUR 464 million in 2020, EUR 368 million in 2021 and EUR 329 million in 2022. However, if compared to the estimate on the LRA budget deficit increase provided by the Ministry of Finance in October 2020, the figures provided by the NALAS survey in July appear overestimated.

2.5 Cyprus

Division of fiscal powers. Cyprus has one sub-national government level based on 380 municipalities.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health, (EU: 13.4%)	*Social protection (EU: 22.8%)*
3.1%	0%	0%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
22.6%	43%	34.4%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Being a relatively small country, Cyprus is one of the most centralised EU member states, with very limited expenditure determined locally and very limited competencies devolved to local authorities. Sub-national expenditure is higher for general public services. They have no competence in health, social protection, or education.

Local government revenues are 22.6 % from taxes and 34.2% from tariffs and fees. Transfers from central government represent 43% of LRA revenues, very close to the EU average. Municipal taxes, fees and duties include professional tax from companies, property tax, hotel tax, fees for issuing permits and licences, and fees for refuse collection.

***Crisis effects on local economies*.** After being severely hit by the global financial crisis the country's economy had recovered in recent years, thanks to domestic demand and tourism. Nevertheless, the pandemic and the restrictive measures drastically reduced GDP (by 5.8% for 2020, based on European Commission 2021). GDP is expected to increase by 3.2% in 2021 and 3.1% in 2022.

The impact of the crisis on the labour market has been mitigated by temporary income support which targeted employees in the tourism sector (Nordea, March 2020). As a result, unemployment stood at 8% in 2020 (from 7% in 2019) and is expected to gradually decrease in 2021 and 2022 (to 7% and 6.4%, respectively). Private consumption has been resilient. However, 22.3% of the population is at risk of poverty or social exclusion, with the trend likely to be worsened by the ongoing global crisis.

As Cyprus is a small country, no significant territorial economic differences were expected in the impact of the pandemic. However, the crisis particularly hit the tourism sector (which contributed EUR 2.7 billion to the economy in 2019) and therefore tourism areas and municipalities. Tourist arrivals were down by 85% in 2020. The hotel industry saw revenues fall by over EUR 1 billion. The large drop in tourist arrivals and revenue (-87.8% in the first half of 2020) put a serious strain on local authority budgets (EPRC, March 2021).

***Crisis impact on LRA finances*.** Due to the limited competence of LRAs, the impact of the crisis on their expenditure was expected to be low. However, according to the

Union of Municipalities[31], municipalities in Cyprus saw a drastic cut in their income in the first six months of 2020 but received no help from the central government. Municipalities have stopped development projects and were not paying suppliers or fixed costs such as renewing their vehicle fleet or other equipment ordered prior to the pandemic. Coastal areas have been particularly hit, as they were counting on the summer months for more income.

There is no detailed information available on the impact of the crisis on Cyprus **municipalities**. For the Union of Municipalities[32] they **had lost at least 25% of their revenues** due to the pandemic by May 2020[33]. Compared to 2018 revenues (OECD 2019, se Annex I for detail), this corresponds to **EUR 75 million**. For instance, the Municipality of Larnaca (51 000 inhabitants) saw 2020 revenue drop by EUR 5.5 million[34]. For the Union of Municipalities, the state could borrow and businesses got financial support but municipalities had no access to borrowing or a government scheme to pay their employees. Municipalities managed to work and cover their expenses with their own resources.

Estimated change in 2020		**Districts**	**Municipalities**
Expenditure, EUR		n/a	n/a
Revenue, EUR		n/a	-75 million by May
Scissors effect	*EUR*	n/a	-75 million
	*%**	n/a	-25%

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

<u>Government support for LRAs.</u> Cyprus implemented an economic support package of some EUR 845 million (4% of GDP) in 2020 for the health sector, households and businesses. However, there are no specific interventions by the central government to mitigate the effects on LRA budgets. The only exception concerns the accelerated transfer of EU funds (EPRC, March 2021). Under normal conditions, annual grants are transferred quarterly by the central government to the local level. Due to the crisis, the government transferred a larger share of funding at an earlier stage, with the approval of the Ministers of Finance and Interior. Furthermore, payment of local authority financial debts to the national government was suspended for six months. This flexibility has been crucial to the functioning of municipalities in Cyprus during the crisis, helping with liquidity at a time when resources were under significant pressure.

[31] See '*Municipalities have lost quarter of their income, Vyras says*' published online by Cyprus Mail, 7 August 2020.
[32] Overall data or other estimates are not available.
[33] *Ibidem.*
[34] See '*Coronavirus: Larnaca Municipality 2020 revenue takes €5.5m hit*' published online by Cyprus Mail on 5 January 2021.

2.6 Czech Republic

Division of fiscal powers. Sub-national government in the Czech Republic is organised in 14 regions and 6 258 municipalities.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
28.7%	13.9%	7.7%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
45.2%	40.5%	14.3%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Regional and municipal spending are particularly concentrated, more than the EU average, for education and economic affairs. Healthcare spending is largely covered by social security funds, but regions are responsible for hospitals and municipalities for health centres and small hospitals.

Municipalities have greater spending responsibilities than regions. They are responsible for pre-elementary and primary education, health and general public services. The major source of revenue for municipalities is from shared taxes (notably VAT, which contributes to 40% of tax revenue, corporate tax and personal income tax) and non-shared taxes (mostly on real-estate where each municipality can set the marginal rate). Other municipal revenue comes from fees and charges for local services. Regions have less revenue autonomy than municipalities, as their major source is transfers from the central government. Regions are only entitled to shared taxes with most revenue coming from VAT.

Crisis effects on local economies. The crisis caused a drop in GDP of 5.7% in 2020 (European Commission 2021, February). GDP is then expected to increase by 3.2% in 2021 and 5% in 2022.

Unemployment rose from 2% in 2019 to 2.5% in October 2020. This is still one of the lowest rates in the EU, but there are significant differences across Czech regions, from 1.4% in Central Bohemian Region, to 3.9% in Moravian-Silesian Region and 4.5% in Karlovy Vary (Deloitte, January 2021). According to the European Commission (May 2020) the socio-economic consequences of the pandemic were likely to be unevenly distributed across Czech regions due to different specialisations. The situation entailed a substantial risk of widening regional and territorial disparities within the country, and creating new territorial disparities at sub-regional level, aggravating the existing widening disparities especially between - and within - mining and poor regions (Karlovy Vary, Ústí nad Labem and Moravian-Silesian regions) and the rest of the country[35].

Moreover, there are significant territorial health inequalities. These are evident in Karlovy Vary, Ústí nad Labem and Moravian-Silesian regions, but also in peripheral

[35] See for instance Visegrad.info (2021), *Energy poverty threatens Czech coal mining regions.*

districts of South Moravian, Olomouc and South Bohemian regions, which have higher unemployment and a higher share of people receiving social support[36].

The highly fragmented territorial administration of the Czech Republic, with many municipalities, had coordination difficulties during the crisis (OECD, December 2020). In addition, the small size of many municipalities means low capacity at local level and a lack of economies of scale that reduce service quality and raise costs.

Crisis impact on LRA finances. According to the Department of Financing of Territorial Budgets of the Ministry of Finance (see OBEC&Finance, December 2020), **municipality revenues were expected to decrease by EUR 820 million** (7.5%) **in 2020**. However, due to the 40% increase in transfers from the state to municipal budgets (EUR 1.13 billion), total revenues of municipalities should grow by 2.3% compared to 2019. Tax revenues – the largest source of revenues for municipalities - were expected to decrease by EUR 860 million (9.1%), while non-tax revenues should increase by EUR 40 million (3.3%).

The biggest loss was expected from corporate tax and personal income tax of EUR 420 billion (21.5%) and EUR 200 million (8.6%) respectively. Revenue from VAT decreased by EUR 110 million (2.8%). However, in 2021 municipality revenue should increase by EUR 520 million (5.2%) compared to 2020 (excluding transfers), driven by increased tax revenues of 5.6%.

Estimated change in 2020		**Regions**	**Municipalities**
Expenditure, EUR		n/a	+1.13 billion
Revenue, EUR		n/a	-820 million (exc. transfers)
Scissors effect	*EUR*	n/a	-1.95 billion
	*%**	n/a	-7.8%

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

On the expenditure side, current and capital expenditure were expected to increase by EUR 650 million (7%) and EUR 480 million (3.4%) respectively. **The total increase in municipality expenditure was estimated at EUR 1.13 billion for 2020** (8.8%), but this will decrease by EUR 630 million in 2021.

Government support for LRAs. As underlined before, the additional EUR 1.13 billion increase in transfers from the state to municipal budgets replaced the fall in municipality tax revenues. Increased transfers included emergency non-purpose contributions to local communities of EUR 47.7 per capita. This aimed to offset the decline in individual income tax from employment in connection with a compensation bonus for entrepreneurs. Moreover, an important part was an increase in subsidies for municipalities to stimulate their investment activity. With the transfers the estimated decrease in tax revenue of municipalities in 2020 is not 7.5%, but 2.9% and the overall municipality balance is expected to be a surplus of EUR 170 million in 2020.

In addition, balances on municipal accounts more than doubled between 2013 and 2019. Therefore, despite the ongoing recession, Czech municipality finances are in

[36] See FAEI.cz (2020), *Život kratší o pět let. Proč v některých regionech Češi umírají dříve*, 13 December 2020.

very good condition, thanks to reserves from previous years and government measures to minimise the negative impact of the Covid-19 crisis on municipal budgets.

2.7 Denmark

Division of fiscal powers**.** Sub-national government in Denmark is based on five regions and 98 municipalities. Region and municipality spending is particularly concentrated on social protection, but other areas include healthcare and education.

Municipalities are responsible for most sub-national spending and have a high degree of fiscal autonomy[37]. Their activities are financed through municipal income tax (88.7% of their tax revenues), land value tax, part of corporate income tax and user charges. However, most LRA revenue is transfers from the central government (grants and reimbursements for specific expenditure).

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
65.2%	24.4%	55.9%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
36.1%	58.8%	5.2%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Conversely, fiscal decentralisation towards regions and their autonomy is much lower. Regional activities are entirely funded by block grants and activity-based funding from the central government.

Crisis effects on local economies. Danish GDP decreased by 3.5% in 2020 (European Commission, February 2021). This is expected to increase by 2.9% in 2021 and 3.6% in 2022. The crisis also impacted employment with an increase in unemployment to 6.2% in 2020 from 5% in 2019, counterbalanced by the governmental wage support scheme to avoid massive lay-offs (Ministry of Finance, May 2020*a*). It is expected to decrease to 6% in 2021 and 5.7% in 2022 (Nordea, March 2021).

Unemployment increased most in the Capital Region between March 2020 and March 2021, from 4.8% to 6.8% (Statistics Denmark 2021). Another region particularly affected is North Denmark, with unemployment rising from 5.7% to 6.9%.

There was also a large decline in consumption and passenger transport in March 2020 when significant restrictions were imposed. Finally, there was a considerable drop in both consumer and business confidence with January 2021 seeing the largest month to month increase in bankruptcy claims across all regions. This has a higher impact for both LRAs and government programmes like unemployment insurance funds and income protection (Deloitte, February 2021). Copenhagen remained both the largest employer and the largest recipient of bankruptcy claims.

[37] Every year the Government signs an agreement with the Municipalities National Association and the Regions National Association establishing the budget for the following year and setting boundaries for current and capital expenditure and targets for sub-national taxes. This agreement is signed on behalf of regions and municipalities as a whole and allows for a certain degree of flexibility at the level of individual municipality/region.

Government guarantee schemes and other measures were quickly adopted in 2020, such as postponed payments, to support cash flow in the business sector. At the same time, the government encouraged municipalities to postpone tax payments to help solve liquidity problems in private companies.

Crisis impact on LRA finances. According to Statistics Denmark (2021*a* and 2021*b*)[38], **the increase in municipal expenditure for 2020**, with respect to 2019, **was over EUR 1.6 billion** (2.9%) and **will increase by an additional EUR 2.2 billion in 2021** (3.8%). The increases were driven especially by social services and occupation expenditure. Revenues remained stable between 2020 and 2019 (only + EUR 6 million) but will decrease in 2021 by nearly EUR 313 million (4.4%).

Estimated change in 2020		Regions	Municipalities
Expenditure, EUR		+424.4 million	+1.6 billion
Revenue, EUR		+106.2 million	+6 million
Scissors effect	*EUR*	-318.2 million	-1.59 billion
		-1.91 billion	
	*%**	-1.6%	

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

For **regions expenditure increased by EUR 424.4 million** (2.4%) **in 2020** and should grow by nearly EUR 67 million (0.4%) in 2021. Revenues increased by EUR 106.2 million (6.5%) in 2020 and should moderately decrease by EUR 0.8 million (0.05%) in 2021.

However, there is currently no adequate overview of all expenditure specifically related to the crisis in municipalities and regions in 2020. The Government and Danish Regions therefore agreed the need for a follow-up discussion in 2021, when there is greater clarity on additional expenditure due to the epidemic.

Government support for LRAs. In December 2020 the Ministry of Finance (2020*c*) announced EUR 130 million for municipalities and EUR 230 million for the regions in 2021 as extra compensation for expenses for coordinated purchase of protective equipment and testing. This support is added to the EUR 350 million for municipalities and EUR 420 million for regions allocated in spring 2020 to cover expenses as a result of the crisis. In 2021, the central government will also secure resources to finance Covid-19 efforts in municipalities and regions. The extent of the compensation will be discussed in connection with financial negotiations for 2022.

Other measures adopted in 2020 included abolition of the investment ceiling (including on construction) for municipalities and regions, so they can anticipate investments planned for the coming years, boosting employment (Ministry of Finance 2020*a*). In addition, the government have agreed to allocate a general loan pool of EUR 67.2 million to strengthen liquidity in disadvantaged municipalities.

[38] https://www.statbank.dk/10188

Finally, in connection with the agreement on reform of the municipal subsidy and equalisation system[39], municipalities with losses could gradually increase income tax corresponding to their losses for 2021-2025 (KL Regeringen 2020, May).

[39] The municipal economic equalisation system is a collective term for several economic schemes that transfer money between municipalities on the basis of key figures. The purpose is to even out differences in expenditure needs and taxes to ensure a more uniform relationship between taxes and services across the country. The system was changed in May 2020 in an agreement that also established a special subsidy for vulnerable outer and island municipalities of EUR 200 million, and a subsidy to vulnerable capital municipalities of EUR 81 million. The agreement entails nearly EUR 190 million for the country's 30 outlying municipalities. See Ministry of Finance (2020*b*).

2.8 Estonia

Division of fiscal powers. The Estonian sub-national governmental structure is based on 79 municipal units.

The share of municipal spending on education, economic affairs, and health is higher than the EU average.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
24.1%	14.7%	7.7%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
2.8%	86.7%	10.4%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Revenue autonomy at the sub-national level is below the EU average, which means greater dependency on central government transfers (86.7% of revenue). Taxes are less than 3% of revenue while tariffs and fees account for 9.3%

Municipalities have limited autonomy over financing their expenditure. Most tax revenue is from personal income tax, which is shared with the central government. Land tax is fully determined by local authorities which fix rates within boundaries set at the central level. Within national limits, local authorities can also levy other local taxes and user charges.

Crisis effects on local economies. The effects of the pandemic reduced Estonian GDP by 2.9% in 2020 (European Commission, February 2021), but it is expected to grow again, by 2.6% in 2021 and 3.8% in 2022.

According to Statistics Estonia[40] there were 47 900 unemployed people in 2020, 16 600 more than in 2019. Most of these had been unemployed for less than half a year. Unemployment among the working-age population was highest in North-eastern Estonia, where Ida-Viru county stood out. Unemployment was slightly lower in cities and towns compared to rural areas.

Crisis impact on LRA finances.

As most revenue comes from central government transfers, the crisis was expected to have limited impact on LRAs.

Estimated change in 2020		**Municipalities**
Expenditure, EUR		+16 million (only for Tallin)
Revenue, EUR		+44.9 million
Scissors effect	*EUR*	+28 million
	*%**	+1.2%

** Total scissors effect over 2018 LRA revenue as in OECD (2019), see Table A.2 in Annex I.*

Some indication of the effect on municipal expenditure comes from individual municipalities. For instance, Tallinn increased services for the city's citizens. As a result, the city had additional costs and less revenue in 2020-2021. Tax revenues were initially estimated to decrease by 6% in 2020[41] and operating expenditure increase by 5%

[40] Statistics Estonia (2021), *Unemployment up by 16 000 persons in a year*, 15 February 2021.
[41] On the back of the expected GDP growth rebound in 2021, Fitch Ratings (April 2020) assumed an average total revenue growth of over 3% in the medium term.

(Fitch Ratings, April 2020). **Pandemic-related one-off costs in 2020 were about EUR 16 million for Tallin** (Fitch Ratings, March 2021). However, according to Statistics Estonia[42], **municipal revenue increased by EUR 44.9 million in 2020 (+3.5%)**. This is the result of increased revenue from taxes on personal income (of nearly EUR 47 million)[43] and a reduction in parking fees (nearly EUR 1 million) and other local taxes and fees. Updated data on expenditure is not yet available.
Government support for LRAs. The supplementary budget adopted in mid-April 2020 in response to the pandemic promised local governments EUR 130 million[44]. EUR 30 million was to compensate for reduced revenue and increased costs indue to the crisis. An additional EUR 30 million was earmarked for local roads and EUR 70 million for new investments. Local governments were permitted a higher debt burden than before, rising from 60% of annual revenue to 80% for the next two years[45].

[42] Statistics Estonia, *RR02: Local budgets tax revenues.*
[43] The personal income tax rate increased to 11.96% in 2020 from 11.93% in 2019 (Fitch Ratings, March 2021). Moreover, according to the Ministry of Finance (October 2020), labour market reaction to the crisis has been much softer than initially expected. Government crisis mitigation measures, wage subsidies in particular, played an important role in keeping workplaces and curbing unemployment. Wage growth was also higher than forecast in spring 2020. The government budgetary position in 2020 improved by 3.5% of GDP compared with the supplementary budget. The improvement came mainly from higher tax revenues, which affected every level of government. In 2020, the tax burden forecast was revised upwards by 1.4% to 33.8% of GDP. Tax revenue increased mainly because of labour taxes (such as personal income tax) due to stronger labour market performance and wage support measures. The GDP upward correction was much lower than the tax revenue increase.
[44] News.err.ee (2020), *Supplementary budget includes €30 million crisis aid for local governments,* 2 April 2020; EER.er (2020), *Finance ministry: All €70-million local government COVID-19 support used up*, 21 December 2020.
[45] News.err.ee (2020), *Local governments may not be able to use coronavirus aid for budget holes*, 29 April 2020.

2.9 Finland

Division of fiscal powers. Finland has a highly decentralised government system based on 19 regions and 311 municipalities. Regions are mainly administrative bodies and should not be considered as fully functioning local governments[46]. The Finnish Constitution instead grants autonomy to municipalities.

Municipality spending is higher than the EU average for health, and social protection. Municipalities are granted control over their revenues through setting local tax rates, which were 46% of their revenues in 2018. An additional 21.7% comes from tariffs and fees. Municipal tax revenues consist of municipal (84%), real estate (8%) and corporate taxes (8%). The municipal rate can be set under full autonomy by each municipality. Property tax also accrues to municipal budgets and local authorities are free to set a rate within limits prescribed by law.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
40.8%	26.9%	25.2%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
46%	29.8%	24.1%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Crisis effects on local economies. The effects of the pandemic hit the national economy with an estimated GDP reduction of 3.1% in 2020 (European Commission, February 2021), mostly due to a sharp contraction in private consumption. GDP is expected to start growing again, even if slowly, by 2.8% in 2021 and 2% in 2022.

The situation during spring 2020 had a strong impact on municipalities (Ministry of Finance, September 2020*c*). Expenditure on social and health care increased especially in hospital districts such as Helsinki and Uusimaa. At the same time, municipal tax revenues fell. The effects on individual municipalities have been very different due to diverse income, economic and service structures. The effects on employment and entrepreneurship were particularly pronounced in municipalities, whose economic structure includes services, logistics and events. Moreover, both large and smaller cities dependent on tourism were particularly affected.

However, the government quickly adopted initiatives to support households, businesses and municipalities to safeguard economic activity and basic services in all municipalities. Nevertheless, for municipal economies, the crisis is expected to lead to an acute post-crisis period. Slow economic recovery coupled with population aging and investment pressures from migration will keep municipal revenue and expenditure imbalances during the coming years.

Crisis impact on LRA finances. According to the Ministry of Finance (2020*a*), the **increased cost and lost revenue for municipalities** was estimated in April to be

[46] They are not yet an autonomous level per se but inter-municipal groupings. The creation of a self-governing regional level is currently discussed.

between EUR 1.6 billion and EUR 2 billion for 2020 (see also OECD, November 2020). Municipal tax revenues were estimated to be approximately EUR 22.4 billion in 2020. Compared to the 2019, **tax revenues decreased by about 3% in 2020, or EUR 700 million. The increase in expenditure due to Covid-19 was estimated at between EUR 900 million and EUR 1.3 billion**[47]. The overall effect (i.e. increased expenditure and drop in revenue) was also expected to spread over several years, including an estimated EUR 1.7 billion in 2021.

Estimated change in 2020		Municipalities
Expenditure, EUR		+900 million to +1.3 billion
Revenue, EUR		-700 million (only tax revenues)
Scissors effect	*EUR*	Up to -2 billion
	*%**	-4.1%

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

The biggest and most direct impact of the crisis was on municipal health care expenditure, but rising unemployment also increased pressure on social services. However, during the first wave of the pandemic the increase in costs was concentrated on the largest cities and hospital districts. Therefore, the impact of additional costs on other municipalities was initially moderate. According to the Ministry of Finance (May 2020*b*) municipal operating expenditure increased by only 0.5% in the first half of 2020, much more moderately than in recent years. It therefore appears that, although the crisis involves significant costs, it also caused savings on some activities. However, during the second half of 2020, municipal finances experienced increased expenditure due to testing and tracing for Covid-19. Despite the government compensation measures, the number of municipalities in deficit was expected to grow from 13 in 2020 to 40 in 2021 (Ministry of Finance, May 2020*b*).

Government support for LRAs. For the increase in municipality expenditure, the central government in the autumn 2020 amending budget committed to allocate EUR 355 million. In addition, the Helsinki and Uusimaa hospital districts were reimbursed separately by up to EUR 200 million.

By the end of 2020, it appeared that the crisis did not reduce municipal tax revenues as sharply as predicted in spring. The relatively good development for municipal tax revenues was mainly due to the central government increasing the share of municipal corporate tax in 2020 and 2021 as one of its first support measures, particularly benefiting the largest cities (OECD, November 2020). Moreover, already at the beginning of April 2020, the central government compensated municipalities with nearly EUR 550 million for temporary changes in payment arrangements during the year due to municipal, community and property tax revenue delays.

The central government proposed also to further support local government finances in 2021 through an extensive package including a one-off increase of EUR 300

[47] The increase in operating expenditures, as estimated in April, was from EUR 38.3 billion in 2019 to EUR 41 billion in 2020, of which EUR 900 million was for the purchase of goods and services and EUR 700 million for staff costs. Expenditure was estimated to grow by 2.4% in 2021 and an average of 3.1% from 2022 to 2024. These increases however take into account not only the increased costs due to Covid19, but also the expected growing request for services due to the aging population and the expanding tasks of municipalities.

million transfers to local government for basic public services (Ministry of Finance 2020*c*)[48]. Costs directly linked to the pandemic, such as testing, will be fully reimbursed by the central government to local authorities and hospital districts. Discretionary government grants allocated to local authorities will total EUR 12.5 billion in 2021, an increase of approximately EUR 0.9 billion on the ordinary 2020 budget. A total of EUR 8.7 billion will be proposed for imputed central government transfers, an increase of approximately EUR 0.6 billion on the approved 2020 budget.

[48] As a rule, the increase will be allocated on the same basis as the 2020 package to support local government finances. In addition, a fixed-term increase of 10% will be made to the local authorities' share of corporation tax in 2021 (overall annual impact EUR 550 million).

2.10 France

Division of fiscal powers**.** France is a relatively centralised state with three sub-national government levels: 18 regions (including 5 overseas), 101 departments and 34 970 municipalities.

LRAs have low autonomous power for defining expenditure and taxation. The highest LRA expenditure is for general public services, social protection, economic affairs and education. Expenditure on health is very low as LRAs have very few responsibilities in this area.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
19.7%	0.7%	19.6%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
53.2%	29.6%	17.1%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Most LRA revenue comes from taxes (53.2%) and tariffs and fees (15.7%). There are four main local taxes, on businesses (set by regions and departments), property (set by departments and municipalities), residents and non-built land (both set by the municipalities). An important source of revenue is shared taxes covering all real estate transactions[49].

Crisis effects on local economies. Coronavirus significantly impacted the French economy, with a GDP reduction of 8.3% in 2020 (European Commission, February 2021). GDP is expected to increase by 5.5% in 2021 and 4.4% in 2022. Unemployment, which was declining before the pandemic, reached an estimated 8.9% in 2020 and is expected to increase to 10.2% in 2021, before declining to 9.5% in 2022 (Nordea, March 2021 based on IMF).

The crisis in France had and is still having strong territorial impacts, mostly related to existing territorial differences. For instance, departments with higher socio-economic inequalities experienced more deaths and hospitalisations (Ginsburgh, Magerman and Natali, March 2021)[50]. The pandemic has hit French socio-economically disadvantaged areas harder and will probably exacerbate disparities in the near future.

The impact on both people's health and the loss of economic activities was concentrated in the North-East of France (where the poorest regions are located) and Ile-de-France (Greater Paris). This was due to a number of social factors – including economic inequalities and geographical proximity to the first infection clusters (Group BPCE, May 2020). However, other territories were also particularly affected, such as tourism regions like Corsica, and industrial areas in Auvergne Rhône-Alpes,

[49] These are based on the price expressed in the sale document and therefore depend on the number of transactions and the price. Proportional rates are applied to this base. The majority of departments use the ceiling rate of 4.50% (3.80% in Indre, Isère, Morbihan and Mayotte). The additional municipal tax is 1.20%.

[50] A 1% increase in the Gini coefficient in a department was estimated to lead to a 0.1% increase in the number of deaths or hospitalisations.

Burgundy Franche-Comté and Normandy. These effects also impacted LRA finances. For instance, requests for State Guaranteed Loans increased in 2020[51]. From April 6 to 30, the Banque de France received 3.3 times more requests for credit than for the whole of 2019. The acceleration of financing difficulties was very marked in Brittany, Normandy and, above all, in Hauts-de-France, the region with the lowest GDP per capita.

Crisis impact on LRA finances. LRAs have been on the front line in the fight against the pandemic and its consequences (Cazeneuve, July 2020). They have, in addition to central government action, increased initiatives and mobilised resources to protect citizens, develop new forms of solidarity, maintain public services and support the local economy.

Estimated change (EUR)		Regions	Departments	Municipalities
Expenditure		+2.2 billion		
Revenue		-5 billion		
Scissors effect	*EUR*	-7.2 billion		
	*%**	-2.7%		

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

The Cazeneuve Report published (Cazeneuve, July 2020) provided a detailed estimate of the impact of the crisis on French LRA finances. The expected impact for 2020 would be mainly due to the fall in tax revenues (EUR 5.2 billion) which weighs heavily on municipalities and departments[52]. Other factors were a remarkable decrease in tariff revenue (EUR 2.3 billion) linked to closures in 2020, exemptions, additional costs linked to the Covid-19 crisis (EUR 3.6 billion) adapting public services, as well as protecting the population and supporting the most vulnerable. The impact is partially cushioned by the growth in household taxes in 2020 (EUR 2.4 billion) and operating savings (EUR 1.4 billion).

Thus, **the estimated net loss of revenue for all LRAs was EUR 5 billion** (2.4% of operating income). At the same time, **net additional expenses** (expenses minus savings) in 2020 (excluding transport operators) **were EUR 2.2 billion.** Purchases, especially for healthcare, were more than a third of the additional expenditure[53]. The net impact for local authorities in 2020 was therefore EUR 7.2 billion compared to 2019. The operating revenues of local authorities should experience a rebound in 2021, which will continue in 2022. Only three tax revenues (18% of the base) are expected to decrease while the others will start to rise again. Most of the expenditure

[51] 3.5% of metropolitan France GDP (as of 30 April). In Corsica, this proportion is much higher (8%).
[52] According to S&P Global Ratings (May 2020), French departments took large revenue falls in 2020, since they rely mainly on property transactions. Property transfer fees accruing to departments jumped by more than 40% between 2015 and 2019 to about 19% of operating revenues in 2020. French municipalities receive a smaller share of property transfer fees and were less affected by the property market freeze. Overall, it was expected that the reduction in property transfer fees would be the main that 2020 revenues for LRAs would fall under EUR 200 billion for the first time since 2016. A lesser, but still adverse impact for departments would come from higher social expenditure in 2020-2021.
[53] Additional expenditures were to support vulnerable groups, local companies, entrepreneurs and associations, and preserve the financial balance of public services. However, there were also savings due to the reduced operability of utilities and cancellation of events.

generated by the crisis is therefore exceptional and limited to 2020. Tariff revenues should return to their pre-crisis level by 2021. The report also underlined that impact suffered by each level of local authority could differ significantly. The municipalities suffered a sharp drop in tariff and tax revenues but remained relatively protected by local direct taxation. Significant disparities remained in severely affected communities, such as tourist municipalities, city centres and overseas municipalities. The departments faced a strong 'scissors effect' from the increase in social spending and the immediate drop in income from real estate taxes. For the regions, revenue losses were contained in 2020, but will be significant in 2021 and will impact their investment capacity in the coming years.
<u>Government support for LRAs.</u> The central government reacted quickly by providing immediate responses in 2020 such as cash advances and guaranteeing the financial continuity of LRAs. The third amending finance law in July 2020 provided an additional opportunity for emergency measures to support LRAs, including: granting municipalities a 'guarantee' of maintained tax revenues equal to the average between 2017 and 2019; a repayable state advance compensating for the drop in real estate transaction taxes for departments to maintain their average level between 2017 and 2019; a guarantee of resources for overseas regions and LRAs to the average between 2017 and 2019; The central government also increased the local investment support grant ('*Dotation de soutien à l'investissement local*' – DSIL) by nearly EUR 1 billion for 2020-2021, from EUR 570 million[54]. Finally, the government announced the creation of a 'Covid account' allowing expenses of exceptional functioning to be restated to smooth the consequences over several years. This enables loans for the part that is extended.

[54] Introduced in 2016, the annual budget of EUR 570 million covers thematic priorities eligible for funding. These include thermal renovation, energy transition, development of renewable energies, upgrading and securing public facilities, development of infrastructure for mobility or construction of housing, development of digital and mobile telephony, the creation, transformation and renovation of school buildings and provision of accommodation and public facilities. With the emergency, the DSIL prioritises investments in ecological transition, health resilience and heritage renovation. In addition, operations also aim at the development of rural areas.

2.11 Germany

Division of fiscal powers. Germany is a federal state with 16 regions (Länder) and 11 014 municipalities.

Sub-national government expenditure makes up nearly 50% of total public expenditure. Some 31% is managed by the Länder and the remainder by municipalities. The Länder have broad responsibilities for public welfare, labour, social security, education, environmental protection and regional planning. For municipalities, executive powers are limited to local services such as water, gas, electricity, local planning, refuse collection and wastewater services. However, LRA responsibilities for health are below the EU average (only 2.2% of expenditure).

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
48.4%	2.2%	27.6%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
56.8%	26.9%	16.2%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

The main source of LRA revenue is from taxes (56.8%) and tariffs and fees (11.3%). Municipalities have more discretion to determine tax levels. The equalisation mechanism involving the Federation and Länder in Germany is one of the strongest in Europe. The system aims to guarantee each Länder the means to cover its expenditure and ensure equivalent living conditions.

Crisis effects on local economies. The pandemic reduced GDP by an estimated 5% in 2020 (European Commission, February 2021) but is expected to start growing again, by 3.2% in 2021 and 3.1% in 2022.

The crisis had varying effects on Länder economies. GDP losses in the first half of 2020, for instance, varied between 3.8% in Schleswig-Holstein and 9.5% in the small open economy of Saarland. The main reason for the diverse territorial effects is sector specialisation (Scope Ratings, February 2021). Regional economies with large manufacturing sectors and more exports such as Baden-Württemberg, Bavaria, Bremen and Saarland were more heavily affected by the crisis.

Also tourism, important in Berlin, Mecklenburg-West Pomerania and Schleswig-Holstein, was more affected by the containment measures. Germany's Eastern Länder, with lower export reliance, appeared to be less affected.

Overall, richer areas (southern and western Germany) were more affected while socially deprived neighbourhoods were less affected in the first phase of the pandemic (Plümper and Neumayer 2020). However, this pattern reversed following lockdowns and disadvantaged areas were also heavily affected in the second phase.

Crisis impact on LRA finances. According to the Ministry of Finance (January 2021*b*) **Länder tax revenues as at December 2020 decreased by EUR 15 billion**

(4.8%), with respect to December 2019. Corporate and income taxes were the most affected, but other taxes also fell, including on beer.

Increased expenditure of EUR 72.8 billion (+18%) included EUR 66.6 billion in current expenditure and the remainder in capital expenditure.

Estimated change in 2020		**Länder**	**Municipalities**
Expenditure, EUR		+72.8 billion	+16.5 billion
Revenue, EUR		-15 billion	-7.4 billion
Scissors effect	*EUR*	-87.8 billion	-23.9 billion
		-111.7 billion	
	*%**	-15%	

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

For municipalities, tax revenues decreased by EUR 6 billion (5.7%) in 2020 compared to 2019 (Statistisches Bundesamt, March 2021). Of these, business tax dropped by EUR 5 billion. Due to the temporary closure of many municipal facilities, user fees also fell by EUR 1.4 billion (8.8%) in the first half of 2020 (Statistisches Bundesamt, October 2020). **Municipality revenue losses amounted to EUR 7.4 billion while expenditure rose by nearly EUR 16.5 billion (5.9%) over 2019**, including EUR 4 billion in capital expenditure (Statistisches Bundesamt, March 2021).

As the German federal system aims for equilibrium, finances are always balanced between municipalities within a Länder and between all Länder (Bundesfinanzministerium 2021*c*). This continued with pandemic-related financial support provided to LRAs. Moreover, as exceptions to the debt brake are allowed in emergencies (Bundesfinanzministerium 2021*a*), all Länder ran a deficit in 2020[55].

Government support for LRAs. Lifting the debt brake was the main remedy to support LRAs during the pandemic. The central government initiated the largest aid programmes in the history of Germany (Bundesfinanzministerium 2020*a*). There were EUR 353.3 billion of budgetary measures and guarantees of EUR 819.7 billion. The cabinet also approved a supplementary budget of EUR 156 billion for loans.

Länder had a buffer of EUR 55 billion for additional requirements from the pandemic (Bundesfinanzministerium 2020*b*). EUR 3.5 billion was allocated by the government for protective equipment, development of a vaccine and new treatments.

The communal solidarity pact entails a one-time debt cut of EUR 45 billion, while all municipalities received a lump-sum compensation for tax losses. The shortfall in business tax is compensated by allocations. According to the Federal Ministry of Finance proposal, the burden will be split evenly between the Federal Government and the Länder.

Distribution and balance mechanisms as well as the debt brake pause made it possible for LRAs to finish 2020 with decreased losses. However, LRAs may need more financial support in the coming years so the central government might have to extend the debt brake pause and balance finances as it did in 2020.

[55] The smallest of EUR 54 million was Saarland followed by Bremen (EUR 266 million) and Schleswig Holstein (EUR 530 million). The largest were North Rhine-Westphalia (EUR 7.8 billion) and Bavaria (EUR 6.8 billion).

2.12 Greece

Division of fiscal powers. There are two sub-national levels of government in Greece: 325 municipalities (first level) and 13 regions (second level). The latter are further divided into 74 regional units. Despite this structure, Greece is a fairly centralised state.

LRAs have responsibilities for housing and community amenities, environmental protection, recreation, culture and religion. Education and social protection responsibilities are below the EU average, while there are no competences for health. LRA revenues depend largely on grants and subsidies from central government. Only a third of revenue currently comes from taxes and tariffs and fees. The main tax revenue (50%) is from property, followed by income tax and VAT.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
7.6%	0.0%	14.5%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
23.6%	66.3%	10.1%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Crisis effects on local economies. The Greek economy was estimated to be among the most severely hit by the crisis in 2020 despite relatively few cases and low death rates compared with most of Europe. GDP fell by 10% in 2020 (European Commission, February 2021) but should grow by 3.5% in 2021 and 5% in 2022. Unemployment was estimated to rise to nearly 20% in 2020, from 17.3% in 2019 (Nordea 2021, March, based on IMF).

The pandemic affected almost all activities, especially tourism, accommodation, food and beverage services, and leisure (Athanassiou 2020). These sectors account for a significant share of economic activity in all regions of Greece, but much more in tourism areas such as the South Aegean, the Ionian Islands, Crete and, to a lesser extent, the North Aegean.

In most other sectors, including trade and transportation, economic activity is concentrated in the Attica region, as well as Central Macedonia. This suggests that Athens (Attica), to a lesser extent Thessaloniki (Central Macedonia) and their surrounding areas bore a significant share of the pandemic effects.

Rural and remote areas were also particularly affected (Kousi, Mitsi and Simos 2021, January). Most healthcare services are concentrated in large cities and rural areas miss both adequate facilities and specialist staff. Moreover, a few weeks after the first cases, citizens abandoned cities for more remote regions in an attempt to avoid contamination. For authorities this posed more risks than benefits. Finally, remote work impacted the territorial effects of the pandemic, with home workers prevalent in Central Macedonia, Western Greece and Attica and much less in remote areas in Thessaly and the Ionian islands (Monastiriotis and Katsinas 2020, September).

Crisis impact on LRA finances. The only estimate available on the effect on Greek LRAs is the 2021 budget report from the Ministry of Finance (November 2020).

The **consolidated budget of local governments for 2020** was expected to be a surplus of EUR 80 million, **reduced by EUR 121 million compared to the initial target.** This provides an overview of the scissors effect for 2020. The main factors that contributed to the changes are the backlog of local revenue due to the pandemic and increased expenditure on measures to prevent its spread. Such changes were partially covered by the central government in 2020 to compensate for lower revenues and increased costs for sanitary and pharmaceutical supplies.

Estimated change in 2020		Regions	Municipalities
Expenditure, EUR		n/a	n/a
Revenue, EUR		n/a	n/a
Scissors effect	*EUR*	- 121 million (incl. transfers)	
	*%**	-1.7%	

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

A deficit of EUR 4 million is expected for 2021, which is EUR 84 million lower than the estimate for 2020.

Government support for LRAs. Between March and June 2020, EUR 11.6 million was distributed to municipalities for material supplies, protection for employees and other services to address the pandemic (Ministry of Interior, December 2020).

In addition, between May and November 2020 municipalities were granted EUR 165 million to support their liquidity, as a result of measures to address the crisis and meet urgent needs. An additional EUR 50 million were allocated in March 2021 (Ministry of Interior 2021). LRAs received also EUR 116 million to repay overdue debts to third parties in 2020 (Ministry of Interior, December 2020).

2.13 Hungary

***Division of fiscal powers*.** Hungary is a decentralised unitary state with two sub-national government levels: regional (19 counties) and around 3 178 municipalities.

Counties have limited power over local affairs, so municipalities are not subordinated to them. LRA autonomy has gradually reduced since 2010[56].

Although municipalities are generally small, they enjoy a wide range of freedom but, at the same time, extensive mandatory services[57]. For this reason, the main role of counties has been to bundle together public services of small municipalities. Municipality spending is higher than the EU average for general public services and economic affairs.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
13.1%	4.1%	11.5%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
36.1%	52.3%	11.6%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Local government revenues come from taxes (36.1%) plus 10.8% from tariffs and fees. Municipalities can levy local taxes (below2%), the most important of which is the tax on gross corporate profit (80% of local taxes)[58].

Crisis effects on local economies. The crisis reduced GDP by 5.3% in 2020 but this is expected to grow by 4% and 5% in 2021 and 2022 respectively (European Commission, February 2021). Unemployment was projected to rise to 6.1% by the end of 2020, from 3.4% in 2019 (Nordea March 2021, based on IMF).

The crisis has mainly impacted the most populous and industrial areas, such as the northern and central parts of Transdanubia, the Dunaújváros district, some districts of Budapest, and industrial districts in northern Hungary (KSH 2020*a*). The automotive industry and export-oriented areas were significantly impacted. In the first quarter of 2020, both the number and proportion of vacancies decreased in all counties with respect to 2019 (KSH, July 2020*b*). The vacancy rate in the first quarter of 2020 was highest in Komárom-Esztergom and Fejér counties in the north, and lowest in Baranya, Bács-Kiskun and Csongrád-Csanád counties in the south. Similarly, areas specialised in tourism were impacted significantly, such as around Lake Balaton in the west. Tourism and the cultural sector were particularly affected

[56] The Government of 2010-2014 transferred the management of schools and hospitals from county councils to the central government and severely curtailed local municipality financial autonomy. This was done by stripping them of revenues and making municipal borrowing conditional on governmental agreement (Transregional Center for Democratic Studies 2020, July).

[57] The small size of municipalities, their many responsibilities and a gap between financial capacity and obligations has led to the sale of municipal assets and local indebtedness. This apparent mismatch between the size of local units and their obligations in delivering public services makes the Hungarian system distinct from other unitary models. Some features, such as 'multi-purpose micro-regional associations', were introduced to balance size and competences at the local level, but the situation has not yet been resolved.

[58] A vehicle tax is also collected, but this only raises 7% of own-resource revenues. The property tax levies another 7%.

in Budapest. However, the impact on the capital was mitigated by service providers, which continued their work with the help of ICT tools (KSH 2020*a*).

Crisis impact on LRA finances. LRAs in Hungary, especially municipalities, have been severely affected by the pandemic, with losses expected in 2020 from business and property taxes and parking fees (Kovács 2020). Moreover, the car tax was removed by the central government to help citizens[59]. However, no detailed quantification of these losses is available.

According to a survey in May 2020 by the National Associations of Municipalities, more than half of respondents[60] had financial reserves for only up to two months (TÖOSZ, June 2020). In January 2021, another survey of 27 municipalities reported around EUR 22.2 million of revenue losses estimated for 2020[61].

Estimated change in 2020		Counties	Municipalities
Expenditure, EUR		n/a	n/a
Revenue, EUR		n/a	n/a
Scissors effect	*EUR*	n/a	-149.2 million (only Budapest and other 27 municipalities)
	*%**	n/a	-1.9%

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

The capital's local government deserved particular attention. Revenues were expected to be 7% below and expenditures 10% above the original Budapest budget in 2020[62]. The Budapest deficit was expected to jump from EUR 33 million to EUR 160 million. The remarkable decline in passenger and ticket revenues of 40% affected Budapest much more than the decline in tax revenues and state austerity. Business tax revenue was estimated to decline by 5%. Moreover, EUR 440 thousand originally expected from the tourist tax was expected to be almost completely lost.

The estimated 'scissors effect' was EUR 149.2 million in 2020 for 28 Hungarian municipalities including Budapest.

Government support for LRAs Fiscal measures were introduced early in the epidemic, including alleviating the fiscal burden on businesses and citizens, such as cancelling tax and social security for selected activities, the tourism development fee and taxes for some small entrepreneurs (see Bruegel November 2020 and IMF March 2021). Additional support for companies were introduced in April. However, there are no specific measures to support LRAs.

The Hungarian Government cut municipal business tax in half with effect from 1 January 2021 (Orbitax December 2020). The lost revenue for smaller municipalities with up to 25 000 inhabitants will be offset by federal government support, while larger municipalities will be reviewed on a case-by-case basis. In addition to restaurant, hotel, and tourism businesses, an exemption from social contributions and

[59] The local government is not affected by this measure, since in Budapest the car tax usually goes to local governments.
[60] 400 municipalities.
[61] Atlatszo.hu (2021), *A fideszes polgármesterek támogatják, az ellenzékiek csak szeretnék túlélni az elvonásokat*, 19 January 2021. The survey does not include Budapest.
[62] G7.hu, *50 milliárdos lyukat üt a budapesti költségvetésen a járvány és a kormány*, 7 May 2020.

wage subsidies (two-thirds coverage) was extended to all businesses forced to close due to Covid-19 in December 2020 and January 2021.

2.14 Ireland

Division of fiscal powers. Ireland's sub-national government structure is based on 31 municipalities.

The expenditure of Irish LRAs is one of the lowest in the EU. Sub-national spending is concentrated, more than the EU average, on social protection, economic affairs, housing and community amenities, and education. LRAs do not have responsibilities for health.

The major source of revenue for local governments is transfers from the central government. Local spending is also financed through local taxes (19.4%) and tariffs and fees (26.6%).

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
8.7%	0.0%	33.7%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
19.4%	50.3%	30.2%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Crisis effects on local economies. Ireland is the only economy in the EU that experienced growth in GDP in 2020 (3%, European Commission, February 2021). Forecasts for 2021 and 2022 are for 3.4% growth in 2021 and 3.5% in 2022. The economy is mainly driven by the international tech sector (for instance, Google and Facebook) as well as a surge in pharmaceutical exports, as many large global groups manufacture there[63]. These companies obscure the impact of the pandemic on the domestic economy[64] where severe restrictions have led to the loss of hundreds of thousands of jobs and extraordinarily high spending on employment and welfare support[65].

The pandemic also impacted differently on local economies according to a report by the Regional Assemblies of Ireland (May 2020). The county with the highest Covid-19 exposure ratio[66] was Kerry, with 53.8% of its businesses operating in the worst affected sectors (vs. 46% national average), followed by Westmeath (51%), Donegal (50.6%), Cavan (50.5%) and Clare (50.4%). Exposure was generally lower in more urban counties as these rely more on economic activities that can operate remotely (such as finance, ICT and professional and technical services). The county with the lowest exposure ratio was Dublin (39.4%). Bundoran in Donegal was likely to be the most exposed town in Ireland with 75.1% of its commercial units operating in worst

[63] Around 245 000 people in Ireland are employed by global companies. Local expenditure by multinationals was EUR 21.5 billion in 2019.

[64] The Irish economy suffered a severe shock in 2020 due to the Covid-19 crisis. Restraint measures had a significant impact on economic activity, with a small bounce-back in the third quarter. According to the Ministry of Finance's Department of Studies, Ireland saw an 8% reduction of GDP in the first half of 2020.

[65] Financial Times (2020), *Ireland Covid-hit economy boosted by multinational corporations*, 17 November 2020.

[66] The number of commercial units operating in sectors likely to be worst affected by the Covid19 outbreak, as a proportion of its total commercial stock as of September 2019.

affected sectors. Among the main five Irish cities, Galway was the most exposed (46.1%) while Dublin had the lowest exposure (38.4%).

According to the report, coastal and rural counties and towns were more likely to be exposed to significant disruption from the outbreak as their commercial activities generally need human interaction.

Crisis impact on LRA finances. According to the report by the Association of Irish Local Government (October 2020), the crisis had a devastating effect on local businesses and economies all across the country. This had a knock-on effect on the income streams of LRAs which could result in diminished local services.

Estimated change in 2020		Municipalities
Expenditure, EUR		+90 million
Revenue, EUR		-228 million
Scissors effect	*EUR*	-318 million
	*%**	-4.5%

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

The estimated impact on expenditure due to the Covid-19 emergency was an increase of EUR 90 million (1.2%) in 2020. The drop in revenue was forecast to be EUR 228 million (6.4%), of which EUR 78 million was loss of income from goods/services (such as parking charges and planning fees) and EUR 150 million from potentially uncollectable commercial property taxes. The report also forecast a total scissors effect on local budgets of EUR 367 million in 2021, EUR 240 million in 2022 and EUR 120 million in 2023. The potential impact on local authority service delivery, due to estimated shortfalls in income over the next three years could have a significant impact on local investment. This will particularly affect discretionary services as any shortfall in income will automatically be offset against the budgeted discretionary spend in any one year, which for 2020 was EUR 611 million (Association of Irish Local Government, October 2020). This could lead to cuts of 60% in discretionary local services for 2021.

Government support for LRAs The central government introduced support measures to help citizens and local businesses cope with the crisis including nearly EUR 10.4 billion for employment and social protection.

The government introduced a commercial rates waiver scheme for all businesses for six-months to the end of September 2020. The cost of this scheme was EUR 900 million (Department of Finance, November 2020) with a commitment to local authorities to make up the shortfall, so local authorities could continue to provide full services to the public.

According to the Association of Irish Local Government (October 2020), additional funding is necessary for 2021-2023 to offset potential shortfalls in local authority income and additional crisis-related expenditure.

2.15 Italy

***Division of fiscal powers*.** Italy has three subnational government levels: 20 regions (5 are autonomous), 107 provinces and metropolitan areas (2 are autonomous) and 7 946 municipalities. Italy is often referred to as a 'regionalised country', particularly since the constitutional reform of 2001 and a 2009 law on 'fiscal federalism' granted greater autonomy to LRAs.

Regions finance their expenditure mainly through a regional tax, a share of personal income tax, part of VAT revenues and transfers for providing health services. Regional authorities are in charge of the health sector - 48.2% of LRA expenditure, the highest in the EU - including coordination of local health services and hospitals.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
28.6%	48.2%	5%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
42.6%	44%	13.4%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Provinces have very limited resources and fewer competences since 2014, while municipalities mainly finance their expenditure through taxes related to real estate, shares of the personal income tax, and other small taxes. Municipalities have responsibilities for social welfare, in particular personal social services and community assistance as well as education, including school related services.

***Crisis effects on local economies*.** The economic effects of the crisis significantly impacted businesses, employment and individual income. GDP decreased by 8.8% in 2020 but should increase by 3.4% and 3.5% in 2021 and 2022 (European Commission, February 2021) The unemployment rate, which had decreased in recent years, increased to 11% in 2020 from 9.9% one year earlier. It is also expected to increase to 11.8% in 2021, with more impact on youth[67].

Regional inequalities between the highly industrialised and dynamic north and the poorer, rural southern 'Mezzogiorno' are still high in Italy, and the current crisis is expected to widen the South-North divide[68]. Despite easier access to hospital facilities, northern regions have had particularly high rates of contagion and death - especially during the first Covid-19 wave in spring 2020 - and consequent pressure on regional healthcare systems. The crisis in the south has instead impacted areas with persistent structural public infrastructure gaps, worse working conditions and more poverty. However, effects are very uneven across Italy and spatially uncorrelated with the epidemiological pattern of the first wave. Moreover, the diverse impacts are associated with labour market fragilities as well as regional exposure to market instability.

[67] Italy already has high levels of youth unemployment (31.1% as of September 2020) and one of the highest rates of NEETs in the EU.
[68] See Prometeia (July 2020) and Banca d'Italia (November 2020).

***Crisis impact on LRA finances*.** The National Association of Italian Municipalities estimated the loss to municipality revenues with a survey[69] launched after the first Covid-19 wave (ANCI 2020, May). This found some **EUR 8.4 billion of losses** or 23% of **2020 municipality revenues compared to 2019**. The biggest loss, EUR 3.5 billion, is from the Single City Tax covering property (-10%) and waste tax (-23%).

<table>
<tr><th colspan="2">Estimated change in 2020</th><th>Regions</th><th>Provinces and metropolitan areas</th><th>Municipalities</th><th>Other*</th></tr>
<tr><td colspan="2">Expenditure, EUR</td><td>+9.2 billion</td><td>+23.4 million</td><td>+160 million</td><td>+3.5 billion</td></tr>
<tr><td colspan="2">Revenue, EUR</td><td>-500 million</td><td>-1 billion</td><td>-4.9 to -8.4 billion</td><td>n/a</td></tr>
<tr><td rowspan="3">Scissors effect</td><td rowspan="2">EUR</td><td>-9.7 billion</td><td>-1.02 billion</td><td>Up to -8.56 billion</td><td>-3.5 billion</td></tr>
<tr><td colspan="4">Up to -22.8 billion</td></tr>
<tr><td>%**</td><td colspan="4">Up to -9.2%</td></tr>
</table>

** Local Healthcare Territorial Units; ** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

The forecast loss from ANCI is greater than the Ministry of Finance and Economy's[70], which is **nearly EUR 5 billion** or 11% **of municipality revenues.** Taxes were lower by EUR 3.3 billion (or 9.5%), and tariffs and fees by EUR 1.6 billion (18%). The loss from personal income taxes was less significant, as it was mitigated by income support from the central government (such as wage supplementation schemes)[71].

The Italian government estimated[72] a **loss in revenue for provinces and metropolitan areas of approximately EUR 1 billion** (21.6%) **for 2020** with respect to 2019. Nearly EUR 0.8 billion derives from losses of taxes on cars, property and insurance.

For regions, nearly EUR 0.5 billion less regional tax on production activities is expected as companies were allowed to postpone payments to 2021.

On the expenditure side, as expected, the most affected area is the health sector, especially for regions. According to data on tenders collected by Openpolis[73], all Italian public administrations opened **public procurements calls** related to the Covid-19 emergency totalling nearly EUR 19.6 billion (as at January 2021). Of the open calls, mainly for masks and other medical equipment, more than EUR 9.7 billion are from central government and **nearly EUR 9.8 billion from LRAs (of which EUR 6.3 billion was for regions)**[74]. Moreover as at 31 December 2020, **Italian regions adopted measures** supporting enterprises, families and welfare for

[69] Based on 56 cities, with 13 million inhabitants and 31% of Italian municipality revenues (i.e. EUR 12.4 billion).
[70] Ministry of Interior (2020, July).
[71] The immediate response of the central government, other than increasing healthcare facilities, was concentrated on supporting SMEs and workers (for instance though extended coverage for wage supplementation schemes, CIG, 'Cassa Integrazione Guadagni').
[72] Estimates are included in specific Annexes of Decrees.
[73] Openpolis database on Covid19 emergency tenders: https://bandicovid.openpolis.it/
[74] There are also EUR 3 billion from Local Healthcare Territorial Units and an additional EUR 0.5 billion from private-public companies and other local entities.

EUR 7.3 billion, of which EUR 4.45 was remodulation of ESIF resources and **EUR 2.85 from own resources**. **Provinces and metropolitan area expenditure increased by EUR 23.4 million**, of which EUR 10.1 million was for education (excluding expenditure for personnel) and the remainder for administrative functions. **For municipalities** the central government estimated **EUR 240 million less**, mainly reduced costs for administrative personnel (smart working) and services related to gas and water distribution and **EUR 400 million more for schools and education facilities.**
<u>Government support for LRAs.</u> Resources activated by the central government to deal with the crisis of EUR 113.5 billion included EUR 90 billion of expenditure and around EUR 23 billion of decreased revenue (tax relief, payment postponement, etc). Nearly EUR 14 billion (i.e. around 10%) were for LRAs, mainly municipalities, mostly for their recovery from budget pressures. Most of the support was to allow the ordinary functioning of LRAs and cover the loss in their revenue due to the economic effects on enterprises and individual income as well as government decisions (i.e. postponed taxes). For instance, in May 2020 the government created a specific fund of EUR 3.5 billion to alleviate the loss in revenues of LRAs and ensure their ordinary functioning, with EUR 3 billion for municipalities and EUR 0.5 billion for provinces and metropolitan areas. These resources were increased by additional EUR 1.67 billion in August. Moreover, a fund of EUR 4.2 billion for regions and provinces was set up to cover their loss in revenues from taxes and was to be used for health, education and social services. Other measures included compensation to cover revenue losses from local public transport and tourism. Another EUR 10 billion was for health (and public order) mainly for the regions, even if most of these resources did not directly flow into regions but are contributions for the National Emergency Fund managed by Civil Protection. Another significant part is for the Extraordinary Commissioner. These two institutional bodies, reporting to central government, gained significant responsibilities during the crisis. Finally, the government also adopted financial measures to lessen LRA deficits, such as the EUR 12 billion fund for all LRAs, including Local Sanitary Territorial Units, to repay overdue debts to third parties.

2.16 Latvia

Division of fiscal powers**.** The Latvian sub-national government structure is based on 119 municipalities. Latvia is a relatively centralised country with 27.4% of government expenditures at the sub-national level, below the EU average.

Municipality expenditure is higher than the EU average for education, housing and community amenities.

Municipalities have a high level of revenue autonomy, with 56.7% of revenues coming from taxes and an additional 7.2% from tariffs and fees. The main revenue of local governments is from shared taxes, especially personal income tax. Real estate and land tax are fully local revenues, but there is no autonomy for setting rates or the tax base.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
27.4%	8.4%	11.2%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
56.7%	34.8%	8.5%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Crisis effects on local economies. GDP decreased by 3.5% in 2020 (European Commission, February 2021). It is expected to increase by 3.5% in 2021 and 3.1% in 2022. Unemployment increased to 8.2% in 2020, from 6.3% in 2019 (Nordea, March 2021 based on IMF).

Job losses in the services sector have been bigger than in industrial sectors, as certain services were more exposed to Covid-19 containment measures (Krasnopjorovs, February 2021). Moreover, services have been affected very differently. For instance, in October 2020 accommodation and food services had 15% less jobs than in February. At the same time, the number of jobs in IT, education, healthcare and public administration remained almost unchanged.

Lower-skilled employees, including service and sales people, suffered the largest job losses due to the crisis (Migale, March 2021). Likewise, businesses were more likely to lay off employees who lacked previous work experience. It was also observed that the income of some highly skilled people increased during the Covid-19 crisis, widening wage inequalities (Krasnopjorovs, February 2021).

While the number of jobs decreased in all Latvian municipalities, the decline in larger cities was more pronounced than in other municipalities (Krasnopjorovs, February 2021; Migale, March 2021). This could be explained both by the economic structure of cities, with more private sector services and higher population density. Among Latvian cities, Riga and Jūrmala suffered the largest layoffs[75].

[75] The number of employees decreased by more than 9% in the nine cities and by more than 6% in the other municipalities in April-May compared to February 2020. For cities, the decrease was more pronounced in the tourist resort town of Jūrmala (11%) and the capital Riga (10%). See Krasnopjorovs (February 2021).

Crisis impact on LRA finances. According to the Ministry of Finance (February 2021), the estimated deficit of EUR 18.3 million in local government budgets in 2020, from a surplus of over EUR 50 million in 2019, was due to Covid-19, as revenue fell faster than expenses.

Revenue was estimated to decrease by EUR 141.9 million with less taxes (EUR 152 million) and tariffs and fees (EUR 23.3 million) but increased transfers from central government (EUR 33.4 million). **On the expenditure side municipalities expected a decrease of EUR 73.4 million**, mainly due to lower goods and services expenditure.

In 2021, a sharp decrease in municipal tax revenues is expected, but tax reform will change the distribution of personal income tax between central and local governments (from 20/80 to 25/75)[76].

Estimated change in 2020		**Municipalities**
Expenditure, EUR		-73.4 million
Revenue, EUR		-175.3 million (excl. transfers)
Scissors effect	*EUR*	-101.9 million
	*%**	-3.4%

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

Government support for LRAs. The central government compensated for the decrease in local government revenue by increasing the local government borrowing limit for investment projects. Initially, this was used to stimulate the economy during the crisis, but there is a higher borrowing limit also in the 2021 budget. At the same time, co-financing for local government budgets has been reduced from 25% to 15% of project costs, while for investment projects in educational institutions it is even lower at 10%.

In the support programme the central government enabled also municipalities to borrow for converting or reconstructing social care homes to meet safe working and service requirements.

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[76] Ministry of Finance (February 2021), see also MakroEkonomika.lv (2021), *Pašvaldību finanses pārmaiņu priekšā un to izaicinājumi*, 12 January 2021.

2.17 Lithuania

Division of fiscal powers. Sub-national government in Lithuania is based on 60 municipalities.

About a quarter of government expenditure is at the sub-national level. Municipality expenditure is above the EU average for education and health.

Revenues depend for a very large part on central government transfers (88.4%). Own revenues consist of shared taxes (on personal income) and local taxes (land tax, real estate tax, stamp duties). Non-tax revenue (7.3% of total revenue) comes from municipal charges, local fees, local duties, sale of municipal properties, partial privatisation of municipal utilities and social contributions.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
23.7%	19.1%	10.2%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
4.3%	88.4%	7.3%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Crisis effects on local economies. The crisis moderately impacted Lithuanian GDP, with a decrease of 0.9% in 2020 (European Commission, February 2021). GDP is expected to grow by 2.2% in 2021 and 3.1% in 2022. The central government introduced measures to protect employment and provide additional support for job seekers during the crisis. However, unemployment rose to 8.2% in 2020 from 6.3% in 2019 (Nordea, March 2021, based on IMF).

The most affected areas depend on inbound tourism, where there are no large industrial enterprises[77]. Areas with a relatively many self-employed people were also affected. Northern Lithuania, with more agriculture, was less affected. Municipalities relying more on services or tourism - such as Druskininkai and Birštonas in the south or Neringa and Palanga on the coast saw more unemployment than other Lithuanian cities.

Metropolitan areas with more IT and business service companies as well as public sector employees withstood the pandemic better[78]. However, according to the Employment Service, unemployment in January 2021 increased in 42 municipalities, was unchanged in four and decreased in fourteen. The largest increase was in Druskininkai, Kaunas, Pakruojis districts, Birštonas and Palanga municipalities.

[77] Lrytas.it (2021), *Pandemija šalies savivaldybes nualino nevienodai: kam kliuvo labiausiai*, 23 February 2021.
[78] In 2019 the average salary in the government sector (health, education, public administration) grew at a double-digit rate and much faster than in the private sector.

Crisis impact on LRA finances. **Municipality revenues fell by nearly EUR 42.7 million** (Ministry of Finance 2020*a*)[79].

The main decrease was from income and company profit taxes (EUR 86 million), partially compensated by an increase in property taxes (EUR 13 million) and sales of tangible and intangible assets (EUR 14.1 million). Fees and charges fell by more than EUR 0.5 million.

Additional costs for municipalities were estimated at around EUR 40 million in 2020[80], of which EUR 30 million was for small municipalities and EUR 10 million for large ones.

Estimated change in 2020		**Municipalities**
Expenditure, EUR		+40 million
Revenue, EUR		-42.7 million
Scissors effect	*EUR*	-82.7 million
	*%**	-2.2%

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

Government support for LRAs. At end December 2020, the central government announced that the municipal budget revenue, including grants, will grow by almost 11% to EUR 358 million in 2021 (Ministry of Finance, December 2020*b*).

The funds will be allocated from the State budget for 2021 to compensate for the revenue loss in 2020. Municipalities will also be able to borrow up to EUR 58 million, if necessary.

[79] Data on the Execution of the State budget and Municipal budgets, 2020.
[80] The Government of the Republic of Lithuania, Consultation Protocol n°1, 8 April 2020.

2.18 Luxembourg

Division of fiscal powers. Luxembourg is a unitary state and, given its small territorial size, fiscal decentralisation is limited. The only effective tier of subnational government are the 102 municipalities (communes).

Municipalities have responsibilities for spatial planning, enforcing public order and safety, nursery and primary school education, and social protection services. They have few competences in health.

Municipalities can impose communal taxes after approval by the central government. These account for 34.7% of LRA revenues. The most important is the municipal business tax, representing 91% of revenue raised by municipal taxes. An additional 15.4% of revenue comes from tariffs and fees.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
11.2%	0.8%	13.2%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
34.7%	49%	16.3%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Crisis effects on local economies. In 2020, the crisis led to a drop in GDP of 3.1% (European Commission, February 2021). GDP is expected to increase by 3.2% in 2021 and 4.3% in 2022. Unemployment increased by 0.9%, from to 5.8% to 6.7% in 2020[81]. In 2021 unemployment is expected to increase to 7%, before slowing (Nordea, March 2021, based on IMF).

There is no available analysis of the territorial impact of the pandemic, though no major differences are expected across this relatively small and homogenous country. However, the official statistics[82] reveal that the highest increase in unemployment in 2020 was in municipalities in Canton Vianden (+1.7% on 2019), Canton Luxembourg and Canton Wiltz (+1.1%). The lowest increase was in Canton Echternach (+0.3%).

***Crisis impact on LRA finances*.** During the first four months of 2020, especially in April when the bulk of the government's economic stimulus programmes kicked in, central government revenues decreased by 8.4% while expenditure increased by 28.5%, compared to 2019 (Ministry of Finance, May 2020*b*). Corporate income tax (part of which is at municipal level and the main source of LRA tax revenues) decreased by 22.9%, VAT fell by 16.7% and alcohol taxes by 8.2%. On the other hand, revenue from withholding tax on investment income grew by 50.2%, climate change fuel tax increased by 8.2% and subscription taxes on financial products gained 3.6%. Meanwhile, the central government spent EUR 2.2 billion on economic stimulus measures by the end of April 2020.

[81] Statistics portal of the Grand-Duchy of Luxembourg, *Employment and unemployment by canton and municipality 2001 - 2020 (revised version).*

[82] *Ibidem.*

Estimated change in 2020		Municipalities
Expenditure, EUR		n/a
Revenue, EUR		-420 million
Scissors effect	*EUR*	-420 million (only revenues)
	%[*]	-13.5%

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

According to SYVICOL although the municipalities acted quickly to support local businesses, they were affected by the crisis as much as the central government and individuals. According to government estimates, **municipal finances suffered a loss of EUR 420 million (17.9%) in revenues compared to the initial 2020 budget** (Smart Cities Luxembourg, October 2020). Small municipalities were expected to be more affected (SYVICOL, June 2020). However according to the Ministry of Finance (May 2020*a*) municipalities were financially healthy and none was at risk of bankruptcy.

There is no estimate on the increase in expenditure. However, since the start of the pandemic, municipalities have had to adapt their services (ESPON, June 2020). The Ministry of the Interior and SYVICOL (Syndicate of Luxembourg Towns and Municipalities) were responsible for coordinating measures at national level. These measures include distributing 3.5 million masks across households in Luxembourg, including cross-border workers from France, Germany and Belgium (i.e. about 200 000 people)[83]. The City of Luxembourg was the first to make its pandemic municipal continuity plan available to all Luxembourg municipalities, as a model.

Government support for LRAs. Tax and financial measures reduced the impact of containment measures on the economy and preserved jobs and viable firms. Tax and social security charge deferrals alleviated the liquidity problems of businesses and self-employed individuals (OECD, June 2020)[84].

However, no specific measures have been adopted for compensating municipalities' loss of revenue. The central government considered that municipalities were always in a position to pay their staff, bills and rent and answer for their debts (Ministry of Finance, May 2020*a*). Unlike other countries, Luxembourg has mechanisms to prevent municipal insolvency[85]. Moreover, public sector investments, including for municipalities, continued despite the budgetary challenges.

[83] Additionally, anyone insured under the Luxembourg social security system can be tested for coronavirus in Luxembourg, including cross-border workers.

[84] Eligible taxpayers could request cancellation (annulation) of the first and second quarterly advance payments for both corporate income tax and municipal business tax for 2020, and a four-month extension to pay corporate income, municipal business and net wealth taxes due after 29 February 2020 with no penalty for late payment (KPMG, May 2020).

[85] The municipal law protects the municipal sector first of all because operating expenses must always be lower than operating income. The final budget, which is made up of the ordinary bonus, the result of the extraordinary budget and carry-over from the previous financial year, must be positive. Moreover, annual repayment of all loans must be less than 20% of operating income, ensuring that a municipality has enough leeway to repay its loans.

2.19 Malta

Division of fiscal powers. Sub-national government in Malta is based on 68 municipalities. These have few competencies, mostly related to general services. No expenditure is reported for education, health, or social services.

Malta is one of the most centralised EU Member States. In 2018, sub-national government expenditures in Malta accounted for less than 1% of total government expenditure.

Revenue autonomy at the local level is the lowest in the EU with only 7.9% of revenue coming from tariffs and fees and no revenue from taxes. Local authorities are not authorised to borrow.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
0.9%	0%	0%
LRAs Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
0%	92.1%	7.9%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Crisis effects on local economies. Malta's economy relies heavily on tourism (17% of GDP) and international trade, thus, it was severely affected by the pandemic and the restrictions that followed, with GDP contracting by 9% in 2020, (European Commission, February 2021). GDP is expected to increase by 4.5% and 5.4% in 2021 and 2022 respectively. Unemployment reached a historical low of 3.6% in 2019, and grew moderately in 2020 to 4.2% (Nordea March 2021, based on IMF).

It has been estimated that Malta lost EUR 251 million in tourism revenue in July 2020 alone with visitor spending dropping by 88% in this period and an 84% drop in visitor numbers (Grech et *al.*, October 2020).

Due to the dimension of the country, no significant differences are expected in the territorial impact of the pandemic on the economy.

Crisis impact on LRA finances.

There are no estimates available on the impact of the crisis on local finances, though LRAs in Malta have few responsibilities (i.e. expenditure) and their fiscal autonomy is one of the lowest in the EU. Therefore, the impact of the crisis on their finances is expected to be marginal.

Estimated change in 2020		**Municipalities**
Expenditure, EUR		n/a
Revenue, EUR		n/a
Scissors effect	*EUR*	n/a
	*%**	n/a

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

In addition, Malta's public finances have been significantly consolidated in recent years, with the government budget turning positive. However, in 2020 national authorities had to deploy measures to mitigate the effects of the pandemic, including wage support and voucher schemes,

healthcare-related outlays as well as utility and rent subsidies for businesses, amounting to almost 6% of GDP. Coupled with lower tax revenues, this led to a budget deficit estimated at 9.4% by the European Commission. In 2021, several pandemic-related fiscal measures will still weigh on public finances, keeping the state budget negative (-6.2%). After decreasing from over 70% to around 50% in five years, the debt-to-GDP ratio surged to 56.7% in 2020 (from 42.6% one year earlier) and is expected to grow marginally this year (57.1%) before starting to decrease again in 2022 (55.4%).
Government support for LRAs. The central government set up a financial package to help the Maltese economy during the crisis, mainly aimed at easing pressure on the business liquidity, protecting jobs and helping the most vulnerable during this challenging period. This included deferring certain taxes. However, due to the division of fiscal powers and the limited autonomy of Maltese LRAs on expenditure and revenue, the impact of the crisis on local finances is expected to be limited. Therefore, there are no specific government support measures for LRA finance in Malta.

2.20 The Netherlands

Division of fiscal powers. The Netherlands is a unitary state with a sub-national government structure based on 12 provinces and 355 municipalities.

LRA expenditure makes up 30.8% of public expenditure, close to the EU average. Municipalities are the most significant tier in terms of spending and responsibilities.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
30.8%	3.7%	23.8%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
10.3%	72.1%	17.5%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

LRA spending is higher than the EU average for education, social protection and economic affairs. LRAs have limited responsibilities for health. Municipalities are only involved in preventive screening and long-term care for outpatients. For social policy, municipal authorities oversee social care and youth activities.

Grants and subsidies account for a large share of sub-national government revenue, but these are tied to the performance of specific activities by local authorities. LRA own revenue is a small share of local revenue. Provincial tax revenue comes only from a share of the national car registration tax (in the form of a surcharge) and minor local taxes. Municipality revenues rely mainly on business, tourism and property taxes as well as tariffs and fees from parking and other local charges.

Crisis effects on local economies. The crisis caused a drop in GDP of 4.1% (European Commission, February 2021), the largest since World War II and slightly more than the fall in GDP of 3.7% in 2009 from the financial crisis.

Overall, as in the 2009 financial crisis, northern and south-eastern provinces are the most heavily impacted by the economic fallout from the pandemic. Their economies are less advanced and businesses less innovative (Hassink, Kalb and Meekes, September 2020). Dutch urban areas, such as Utrecht and The Hague, were less affected than the national average (Rabobank, June 2020*b*).

Amsterdam and Rotterdam also seemed to be getting through the crisis better, possibly because many people could work from home, especially in Amsterdam with significant commercial services (see also Rabobank, May 2020*a*). Fewer people had that option where manufacturing makes up a large part of the economy.

Crisis impact on LRA finances In July 2020, the Association of Dutch Municipalities, VNG, published a detailed report with an estimated impact of the crisis on municipality finances in 2020 based on two scenarios (Andersson Elffers Felix, July 2020). As at April 2021, this is the only complete estimate available[86] and

[86] See also BDO-Benchmark (2021, January), p.57.

does not cover the provinces. **The drop in revenue and rise in expenditure in 2020 for all municipalities was estimated at EUR 2.26 to EUR 2.77 billion.**

The major effect of the crisis on municipality revenues was the reduction in income from parking of EUR 208.8 to EUR 344.9 million. Other fees and charges fell by between EUR 152 and EUR 185.8 million. Municipalities were expected to suffer losses of EUR 250 million also from tourism tax. There was also some EUR 55.7 million less income due to a waiver of municipal taxes. **Overall, the drop in municipality revenue was estimated to be up to 1.02 billion.**

Dutch municipalities also faced an increase in expenditure. They report a clear increase in social assistance benefits of between EUR 534 and EUR 652 million. Furthermore, municipal social work companies incurred extra costs of EUR 192.7 million to EUR 235.6 million. Moreover, every municipality also saw less sports income and extra sports expenses. The cultural sector, including museums, was similarly impacted[87]. Overall, **the increase in municipality expenditure was estimated to be up to EUR 1.75 billion.**

Estimated change in 2020		Provinces	Municipalities
Expenditure, EUR		n/a	up to +1.75 billion
Revenue, EUR		n/a	up to -1.02 billion
Scissors effect	*EUR*	n/a	up to -2.77 billion
	*%**	n/a	-2.8%

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

The report also underlines that the crisis affected all Dutch municipalities but differently. Tourist municipalities, those with a socio-economically vulnerable population and larger municipalities experienced major financial effects. As a result of financial pressure, around a third of municipalities entered 2021 with a negative budget balance having already exhausted their reserves.

<u>Government support for LRAs.</u> In May 2020 the central government allocated municipalities a compensation package of more than EUR 700 million (Raad voor het Openbaar Bestuur, February 2021). This included previously allocated amounts for personal contributions under the Social Support Act and sports. The support concerned loss of income (parking and tourist tax), additional social costs and catch-up care, emergency care for children, public transport, grants for municipalities to subsidise companies providing youth services and social care, and support for cultural facilities.

An additional support package of EUR 365 million was allocated in summer 2020 for Municipal Health Services and the Safety regions, followed by a second tranche of EUR 330 million. Other measures involved changing the rules on distribution of the municipal fund. This included eliminating the pro-cyclical requirement where funding for municipalities decreased when central government expenditure increased for 2020 and 2021.

[87] The total effect on municipality budgets, concerning sports and cultural sector, was forecast at between EUR 301.4 and EUR 368.4 million. Separate figures for revenue and expenditure are not available.

2.21 Poland

Division of fiscal powers. Sub-national government in Poland is based on 16 regions, 380 counties and 2 477 municipalities.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
34.1%	15.1%	21.4%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
32.5%	58.7%	8.9%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Municipality budgets account for roughly 75% of sub-national public finances, reflecting their responsibilities. Municipality spending is mainly concentrated on education, health and social protection.

Revenue autonomy is lower than the EU average, indicating a higher dependency on central government transfers. Local governments have little autonomy to set tax rates. The biggest share of tax revenue is shared taxes. In 2019, tax reform included reductions and exemptions from personal income tax, higher minimum wages, increases for teachers and new rules on tax losses[88]. This also affected LRA budgets in 2020.

Crisis effects on local economies. In 2020, GDP contracted by 2.8% (European Commission, February 2021) but is expected to increase by 3.1% and 5.1% in 2021 and 2022 respectively. Unemployment remained low (just above 3%), though more than one in four employees have temporary contracts, twice the EU average[89].
However, there are large disparities between the east and the west of the country. The most affected areas are urban and industrial regions mainly in the west and south (virus localisation paralleled northern Italy), along with the Mazowieckie region, which includes Warsaw. However, sectors that were not subject to lockdown included manufacturing and mining (coal accounts for most of the energy produced in Poland)[90]. Undoubtedly, this lessened effects on employment in southern mining regions such as Upper Silesia.
Nevertheless, according to an analysis on the spatial effects of the Covid-19 on Polish regions with a focus on Silesia (Krzysztofik, Kantor-Pietraga and Spórna 2020, June), 'shrinking' cities[91] have been more affected by both the healthcare and the

[88] ITR (2019), *Poland: Poland reforms income taxes for 2019*, International Tax Review.
[89] However, the situation was expected to worsen due to the long-term effects of the crisis: while government support helped to contain unemployment (3.8% in 2020), the IMF forecasts the rate to increase to 5.1% in 2021 and 4.9% in 2022. According to Eurostat, GDP per capita (PPP) is still 27% lower than the EU-27 average.
[90] Miners had mass tests for Covid19. This is the only professional group in Poland, apart from hospital staff, subject to this procedure.
[91] These have less services, worse socioeconomic institutions, more older people, unemployment and depopulation. The city of Bytom was estimated to lose around EUR 10 million (about 5% of the budget). For a city suffering urban shrinkage, overlapping with problems related to mining specialisation, this is significant additional pressure (Bijak 2020). Among cities in the Katowice conurbation, Bytom and Sosnowiec had the largest population loss. This should explain the record number of confirmed cases of Covid19 in the province and one of the highest in Poland (in total and per 1 000 inhabitants). Negative media representations of Bytom and Upper Silesia quickly emerged, portraying them as 'the second Bergamo, in the second Lombardy' (i.e. Italy).

financial emergency. Although the epidemic has spread throughout Poland, it is worse in socioeconomically marginalised or economically transformed places.

__Crisis impact on LRA finances.__ According to Fitch Ratings (April 2020*a* and October 2020*b*) economic disruption from the pandemic slashed tax revenue for all Polish regions, especially corporate income tax which makes up about 40% of total revenue and is highly sensitive to economic changes. The forecast was for a 30% fall in regional corporate income tax in 2020, before recovering in 2022. This was due to the pandemic, but also to the 2019 tax reform (Fitch Ratings, December 2020*c*). Tax revenue may continue to decline in 2021, which will delay recovery until 2023[92]. Meanwhile, operating expenditure for regions was expected to decline due to lower demand for services such as passenger rail and cultural events. However, there is no quantification of these effects.

According to Polish Economic Institute surveys (December 2020*a* and 2020*b*), 85% of medium and 74% of small cities believed the pandemic harmed their financial situation. Moreover 53% of medium and 37% of small cities are planning increases in debt in 2021.

Estimated change in 2020		Regions	Counties	Municipalities
Expenditure, EUR		n/a	n/a	n/a
Revenue, EUR		n/a	n/a	-3 billion
Scissors effect	*EUR*	n/a	n/a	-3 billion
	*%**	n/a	n/a	-4.4%

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

According to Rzeczpospolita (April 2020*b*), municipalities estimated a loss **of up to 10% of own revenues**, **nearly EUR 3 billion nationwide**. For the mayor of Warsaw, income was expected to fall by more than EUR 2.4 billion in 2020 for all Polish large cities (Rzeczpospolita, April 2020*a*). They reported significant loss in tax revenues mainly from corporate and personal income taxes. Revenues from sports facilities (swimming pools, ice rinks, etc.), cultural institutions and public transport tickets were also expected to decline. In addition, there were additional expenses for Polish local governments to fight the effects of the crisis, including support for hospitals and social assistance. As a result, municipalities were at risk of insolvency, impacting on services for residents and investment plans. There is no estimate yet for the increased expenditure.

__Government support for LRAs__**.** In April 2020, the central government introduced several measures to support LRA budgets[93]. These included the relaxation of rules for LRAs to balance their budget. In 2020, an LRA could exceed limit by the amount of expected loss in income resulting from the pandemic. This meant that current expenses might exceed current income by the expenses related to counteracting

[92] Polish regions cannot compensate corporate income tax declines by raising tax revenue since they do not collect any local taxes and income tax rates are determined by the state. Those with below-average tax revenue per capita could qualify for a higher subsidy under a national scheme. However, this subsidy is calculated with a two-year lag, so it will not provide immediate support if tax revenue falls in 2020.

[93] Prawo.pl (2020), *Rząd planuje ratowanie budżetów samorządów i proponuje zmiany w specustawiel*, 10 April 2020. See also KPMG (September 2020).

Covid-19 financed with own funds. Moreover, additional flexibility was granted in fiscal rules and debt repayment.

Also, a solution was introduced for the earlier transfer of general subsidy instalments to LRA (Act on the Income of Local Government Units). In 2020, subsidy instalments were transferred without meeting the deadlines specified in the Act on the Income of Local Government Units.

2.22 Portugal

Division of fiscal powers. Portugal sub-national government is based on 308 municipalities and, with the exception of the two autonomous regions of Madeira and the Azores, has no formal regional level outside EU regional policy planning[94].

Municipality spending is much lower than the EU average, more concentrated on general public services, economic affairs, housing and community amenities, and less concentrated on health and social protection.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
13.3%	6.3%	7.4%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
42.4%	32.3%	25.3%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Revenue autonomy is above the EU average with 42.4% from taxes and an additional 17.2% from tariffs and fees. Municipalities' own tax revenues are from a 5% share of central government personal income tax, part of the corporate income tax and taxes on property in the municipality. National law sets boundaries for local government to modify tax rates.

Crisis effects on local economies. The Portuguese economy was significantly affected by the pandemic, with a GDP decline of 7.6% in 2020 (European Commission, February 2021). GDP is expected to rise by 4.1% in 2021 and 4.3% in 2022. The impact on unemployment was partly offset by temporary government support which benefited some 750 000 employees or nearly 15% of the labour force[95].

The effect of the crisis was uneven across Portuguese municipalities, depending on their socio-economic conditions. For instance, the worst-affected contagion areas (mainly municipalities in the northern coastal area, including the municipality of Porto) were associated with unemployment and population density, but not with other socio-economic variables, such as average earnings or inequality of the municipality (Alves *et al.*, April 2021). People in these areas might seek other informal income sources with greater risk of infection. The municipalities with higher unemployment were also the most deprived, with a larger share of population lacking access to computers and/ or internet, necessary for working from home.

[94] The autonomous regions of Madeira and the Azores have more fiscal and financial responsibilities and powers than mainland municipalities and are also themselves sub-divided into municipalities. Moreover, there are other administrative levels such as Metropolitan Areas, territorial units formed by grouping municipalities, to economise on investments and services. As of 2014, two metropolitan areas correspond to NUTS3 level: the Lisbon metropolitan area, with 18 municipalities and nearly 3 million people and the Porto metropolitan area, with 1.8 million people. These areas also have intermunicipal communities. As of 2014, there were 21 intermunicipal communities.

[95] However, the unemployment rate increased, reaching an estimated 8.1% in 2020 from 6.5% in 2019, and is projected to gradually return to its pre-crisis level in a couple of years (Nordea, February 2021, based on IMF estimates; see also IZA, November 2020).

Another aspect was the unequal geographical distribution of health services and human resources for health in Portugal (Shaaban, Peleteiro and Martins, August 2020). These are more concentrated in Lisbon and Porto compared to the country's remote areas. Moreover, younger populations are more concentrated in coastal regions. Residents of remote areas with lower socio-economic indicators have poor access to health services, which influences their ability to benefit from these. Such territorial socio-economic differences could explain the heterogeneous spread of the disease and the crisis over the country.

***Crisis impact on LRA finances*.** Portuguese municipalities implemented a wide range of actions to support citizens and businesses which increased expenditures. Many municipalities opted to reinforce their emergency funds or create new ones to mitigate Covid-19 effects, while tax exemptions and reductions reduced revenue.

Estimated change in 2020		Municipalities
Expenditure, EUR		+166 million (by September)
Revenue, EUR		n/a
Scissors effect	*EUR*	-545 million
	*%**	-4.5%

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

The Portuguese Court of Auditors report (Tribunal de Contas 2020) provided a picture of municipal public expenditure during the crisis, using information from municipalities. This was not based on consolidated data and did not include the revenue side of municipality budgets. According to the report, a total of **EUR 166 million of expenses** were incurred to respond to the pandemic by end September 2020. This included EUR 5.6 million for civil parishes (*freguesias*)[96]. The biggest expenditure was for goods and services, increasing by EUR 75.9 million. The most populated municipalities in the metropolitan areas of Lisbon and Porto experienced a proportionate increase in expenses. However, some smaller municipalities in remote areas, with more limited expenses, were heavily impacted.

No detailed estimates are available for the loss of revenues. Some indications of the effect of the crisis on municipalities finance come from **Lisbon,** which **estimated a revenue drop of -EUR 273 million in 2020,** of which -EUR 115 million related to the property transfer tax and -EUR 20 million to the tourist tax[97]. On the expenditure side, Lisbon approved in April 2020 a Social Emergency Fund of EUR 25 million to combat the crisis.

Moreover, in February 2021, the Conselho das Finanças Públicas (2021) published the estimates for the budget balance of all municipality authorities. This showed a surplus of EUR 617 million in 2019, down to EUR 72 million in 2020 and turning into a deficit in 2021 with -EUR 325 million. From this evolution of the budget balance, the **'scissors effect' of the crisis on Portuguese municipalities finance could be EUR 545 million in 2020** and EUR 397 million in 2021.

[96] A *freguesia* is a subdivision (third-level administrative unit) of a municipality. Data provided by the Court of Auditors covers 78% of municipalities and 36% of the 3 091 parishes.

[97] According to the Lisbon City Council estimate. See Observador (2020), *Câmara de Lisboa altera orçamento para 2020 e estima perda de receita de 273 ME*, 23 April 2020.

Government support for LRAs. Since the beginning of the pandemic, the Government has responded with measures to support the economy, jobs and a progressive resumption of economic activity.

Several exceptional and temporary measures were adopted by the central government to support LRAs (Tribunal de Contas 2020; see also OECD, November 2020). Municipal expenditure to combat the crisis fell outside the debt limits in the Local Finance Law. Expenses on equipment, goods and services between March and June 2020 could be financed by the Municipal Social Fund.

Balanced budget and spending rules were also relaxed. Furthermore, the short-term loan authorisation was simplified and medium to long-term borrowing was facilitated[98]. In addition, local authorities can request advance or early transfers of national taxes.

In June 2020[99], the central government introduced EUR 4.4 million of new measures to promote and extend teleworking for public administration workers (Eurofound 2020). The aim is, by the end of the legislature in 2023, to have at least 25% of public administration employees teleworking. Some of these may be in 'coworking' spaces, including in the interior of the country, promoting the decentralisation of public services.

[98] For short-term loans, municipalities and parishes can borrow without authorisation from their legislative body if the expenses are for pandemic-related urgent needs. The 2-year maximum term for loan capital was suspended until December 2020.

[99] Resolution of the Council of Ministers no. 41/2020, of 6 June, that approved the Economic and Social Stabilisation Programme.

2.23 Romania

***Division of fiscal powers*.** The organisation of sub-national government in Romania is based on 41 counties plus Bucharest at an intermediate level and 3 181 municipalities (divided into communes, towns and cities).

Despite more decentralised local financing over the years, Romanian LRAs are still highly dependent on transfers from central government (81.2%). Own revenues, 10.4% from taxes (mainly on property, land and vehicles) and 6.7% tariffs and fees cover only a small fraction of their financial needs. Sub-national governments also have debt ceilings.

Local government spending, representing 23.5% of total public expenditure, is most concentrated, more than EU average, on education, health, housing and community amenities.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
23.4%	17%	14.4%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
10.4%	81.3%	8.3%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Crisis effects on local economies. GDP in Romania decreased by 5% in 2020 and is expected to grow by 3.8% and 4% in 2021 and 2022 (European Commission, February 2021). With 31% of the population at risk of poverty or social exclusion, Romania remains one of the poorest countries in Europe. Additional problems, such as an ageing population, emigration of skilled labour, significant tax evasion, insufficient health care and education infrastructure may compromise Romania's growth and recovery from the crisis.

The pandemic and its economic fallout took a toll on Romania's most impoverished regions, affecting the poorest families, as in Vaslui county, one of the EU's poorest regions. For instance, together with Buzau and Dolj, this county had the highest unemployment rate in December 2020 at 7.3%[100]. The wealthiest areas of Ilfov county and Bucharest, were relatively less affected by unemployment. Moreover, despite GDP collapsing significantly in 2020 in these areas, they are expected to grow faster in 2021 than the poorest counties.

The crisis particularly affected rural areas, where most of the poorer people live. For instance, a study on the effects of the crisis on young people revealed that in the poorest areas of Cluj, Constanța, Dolj, Ialomița, Iași, Vaslui and Vâlcea, 60% of parents in the countryside have not worked during the pandemic, and close to half were unable to provide adequate food, medicine, hygiene products or school supplies for their children (World Vision Romania, November 2020). The share of digital

[100] Ziarul Financiar (202), *Buzău, Vaslui şi Dolj, judeţele cu cea mai mare rată a şomajului. Ilfov, Bucureşti, Timiş, zonele cu cea mai mică rată a şomajului*, 26 January 2021.

schooling was also lowest in rural areas, with 40% of students never attending online classes, as more than half of families in Romania's rural villages do not own a digital device to enable remote learning.

<u>Crisis impact on LRA finances</u>**.** According to the survey conducted by NALAS (see NALAS, KDZ and NAMRB, July 2020) of South-East European local governments, the main problem for Romanian LRAs who responded was the lack of financial resources. 75% of them also experienced a reduction of 10% to 20% in revenue between March and July 2020[101]. 75% of them experienced an expenditure increase of more than 20% in health and 67% in social services.

LRA own revenues from taxes and fees were estimated to drop by nearly EUR 118.4 million (-4.7%) from 2019 to 2020 (Ministry of Finance, December 2019; Ministry of Finance, February 2021)[102]. These are expected to further decrease by 3.3% in 2021.

For the central government (Curtea de Conturi a României, August 2020) **health and prevention expenditure for LRAs was nearly EUR 310 million at May 2020**[103].

Estimated change in 2020		Counties	Municipalities
Expenditure, EUR		+EUR 310 million (up to May, only health expenditures)	
Revenue, EUR		-118.4 million	
Scissors effect	*EUR*	-428.4 billion	
	*%**	-0.4%	

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

<u>Government support for LRAs</u>**.** The resources for Romanian LRA expenditure on health and prevention came from local budgets for EUR 140 million, the national health fund for EUR 85.5 million, central government for EUR 52.2 million, and from donations and sponsorships from civil society and private companies for EUR 32.4 million (Curtea de Conturi a României, August 2020).

In December 2020, the Government allocated nearly EUR 174.5 million from the Budget Reserve Fund to the 42 counties for operating expenses incurred during the year, including costs for social services for the disabled and children (Ministerul

[101] Some municipalities decided to reduce or postpone taxes. For instance, the city of Sibiu suspended local fees such as the special sanitation tax and hotel taxes for six months and terrace taxes during the state of emergency, with a 50% reduction for the following three months (Committee of the Regions 2020). In view of the Romanian government's intention to postpone payment of local taxes and duties, other municipal fees were also deferred until 30 June 2020.

[102] Own calculation based on Ministry of Finance documentation. In December 2019, LRA own revenues were estimated at LEI 13 130.4 million in 2020 (Ministry of Finance, December 2019, p.43). In February 2021, it was stated that own revenues of local budgets were estimated at LEI 12 132.6 million for 2021, corresponding to a decrease of 3.3% compared to estimates for 2020 (Ministry of Finance, February 2021, p.90). Therefore 2020 own revenues should be nearly LEI 12 457 million, or LEI 583.4 million (i.e. EUR 118.4 million) less than forecast in December 2019. This is significantly below the estimate provided by the NALAS survey, for a loss of LRA revenue of up to EUR 2.16 billion in 2020, EUR 1.7 billion in 2021 and EUR 1.5 billion in 2022.

[103] The biggest increase in spending commitments for healthcare were in Bucharest (EUR 48.4 million), followed by Iasi, Bihor and Timiș counties. Romanian LRAs equipped hospitals with medical equipment, as well as supplementing the funds needed for this including through donations and sponsorships from civil society and private companies (EUR 32.4 million, Curtea de Conturi a României 2020, August).

Finanțelor, December 2020). Moreover, special conditions imposed by the state of emergency led to the modification of some legal provisions on public procurement. However, the legal framework developed during the state of emergency was unclear about financing some expenditure and the budgetary source for this. According to LRAs, a significant problem was a lack of coordination with other levels of government (indicated by 83% of respondents to the NALAS survey)[104].

[104] See also Curtea de Conturi a României (August 2020).

2.24 Slovakia

Division of fiscal powers. Sub-national government in Slovakia is based on eight regions and 2 929 municipalities. Municipalities are the basic units of territorial self-administration as defined in the Slovak Constitution and regions have been introduced as higher territorial units.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
17.4%	3.3%	7.4%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
7%	76%	17.1%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

LRA spending is more concentrated than the EU average on education, economic affairs and general public services. In all other areas, including health and social protection, expenditure it is well below the EU average. LRA expenditure accounts for 17.4% of total public expenditure, around half the EU average.

Revenue autonomy is lower than the EU average and central government transfers are much higher. Own revenues vary between regions and municipalities, coming from taxes (7%) such as on personal income, property and, accommodation - and fees and tariffs (15.5%).

Crisis effects on local economies. The national GDP fell by an estimated 5.9% in 2020 (European Commission, February 2021), but is expected to grow again, by 4% in 2021 and 5.4% in 2022.

The export-oriented Slovak economy suffered the biggest slump among EU Member States in industrial production (which has an important share of GDP) during the first months of the pandemic. Other business activity also decreased especially accommodation and catering, the most affected by domestically imposed measures. These sectors had the biggest increase in unemployment. Eastern and central regions, traditionally less developed and with higher unemployment, suffered the biggest unemployment increase in 2020.

Slovakia also has one of the lowest shares of jobs that can be carried out remotely in the OECD countries, with substantial regional differences (OECD, July 2020). In most of the country only around 25-30% of jobs can be done remotely, but this is considerably higher in the capital city of Bratislava at 40%. Regional differences in remote working might have affected the impact of Covid-19 related measures, especially lockdowns.

Crisis impact on LRA finances. According to government estimates, **municipalities and regions were expected to see a decrease of EUR 121.5 million and EUR 52.1 million respectively from income tax revenues in 2020** (Ministry of Finance, August 2020*b*). **For self-governing regions, revenue from suburban bus transport fell by EUR 30 million**[105].

More detailed data on Bratislava city underline that the city lost more than EUR 15 million in taxes, mainly from income tax. In addition there were lower revenues for municipal enterprises and contributory organisations, reduced rental income and decreased municipal waste fees, totalling some EUR 12 million.

Estimated change in 2020		**Regions**	**Municipalities**
Expenditure, EUR		n/a	+1 million (Bratislava only)
Revenue, EUR		-82.1 million (only tax revenues and transport tickets)	-121.5 million (only tax revenues)
Scissors effect	*EUR*	-204.6 million (only revenues and incl. Bratislava increase in expenditure)	
	*%**	-3.1%	

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

LRAs also reported increased expenditure to prevent the spread of the virus, as in Bratislava City (EUR 1 million). However, there is no overall estimate of the increase in LRA expenditure due to Covid-19 in 2020 yet.

Government support for LRAs. The central government adopted several measures in March 2020 to increase flexibility in LRA budget rules (Ministry of Finance 2020*a*). For instance, to the end of 2021, local government entities can use their reserve funds, capital income or repayable sources of financing to cover current expenses. The aim was to allow the use of all local government resources to cover expenses related to the pandemic and at the same time to address the expected negative impact on tax revenues.

The Ministry of Finance also decided to help LRAs with EUR 151.9 million in December 2020 (Ministry of Finance 2020*b*). LRAs could ask for assistance to cover up to 100% of their expected income tax loss. Measures were also implemented in other key sectors, such as social services where LRAs are the main providers[106]. The eligibility for a subsidy for humanitarian purposes was also expanded.

[105] Obrancová, J. (2021), *Kraje žiadajú štát o odškodnenie, na prímestskej doprave stratili 30 miliónov eur* in *Radio and Television of the Slovak Republic*, 13 March 2021.

[106] For instance, the Ministry of Labour, Social Affairs and Family (MLSAF) lifted the obligation of municipal and non-public providers that receive the dependency contribution to give back funding for unused places in their facilities. This was more than EUR 1 million in the 2nd quarter of 2020.

2.25 Slovenia

Division of fiscal powers. Slovenia's sub-national government is based on 212 municipalities. Municipality spending is concentrated on education with important areas being health and social protection.

LRAs in Slovenia depend mainly on own resources (41.3% from taxes plus 17.8% from tariffs and fees). Municipal financial needs, determined through an 'adequate spending formula'[107], are covered mainly through personal income tax[108]. This is the highest in Europe[109], playing a crucial role in redistributing resources among municipalities (solidarity compensation) and is the first resource to help less affluent local governments reach their 'adequate' spending level. If this does not cover the financial needs of all municipalities, additional government resources, in the form of grants, are transferred to those in need.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
19.5%	12.3%	11.6%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
41.3%	39.1%	19.6%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Municipal revenues also include local taxes, where municipalities have limited autonomy to set rates and tax bases, and municipal fees where they have more autonomy.

Crisis effects on local economies. The crisis decreased Slovenian GDP by 6.2% in 2020 (European Commission, February 2021). This should increase by 4.7% in 2021 and 5.2% in 2022. Unemployment, on a declining trend in recent years, increased to 8% during 2020 from 4.6% in 2019 (Nordea, March 2021, based on IMF).

Job losses have been uneven and concentrated in some service sectors[110] especially accommodation and food where the closure of hotels and restaurants more than halved turnover. In 2020, there were 43% fewer overnight stays in Slovenia than in 2019. The most affected localities, in terms of employment but also tax revenues, were the City of Ljubljana, the Municipality of Bled, and the municipalities of Piran, Maribor, Kranjska Gora and Rogaška Slatina (Skupnosti občin Slovenije, 2021*b*). However, while household consumption fell sharply, household savings increased

[107] The financial arrangements of municipalities are based on 'adequate spending' and 'adequate funding'. The spending formula estimates adequate expenditure for each municipality, taking into account their functions and factors such as inhabitants, age of population, surface area, and local infrastructure.
[108] Income tax is collected by the central government and redistributed to each municipality based on their revenue generating capacity and spending needs.
[109] Slovenia (61.1%), Belgium (60.%), and Sweden (60.2%) had the highest top marginal income tax rates among European OECD countries in 2019. The Czech Republic (31.1%), Estonia (32.4%), and Hungary (33.5%) had the lowest.
[110] The quick government response allowed more than half a million people to receive income support. Around EUR 1.2 billion was disbursed by September to support labour, wages and social security contributions (Government of the Republic of Slovenia, October 2020).

amid relatively stable disposable income. This is corroborated by data on household deposits at the end of 2020 (IMAD, February 2021).

Crisis impact on LRA finances. Due to the crisis, income tax was expected to be lower, reducing financing for municipalities in the coming years (CEMR, May 2020)[111]. Moreover, many municipalities decided to postpone the payment of tax on the use of construction land for three months or more, causing additional liquidity issues. Potential losses were also expected from taxes on tourism, casinos and property sales.

Estimated change in 2020		Municipalities
Expenditure, EUR		n/a
Revenue, EUR		-195 million (excl. transfers)
Scissors effect	*EUR*	-195 million (only revenues)
	*%**	-5.3%

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

However, according to the NALAS survey on South-East European local governments (see NALAS, KDZ and NAMRB, July 2020), only 25% of Slovenian LRAs reported a moderate (10% to 20%) or large (>20%) drop in revenues in March-June 2020 compared to previous year. According to the survey**, the crisis was expected to reduce LRA revenue by EUR 195 million in 2020,** EUR 153 million in 2021, and EUR 141 million in 2022. Income tax was expected to decrease by EUR 115 million in 2020 (Government of the Republic of Slovenia, October 2020). This loss corresponded to a decrease of EUR 62.1 million for municipality revenues in 2020[112]. At the end of 2020, the increase in the lump sum support for municipalities reduced to EUR 27 million (Fiscal Council, February 2021). For the Association of Municipalities and Towns, in 2020 municipalities lost EUR 9.3 million in revenues from tourism tax and EUR 6.2 million from casino taxes (Skupnosti občin Slovenije 2021*a*, *b*).

In the first five months of 2020, the surplus of municipal budgets (EUR 15 million) was almost one third of the same period in 2019 (Fiscal Council, July 2020). However, the surplus reached EUR 31.3 million at the end of 2020 (Fiscal Council, February 2021). This improvement was due to higher revenue growth compared to the preceding year (4.3% vs 3.6% in 2019) than expenditure growth (2.4% vs 2.1% in 2019), predominantly as a result of more income tax revenue (10.2%) due to the lump sum expenditure (see next session)[113].

Government support for LRAs. During 2020 the central government adopted five packages aimed at companies and individuals with incentives to preserve economic

[111] Income tax revenues for 2020 are based on income tax paid in 2019 or 2018.

[112] The Financing of Municipalities Act stipulates that 54% of its revenues collected by central government are shared with municipalities (see OECD 2018).

[113] Revenue growth was further promoted by higher capital revenue from sales of building land and state funding, which increased by 50%. Growth in expenditure was mainly from investment activity (7.3%), new construction, reconstruction and adaptation as well as the purchase of buildings and premises. Growth was curbed by a drop in expenditure on transfers to individuals and households, mainly related to subsidies for kindergartens and school transport. Transfers to public institutions and non-profit institutions also declined.

activity and personal income (Government of the Republic of Slovenia, October 2020)[114].

The government addressed underfunding and development funds at LRA level mainly in the second anti-corona law in April. This included an increase of 6% in financing for municipalities, from an average of EUR 589 to EUR 624 per inhabitant, roughly EUR 73 million (of which EUR 23 million was for Ljubljana). However, the Association of Urban Municipalities of Slovenia initially indicated that these resources were not sufficient, in particular for bigger municipalities, to cover the costs of all tasks prescribed by law (CEMR, May 2020)[115]. In September 2020 ZMOS and the Minister of Public Administration signed an agreement to increase financing to EUR 628 per inhabitant for 2021 and 2022.

Finally, in November 2020, the Committee on Internal Affairs, Public Administration and Local Self-Government discussed and approved the proposal for the Financial Relief of Municipalities Act. The basic proposal is that the state will take over financing of compulsory health insurance from municipalities. Other measures include additional funding for municipalities with Roma settlements, enabling municipalities to borrow for 'soft' investment in European projects, and more flexibility for municipalities to use investment subsidies as current transfers.

[114] For instance, the central government supported employers to cover the expenses of payrolls and insurance for employees on furlough, however few municipal public companies were eligible for this measure. The government also provided support to cover the cost of private kindergartens, which normally receive 85% funding from municipalities. Additional measures focused on support for public services, particularly health and social care. Tourist vouchers as a direct aid to tourism also had a positive effect.

[115] For instance, the increase in the lump sum is not sufficient to cover EUR 22 million in the City of Maribor (94 000 inhabitants). Also, in Velenje (24 000 inhabitants) it was estimated the effects of Covid19 would decrease budget revenues by nearly EUR 1.1 million in 2020 with expenditure increasing by EUR 300 000. To cover all the mandatory tasks prescribed by the state, the average per capita in Velenje would have to be EUR 680 per inhabitant. See Delo (May 2020)

2.26 Spain

Division of fiscal powers. Spain's sub-national government levels consist of 17 autonomous communities (Comunidades Autonomas, CCAA), 50 provinces, 8 131 municipalities and two autonomous cities. It is a highly decentralised country with significant spending powers devolved mainly to the CCAA, which have considerable financial autonomy.

LRA responsibilities include health (twice the EU average), housing and community amenities, education and social protection.

40.4% of LRA revenues originated from taxes in 2018. Grant dependency is higher than the EU average while CCAA are divided into those under the ordinary regime and those with full fiscal autonomy[116]. The ordinary regime sets limits and ways tax revenues are shared between CCAA and the central government[117]. CCAA retain 100% of the revenue and some discretion over taxes on electricity, hydrocarbon oil retail sales, electricity, property, stamp duty, motor vehicles, wealth, inheritances and gifts.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
50.1%	27%	7.4%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
40.4%	51.4%	8.2%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

Other local entities (provinces and municipalities) have a high degree of revenue autonomy but more restricted power over setting taxes decisions.

Crisis effects on local economies. In 2020 the Spanish economy was highly affected by the crisis, with a decrease in GDP of 11% (European Commission 2021, February). GDP is expected to increase by 5.6% and 5.3% in 2021 and 2022 respectively. The overall unemployment rate was estimated at 16.8% at the end of 2020 from 14.1% one year earlier (Nordea, March 2021, based on IMF).

Spain is among the countries that suffered the most from the crisis due to its heavy reliance on tourism and other badly hit activities, a prevalence of small firms with limited financial reserves and the weakness of its initial fiscal position, which has limited its ability to respond to the crisis (De la Fuente, March 2021). However, the territorial impact of the crisis was uneven. The most marked declines in regional GDP in 2020 were in the Balearic Islands (22%), Canarias (17.9%), Comunidad de Madrid (13.6%), and Cataluña (13.5%). By contrast, moderate declines of less than 8%, were seen in provinces in Murcia, Castile-La Mancha and Extremadura, which also saw the lowest impact on employment (Funcas, December 2020; see also Casas and Illanes 2020 and Cerezo 2021).

[116] Navarre and the Basque Country.
[117] 50% of the personal income tax with normative discretion on regional rates, 50% of VAT with no discretion on regional rates, and 58% of duties on production of alcohol, tobacco and hydrocarbon.

The crisis also impacted inequality, especially for low-wage workers (Aspachs *et al.*, September 2020). Pre-benefits wage inequality increased significantly, especially for foreign-born individuals, and in CCAA with heavy economic dependence on tourism[118]. However, public benefits activated soon after the beginning of the pandemic substantially mitigated the impact of the crisis among and within CCAA.

***Crisis impact on LRA finances*.** As of April 2020, CCAA operating expenditure was estimated about 8% higher than at the end of April 2019, with health care costs rising by about 14%. These were expected to increase by 11% for the whole of 2020 compared to 2019 (S&P Global Ratings, June 2020).

According to CCAA information transmitted to the central government, impact from the crisis was **nearly EUR 7.1 billion in social and health expenditure** up to November 2020, 0.63% of their GDP (Ministerio De Hacienda 2021, January)[119].

Estimated change in 2020		CCAA	Provinces	Municipalities
Expenditure, EUR		+7.1 billion	n/a	n/a
Revenue, EUR		-5 billion (excl. transfers)	n/a	269 million (only for Madrid and Barcelona)
Scissors effect	*EUR*	-12.1 billion	n/a	n/a
		-12.37 billion		
	*%**	-4.9%		

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

New data at the beginning of 2021 from central government (Ministerio De Hacienda, January 2021) highlighted that CCAA registered a surplus of EUR 3.2 billion in 2020, 0.3% of GDP, compared to a deficit of 0.3% in 2019[120]. This positive evolution was mainly due to government measures to guarantee financial resources to meet CCAA expenses due to the emergency, including covering the **EUR 5 billion revenue drop** from the Covid-19 Fund adopted in June. Overall, therefore, revenues grew by 8.5% to November 2020 due to the 14.5% increase in transfers from the government, and 4.2% increase in tax resources, especially on the income and equity. Taxes on production and imports fell by 22.6%.

There are no consolidated data or estimates for the impact of the crisis on Spanish municipality finances. However, some municipalities reported decreases in tax revenues, due to their decision to lower taxes on business and the economy. For instance, **Madrid** reduced tax on real estate and economic activities by 25%, leading to a **reduction in municipality revenues of EUR 66 million for 2020**. It also eliminated **fees** for commercial, industrial and recreational activities **(EUR 10**

[118] Municipality districts - as in Barcelona - with the lowest mean earnings had the highest incidence rates, while areas with highest mean earnings had the lowest incidence rates (Baena-Díez et al., August 2020).
[119] Cataluña and the Comunidad de Madrid accounted for EUR 2.6 billion alone, while Castilla-La Marcha recorded the highest expenditure in terms of GDP (1.36%, i.e. EUR 522 million).
[120] See also AIReF (May 2020) and OECD (July 2020).

million)[121]. Tax and fee reductions will probably be extended to 2021. Similar initiatives were adopted in **Barcelona**, which **estimated a revenue loss of EUR 183 million in 2020**[122].
<u>Government support for LRAs.</u> The first measures to support the economy and individual income were adopted in March 2020 (Ministerio de Asuntos Económicos y Transformación Digital 2020). Among these, EUR 2.9 billion were allocated to CCAA to cover extraordinary health expenses. Moreover, EUR 300 million were transferred to CCAA to combat the social impact of Covid-19. In June 2020 the central Government created a specific Covid-19 Fund of EUR 16 billion for CCAA to deal with increased expenditure and the income drop caused by the crisis. Allocation under tranches 1 and 2 of this fund was based on increased health spending needs, tranche 3 depended on education spending (Bruegel, November 2020). Tranche 4 did not constitute discretionary spending but was expected to cover the drop in revenue (EUR 5 billion, of which EUR 800 million was for local public transport)[123].

[121] Diario de Madrid (2020), *El Ayuntamiento rebaja impuestos para impulsar la recuperación de comercio, ocio, hostelería y cultura*, Nota de Prensa, 19 May 2020; El Mundo (2020), *Los bares y restaurantes de Madrid no pagarán tasa de terrazas en 2020 para paliar la crisis de la Covid*, 9 September 2020.
[122] El Periodic (2020), *BCN mantendrá durante el 2021 la rebaja del 75% en el pago por terrazas*, 19 October 2020.
[123] Europapress.es, *Así es el fondo COVID-19 para las comunidades autónomas*.

2.27 Sweden

Division of fiscal powers. Sweden's government structure is highly decentralised with two sub-national levels of 21 counties and 290 municipalities. There is no hierarchical relationship between counties and municipalities since the self-governing local authorities deal with different responsibilities.

County and municipality spending is more concentrated than the EU average on health, social protection and education. There is a high level of fiscal autonomy for local governments as most LRA revenue comes from taxes (54.7%). An additional 9.2% is from tariffs and fees. 98% of local tax revenue is under full control of LRAs so dependency on central government transfers is lower than the EU average.

LRA Expenditure		
As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
	Health (EU: 13.4%)	*Social protection, (EU: 22.8%)*
51%	26.6%	27%
LRA Revenue (2018)		
Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
54.7%	33.6%	11.8%

**Property income and social contributions, see Table A.2 in Annex I for detail.*

LRAs can levy taxes on personal income and are free to decide on their own tax levels. The average municipality tax rate is around 20%, and around 10% for counties. Technically, taxes are collected by the central government and then redistributed.

Crisis effects on local economies. Swedish GDP fell by 2.9% in 2020 but is expected to increase by 2.7% and 4% in 2021 and 2022 respectively (European Commission, February 2021).

The structure of Sweden's economy made it less vulnerable to the pandemic and containment measures (Bricco, Misch, and Solovyeva, September 2020). The hospitality and recreation sectors, most affected by the pandemic, are relatively small, similar to Nordic peers but in contrast to many other European countries. Sweden also opted for much looser restrictive measures[124]. However, the country is almost as reliant on exports as Germany, making it more vulnerable to fluctuations in external demand and global supply chain disruptions.

Employment was highly impacted and unemployment was projected to rise to 8.3% from 6.8% in 2019 (Nordea, March 2021, based on IMF; see also Sveriges Kommuner och Regioner, October 2020). Most short-term lay-offs were in metropolitan counties (Ekonimicfacta, April 2021) especially the counties of Stockholm, Västra Götaland and Skåne - the most heavily hit by Covid-19 infections.

Also, mortality was estimated to be higher in areas with low incomes, less education and more unemployment (Oudin Åström 2020; see also SCB, October 2020).

[124] The high level of autonomy of public agencies and the fact that the Swedish constitution does not allow the national government to impose a national state of emergency and thus centralise power during peacetime, are both specified in the Swedish system. This resulted in public agencies retaining their autonomy during the crisis.

Crisis impact on LRA finances. In October 2020 the Swedish Association of Local Authorities and Regions published a report with estimates of the impact on municipal and county finances (Sveriges Kommuner och Regioner, October 2020). For county revenues, public transport has been hit particularly hard with lower ticket income estimated at EUR 690 million compared with 2019. Additional losses were from art and museum activities and health service fees. However, the tax base did not change and taxable transfers[125] increased, so county tax revenues were expected to increase by EUR 410 million. **The estimated loss to county revenues was EUR 350 million.**

<table>
<tr><th colspan="2">Estimated change in 2020</th><th>Counties</th><th>Municipalities</th></tr>
<tr><td colspan="2">Expenditure, EUR</td><td>+1.87 billion to +2.59 billion</td><td>+850 million</td></tr>
<tr><td colspan="2">Revenue, EUR</td><td>-350 to -410 million (incl. taxable transfers)</td><td>+360 million to +510 million (only tax revenues, incl. taxable transfers)</td></tr>
<tr><td rowspan="3">Scissors effect</td><td rowspan="2">EUR</td><td>-2.22 to -3 billion</td><td>-340 to -490 million</td></tr>
<tr><td colspan="2">Up to -3.49 billion</td></tr>
<tr><td>%*</td><td colspan="2">-3%</td></tr>
</table>

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

Counties also estimated[126] additional costs attributable to Covid-19 of nearly EUR 1.1 billion up to November 2020 with an additional EUR 330 million expected by the end of 2020. There were also more costs for track and trace systems as well as caring for disabled and older people. **The estimated increase in county expenditure was EUR 2.59 billion in 2020.**

In March 2021, SCB published additional estimates (SCB 2021). These revealed **an increase in operational expenditure for municipalities of EUR 850 million in 2020**. **For counties, the increase was forecast to be EUR 1.87 million**. With taxable transfers, income from tax revenues increased by EUR 350 million for counties, according to SCB. **Municipality tax revenue**, similar to counties, was expected **to increase in 2020 to between EUR 360** (SCB 2021) **and EUR 510 million** (Sveriges Kommuner och Regioner, October 2020).

Government support for LRAs. Despite budgetary pressure at the beginning of the crisis, Swedish LRAs ended 2020 with positive net income thanks to automatic stabilisers (taxable transfers).

Additional support from the central government included funding of EUR 2.18 billion in April 2020, adding to the previous package of EUR 500 million (Ministry of Finance 2020). This additional funding was to maintain essential services such as healthcare, education, social services and public transport. Of this, EUR 1.24 billion was foreseen as a permanent increase in appropriations, so municipalities and counties can also use it in the years ahead. EUR 200 million was for personal

[125] While a rise in unemployment reduces the municipal tax base, the reinforced unemployment insurance system compensated workers for lost income. These government funded contributions are taxable, compensating LRAs' loss of tax revenue.

[126] Based on grant applications to the National Board of Health and Welfare, see Sveriges Kommuner och Regioner (2020*b*, October).

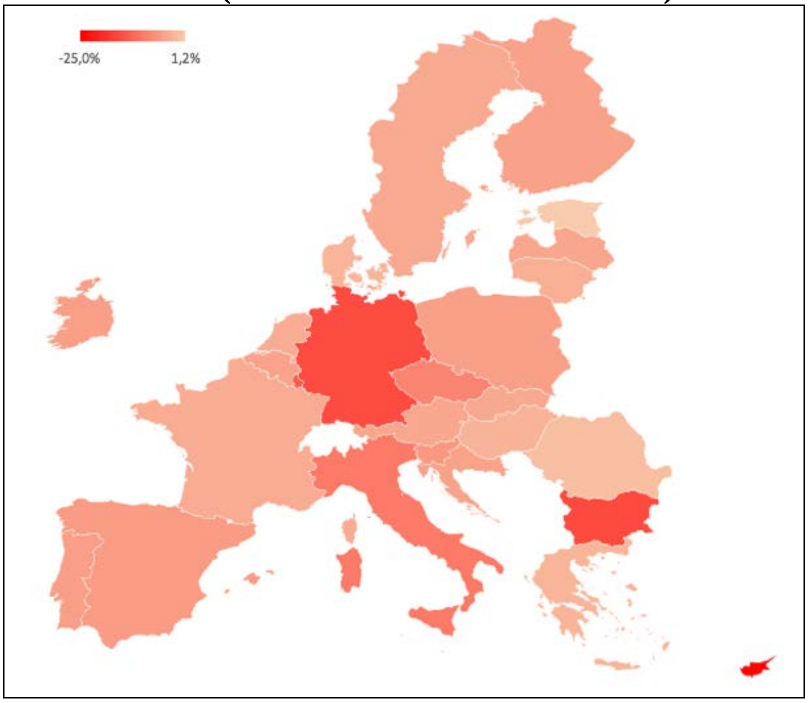
protective equipment and intensive care beds. Additional funding was also granted to cover lost fees. EUR 300 million was provided to regional public transport authorities though this was not enough to fully cover the fall in fees and additional costs (Sveriges Kommuner och Regioner 2020).

In total, the LRAs obtained EUR 3.13 billion in additional government grants, as well as EUR 150 million for local healthcare, and EUR 1.97 billion special compensation for measures to combat the Covid-19 crisis such as testing and increased public transport services. Additional grants are foreseen for 2021 to 2023.

2.28 Summary results at EU level

The data and information collected in the 27 country fiches – while only partial and based on estimates – enables an assessment of the scale of **'scissors effect' on LRA finance for the whole EU. This is up to -EUR 180 billion for 2020**, of which nearly -EUR 130 billion was for regions and intermediary levels, and -EUR 50 billion for municipalities (see table 2.1 for detail). An estimate for 2021 is not presented, as this data was only available for a few Member States.

Figure 2.1: Estimated Scissors effect in EU LRAs, by Member State (as % on total revenues in 2018*)



Note: *as in OECD (2019), *Key data on Local and Regional Governments in the European Union (brochure) - 2019*, OECD, Paris

By weighting the 'scissors effect' over total 2018 LRA revenues according to the OECD data (see Annex I for detail), it is possible to compare the results across Member States. The most affected LRAs in relative terms are in Cyprus (-25% on revenue), followed by Bulgaria (-15.3%), Germany (-15%), Luxembourg (-13.5%), Italy (-9.2%), Czech Republic (-7.8%), and Slovenia (-5.3%). All other Member States are under 5%, with the lowest being Romania (-0.4%), Denmark (-1.6%), Greece (-1.7%) and Hungary (-1.9%). Estonia is the only country with a reverse 'scissors effect' (+1.2%) as revenue grew more than expenditure. At EU level, the 'scissors effect' represents -7.3% of LRA revenues.

However, these results should be interpreted with caution given the available information (see box 2.2 and previous box 2.1). They only aim to provide an estimate of the 'scissors effect' based on available information. Nevertheless, the estimated total impact at EU level, which is already significant, seems to be underestimated and LRAs in the EU could have faced more budget pressures during the 2020 crisis.

Box 2.2: Considerations on the estimated 'scissors effects'

- Apart from a few countries where estimates or actual data were provided by central governments (as in Italy, Czech Republic, Finland), most of the estimates derive from LRAs association or researchers' analysis, often based on surveys rather than on actual data. Moreover, apart from few cases (such as the Cazeneuve report in France or the VNG report in the Netherlands), these did not consider all the potential effects of the crisis, showing only expenditure or particular types of tax. Denmark and Estonia data are taken from national statistics which do not provide disaggregated data on budget changes specifically due to the crisis.

- In most cases, the estimates were made in mid-2020, taking into account only some months or projecting estimates for the whole of 2020 using actual data. The effects of the second wave of Covid-19 were not considered.
- As shown in table 2.1, not all the sub-national government levels are covered by this report, due to lack of information. In some cases, as in Cyprus or Austria, there are only percentage changes, which have been quantified using 2018 revenue (OECD 2019). For Estonia (expenditure), Hungary, Slovakia (expenditure) and Spain (revenue), data just cover the capital or a few municipalities.
- In some cases, such as Greece and Sweden, the estimates already included transfers or the automatic stabilisation mechanism to compensate LRA revenue losses, so the full loss due to the crisis is underestimated.
- As evidenced by the analysis of central government, many LRAs received funding or other forms of compensation in 2020 for the impact of the crisis. This could lead to an overestimation of the scissors effect for 2020. However, in several cases LRAs have underlined that the support was not sufficient. Many of them ended 2020 with deficits or significantly lower surpluses. This counterbalances the potential overestimate of the ‘scissors effect’.

Table 2.1: Scale of the total 'scissors effect' in the EU, by Member State and LRA level (2020)

Member State	Estimated expenditure change (EUR billion)		Estimated revenue change (EUR billion)		Scissors effect (EUR billion)			
	Regions and intermediary levels	*Municipalities*	*Regions and intermediary levels*	*Municipalities*	*Regions and intermediary levels*	*Municipalities*	*Total*	*as % of LRA revenues**
Austria	n/a	n/a	-0.30[1,2]	-2.00	-0.30	-2.00	-2.30	-3.4%
Belgium	2.85	0.21	-1.44	-0.20	-4.29	-0.41	-4.70	-3.9%
Bulgaria	n/a	0.12[3]	n/a	-0.52	n/a	-0.64	-0.64	-15.3%
Croatia	n/a	n/a	n/a	n/a	-0.24[4]		-0.24	-3.9%
Cyprus		n/a		-0.075[1,3]		-0.075	-0.075	-25.0%
Czech Republic	n/a	1.13	n/a	-0.82	n/a	-1.95	-1.95	-7.8%
Denmark[5]	0.42	1.60	0.106	0.006	-0.32	-1.59	-1.91	-1.6%
Estonia		0.02[6]		0.05[5]		0.03	0.03	1.2%
Finland		1.3		-0.7[2]		-2	-2.00	-4.1%
France	2.2		-5		-7.2		-7.20	-2.7%
Germany	72.8	16.5	-15	-7.4	-87.8	-23.9	-111.7	-15%
Greece	n/a	n/a	n/a	n/a	-0.12[4,7]		-0.12	-1.7%
Hungary	n/a	n/a	n/a	n/a	n/a	-0.15[6]	-0.15	-1.9%
Ireland		0.09		-0.23		-0.32	-0.32	-4.5%
Italy	12.72	0.16	-1.50	-8.40	-14.22	-8.56	-22.78	-9.2%
Latvia		-0.07		-0.18		-0.10	-0.10	-3.5%
Lithuania		0.04		-0.04		-0.08	-0.08	-2.2%
Luxembourg		n/a		-0.42		-0.42	-0.42	-13.5%
Malta		n/a		n/a		n/a	n/a	n/a
Netherlands	n/a	1.44	n/a	-1.33	n/a	-2.77	-2.77	-2.8%
Poland	n/a	n/a	n/a	-3.00	n/a	-3.00	-3.00	-4.4%
Portugal		0.17[3]		-0.38[8]		-0.55[4]	-0.55	-4.5%
Romania	0.31[3]		-0.12		-0.43		-0.43	-0.4%
Slovakia	n/a	0.001[6]	-0.08[2]	-0.12[2]	-0.08	-0.12	-0.20	-3.1%
Slovenia		n/a		-0.20		-0.20	-0.20	-5.3%
Spain	7.10	n/a	-5.00	-0.27[6]	-12.10	-0.27	-12.37	-4.9%
Sweden	2.59	0.85	-0.41[7]	0.36[2,7]	-3.00	-0.49	-3.49	-3.0%
EU 27**	101.0	23.56	-28.75	-25.85	-130.11	-49.56	-179.67	-7.3%

*Notes: *Based on OECD (2019). See Table A.2 in Annex I for detail. **Data for Croatia, France, Greece and Romania are included under 'Regions and intermediate levels'.[1]Estimated by applying the percentage reduction from available information over 2018 revenues from OECD (2019). See Table A.2 in Annex I for detail. [2]Only tax revenues. In Slovakia, the figure for regions also includes losses from public transport. [3]2020 not fully covered. In Romania, the figure for expenditure refers only to healthcare. [4]Variation in LRA budget balance, disaggregation on budget changes specifically due to the crisis is not available. [5]Data from national statistics, disaggregation on budget changes specifically due to the crisis is not available. [6]Only capital or larger cities or groups of municipalities. [7]Including transfers from central government. [8]Calcuated as difference between total 'scissors effect' and expenditure.*

3 CASE STUDIES

The second part of this report includes five case studies - Germany, Italy, the Netherlands, Slovakia and Sweden - to go more in-depth in comparison with the country fiches. The structure of each case study mirrors the country fiches.

Other than ensuring a geographical balance, these five Member States offer a broad overview of the different divisions of fiscal powers and responsibilities for LRAs across the EU. For instance, Germany, the only federal state in the group, and Sweden have higher LRA expenditure as a share of total public expenditure. LRA responsibilities for health are high in Sweden and the highest in the EU in Italy as each region manages its own health care system. LRAs in Germany, the Netherlands and Slovakia have very limited responsibilities for health.

On the revenue side, fiscal autonomy (i.e. share of revenues including taxes, tariffs and fees) is higher than the EU average in Germany, Italy and Sweden. However, in each Member State the level of fiscal autonomy, types and distribution of local taxes, and automatic stabilisation mechanisms to compensate LRA budget changes, vary.

Finally, the five Member States also have different legislative systems for lockdown measures and different coordination mechanisms between levels of government to respond to the crisis. For instance, the decentralisation of power in Sweden creates significant challenges for the central government to take over LRA responsibilities. In Italy coordination between central government and LRAs was challenging during the crisis.

Table 3.1: Division of fiscal powers, key data

Member State	LRA Expenditure		
	As % of total public expenditure, 2018 (EU: 33.6%)	As % of LRA expenditure, 2017	
		Health (EU: 13.4%)	*Social protection (EU: 22.8%)*
Germany	48.4%	2.2%	27.6%
Italy	28.6%	48.2%	5%
The Netherlands	30.8%	3.7%	23.8%
Slovakia	17.4%	3.3%	7.4%
Sweden	51%	26.6%	27%
Member State	**LRA Revenue (2018)**		
	Taxes (EU: 42.1%)	*Grants and subsidies (EU: 43.3%)*	*Tariffs, fees and other* (EU: 14.7%)*
Germany	56.8%	26.9%	16.2%
Italy	42.6%	44%	13.4%
The Netherlands	10.3%	72.1%	17.5%
Slovakia	7%	76%	17.1%
Sweden	54.7%	33.6%	11.8%

Source: OECD (2019).

*Note: green cells highlight the above-EU average values. *Property income and social contributions, see Table A.2 in Annex I for detail.*

3.1 Germany

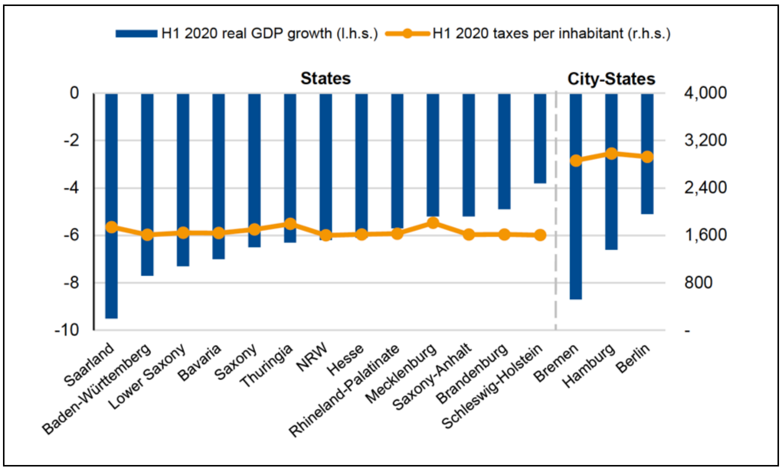
3.1.1 Division of fiscal powers

The Federal Republic of Germany with its 16 federal states (or Länder) and 11 005 municipalities is very decentralised. This translates into substantial freedom as well as responsibilities, especially for the Länder.

Subnational government expenditure makes up nearly 50% of total public expenditure[127] of which some 31% is managed by the Länder and the remainder by municipalities. LRAs are responsible for education in particular but also have significant responsibility for public safety, general public services and social protection. For municipalities, social protection and general public services are the most significant expenditures. LRA responsibilities for health are limited and make up only 2.2% of sub-national expenditure[128].

The German Constitution foresees no direct interaction between municipalities and the national government. The municipalities interact with their Länder, then the central government through institutions such as the Bundesrat[129] which communicates with the government and participates in the legislative process. Managing the pandemic has challenged some of these institutions. To improve communication the chancellor and the prime ministers of the Länder hold weekly summits. The meetings, not foreseen in the Constitution, allowed the chancellor and leaders of the Länder to coordinate the approach to addressing the pandemic. Moreover, in April 2021, legal changes were approved to grant the federal government more power to enforce coronavirus regulations in Länder[130].

Figure 3.1: 2020 real GDP growth and tax revenues per inhabitant after equalisation



Source: reproduced from Scope Ratings 2021, February, p.3.

The equalisation mechanism involving the Federation and the Länder in Germany is one of the strongest in Europe. The system guarantees each Länder the means to cover its expenditure and ensure equivalent living conditions. The system involves three levels: primary horizontal equalisation between the Länder, secondary horizontal equalisation within the Länder, and finally vertical equalisation through supplementary federal

[127] 48.4% in 2018 according to OECD (2019).
[128] OECD (2019).
[129] The German Bundesrat (Federal Council) is the legislative body representing the 16 Länder at federal level. It meets at the former Prussian House of Lords in Berlin, with a second seat in the former West German capital of Bonn.
[130] Bundesregierung.de (2021), *Infection Protection Act in the German Bundestag Nationwide emergency brake passed*, 21 April 2021.

grants[131]. Within the Länder, a separate equalisation mechanism also affects municipalities. Equalisation within the Länder is not only vertical but also horizontal, with wealthier municipalities having to contribute. Municipal agencies in the Länder are responsible for monitoring municipality budgets. The system aims to ensure a uniform legal and economic system and equal living conditions in Germany.

Due to a high level of fiscal autonomy, the main source of LRA revenues is from taxes (56.8%) and tariffs and fees (11.3%). Corporate, income and sales taxes are 'collective' taxes, divided among the different government levels and providing the most revenue for LRA and national finances. Other smaller tax revenues feed only into Länder (inheritance and alcohol taxes) or municipalities (business and property taxes). Additionally, 75% of VAT revenues are redistributed across the Länder to ensure a uniform standard of living across the country. Municipalities have more discretion to determine tax levels.

Table 3.2: Tax distribution of important taxes in Germany

Tax Type	National Level	Länder Level	Municipal level
Corporate	50%	50%	-
Income	42,5%	42,5%	15%
Sales	49,7%	48,3%	2,2%
Inheritance	-	100%	-
Beer	-	100%	-
Business	-	-	100%
Property	-	-	100%

Source: Bundesfinanzministerium (2017).

Before the pandemic, German public finances were relatively robust. In 2011, legislation was introduced to curb debt, the so-called debt brake (Bundesfinanzministerium 2021*a*). It obliged the State and the Länder to cover their expenses without issuing new debt. This was momentarily lifted in March 2020 to support LRAs and cover losses caused by the pandemic.

3.1.2 Crisis effects on local economies

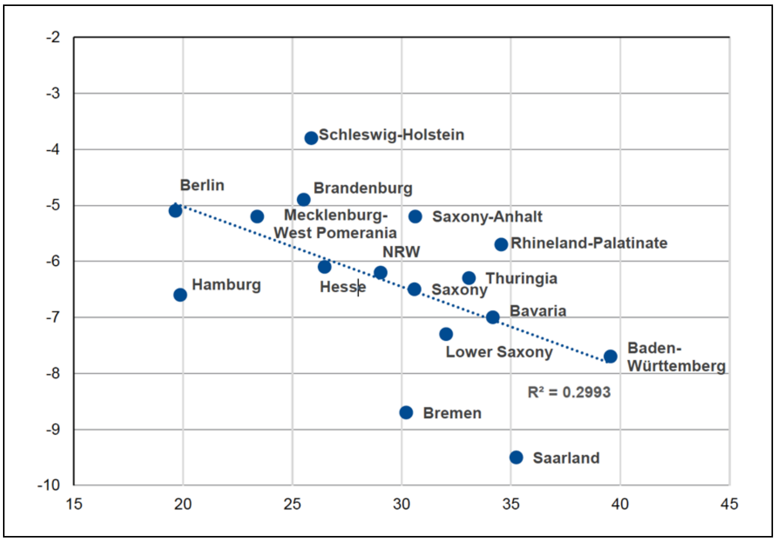
The crisis had varying effects on Länder economies. Losses in real GDP in the first half of 2020, for instance, varied between 9.5% in the small, open economy of Saarland and 3.8% in Schleswig-Holstein.

The main reason for the diverse territorial effects is sector specialisation (Scope Ratings, February 2021). Regional economies with large manufacturing sectors and more exports such as Baden-Württemberg, Bavaria, Bremen and Saarland were more

[131] At the first level a maximum of 25% of the Länder's share of VAT goes to Länder with below average revenue from income, corporation and Länder tax. The second step further equalises fiscal capacity at the Länder level. In the third step, supplementary grants are provided by the Federation to Länder with subpar fiscal capacity. Thanks to this system, fiscal capacity across the Länder is more equal.

heavily affected by the crisis. The car manufacturing sector was severely affected, given the economic downturn in Europe, but also in China.

Figure 3.2: H1 2020 real GDP growth (y-axis) vs share of affected sectors (x-axis)



Source: reproduced from Scope Ratings 2021, February, p.5.

Germany's Eastern Länder, with lower export reliance, appeared to be less affected by the lockdown measures. Also tourism, and arts and recreation, which are important economic sectors in Berlin, Mecklenburg-West Pomerania and Schleswig-Holstein, were relatively more affected by the containment measures. However, given their small contribution to gross value added in Germany, 'hard-hit' sectors such as tourism and recreation did not impact economic losses as much, indeed Berlin and Schleswig-Holstein were among the least hit Länder economies.

Further analysis (see for instance Plümper and Neumayer 2020) reveals that richer areas (as in southern and western Germany) were more affected while socially deprived neighbourhoods were less affected in the first phase of the pandemic[132]. This pattern changed following the lockdown and socio-economically disadvantaged areas were significantly affected in the second phase. People in richer districts as well as districts with more university educated employees found it easier to protect themselves.

The decline of the economy that started in March 2020 also provoked more unemployment and thus an increase in social expenses for German LRAs. The national government provided financial support for this. Firms could apply for a short-time allowance if at least 10% of their employees were affected by the shortfall (Bundesfinanzministerium 2020*a*). This enabled companies to keep employing their staff even during the economic downturn which helped to avoid dismissals. In September 2020, the cabinet approved an extension of the short-time work rules until the end of 2021 and extended the reference period to 24 months. Many short-time work contracts (at times more than double the number of unemployed) moderated the increase in unemployment from March to October 2020 (IZA, October 2020). By April 2020 short-time work affected Bavaria and Baden-Wüttemberg the most. In both states, more than half the companies moved employees to short-time work (Statistisches Bundesamt 2020*a*). The average for Germany was 50% with a difference between western Länder (51%) and eastern Länder where only 44% of companies had short-time work contracts. Smaller companies (below 100 employees) especially applied for

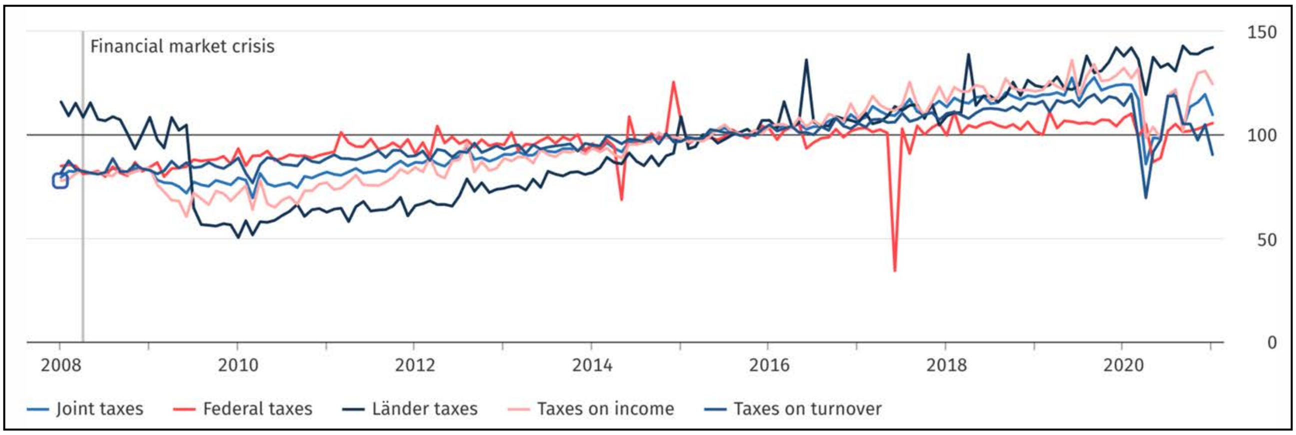
[132] In Germany, the virus was spread initially via people returning from ski holidays in the Alps and, to a much lesser extent, through business and other travellers from China, Italy and other hotspots, which meant that most infected people in the beginning were relatively young and well-off.

these contracts. The businesses most affected were gastronomy with 92% resorting to these contracts whereas in the metal and mechanical industry it was around 44%. Bavaria and Baden-Wüttemberg had the most employees in the gastronomy sector which explains why they were so strongly affected[133].

3.1.3 Crisis impact on LRA finances

According to data provided by the Ministry of Finance from Länder budgets (Bundesfinanzministerium, January 2021*b*) **total tax revenues collected by the Länder as at December 2020 decreased by EUR 15 billion (4.8%), with respect to December 2019**. Tax on income dropped to its lowest point in April/May 2020. Corporate and income taxes were the most affected, but also other taxes fell including on beer. Lower tax revenues will exert pressure on future Länder budgets, as the Ministry of Finance estimates that cumulative tax revenues from 2020-25 will be around EUR 100 billion lower than pre-crisis estimates (Scope Ratings 2021, February). **The increased expenditure was EUR 72.8 billion** (18%), included EUR 66.6 billion in current expenditure and the remainder in capital expenditure (Ministry of Finance, January 2021*b*).

Figure 3.3: Adjusted revenue from joint, federal and Länder taxes (2015=100)



Source: reproduced from Statistisches Bundesamt (2021), Press release #087 from 25 February 2021.

For municipalities, revenues from taxes decreased by EUR 6 billion (5.7%) in 2020 compared to 2019 (Statistisches Bundesamt, March 2021). Of these, business tax dropped by EUR 5 billion (11.7%) and the municipal share of income tax by EUR 1.6 billion (4.1%). In contrast, revenue from the municipality's share of sales tax rose by EUR 0.7 billion (9.5%). Also municipal corporations such as zoos, cultural institutions, baths and transport companies faced financial difficulties and loss of income which increased pressure on municipal budgets (Franzke, April 2020). Due to the temporary closure of many municipal facilities, **user fees also fell by EUR 1.4 billion (8.8%) in the first half of 2020** (Statistisches Bundesamt, October 2020*b*).

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[133] Wiwo.de (2020), *10 Millionen Deutsche in Kurzarbeit: Wer betroffen ist.* Wirtschafts Woche, 28 April 2020.

The revenue loss affected municipalities across Germany in different ways and without a clear pattern (Bundesfinanzministerium, October 2020*b*). Up to 2024, municipalities might suffer a loss of tax income of EUR 50 billion[134]. Moreover, municipalities also carried a burden of adapting public life to the pandemic (Franzke, April 2020). They were also responsible for running public hospitals and setting up emergency capacities for Covid-19 patients. **In 2020, municipality expenditure rose by nearly EUR 16.5 billion (5.9%) over 2019** (Statistisches Bundesamt, March 2021). This includes the capital expenditure increase of EUR 4 billion (11.7%) which covered the purchase of equipment. However, the proportion of medical equipment, for example intensive care unit beds acquired because of the pandemic, cannot be shown separately (Statistisches Bundesamt, October 2020*b*).

The **'scissors effect' on German LRAs**, before balance allocations, **is estimated to be nearly EUR 112 billion for 2020**, of which nearly -EUR 88 billion is for Länder finances.

Table 3.3: Estimated change in German LRA expenditure and revenue for 2020

LRA level	**Expenditure**		**Revenue**	
	EUR billion	***For:***	***EUR billion***	***From:***
Municipalities (before balance allocations)	+16.5	+12.5 in current expenditure and the remainder in capital expenditure	-6	Business tax and share of income tax
			-1.4 (first half of 2020)	Fees
Länder (before balance allocations)	+72.8	+66.6 in current expenditure and the remainder in capital expenditure	-15	Corporate and income tax
All LRAs (EUR billion)	**+89.3**		**-22.4**	
Scissors effect (EUR billion)	**-111.7 (-15%)***			

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

3.1.4 Government support for LRAs

During the pandemic, the central government initiated several aid programmes to support the economy, the largest in the history of Germany (Bundesfinanzministerium 2020*a*). There were EUR 353.3 billion of budgetary measures and guarantees of EUR 819.7 billion. The cabinet also approved a supplementary budget of EUR 156 billion for loans. A buffer of EUR 55 billion was available in the central government budget for additional requirements from the pandemic (Bundesfinanzministerium 2020*b*).

[134] Deutscher Städte und Gemeindebund (2021), *Corona-Krise Rettungsschirm Für Kommunalfinanzen 2021 & 2022 Unverzichtbar!*

EUR 3.5 billion was allocated by the government for protective equipment as well as development of a vaccine and new treatments.

As underlined in the first section, the German federal system is a system of equilibrium, where finances are balanced between municipalities within a Länder and between all Länder (Bundesfinanzministerium 2021*c*). This continued with pandemic-related financial support provided to LRAs. Germany's Constitution (Article 115, paragraph 2, clause 6) states that there are exceptions to the debt brake in cases of emergencies (Bundesfinanzministerium 2021*a*). This exception was used by the government in early 2020 to balance the income of Länder and municipalities affected by the pandemic. Some Länder also issued decrees to allow municipalities to take on more debt or slightly alter debt regulations. All Länder ran a deficit in 2020. The smallest of EUR 54 million was Saarland followed by Bremen (EUR 266 million) and Schleswig Holstein EUR 530 million). The largest was North Rhine-Westphalia (EUR 7.8 billion) and Bavaria (EUR 6.8 billion).

Even before the pandemic, some municipalities were struggling financially. About 2 000 municipalities in Germany have loan burdens which leave them facing a lack of funds. The pandemic has exacerbated this issue (Bundesfinanzministerim 2020*c*). The communal solidarity pact entails a one-time debt cut of EUR 45 billion. First, the Länder take over the debts of municipalities where loans amount to more than EUR 100 per inhabitant. Half of this is then to be covered by the federal government and the other half by the Länder who will ensure that liquidity loans do not exceed the normal level again.

All municipalities receive a lump-sum compensation for tax losses. The shortfall in business tax is compensated by allocations. According to the Federal Minister of Finance proposal, the burden will be split in half between the Federal Government and the Länder. Numerous discussions between the Federal Ministry of Finance, Länder and central associations of municipalities resulted in this proposal to assist LRAs to provide important services, gain planning security and be able to invest even in times of crisis. LRAs also cover social help and accommodation costs for many people. With the decrease in income the federal government covered up to 75% for housing and heating instead of the usual 50% (Bundesfinanzministerium (2021*c*).

The distribution and balance mechanisms as well as the debt brake pause made it possible for LRAs to finish 2020 with decreased losses. However, measures for 2021 are uncertain and the chances for further income loss remains very high. The LRAs will possibly need more financial support in the coming years so the central government might have to extend the debt brake pause and balance finances as it did in the past year. There is already a backlog of municipality investments of around EUR 147 billion. This will have dire consequences for the municipalities since these shortages mostly affect culture and social offers. This would particularly affect financially weak municipalities and socially disadvantaged families.

3.2 Italy

3.2.1 Division of fiscal powers

LRAs in Italy, especially regions, have the freedom to determine policy in a wide range of fields including transport, social services and housing, economic development, environmental protection, culture, agriculture and education. Regional authorities oversee the health sector, including local health services and hospitals.

Italian regions also enjoy a high degree of fiscal autonomy over both revenue and expenditure. Revenue comes from the regional tax on productive activities, a share of personal income tax, and shared value added tax. Health is financed through a national fund financed by shared value added tax. Transfers from central government finance public transport and social services. Regions give part of these transfers to municipalities.

Provinces, which now include ten metropolitan areas, have very few competences especially since 2014[135] and therefore have limited resources. Municipalities mainly finance their expenditure through the Single City Tax[136] as well as shares of the personal income tax , tariffs, fees and other small taxes.

Health is by far the most important spending item for Italian LRAs, well above the EU average (48% of LRA expenditure vs 13.4%). With the emergency therefore, Italian LRA budgets suffered significant pressure, especially regions for health and municipalities for social services and education. Moreover, this pressure arrived after years in which some regions were limited in their investments due to deficit constraints. For instance, according to the Bank of Italy (Banca d'Italia, November 2020), containing health expenditure was of greater interest for central and southern regions[137], where most are subject to plans to repay deficits after new fiscal budget balance rules were introduced in 2011.

However, the spread of Covid-19 in the first half of 2020 was very heterogeneous. Areas with better access to hospital facilities, as in the north, had particularly high rates of contagion and death (with consequent pressure on hospitals and therefore regions). With the advent of the crisis Italian LRAs faced several challenges, especially in the health sector. Increased expenditure was coupled with a lack of personnel and facilities, after years of investment cuts to contain deficits especially in the poorest regions. There were also coordination issues with overlapping responsibilities for health between central government, regions and provinces.

[135] In 2014 provinces were transformed into second level administrative units. Elections were abolished. Moreover, with the reform, ten provinces were transformed into metropolitan areas.

[136] This is composed of three different taxes: on non-housing and luxury housing; on buildings to finance indivisible services; on urban waste. The tax on buildings to finance indivisible services was unified again with that on non-housing property and on luxury housing in 2020. However official statistics still mention it separately.

[137] Per capita health expenditure decreased in these areas over ten years by about 14% and 7%, respectively, against 4% in the rest of the country. The decrease is mainly attributable to cuts in personnel expenditure, which was affected by limitations on employee turnover, especially in the regions subject to the repayment plan. Wages, on the other hand, started to grow again with contractual renewals in the last two years. Disbursements for medicine paid by the health service and distributed through the territorial network significantly decreased as a result of repeated tightening of caps on pharmaceutical spending and increased direct distribution through hospitals (managed at regional level).

Moreover, institutional coordination between the different levels of government, normally based on the State-Regions Conferences, suffered a lot during the crisis (Catelani 2020)[138]. One problem was decentralisation of the health system (and therefore decisions), which led to little coordination even in normal times. Moreover, there is institutional fragmentation of the interventions, with uneven effects on the distribution of support to LRAs. Some sectors involve multiple actors, for instance local public transport is overseen by both regions and municipalities. Compensation for the loss of LRA revenue from tickets was therefore a problem, with the central government having to compensate different subnational levels. It was similar with social services which are split between regions, local entities and national competences.

However, nothing really changed in the institutional and coordination set up during the crisis[139]. One of the few measures adopted, especially in the health sector, was the appointment of the Extraordinary Commissioner to centralise decisions such as medical equipment procurement. Additional decision power for allocating resources has been entrusted to the Civil Protection. However, centralisation of the decision was adopted only marginally, as ordinary administration of the health sector, and related costs, remain in the hands of the regions.

3.2.2 Crisis effects on local economies

Italy's LRAs have a high level of revenue autonomy and most of their revenues derive from taxes on economic activities and personal income, followed by tariffs and fees. Therefore, economic effects of the crisis on businesses, employment and individual income has significantly affected LRA capacity to counterbalance the increase in expenditure, especially for health and social services.

In the first six months of 2020, economic activity fell by more than 10% compared to 2019 due to measures to contain infections, including the temporary suspension of activities in 'non-essential' sectors in March (Banca d'Italia, November 2020). The subsequent drop in domestic and foreign demand further impacted the Italian economy. The decline was more marked in the north, consistent with the early onset of the pandemic in this area (see also Prometeia, July 2020*b*). Lombardy and Veneto, respectively the first and third most affected regions in terms of casualties during the first Covid-19 wave, account for 31% of Italian GDP (OECD April 2020)[140].

[138] State-Regions Conferences are the main institutional setting for coordinating decisions between central government and regions. A formal opinion of the State-Regions or Unified Conference is required to enact decree-laws. It is also required before (or after the adoption) of a Prime Minister Decree (DPCM), widely used during the crisis to implement and complete decree-laws. The indisputable necessity and urgency underlying adoption of decree laws in the crisis well justified the lack of prior consultation of the State-Regions Conference, postponing its intervention to the conversion into law. The texts were communicated to the regions through the President of the Conference of the Regions who acquired even more centrality in management and coordination with the regions, but with little influence before adoption of the acts by the government.

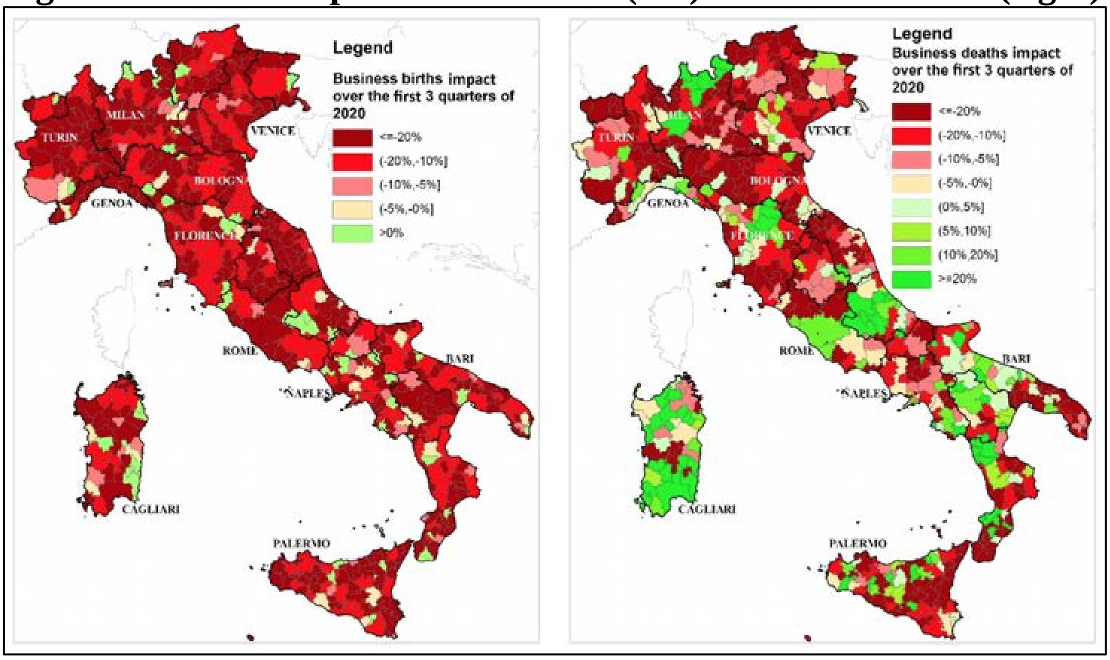
[139] There is an article in the Italian Constitution (Art.120) which allows the central government to substitute regional competences when regions do not guarantee the proper functioning of services or in case of emergency. However, this article has not been used. See Catelani (2020).

[140] In Veneto, there were about 204 000 new jobs in the private sector between 23 February and 14 June 2019. In 2020 this decreased to 100 000 (-51%), while job losses decreased by about 21%, from 145 000 to 107 000 (Iza, October 2020).

Consequently, the fall in GDP in 2020 of Veneto and Lombardy by 12.2% and 9.9% respectively in itself led to a significant decrease of the national GDP (SVIMEZ 2020, September). Regions in Northern Italy were also more affected by falls in exports (Banca d'Italia, November 2020). However, for exports to the EU, the south registered the biggest decrease.

The pandemic led to worse economic conditions for workers and families, especially the poorest (IRPET, April 2020*a*). These are mostly in the south, where earned income mainly comes from temporary employment in sectors highly exposed to the pandemic, such as tourism and agriculture[141] and these regions suffered more pronounced unemployment. In the first half of 2020, income inequality (i.e. the Gini index calculated on equivalent earned income) grew everywhere and, to a greater extent, in the south (Banca d'Italia, November 2020). Moreover, since GDP in the south is expected to grow less than in the centre or north in 2021 (2.3% vs 5.4%), the regional divide in Italy could further increase (SVIMEZ, September 2020).

Figure 3.4: Crisis impact on new firms (left) and firm closures (right)



Source: Cerqua and Letta (2020a, b).

However, according to Cerqua and Letta (2020*a* and 2020*b*), central government measures for lay-off compensation and SME support meant the pandemic caused only a moderate drop in employment and in the number of firms closing, but an abrupt decrease in the creation of new firms. Effects have been very uneven across the regions and spatially uncorrelated with the epidemiological pattern of the first wave. Moreover,

[141] Agriculture and the agri-food sector are still important in the south. With the lockdown, these sectors were particularly hit by restaurants closure and the drop in exports. Nearly 50% of agriculture workers in Italy are in the south. Sicilia and Puglia account for 25% of the total agriculture labour force. Moreover, the south has the most unregistered workers (mostly in agriculture), especially extra-EU migrants.

the diverse impacts are primarily associated with existing labour market fragilities as well as regional exposure to market instability[142].

3.2.3 Crisis impact on LRA finances

LRAs' immediate measures for the pandemic involved six policy macro-areas and targeted mainly or exclusively SMEs (OECD, April 2020)[143]. According to data from the National Research Council of Italy (Institute for the Study of the Regional Systems), which mapped regional interventions for the Covid-19 emergency[144], as at 31 December 2020, **Italian regions adopted EUR 7.3 billion of measures**, of which EUR 4.45 billion was remodulation of ESIF resources and **EUR 2.85 billion from own resources**. 70% of the resources were for enterprises, SMEs and individual workers, while 30% for welfare and families.

As the pandemic and restriction measures started, Italian LRAs, especially municipalities, wanted to limit their expenditure due to significant uncertainty concerning revenue. The National Association of Italian Municipalities immediately launched a survey[145], discussed at the end of May 2020 in the Italian Parliament Budget Commission, to estimate the loss of municipality revenue (ANCI, May 2020). The survey estimated around **EUR 8.4 billion of lost municipality revenue** (23%) **in 2020 with respect to 2019**. For non-tax revenues (i.e. tariffs and fees) the relative loss was greater (31%) than for tax revenues (18%)[146]. For the latter, however, the loss was higher in absolute terms with EUR 1.7 billion for the cities in the survey and an estimated EUR 5.3 billion nationally. As

Table 3.4: Estimated loss in municipalities main revenues, 2020 vs 2019

Key municipality revenues	Government		ANCI	
	%	**EUR billion**	**%**	**EUR billion**
Taxes, *mainly from:*	-9.5	-3.3	-18	-5.3
Estate property	*-6.1*	*-1.1*	*-10*	*-1.5*
Personal income	*-4.5*	*-0.2*	*-14*	*-0.7*
Tourism	*-52.1*	*-0.3*	*-77*	*-0.4*
Urban waste	*-11.5*	*-1.1*	*-23*	*-2.0*
Tariffs and fees, *mainly from:*	-17.9	-1.6	-31	-2.2
Schools services	*-36.8*	*-0.3*	*-39*	*-0.3*
Kindergartens	*-39.3*	*-0.1*	*-39*	*-0.1*
Culture, sport, tourism	*-39.6*	*-0.1*	*-50*	*-0.1*
Fines	*-14.7*	*-0.3*	*-49*	*-0.9*
Other (shares, dividends, etc.)	n/a	n/a	-2	-0.9
TOTAL	**-11.2**	**-4.9**	**-23**	**-8.4**

Source: Ministry of Interior (2020, July) and ANCI (2020, May).

[142] See the analysis on crisis impact on Italian region exports in Prometeia (May 2020).
[143] These include interventions aimed at facilitating access to bank credit for SMEs and reducing related costs, the introduction or more favourable conditions for subsidised financing for SMEs provided by regional public institutions, measures to streamline bureaucratic procedures for SMEs and regulatory simplifications (including in public procurement), policies to maintain employment and support temporarily unemployed workers in SMEs, tax relief; planning and budgeting. Additional interventions supported families and individuals. See OECD (April 2020) for additional detail.
[144] http://www.issirfa.cnr.it/osservatorio-degli-interventi-economici-regionali-per-l-emergenza-covid-19.html. See also ISSiRFA-CNR 2020*a* and 2020*b*, December.
[145] Based on 56 cities, with 13 million inhabitants and 31% of Italian municipality revenue (i.e. EUR 12.4 billion).
[146] Central government support for citizens and enterprises has mitigated the impact of the crisis on tax revenues.

expected, the tourist tax seemed the most affected in relative terms (-77%)[147]. However, the highest loss in absolute value - EUR 3.5 million - related to the Single City Tax (property and waste tax). The loss from shared personal income tax was estimated to be EUR 0.7 billion.

The loss forecast by ANCI was greater than the one from the Ministry of Finance and Economy, which forecasted a **decrease of nearly EUR 5 billion** or 11% **for municipality revenue in 2020** (Ministry of Interior, July 2020)[148]. Of these, tax revenues fell by EUR 3.3 billion (9.5%) and tariffs and fees by EUR 1.6 billion (18%). The effects on personal income tax were less significant, as they were mitigated by lay-off compensation and income support measures. The government also estimated the **loss in revenues for provinces and metropolitan areas**[149] of **EUR 0.9 to EUR 1 billion** (21.6%) for 2020 with respect to 2019. Nearly EUR 0.8 billion derived from lost taxes on cars, property and insurance. Moreover, the Government estimated **nearly EUR 0.5 billion as the 2020 loss from the regional tax on production**, which companies could postpone to 2021. The potential reduction for regional revenues was mitigated by the central government measures to support SMEs.

Box 3.1: Territorial impact on municipality revenues

According to the ANCI's survey of municipalities there were no significant territorial differences in revenue losses (North -22%, Centre -26%, South -22%). As evidenced by the Bank of Italy (Banca d'Italia, November 2020) the contraction of resources was more relevant for tourism and larger cities.

However, municipalities in the south would be less affected due to their revenue structure, based more on transfers (see also data by IFEL 2021). Expected losses in the south and islands would be about EUR 50 per person, against about EUR 90 in the centre and north. Nevertheless, vulnerability to the crisis would be mitigated by more favourable budget conditions, especially for northern municipalities, with less deficits or critical issues in financial management. Furthermore, as regions in the south and islands still need significant structural investments in health facilities and their recovery from the crisis is expected to be slower compared to central and northern regions (see Prometeia, July 2020*b* and SVIMEZ, September 2020), the impact on their finances could further widen the north-south divide.

On the expenditure side, as expected, the health sector was the most affected, impacting mainly regional authorities. According to data on tenders collected by Openpolis[150], Italian public administrations opened **public procurement calls** in relation to the

[147] For instance, Tuscany, where 40% of municipalities apply the tourist tax - the highest rate in Italy for the 15 non-autonomous regions - the drop in revenues is estimated between EUR 28 and 48 million (between EUR 17 and 29 million for Florence only). See IRPET (2020*b*, May).

[148] Annex A of the Decree n°182 of 24 July 2020 (see Ministry of Interior, July 2020).

[149] Annex B of the Decree n°182 of 24 July 2020 (see Ministry of Interior, July 2020).

[150] Openpolis database on Covid19 emergency tenders: https://bandicovid.openpolis.it/. See also Prometeia (2020c, August).

Covid-19 emergency totalling nearly EUR 19.6 billion (updated in January 2021). Of this, nearly EUR 6.3 billion were awarded. The calls were mainly for masks and other medical equipment, with more than EUR 9.7 billion from central government and **nearly EUR 9.3 from LRAs** (EUR 6.3 billion from regions and EUR 3 billion from Local Healthcare Territorial Units[151]). An additional EUR 0.5 billion was from private-public companies and other local entities. Lombardy (EUR 2.3 billion), Piemonte (EUR 1.4 billion) and Veneto (EUR 1.2 billion) in the north were among the top regions for health-related public procurement.

The government also estimated the increase in both **province and municipality expenditure** (Ministry of Interior, July 2020)[152]. **For provinces** (including metropolitan areas) these **were expected to be up to EUR 23.4 million**, of which EUR 10.1 million was for education (excluding personnel) and the remainder for administrative functions. **For municipalities** the government estimated a reduction in expenditure of **EUR 240 million**, **mainly due to reduced costs for administrative personnel (smart working) and services related to gas and water distribution.** However, **EUR 400 million was estimated as additional expenditure for education and school facilities**.

Table 3.5: Estimated change in Italian LRA expenditure and revenue for 2020

<table>
<tr><th rowspan="2">LRA level</th><th colspan="2">Expenditure</th><th colspan="2">Revenue</th></tr>
<tr><th>EUR billion</th><th>Mainly for:</th><th>EUR billion</th><th>Mainly from:</th></tr>
<tr><td rowspan="2">Municipalities</td><td>-0.24</td><td>Administrative personnel; gas and water distribution</td><td rowspan="2">-4.9 to -8.4</td><td rowspan="2">Taxes on property and urban waste; tariffs and fees</td></tr>
<tr><td>+0.4</td><td>Schools and education facilities</td></tr>
<tr><td>Provinces and metropolitan areas</td><td>+0.02</td><td>Education; administrative functions</td><td>-0.9 to -1</td><td>Taxes on car property/insurance</td></tr>
<tr><td rowspan="2">Regions</td><td>+ 6.3</td><td>Health expenditure (public procurement, to Jan. 2021)</td><td rowspan="2">-0.5</td><td rowspan="2">Regional tax on production activities</td></tr>
<tr><td>+2.85</td><td>Interventions for SMEs, families, welfare (excl. ESIF)</td></tr>
<tr><td>Other (i.e. Local Healthcare Territorial Units)</td><td>+3.5</td><td>Health expenditure (public procurement, to Jan. 2021)</td><td>n/a</td><td>n/a</td></tr>
<tr><td>All LRAs (EUR billion)</td><td colspan="2">+12.8</td><td colspan="2">-6.3 to -9.9</td></tr>
<tr><td>Total (scissors effect, EUR billion)</td><td colspan="4">up to -22.7 (-9.2%)*</td></tr>
</table>

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

151 Public local companies.
152 Annex A and B of the Decree n°182 of 24 July 2020 (see Ministry of Interior, July 2020).

Taking into account all the estimates, and considering the regional interventions in favour of enterprises, families and welfare, **the total increase in expenditure for Italian LRAs was expected to be EUR 12.8 billion for 2020**. **On the revenue side, the decrease was estimated at EUR 6.3** (ANCI estimate) **to EUR 9.9 billion** (central government estimate). **Overall, the scissors effect on Italian LRA finance was therefore between -EUR 19.1 billion and -EUR 22.7 billion**. While provinces and especially municipalities (despite some marginal savings) suffered significant losses to their revenue mainly from private income and property related taxes, regional finances were under more pressure on the expenditure side.

3.2.4 Government support for LRAs

Since only the central government can run into debt, resources were delivered to LRAs with vertical transfers from the central government by using debt leverage. Moreover, the response had to consider externalities as well as economies of scale (for instance to buy health facilities, masks, medical equipment, etc.) so the government opted to centralise decisions.

The overall resources activated by the government to deal with the Covid-19 crisis were EUR 113.5 billion of which EUR 90 billion was for additional expenditure and around EUR 23 billion of reduced revenues (tax relief, payment postponement, etc). Of these, **nearly EUR 14 billion** (i.e. around 10%) **was for LRAs**, mainly municipalities, **mostly to relieve budget pressures**.

Box 3.2: Key measures to alleviate pressure on LRA finances[153]

- In May 2020 a specific EUR 3.5 billion fund was created to alleviate the loss in revenue of LRAs and to ensure their ordinary functioning, with EUR 3 billion for municipalities and EUR 0.5 billion for provinces and metropolitan areas. The resources dedicated to the fund were increased by EUR 1.67 billion in August (EUR 1.22 for municipalities and EUR 450 million for provinces);
- EUR 1.5 billion for regions and provinces to cover their loss in revenue from taxes and for expenditure on health, education and social services; an additional EUR 2.8 billion were added in August;
- EUR 1.3 billion for local public transport, managed at different LRA levels, to cover losses from tickets and tariffs;
- EUR 448 million to compensate regions for lower taxes on production activities; EUR 1 billion to compensate municipalities for loss of revenue from specific taxes such as on tourism (EUR 400 million);

[153] Adopted with Decree n°34/2020 in May and Decree n°104/2020 in August. See Camera dei Deputati (September 2020), Ufficio Parlamentare di Bilancio (December 2020) and IFEL (February 2021*b*) for a detailed review.

- Additional resources (EUR 1.7 billion) for municipalities to cover expenditure for education, social services, local police and for municipalities particularly hit by the healthcare emergency or with significant deficit problems[154].

These measures were to allow the ordinary functioning of LRAs and cover the loss in revenue due to the negative economic effects on enterprises, individual income and central government decisions (i.e. postponed taxes). This amount is sufficient to cover the estimated impact on revenues (up to nearly EUR 10 billion), as described in the previous section, and part of the increased LRA expenditure. However, compared to other support, these interventions are relatively small. For instance, the measures to compensate lay-offs and worker income amounted to EUR 33.5 billion in 2020. Additional support for enterprises was EUR 31 billion. Therefore, the interventions for LRAs were not at the centre of government support.

Moreover, another EUR 10 billion were allocated for health (and public order) mainly for the regions. In reality, half these resources did not directly flow to the regions but are contributions for the Fund for National Emergency managed by the Civil Protection. Another significant introduction is the Extraordinary Commissioner. The fund and especially the Extraordinary Commissioner are managed by of central government.

Finally, the Government adopted financial measures to lessen LRA deficits. It created a fund of EUR 12 billion for all LRAs, including Local Sanitary Territorial Units, to pay their debts. Moreover, additional measures included the renegotiation or postponement of mortgages and loans contracted by regions and municipalities. Additional resources were also foreseen for municipality investments. EUR 11 billion are allocated for 2020-2023 for urban regeneration, energy efficiency, schools and kindergartens, sustainable development and social infrastructure.

[154] EUR 800 million for the Food Solidarity Fund; EUR 275 million for education, EUR 74.3 million for local police, EUR 200 million for municipalities in the red zones during the first wave and EUR 40 million for municipalities particularly hit by the healthcare emergency, EUR 60 million for remote areas and EUR 250 million for municipalities with significant deficit problems.

3.3 The Netherlands

3.3.1 Division of fiscal powers

The Netherlands has three tiers of government: the central government, 12 provinces and 355 municipalities (including three in the Caribbean Netherlands). The most significant tier in terms of spending and responsibilities is the municipalities. LRA expenditure makes up 30.8% of total public expenditure and is close to the 33.6% EU average[155].

When it comes to revenue, more than two-thirds of LRA budgets are funded by central government transfers and one-third is own resources (including taxes, 10.3%, and tariffs and fees, 13.8%). Province tax revenues come only from a share of the national car registration tax (in the form of a surcharge) and minor local taxes. Municipalities own revenues rely mainly on business, tourism and property taxes as well as tariffs and fees from parking and other local charges.

Transfers to sub-national authorities are managed by a national fund which distributes grants based on criteria such as population size, own resources and property values. Transfers to sub-national authorities are also indexed to spending by the central government so when the spending increases the transfers decrease. In addition to the national fund, municipalities benefit from central government support for social policy.

Although responsibilities for coordinating measures to combat Covid-19 are led by the national government, healthcare in the Netherlands is provided by private companies and financed by private insurers. The government manages the market in the public interest which includes setting healthcare policy targets and controlling for quality and costs. All residents are required to purchase health insurance (Netherlands Ministry of Health, Welfare and Sport, 2018; Tikkanen *et al*. 2020). Overall, Dutch LRAs do not have significant responsibilities for healthcare (only 3.7% of expenditure). Municipalities are only involved in overseeing preventive screening and long-term care for outpatients.

In social policy, municipal authorities oversee social care and youth activities. Local authorities contract private companies to deliver social care such as assistance at home for the disabled and the elderly. Locally, there are Municipal Health Services (‘GGD’) and the Safety regions. GGD are decentralised public health organisations. Legally, the responsibility for these lies with the municipalities. However, in practice, municipalities work together to provide them at a regional level, resulting in twenty-five ‘GGD regions’. The borders of these regions largely correspond to the borders of the Safety regions. These are public bodies whose task is to facilitate regional cooperation in dealing with crises, disasters and disruptions of public order. There are 25 Safety regions in the Netherlands and each municipal executive belongs to one of them.

At the beginning of the pandemic, the central government shifted from a strategy of containment to one of mitigation, as testing and tracing capacity was overwhelmed in the initial epicentre in the south. This involved a relatively mild lockdown to prevent

[155] OECD (2019).

intensive care units from being overloaded. Nevertheless, contrary to national policy, northern provinces continued with a strategy of containment with extensive testing and tracing. This was possible due to decentralised decision making on healthcare in the provinces which resulted in regional differences in how different areas of the country were affected. The south has had high levels of hospitalisation and the north much lower levels (Hoekman, Smits and Koolmanb, December 2020).

3.3.2 Crisis effects on local economies

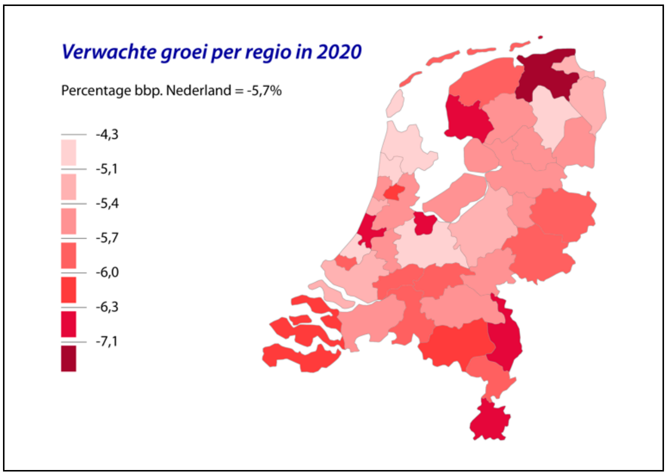
The crisis caused a drop in GDP of 4.1% (European Commission, February 2021), the largest since World War II and slightly more than the fall in GDP of 3.7% in 2009 from the financial crisis. In this period, household consumption fell by 6.6%. The global downturn also had a significant effect, with service exports falling by 10.6% and service imports falling by 11.6% (ING, February 2021).

There were regional differences, especially in the second part of 2020. In Q4, most provinces saw falls in GDP of between 1% and 3%. This was a result of different lockdown measures in October and December 2020. In the last lockdown, foreign travel was banned which negatively impacted the travel industry. In January 2021, the sharpest drop in guests relative to the same month in 2019 was in Noord-Holland. This province received some 185 000 guests in January 2021 versus nearly one million in the same month last year.

Provincial GDP changes in Q4 reveal that economic growth in Oost-Groningen (north) and Overig Groot-Rijnmond (west) remained stable and the regions of Delfzijl (north) and Zeeuws-Vlaanderen (south west) grew by around 1% due to increased production in some parts of the manufacturing sector (CBS 2021). The fall in GDP was most significant in the municipality of Haarlemmermeer (west), the site of Schipol airport (administered by the Amsterdam municipality) which saw a decline of 18% in GDP. The municipality was also the hardest hit in the second and third quarters.

National unemployment increased from 0.4% to 3.8%, with a higher rate among young people (most of whom are on temporary contracts) and self-employed people. In 2020 (Q3 data), all provinces saw a rise in unemployment together with a fall in GDP, though the provinces of Drenthe and Fryslân (in the north) saw the largest falls in labour participation compared to Q3 in 2019. In Q4, this was lower in most provinces compared to 2019. The number of people in work decreased most significantly in the province of Limburg, by 1% year-on-year. In all provinces there were fewer vacancies than unemployed. Utrecht (76

Figure 3.5: Territorial GDP change in the Netherlands in 2020 (June 2020 forecast)



Source: reproduced from Rabobank (2020b, June).

vacancies per 100 unemployed) and Zeeland (68 vacancies per 100 unemployed) were the most affected.

Overall, northern and south-eastern provinces were the most heavily impacted by the economic fallout from the crisis, as in the 2009 financial crisis. Their economies are less advanced and businesses less innovative. The northern provinces, despite a limited number of cases, suffered a similar (or worse) decline in labour market conditions as the severely affected provinces (Hassink, Kalb and Meekes, September 2020). Dutch urban areas, such as Utrecht and The Hague, were less affected than the national average (Rabobank, June 2020*b*). Amsterdam and Rotterdam also seemed to be getting through the crisis somewhat better. A possible explanation for this is that a relatively large number of people could work from home in these provinces, especially Amsterdam with significant commercial services. Where manufacturing makes up a large part of the economy, fewer people had that option. In addition, these cities had a strong business climate in the past twenty years, along with high quality entrepreneurship (Rabobank, May 2020*a*). They probably benefit from that also during the Covid-19 crisis.

3.3.3 Crisis impact on LRA finances

Some municipal authorities entered 2020 facing acute budgetary problems which were made worse by the Covid-19 crisis. In 2015, the central government devolved services under the Social Support Act (e.g. long-term care for outpatients, social care and youth activities) to the local level but demanded budget cuts at the same time. Consequently, in 2019 after using up grants from the central government for youth care, municipalities had to spend up to EUR 1.8 billion more to meet the increased demand for these services[156]. To pay for these, municipalities had to rely on debt, cuts to other services and reserves.

Another problem arose from the ‘upscaling discount’. This involved progressively larger cuts to the municipal fund to incentivise small municipalities to merge to reach a minimum of 100 000 inhabitants. The government instituted this policy on the assumption that larger municipalities would be more efficient and lead to cost savings, justifying a cut to the municipal fund. In 2018 and 2019, cuts of EUR 60 million were made. The deficit across all municipalities in 2019 was nearly EUR 1.7 billion[157].

With the Covid-19 crisis most municipalities lost revenue from parking fees, taxes on self-employed entrepreneurs, business and citizens, and tourism taxes as a result of the lockdowns[158]. Municipal governments were also unable to receive fees from local cultural activities, sport halls and canteens at sports halls. Municipalities also

[156] The high level of demand was due to more children needing these services and the children already receiving them having to use them for longer. Researchers have not been able to clearly explain these trends. See Miller, Colin. (2020). *Municipalities spent 1.6 to 1.8 billion euros on budget for youth care.* Netherland News Live.

[157] Statistics Netherlands, *Municipal finances from 1900.*

[158] The municipality of Middelburg (south west) lost EUR 250 000 in revenue from parking fees in three weeks following measures to combat the spread of Covid19. See NRC Handelsblad (2020), *Voor gemeenten is het virus één kostenpost te veel*, 27 April 2020.

demanded less rent from such premises to ease their budgetary pressures. Each GGD also faced increased costs for testing and implementing track and trace systems.

In July 2020, the Association of Dutch Municipalities, VNG, published a detailed report with the estimated impact of the crisis on municipality finances in 2020 based on two scenarios (Andersson Elffers Felix, July 2020). As at April 2021, this is the only complete estimation available[159] and it does not include provinces. In the most favourable scenario, where there was no second peak in virus infections, **the drop in revenue and rise in expenditure in 2020 for all municipalities was estimated** at EUR 1.48 billion to EUR 1.83 billion. In the unfavourable scenario (which happened in autumn 2020), the range would be **between EUR 2.26 and EUR 2.77 billion.**

Under the unfavourable scenario, the major effect of the crisis on municipality revenues was the reduction in income from parking, ranging from EUR 282.2 to EUR 344.9 million. Other fees and charges fell by between EUR 152 and 185.8 million. The loss from tourism tax was expected to be EUR 203.8 to EUR 249.1 million. Revenues from other taxes, such as sufferance and advertising taxes, would have decreased between EUR 100.9 and EUR 123.3 million. There was also less income due to a waiver of municipal taxes estimated at EUR 55.7 million. **Overall, the drop in municipality revenue was estimated to be up to 1.02 billion.**

Dutch municipalities also faced an **increase in expenditure, estimated at up to EUR 1.75 billion.** They report, for instance, a clear increase in expenses for social assistance benefits. This was forecast between EUR 534 and EUR 652 million. Furthermore, municipal social work companies incurred extra costs of EUR 192.7 million to EUR 235.6 million. Moreover, every municipality also saw less sports income and extra sports expenses. Loss of income was often from not collecting rent or closed sports canteens and swimming pools. The cultural sector, including museums, was similarly impacted. However, there were additional expenses as a result of increased subsidies or support funds for these sectors. The total effect on municipality budgets was forecast at between EUR 301.4 and EUR 368.4 million and included in the report estimates as extra expenditure.

One measure the central government used to support entrepreneurs during the crisis was the temporary bridging scheme for self-employed entrepreneurs (TOZO)[160]. However, these implementation costs incurred by municipalities, EUR 2.9 billion, were in principle fully reimbursed by the State. Similarly, the costs incurred by GGD and the Safety regions of up to EUR 474 million, were not attributable to the municipalities.

[159] See also BDO-Benchmark (2021, January), p.57.

[160] This scheme supplements the income of self-employed entrepreneurs up to the social minimum if the income of the self-employed person is below that due to the crisis.

Table 3.6: Estimated change in Dutch LRA expenditure and revenue for 2020.

LRA level	Expenditure		Revenue	
	EUR billion	***Mainly for:***	***EUR billion***	***Mainly from:***
Municipalities	+0.65	Social assistance	-0.34	Parking income
	+0.24	Support for social work companies	-0.25	Tourism tax
	+0.38	Extra expenditure in sports and culture	-0.19	Fees and charges
	+0.48	Other	-0.24	Other
All LRAs (EUR billion)	**up to +1.75**		**up to -1.02**	
Total (scissors effect, EUR billion)	**up to -2.77 (-2.8%)***			

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

The report underlines also that the crisis affected all Dutch municipalities but differently. Tourist municipalities in particular experienced major financial effects because they have a lot of income from tourist tax and often also parking. The influence of tourism was more important than the size of the municipality (i.e. small and large municipalities are equally affected). Moreover, municipalities with a socio-economically vulnerable population were expected to experience higher costs with extra expenditure on social assistance possibly continuing after 2020. Larger municipalities are expected to face more long term increases in costs for social assistance than smaller municipalities. As a result of financial pressure, around a third of municipalities entered 2021 with a negative budget balance having already exhausted their reserves[161]. There are also 12 municipalities under supervision by their provinces as they cannot balance their budgets until 2024. However, many are relying on reserves and are in a vulnerable position after several years of significant budget cuts.

In contrast to the municipalities, provincial governments did not seem to be as hard hit. Provinces are heavily dependent on central government transfers and do not play a big role in raising their own resources. Furthermore, the taxes they collect (e.g. motor vehicle and environmental taxes) were not affected by the lockdowns. Province expenditure mainly concerns energy, environmental protection, rural development and provincial road infrastructure, and this was not strongly affected by the crisis.

Box 3.3: Crisis effect on Amsterdam's municipal budget

Amsterdam's municipal budget is more sensitive to economic shocks than other municipalities. While most municipalities have two-thirds of their budget covered by the central government, this falls to half for Amsterdam with the rest covered by own

[161] NL Times. (2021), *Third of Dutch municipalities in financial trouble: report*, 1 March 2021.

resources. The total effect on the budget would amount to EUR 350 million in 2020 as a result of the fall in revenue and increase in expenditure. It is expected that the budget will face pressure from the economic recession which is expected to continue after the health crisis has subsided.

The most significant loss of revenue was from a decline in tourist tax revenue, estimated at around EUR 98.3 million in 2020. The lack of tourists also had an important effect on the dividends Amsterdam receives from Schiphol airport, and the Port Authority, which was estimated to be EUR 45.3 million lower. The decline in tourist visits, as well as general footfall in the city centre has meant that revenues from parking fees have also declined by some EUR 75 million. Other revenues affected are the fees from sports halls, parks and swimming pools, estimated at around EUR 4.8 million.

Amsterdam's finances were also impacted by increased expenditure to manage the effects of the pandemic. It was estimated that an increase in social assistance claims would entail additional costs of EUR 75 million. Additionally, the GGD had to increase testing capacity in June 2020 which was estimated to cost an additional EUR 20 to EUR 35 million for the year. At the beginning of 2021[162], Amsterdam introduced additional measures to assist businesses, individuals who had lost their jobs, seen a sharp decline in their incomes or lost their homes as a result of the crisis. The measures also extended support for children in need of internet access and computers for distance learning. The measures were costed at EUR 11.8 million, EUR 5.45 million of which would be provided by the central government.

Source: based on Amsterdam Municipality (2020), Statusrapport Coronacrisis, June 2020.

3.3.4 Government support for LRAs

In May 2020 the central government allocated municipalities compensation of EUR 700 million (Raad voor het Openbaar Bestuur, February 2021). This included previously allocated amounts for personal contributions under the Social Support Act and sports. The support concerned loss of income (parking and tourist tax), additional social costs and catch-up care, emergency care for children, public transport, grants for municipalities to subsidise companies providing youth services and social care, and support for cultural facilities.

An additional support package of EUR 365 million was allocated in summer 2020 for Municipal Health Services and the Safety regions, followed by a second tranche of EUR 330 million.

Other measures involved changing the rules governing distribution of the municipal fund. This included eliminating the pro-cyclical requirement in which funding for municipalities decreased when central government expenditure increased for 2020 and 2021. Another measure was to eliminate the 'upscaling discount' which would mean an increase of EUR 70 million in 2020 and EUR 160 million in 2021 to the municipal fund.

[162] NL Times (2021), *Amsterdam launches 'offensive' against Covid poverty, debts*. 19 February 2021.

Despite the assistance from central government, the support may not have been enough due to the significant damage incurred by the crisis, especially bearing in mind the pre-existing fragility of municipal authority finances (Raad voor het Openbaar Bestuur, February 2021). The financial position of many municipalities was already under considerable pressure before the pandemic. Despite the compensation, many municipalities were uncertain about the financial consequences. Although there are only 12 municipalities under preventive supervision by the province in 2021, many are under financial pressure. Municipalities have made significant cuts in recent years and have reduced their reserves, making their position vulnerable. The financial effects of the crisis are expected to continue for a long time to come and the longer the crisis lasts, the more difficult it becomes to isolate the effects of this crisis from other effects.

Several Dutch municipalities had to rely on borrowing to cover these additional costs as well as pay the salaries of their employees. BNG Bank N.V. faced a significant increase in demand for loans from municipal governments as a result of the crisis. Notable examples include the municipal government of Haarlemmermeer (west) which received a EUR 24 million loan, Middelburg (southwest) received EUR 11 million, and Terschelling (north) received EUR 2 million in loans. Most municipalities will have to rely on short-term loans to deliver their services in the future as well[163].

[163] NL Times. (2020). *Dutch municipalities going into debt to cope with coronavirus crisis: report*

3.5 Slovakia

3.4.1 Division of fiscal powers

Slovakia has a two-tier system of sub-national government with eight ‘self-governing regions’ and 2 929 municipalities, more than 90% of which have less than 3 000 inhabitants and two thirds less than 1 000 (Institute of Financial Policy 2017). It has some of the highest municipal fragmentation in the OECD (SNG-WOFI 2019).

Slovakia has medium fiscal decentralisation, as LRAs are very dependent on transfers from central government[164]. Revenues from taxes, such as on personal income, real estate, accommodation, and fees and tariffs vary between regions and municipalities.

Table 3.7: Share of revenue sources in Bratislava region and Bratislava city, 2020.

Revenue categories	Bratislava region	Bratislava city
Personal income taxes	49.6 %	38.2 %
Local taxes (e.g. on real estate, accommodation, use of public space)	0 %	14.9 %
Non-tax revenues (e.g. rental and administrative fees, interests on deposits)	3.8 %	6.6 %
Grants and transfers (e.g. from state budget, public insurance agency)	29.8%	12.7 %
Capital revenue	5.3 %	13.6 %
Revenue from other financial operations (e.g. loans, reserve fund, surplus from previous budgetary years)	11.5 %	13.9 %

Source: own elaboration based on data from Bratislava region and Bratislava city websites.

LRA expenditure accounts for 17.4% of total public expenditure against 33.6% at EU level. LRAs have broad responsibilities including services of general interest such as public lighting, municipal waste and water supply management which are considered ‘original’ competences of LRAs and are exclusive to them. They are also in charge of providing transport, social services, education (partly), culture, as well as regional and local development. The share of these categories differs for each municipality and region. Most of the competences in these areas have been delegated to LRAs from the central level and are not exclusively theirs.

Health is a key sector impacted by the pandemic, but most regions do not run their own hospitals or health centres anymore and have become administrative entities dealing mostly with licences and records. Regions and municipalities have minimal responsibilities for healthcare (only 3.3% of LRA expenditure).

[164] OECD (2019).

However, LRAs and specifically the self-governing regions have substantially supported the central government during the health emergency[165]. Indeed, self-governing regions were officially included in the state crisis management[166]. Before, self-governing regions had only an advisory function in state crisis management (outside the time of war). Since these amendments, the self-governing regions have officially become organs of government crisis management which allows them to actively participate in decision-making (Association of Self-governing Regions SK8 2021).

3.4.2 Crisis effects on local economies

In 2020, Slovak GDP decreased by 5.2% and employment by 2% (Institute of Financial Policy, February 2021). There was also an increase in economically inactive people, i.e. those who do not seek employment plus increased unemployment. These developments negatively impacted revenue from personal income tax which is a major revenue source for LRAs.

The export-oriented Slovak economy suffered a decrease in industrial production (which has an important share of GDP) which, during the first months of the pandemic, experienced the biggest slump among EU Member States. Other business activity also decreased and, in some cases, totally halted, especially the most affected by domestically imposed measures, such as accommodation and catering services. These sectors had the biggest increase in unemployed people. On the basis of data from the Slovak Statistical Office, in 2020 manufacturing unemployment increased by some 11 300 (36%) and doubled in accommodation and food services from 6 500 in 2019[167]. Unemployment also increased in the cultural and recreational sector (58%), financial and insurance services (84%) as well as transport and storage (45%).

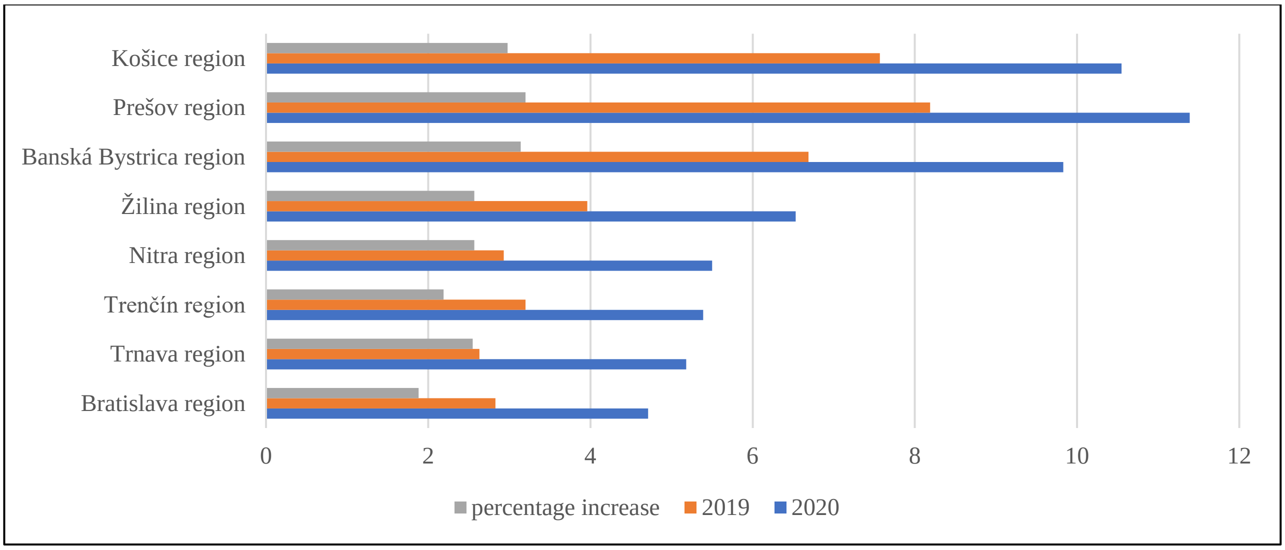
While unemployment increased across the country, eastern and central regions, traditionally less developed and with higher unemployment, suffered the biggest unemployment increase in 2020.

165 For instance, they supported the distribution and administration of medical and hygiene equipment to social services facilities and medical centres, although this was outside their responsibility. Similarly, almost all municipalities and/or regions established sites for Covid19 tests which are now provided free for all citizens. Regions have recently started supporting the vaccination process that is managed at the central level by establishing large Covid19 vaccination centres. There is now at least one such centre in each region.

166 This was done by amending Law no. 387/2002 on ‘state management in crisis situations outside the time of war and state of war’ and Law no. 42/1994 on ‘civil protection of the population’ in January 2021.

167 Statistical Office of Slovakia, *Unemployment by economic activity*.

Figure 3.6: Increase in unemployment in 2020 by region



Source: own elaboration based on data from the Slovak Statistical Office.

Slovakia also has one of the lowest shares of jobs that can be carried out remotely in the OECD countries, with substantial regional differences (OECD, July 2020). In most of the country between 25-30% of jobs can be done remotely, but this is considerably higher in the capital city of Bratislava at 40%. Regional differences in remote working might have affected the costs of Covid-19 related measures, especially lockdowns.

Several central level measures supported enterprises (mostly micro-enterprises, SMEs and self-employed people). These included loan guarantees by the Ministry of Finance, payment deferral for up to nine months, temporary protection against bankruptcy, and different kinds of contributions offered mainly by the Ministry of Employment and Ministry of Economy.

3.4.3 Crisis impact on LRA finances

The decrease in economic activity, increase in unemployment and decrease in wages in some sectors negatively impacted taxes collected at the central level and redistributed to LRAs. According to government estimates, **municipalities and regions were expected to see a decrease of EUR 121.5 million and EUR 52.1 million respectively from tax revenues in 2020** (Ministry of Finance, August 2020*b*). In addition, municipalities and regions lost revenue from local taxes such as public space tax and accommodation tax, however there is no estimate available for these.

Regions and larger municipalities also saw negative economic impact on municipal public transport providers with less transport use as well as more demands for fare refunds. For instance, in April 2020 Bratislava city's public transport provider saw a 90% drop in revenues with a 70% decrease in passengers as a result of Covid-19 related measures (see Box 3.4). **For the self-governing regions, the loss from decreased use of suburban bus transport was EUR 30 million**[168]. While the government adopted

[168] Obrancová, J. (2021), *Kraje žiadajú štát o odškodnenie, na prímestskej doprave stratili 30 miliónov eur* in *Radio and Television of the Slovak Republic*, 13 March 2021.

measures supporting companies, business and entrepreneurs, companies owned entirely or largely by municipalities and regions, such as the public transport providers, are not eligible for these.

Table 3.8: Estimated change in Slovak LRA expenditure and revenue for 2020.

<table>
<tr><th rowspan="2">LRA level</th><th colspan="2">Expenditure</th><th colspan="2">Revenue</th></tr>
<tr><th>EUR million</th><th>Mainly for:</th><th>EUR million</th><th>Mainly from:</th></tr>
<tr><td>Municipalities</td><td>+1</td><td>Healthcare, testing, equipment (only Bratislava)</td><td>-121.5</td><td>Tax revenues</td></tr>
<tr><td rowspan="2">Regions</td><td rowspan="2">n/a</td><td rowspan="2">n/a</td><td>-52.1</td><td>Tax revenues</td></tr>
<tr><td>-30</td><td>Transport tickets</td></tr>
<tr><td>All LRAs (EUR billion)</td><td colspan="2">+1</td><td colspan="2">-203.6</td></tr>
<tr><td>Total (scissors effect, EUR billion)</td><td colspan="4">-204.6 (-3.1%)*</td></tr>
</table>

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

LRAs also reported increased expenditure to prevent the spread of the virus, as underlined by Bratislava city (see box below), but there is not yet an overall estimate of the increase in LRA expenditure due to Covid-19 in 2020. Given that even the smallest municipalities should provide the same services as bigger regional cities and the law does not differentiate by the number of inhabitants, even a relatively small loss of income can negatively impact the functioning of small municipalities and bring the provision of basic services to a standstill.

This made LRAs draw finances from other sources (such as their reserve funds) and stop investment activities. Nevertheless, many LRAs and especially the smaller ones do not have reserve funds, or these are limited. LRAs thus expect an increase in their budget deficit, e.g. the Bratislava region expects its deficit to reach some EUR 26.4 million in 2021. The effects on local finances and budgetary pressures are illustrated in the box below with the example of Bratislava.

Box 3.4: Example of crisis effects on the finances of the city of Bratislava

- According to estimates based on a 7% decrease in GDP (the actual decrease was around 5%), in 2020 Bratislava city would lose more than EUR 15 million in taxes; EUR 9.3 million from income tax, EUR 2.21 million from property taxes, EUR 2.81 million from accommodation taxes and EUR 0.7 million from use of public space fees.
- The total revenues would further decrease due to lower revenues for municipal enterprises and contributory organisations of EUR 10.57 million, reduced rental

income of EUR 1.19 million and decreased municipal waste fees of EUR 0.21 million, totalling some EUR 12 million.

- On the expenditure side, the city expects an increase of around EUR 1 million for additional material. The city also expects increased expenditure related to compensation for the drop in revenue of municipal enterprises.
- The city has covered part of the budgetary gap by suspending some investment activities, using the reserve fund (total EUR 25.4 million) and increasing debt.

Table 3.9: Estimated change in Bratislava City expenditure and revenue for 2020

LRA level	Expenditure		Revenues	
	EUR million	***From:***	***EUR million***	***From:***
Bratislava City	Around +1 (excl. central government compensation)	Personal protective equipment, Covid-19 testing, quarantine ‘town’ for homeless people	-9.3	Tax on personal income
			-2.2	Property tax
			-0.3	Tax on the use of public space
			-10.5	Revenue from public transport
			-0.1	Revenue of contributory organizations
			-0.24	Municipal waste fees
			-1.2	Rental income
			-2.5	Income from gambling
	+1		**-26.3**	
Total (scissors effect, EUR billion)	**-27.3**			

Source: based on Lupták, M. (2020).

3.4.4 Government support for LRAs

Several measures have been implemented by Ministries to mitigate the negative impact of the pandemic. The Ministry of Finance prepared measures under the Lex Korona which currently covers taxes, the financial market and the budget. While many measures aimed at employees, self-employed people and SMEs (e.g. deferred tax payments), the most relevant measures for LRAs relate to budgetary rules (Ministry of Finance 2020*a*) including:

- using revenues from local development fees to cover current expenses until the end of 2020;
- using resources from the reserve fund to cover current expenses;
- using repayable sources of financing;

- making budgetary changes to increase the deficit even after August 2020;
- suspending all administrative proceedings related to breaches of financial discipline during the pandemic;
- during the pandemic, LRAs do not have to comply with deadlines, e.g. providing budget information, final accounts and verification of financial statements.

The primary aim of these measures is to enable LRAs to use all available resources to compensate their income loss and cover expenses incurred by the pandemic. Nevertheless, it is important to mention that not all the measures are adequate for all LRAs. For instance, while using the reserve fund to cover current expenses was welcomed by many, most municipalities have little or no resources in their reserve funds.

The Ministry of Finance decided to help LRAs and compensate the impact on income tax revenues with EUR 151.9 million in December 2020 (Ministry of Finance 2020*c*). LRAs could ask for assistance to cover up to 100% of their expected income tax loss. Nevertheless, the assistance was presented as 'repayable', but it is still not clear whether and how LRAs would pay it back.

Measures were also implemented in other key sectors for LRAs, such as social services where LRAs are the main providers[169]. For instance, the Ministry of Labour, Social Affairs and Family (MLSAF) lifted the obligation of municipal and non-public providers that receive the dependency contribution to give back funding for unused places in their facilities[170]. This was more than EUR 1 million in the 2nd quarter of 2020.

Another support measure was the expansion of eligibility for a subsidy for humanitarian purposes. While this subsidy existed before the pandemic, it was not commonly used for social services. Providers can apply for the subsidy to cover procurement of material and equipment needed to counter the pandemic. The Ministry also started providing subsidies for first-line employees as well as nutritional supplements for clients and employees in social service facilities. From 1 January 2021 there is a new subsidy to support voluntary service in social service providers.

The pandemic has nevertheless further propelled the already envisaged public administration reform whose objective is to enhance LRA functioning by strengthening their competencies and changing the funding model so LRAs gain more fiscal autonomy.

[169] Social services provision was delegated to the LRAs from the central government and are the main competence of the former.

[170]The contribution is based on the capacity in each facility . Providers usually need to pay back the corresponding contribution for vacant places. At the same time, MLSAF suspended the obligation to return the financial contribution in case of interruption or suspension of social services caused by Covid-19 (e.g. lack of staff, no clients, outbreak of Covid-19 in the facility), if the social services are provided by other means, for instance at home.

3.5 Sweden

3.5.1 Division of fiscal powers

Sweden has a largely decentralised system of government in which LRAs, 21 counties and 290 municipalities have extensive authority over several areas of government. More than half of total public expenditure is at LRA level[171]. There is no hierarchical relationship between counties and municipalities since they have different responsibilities. Rather, the county level acts as an intermediary between the municipal and the national levels (Petridou, October 2020).

Roughly two-thirds of LRA income comes from own revenues, such as taxes (54.7% of total revenue in 2018) and tariffs and fees (9.2%) with the remainder covered by transfers from central government. There is a high level of fiscal autonomy for local governments in Sweden, with 98% of local tax revenues under full control of LRAs. These can levy taxes on citizens' income and are free to decide on their own tax levels. The average municipality tax rate is around 20%, and around 10% for the county[172].

County and municipality spending is more concentrated than the EU average for health, social protection and education, which were all highly exposed to the crisis. LRA spending in Sweden is a particularly high on healthcare: they are responsible for 97% of total healthcare spending, which is 26.5% of local public spending (versus 13.4% at EU level). Sweden’s healthcare system is nationally regulated but is administered by LRAs. The Ministry of Health and Social Affairs sets health policy targets and decides on the size of central government grants for LRA agencies to administer healthcare. At the sub-national level, regional authorities are involved in providing health care services, whilst municipalities are involved in delivering services for the elderly and disabled. Funding for these services is mostly from local and regional taxes but also from government grants (Tikkanen *et al.* 2020). Expenditure for social protection represents 35.4% of LRA expenditure, versus 22.8% at EU level.

The decentralisation of power in the Swedish system makes it very difficult for the central government to take over the responsibilities of the country's 290 municipalities (Petridou, October 2020). Crisis preparedness and management are also the responsibility of municipalities and are governed by three principles. These are the principle of responsibility, under which the level of governance for an activity during normal times retains this responsibility during crisis or war; the principle of parity, where authorities retain their structure and location during a crisis or war; and the principle of proximity, under which crises should be handled at the lowest possible level of government. In terms of crisis management, the high level of autonomy of public agencies and the fact that the Swedish constitution does not allow the national government to impose a national state of emergency and thus centralise power during

[171] OECD (2019), *Key data on Local and Regional Governments in the European Union (brochure).*

[172] Technically, taxes are collected by the central government and redistributed on the basis of each tax. A fiscal equalisation system is managed by the central government. In order to cope with the high variation of citizens' taxable income and different costs of service provision across different municipalities and counties, a redistribution of resources across sub-national governments depends on the different tax bases and levels of expenditures.

peacetime, are both specific institutional articulations of the Swedish system[173]. This resulted in the public agencies retaining their autonomy during the crisis.

3.5.2 Crisis effects on local economies

The structure of Sweden's economy made it less vulnerable to the pandemic and containment measures (Bricco, Misch, and Solovyeva, September 2020). The hospitality and recreation sectors (which are likely to be most affected by the pandemic) are relatively small, similar to Nordic peers but in contrast to many other European countries. Sweden also opted for much looser measures, with restaurants and bars kept open (with proximity restrictions) and private businesses and shops were allowed to operate freely. At the peak of the lockdown, the services sector was less affected in Sweden than international peers, reflecting both the differences in mitigation strategies and the sectoral composition of the services sector. In addition, in Sweden 44% of jobs can be done from home, the third-highest rate in the world after Luxembourg and Switzerland (Dingel and Neiman 2020), increasing resilience to containment measures.

However, the country's reliance on exports is almost as strong as Germany, making it more vulnerable to fluctuations in external demand and global supply chain disruptions. The GDP contraction in Q2 2020 was significantly larger in Sweden than in other Nordic countries, and this difference was mainly driven by a decline in exports rather than private consumption and investment. Sweden's manufacturing sector was not directly constrained by domestic social distancing and containment measures but has been heavily impacted by the external environment.

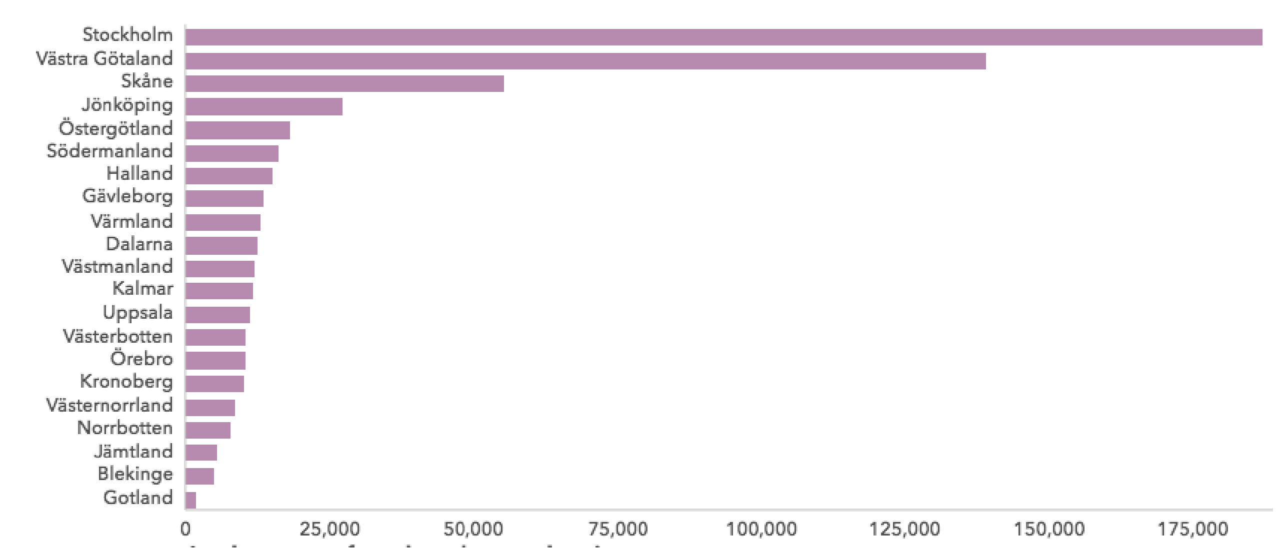
The impact on Swedish GDP was a fall of 2.9% in 2020 but GDP is expected to increase by 2.7% and 4% in 2021 and 2022 respectively (European Commission, February 2021). However, employment was highly impacted, and unemployment was projected to rise to 8.3% from 6.8% in 2019 (Nordea, March 2021, based on IMF; see also Sveriges Kommuner och Regioner, October 2020). Employment opportunities decreased especially for low-skilled migrants. These were mostly working in the hospitality sector prior to the pandemic which was disproportionately impacted by slowing economic activity.

Since April 2020, nearly 600 000 employees have been granted support for lay-offs (Ekonimicfacta, April 2021). The highest number was short-term lay-offs in metropolitan counties. The counties of Stockholm, Västra Götaland and Skåne - the most heavily hit by Covid-19 infections - stand out with the most short-term layoffs in absolute terms. Seen in relation to the total number of employees however, the distribution is greater between the counties. About 25% of employees in Västra

[173] Based on administrative dualism, where public agencies are set up outside central government ministries. In addition, local restrictions on the movement of people can be adopted for health reasons. However, there is no exception for a contingency like a pandemic. Thus, these rules could not be adopted for a full nationwide lockdown similar to those in other countries. Furthermore, the power of central government in health-related areas is highly limited by the independence of local authorities. See also Jonung (June 2020).

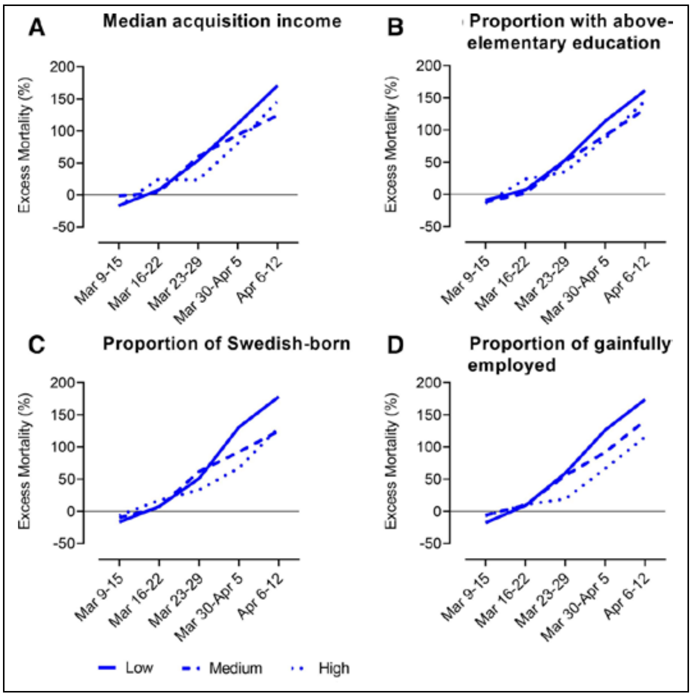
Götaland, Jönköping and Södermanland have been granted short-term layoffs since spring 2020.

Figure 3.7: Short-term layoffs, by county (from April 2020 to April 2021)



Source: reproduced from Ekonimicfacta 2021, April.

Figure 3.8: Average excess mortality in the Stockholm County by different socio-economic indicators



Source: reproduced from Calderón-Larrañaga et al. (2020, October).

Furthermore, mortality was estimated to be higher in areas with more residents with low incomes, low level of education, and unemployed (Oudin Åström 2020; see also SCB, October 2020). Although there were no significant differences at the county level, nationally, the risk of dying from corona disease was estimated to be higher in the most socio-economically deprived areas than in areas with a higher socio-economic status. This indicates that individuals with a low socio-economic status might also be particularly vulnerable. Mortality in Sweden in the spring of 2020 was in fact higher among people on a low income, migrants from low-income countries and people with a low level of education. A more detailed analysis of Stockholm County revealed that the negative impact of Covid-19 was disproportionately born by older adults and those in socio-economically deprived areas with a higher proportion of young people. This underlines the interplay between old age and social vulnerability (Calderón-Larrañaga *et al.*, October 2020). Social determinants of health, governing where people work, live and age, are likely drivers of socially unequal Covid-19 outcomes.

3.5.3 Crisis impact on LRA finances

Despite the different approach taken by the central government to tackle the spread of Covid-19, the crisis has had a significant impact on LRA finances. The halting of economic activity and rise in unemployment also affected the income tax that municipal authorities could collect, which is a large part of their income. However, despite the great fall in the number of hours worked in 2020, the tax base was by no means affected to the extent expected. Instead, it was expected to increase by 1.9% due to the huge rise in taxable transfers. While a rise in unemployment reduces the municipal tax base, the reinforced unemployment insurance system compensated workers for lost income. These government funded contributions are taxable, compensating the LRAs' loss of tax revenue.

Central government measures like short-term layoff rules and reinforced unemployment benefits made strong contributions to this rise. In addition, pension incomes rose relatively quickly in 2020. LRAs experienced more pressure on expenditure as a result of their responsibilities for healthcare, social services and general public services. However, LRAs also reported decreased own revenues, mostly from fees and charges.

In October 2020 the Swedish Association of Local Authorities and Regions published a report on local economies with estimates of the impact on Swedish municipal and county finances (Sveriges Kommuner och Regioner, October 2020). Cultural activities were stopped, and the lack of citizen mobility meant less fees for parking and public transportation. In relation to county revenues, public transport has been hit particularly hard with lower ticket income. For 2020 the county revenue loss from public transport is estimated at EUR 690 million compared with 2019. Revenue losses from art and museum activities before summer would amount to at least EUR 50 million. Furthermore, there was an initial decline in the use of health services due to the closure of care areas to divert resources to the Covid-19 response[174]. For instance, counties lost nearly EUR 20 million in fees for adult dental care, between January and August 2020.

However, as the tax base did not change and taxable transfers increased, the counties' revenues from taxes were expected to increase by EUR 410 million. **The total estimated loss to county revenues** - considering also taxable transfers - **was EUR 350 million.**

Counties have also estimated[175] additional costs attributable to Covid-19 of nearly EUR 1.1 billion up to November 2020. An additional EUR 330 million were expected

[174] This was further aggravated by citizens choosing to delay routine health procedures. Though a significant part of health care is funded publicly, a small fee is also collected from patients for primary care and dental services, which initially had a negative effect on regional authorities' revenue base.

[175] Based on grant applications to the National Board of Health and Welfare, see Sveriges Kommuner och Regioner (2020*b*, October).

by the end of 2020. There were also EUR 670 million more costs to implement track and trace systems. Caring for disabled and older people incurred additional costs for municipalities of some EUR 490 million between March and November 2020. **The estimated increase in county expenditure was EUR 2.59 billion in 2020.**

In March 2021, SCB published additional estimates including for municipalities (SCB 2021). These revealed **an increase in operational expenditure for municipalities of EUR 850 million in 2020**. For counties, the expenditure increase was forecast at EUR 1.87 million. Income from tax revenues increased by EUR 350 million for counties, according to SCB. **Municipality tax revenues**, similar to counties, was expected **to increase in 2020 to between EUR 360** (SCB 2021) **and EUR 510 million** (Sveriges Kommuner och Regioner, October 2020).

Table 3.10: Estimated change in Swedish LRA expenditure and revenue for 2020.

LRA level	Expenditure		Revenue	
	EUR billion	***Mainly for:***	***EUR billion***	***Mainly from:***
Municipalities	+0.85	Operational expenditure	From +0.36 to +0.51 (including taxable transfers)	Tax revenues
Counties	+1.43	Health expenditure	-0.69	Transport ticket income
	+0.67	Covid-19 tracking	-0.05	Art, cultural and museums activities
	+0.49	Social assistance for disabled and older people	-0.02	Dental care spending
			From +0.35 to +0.41 (including taxable transfers)	Tax revenues
All LRAs (EUR billion)	**+3.44**		**From -0.05 to +0.16**	
Total (scissors effect, EUR billion)	**up to -3.49 (-3%)***			

** Total scissors effect over 2018 LRA revenues as in OECD (2019), see Table A.2 in Annex I.*

For all Swedish LRAs the estimated 'scissors effect' for 2020 is up to nearly to 3.5 billion. However, in autumn 2020 it became clear that the tax base would not be affected as much as had been feared and the additional general grants provided by central government were larger than the tax-base effect. This, in combination with other grants and lower demand for many services, means that municipalities could close 2020 with a EUR 3 billion financial surplus[176] and counties with a EUR 2.13 financial surplus[177].

[176] According to both SCB (2021) and Sveriges Kommuner och Regioner (2020 October).
[177] According to SCB (2021).

Box 3.5: Crisis effect on Stockholm County's municipal budget

At the end of October 2020, the County of Stockholm published a report (Region Stockholm 2020) on their accounts for January to August 2020, as well as a forecast for the rest of 2020. Following the trend of other regions, Stockholm faced significant losses in revenue and additional costs as a consequence of the Covid-19 crisis amounting to nearly EUR 507 million. This was caused by additional costs of EUR 240.5 million and revenue falls of EUR 266.5 million. Staff expenditure accounted for 41% of the additional costs. The county saw a loss in revenue from public transportation ticket sales of nearly EUR 220 million. The forecast 'scissors effect' for public transportation for the rest of the year was EUR 365 million.

Nonetheless, despite deficits in these areas, government grants to the regional government meant that Stockholm region's accounts ended with a surplus. Lower pension liabilities, and capital gains from property sales contributed to this. The forecast for the whole of 2020 was an expected surplus of EUR 327.8 million (EUR 180 million more compared to 2019).

3.5.4 Government support for LRAs

Despite budgetary pressures at the beginning of the Covid-19 crisis, Swedish LRAs ended 2020 with positive net income. One reason for this is the effect of automatic stabilisers (taxable lay-off transfers) on the economy.

In addition to these automatic stabilisers, LRA finances in 2020 remained healthy due to additional support from the central government. For instance, in April 2020, the central government announced additional funding of EUR 2.18 billion, added to the previous package of EUR 500 million (Ministry of Finance 2020). This additional funding was to maintain essential services such as healthcare, education, social services and public transport. Of this, EUR 1.24 billion was foreseen as a permanent increase in appropriations, so municipalities and counties can also use it in the years ahead. EUR 200 million was for personal protective equipment and intensive care beds.

Additional funding was also granted to cover lost fees. EUR 300 million was provided to regional public transport authorities though this was not enough to fully cover the reduction in fees and additional costs (Sveriges Kommuner och Regioner 2020). Nearly EUR 15 million was also added to the usual grant provided to regional cultural institutions.

In total, the LRAs obtained EUR 3.13 billion in additional government grants, as well as EUR 150 million for local healthcare, and EUR 1.97 billion special compensation for measures to combat the Covid-19 crisis such as testing and increased public transport services. For 2021 to 2023, additional grants will remain but will be gradually reduced. The additional costs involved in the Covid-19 crisis were almost fully covered by the central government in 2020. These grants provided the resources to tackle the crisis as well as deliver education, elderly care and healthcare services.

Although the LRAs ended the first year of the crisis with healthy finances, there remain uncertainties. Delayed healthcare meant less costs to local governments in 2020, but the upsurge in demand once the crisis has subsided will mean substantially more costs for LRAs. To deal with this upsurge, the government has allocated grants to LRAs of nearly EUR 400 million for 2021 and 2022. These should be enough to manage the delayed healthcare provision. Nevertheless, the full extent of future costs associated with the crisis are not certain. The county of Stockholm reported similar pressures in the long-term. The issue of postponed healthcare and losses from reduced public transport revenues were highlighted as future points of concern. Stockholm noted that losses from public transport revenue were not fully compensated for by the government in 2020. Stockholm is also forecasting considerably lower tax revenue for the coming planning period. The regional government intends to channel some of the surplus from 2020 to ‘profit equalisation’ reserves to counter potential pressures from a lower tax base (Region Stockholm 2020).

4. CONCLUSIONS AND RECOMMENDATIONS

LRAs in the EU have been at the forefront of Covid-19 crisis management which has significantly impacted their budgets. Their expenditure has risen substantially for public health, social services, social benefits and support for businesses, workers and citizens. At the same time revenues have fallen sharply due to a drastic reduction in economic activity as well as tax relief and deferment at all levels of government.

The increased costs and reduced revenues have created a ‘scissors effect’ on LRA finances, which this report has explored through 27 country fiches and five in-depth case studies. This research represents the first attempt to provide an assessment of the impact of the crisis on LRA revenue and expenditure for the whole EU, for each Member State, and across different sub-national government levels. It has also investigated why some regions or municipalities have been more affected than others. Key findings and recommendation are listed below.

Estimating the crisis impact on LRA finances

• The estimated ‘scissors effect’ highlights challenges for LRAs in 2020 across the EU. The estimated ‘scissors effect’ is approximately -EUR 180 billion for 2020, of which nearly -EUR 130 billion is at regional and intermediate levels and EUR -50 billion for municipalities. This corresponds to -7.3% of revenue collected by the LRAs, according to the latest data (2018) provided by OECD.

Due to the size of their economies, the EU ‘scissors effect’ is concentrated in Germany (nearly -EUR 112 billion, or -15% of LRA revenue), followed by Italy (nearly -EUR 23 billion, -9.2%), Spain (-EUR 12.4 billion, nearly -5%), and France (-EUR 7.2 billion, -2.7%). However, in relative terms, the highest estimated values were in Cyprus (-25%) and Bulgaria (-15.3%) and the lowest in Romania (-0.4%), Denmark (-1.6%), Greece (-1.7%) and Hungary (-1.9%). A reverse ‘scissors effect’ was expected only in Estonia (1.2%).

There is not enough data to determine any robust relationship between the degree of decentralisation and the size of the ‘scissors effect’. Also, in some countries, including Greece, Hungary, Portugal, Poland, Romania, and Slovakia, information is incomplete and the ‘scissors effect’ may be underestimated.

The results in this report should therefore be interpreted with caution. Although the results are not definitive, the picture that emerges is that most LRAs across the EU found the situation very challenging in 2020.

• **The EU, Member States, LRAs and their associations should monitor and quantify the ‘scissors effect’ for 2020 and following years**. A proper estimate of the effects of the crisis on LRA finances is the first step to better assess their financial needs and to design more tailored support measures.

• Data availability is crucial for proper quantification of the 'scissors effect'. Apart from the few detailed reports provided by certain Ministries of Finance, national statistics or LRAs associations, it seems that many Member States lack detailed information on LRA budget changes due to the crisis. The information is often generic or covers only one LRA level and/or a few budget items. This raises questions about how central government support has been quantified.

The EC and other international organisations such as the OECD and IMF are mapping central government policy responses addressing citizens and enterprises in all Member States. But there is little information on central government measures targeting LRA finances. As the impact of the pandemic is expected to continue, monitoring policy responses to support LRA finances will be important in the coming years.

> • The EU, Member States, LRAs and their associations **should improve the transparency, availability and communication of data**. Frequent communication across government levels and data sharing between LRAs, their associations and central governments, play an important role in obtaining a broad overview to help design better policies.
>
> • The EU and Member States should consider creating an **observatory to monitor the impact of the Covid-19 crisis on LRA finances** and share financial information as well as methods to quantify the costs. The EU should also **track central government support for LRAs and create an EU-level good practice database** to enable Member States to share their responses to the crisis and learn from each other.

Understanding the asymmetric territorial effects of the crisis

• The crisis can persist for longer in less developed areas. Initially, the crisis impacted strongly urbanised areas more, which is understandable given the higher concentration of citizens and economic activities.

Subsequently the effects spread to smaller urban centres, less urbanised territories and rural areas. Many of these, including in Bulgaria, Greece, Ireland, Italy, Portugal, and Romania lack adequate healthcare facilities and public infrastructure and have higher rates of unemployment and poorer citizens. The crisis impacted particularly on LRAs with existing financial problems. Most urbanised and developed areas seem to have responded better to the initial impact of the crisis, due also to central government measures to support capitals and larger cities. But for LRAs in less developed areas the costs of the crisis could persist for longer. Between and within Member States this could widen the territorial investment gap and priorities for social protection, education, job creation and the modernisation of public infrastructure.

• **Member States should consider differentiating and tailoring support to LRAs** in the immediate future, also considering diverse territorial needs.

• **Less developed areas need targeted investments in education, healthcare and social protection**. Member States should avoid intensifying pressure on local budgets by pushing LRAs to cut expenditure, especially in territories where such investments are needed more.

• The division of fiscal powers affected LRA resilience to the crisis differently. The 'scissors effect' within each Member State has varied across and within sub-national government levels. The different ways LRAs are financed throughout Europe (own resources and state allocations) has obviously led to different effects on LRA finances. Central government allocations (grants and subsidies) range from 27% of LRA revenue in Germany to 90% in Lithuania.

The composition of LRA own revenues also varies significantly across and within Member States. The impact of lockdown measures and tax deferrals has varied consistently across and within Member States also in accordance with the relative importance of deferred taxes for the LRA tax base. For instance, more than one third of the estimated reduced revenue of Dutch municipalities was from parking income loss and an additional one fourth from tourism tax. In Bratislava City, the estimated lost revenue from public transport was higher than the loss from personal income tax. In Italy the loss from business tax in provinces is significantly below the estimated drop in municipality revenues from real estate and personal income taxes.

The different responsibilities across levels of government also played a role. For instance, in Italy the estimated increase in regional healthcare expenditure was more than twice the regional resources allocated to support SMEs and welfare. French departments faced a significant increase in social spending which, together with the drop in income from real estate taxes, created a strong 'scissors effect'.

• **Member States should consider reforming tax systems, rethinking fiscal rules, LRA revenue structures and equalisation formulas**. Member States and LRAs are also encouraged to find new forms of revenue, without leveraging on personal income or business taxes. There is an on-going debate about taxing the digital economy - which performed well during the crisis - that deserves consideration.

• Economic specialisation matters. The health emergency also interacted with local economic specialisation and the exposure of particular sectors to the crisis. Regions with large manufacturing sectors and higher exposure to international markets, for example in Germany, the Netherlands, northern Italy and Sweden, have been heavily affected by the crisis. Metropolitan areas with IT and business services (such as in Austria, Bulgaria, Ireland or Lithuania) responded better.

The most affected sector across the EU has been tourism. For many regions and municipalities this is not only a major economic activity (as in Croatia, Greece, Italy, Malta and Spain), but also a key source of revenue for LRAs (e.g. from tourist taxes, parking fees and public transport). Moreover, the cultural sector was among the most affected, with the closure of museums and public spaces for art and culture, and consequently less revenue for LRAs. For smaller cities, coastal and remote areas the drop in tourism and cultural activities led to a significant loss of revenue and a remarkable increase in expenditure for higher unemployment and social costs.

• Member States should **design and implement recovery plans through a place-based approach, with local initiatives.** Investments must target sectors that impact the recovery and long-term sustainability. **Close partnership with LRAs** would contribute to aligning current and future national policy responses with local realities, needs, challenges and opportunities.

• LRAs should develop consistent recovery plans, programs and strategies, focused on local economic needs, challenges and priorities and anchored to recovery efforts planned at higher levels of government.

Dealing with the effects of the crisis

***• Current pressure on LRA budgets can affect future investments*.** It is unclear how much of the 2020 'scissors effect' has already been covered by measures implemented by central governments to reduce the impact on LRA finances. This creates uncertainty for 2021 LRA budgets.

Moreover, there are few forecasts for the 'scissors effect' for 2021 and the impact of the new Covid-19 waves between autumn 2020 and spring 2021 has still to be analysed. Therefore, pressure on LRA budgets is expected to continue and could even worsen in the immediate future. This is likely to pose significant challenges for LRAs to financially recover and invest in the medium and long-term. It could also have adverse and further asymmetric effects on their capacity to provide services to citizens because of Covid-19-related financial pressure and a reduced capacity to address other priorities. There is a significant risk that public investment is sacrificed to compensate for the costs of the crisis. This happened after the 2007-2008 financial crisis when public investment was used as an adjustment variable, also affecting LRA finances. Fiscal consolidation across the EU reduced sub-national fixed public investment by 20% between 2009 and 2013, with southern Member States particularly hit. As most sub-national public investment covers areas of critical importance for businesses and citizens, the contraction in public investment had negative long-term consequences for economic growth, sustainable development and societal well-being. Fiscal consolidation should not put public investment under intense pressure.

• As the impact on LRA budgets is uncertain but likely to be significant for 2021 and beyond, **Member States should not withdraw support too quickly**. Suspending fiscal rules for LRAs, providing them with emergency transfers and guaranteeing new debt due to the pandemic should continue to address the 'scissors effect'.

• **The EU should reform economic governance rules considering the different impacts of this crisis.** Potential lessons from past financial crisis should mean **being aware of the impact of austerity on public investment and services**. The public debate launched by the EC in early 2020 on the 'economic governance review' should be relaunched by extending the debate on sustainable finance and economic growth, as well as avoiding macroeconomic imbalances, to the LRA level.

• Coverage of the 'scissors effect' from central governments remains uncertain. In almost all Member States, LRAs received different forms of direct support from central governments in 2020 to compensate for their loss in revenue and increase in expenditure. These included inter-governmental grants, loans, guarantees and lifting of fiscal rules. Measures have been implemented to quickly cover healthcare expenditure. Several central governments adopted packages and measures to compensate LRAs for losses of certain revenue. In some countries, such as Sweden, stabilisation mechanisms automatically compensate LRA budget changes.

Support to mitigate the 'scissors effect' in 2020 has varied across and within Member States. Some regional authorities, including in Spain, and municipalities in Sweden and the Czech Republic were expected to close 2020 with a budget surplus thanks to central government support. But in Member States such as Bulgaria, Croatia, Finland, Hungary, the Netherlands, Portugal, Romania and Slovakia, LRAs reported deficits and worse finances than 2019 despite the compensation from central government.

In all Member States, central governments have concentrated support on compensating lay-offs and worker income as well as sustaining enterprises. This has undoubtedly lessened the economic impact and indirectly mitigated the 'scissors effect' on LRA budgets. But for many Member States this has also significantly increased public debt, putting pressure on all government levels to contain public expenditure in the future.

Moreover, this report has only briefly reviewed coordination mechanisms across government levels, but the crisis has emphasised the fundamental need for a coordinated response to emergencies and their aftermath, underlining the potential advantages of experimentation and a place-based approach to exit and recovery strategies.

• **LRAs have to participate in national fiscal consolidation efforts**. They could carry out spending reviews, policy evaluations and impact assessments to prioritise expenditure.

***• As the healthcare emergency decreases, new challenges and opportunities are likely to emerge*.** The crisis has strengthened local solidarity for vulnerable citizens and those that lost or were at risk of losing their jobs. It favoured a return to regional and local products, securing supplies and supporting local and regional economies. Moreover, digital and ICT facilities have enabled local economies to quickly react to lockdown measures. Teleworking has also been applied by public administration at different government levels.

Changes in citizen and worker behaviour forced by the emergency could become permanent. Smart working and changes in mobility patterns could affect how people live in cities, with effects on public transport and real estate impacting LRA revenue. This could be stronger for big cities, where people are buying houses outside the municipality borders. This would imply a potential drop in larger city revenue and an increase in revenue for small municipalities near such areas. Changes in behaviour could also save costs, by reducing traffic congestion and pollution in urban areas.

Despite the disruptive effects on local economies and LRA finances, the crisis could also offer unpredicted opportunities to promote a new territorial balance and replan the future of EU regions and cities.

- **The EU, Member States, LRAs and their associations should work to monitor and analyse the social consequences of the crisis**, to identify behavioural changes that could reshape local planning and economic development.

ANNEX I - OECD DATA

Table A.1: Subnational government expenditure

	EUR billions, 2018	% of public expenditure, 2018	By classification of the functions of government, 2017 (as % of subnational government expenditure)					
			Education	**Social protection***	**General services**	**Health**	**Economic affairs**	**Other****
Federations and quasi-federations								
Austria	66.5	35.5%	16.9%	22.2%	14.1%	26.4%	12.6%	7.7%
Local government alone	*32.0*	*17.1%*	*17.4%*	*22.3%*	*15.6%*	*22.2%*	*11.3%*	*11.2%*
Belgium	122.2	51.8%	27.0%	23.0%	17.1%	4.2%	16.1%	12.6%
Local government alone	*32.6*	*13.8%*	*19.8%*	*20.0%*	*18.4%*	*0.5%*	*9.0%*	*32.3%*
Germany	718.9	48.4%	20.8%	27.6%	22.8%	2.2%	11.5%	15.2%
Local government alone	*270.5*	*18.2%*	*15.6%*	*35.6%*	*17.2%*	*1.9%*	*13.5%*	*16.2%*
Spain	250.2	50.1%	18.6%	7.4%	22.1%	27.0%	10.5%	14.4%
Local government alone	*69.4*	*13.9%*	*3.5%*	*9.7%*	*36.3%*	*1.2%*	*15.3%*	*34.0%*
Unitary countries								
Bulgaria	4.1	21.3%	33.6%	10.1%	9.7%	8.8%	9.3%	28.6%
Croatia	6.2	26.1%	31.1%	4.1%	29.8%	22.0%	5.7%	7.3%
Cyprus	0.3	3.1%	0.0%	0.0%	41.4%	0.0%	0.0%	58.6%
Czech Republic	24.2	28.7%	28.4%	7.7%	11.9%	13.9%	18.4%	19.7%
Denmark	100.0	65.2%	8.8%	55.9%	3.7%	24.4%	3.7%	3.5%
Estonia	2.4	24.1%	38.6%	7.7%	6.9%	14.7%	15.8%	16.3%
Finland	50.8	40.8%	17.1%	25.2%	17.9%	26.9%	6.7%	6.2%
France	260.3	19.7%	14.7%	19.5%	18.7%	0.7%	19.2%	27.3%
Greece	6.5	7.6%	6.6%	14.5%	26.7%	0.0%	19.2%	33.0%
Hungary	8.0	13.1%	16.2%	11.5%	25.8%	4.1%	18.8%	23.5%
Ireland	7.1	8.7%	9.9%	33.7%	5.2%	0.0%	18.5%	32.6%
Italy	243.8	28.6%	6.0%	5.0%	15.8%	48.2%	11.4%	13.5%
Latvia	3.1	27.4%	40.6%	11.2%	6.7%	8.4%	9.8%	23.3%
Lithuania	3.6	23.7%	38.5%	10.2%	7.4%	19.1%	9.1%	15.8%
Luxembourg	2.8	11.2%	11.3%	13.2%	19.3%	0.8%	16.2%	39.2%
Malta	0.0	0.9%	0.0%	0.0%	54.1%	0.0%	8.5%	37.4%
Netherlands	100.4	30.8%	30.9%	23.8%	7.3%	3.7%	13.2%	21.0%
Poland	70.3	34.1%	26.3%	21.4%	9.8%	15.1%	13.1%	14.2%
Portugal	11.8	13.3%	12.9%	7.4%	30.2%	6.1%	16.9%	26.7%
Romania	16.6	23.4%	21.5%	14.4%	10.9%	17.0%	15.9%	20.4%
Slovakia	6.4	17.4%	39.2%	7.4%	15.3%	3.3%	16.2%	18.6%
Slovenia	3.8	19.5%	37.7%	11.6%	9.5%	12.3%	11.6%	17.4%
Sweden	118.8	51.0%	21.5%	27.0%	10.9%	26.6%	6.4%	7.6%
United Kingdom	229.2	23.4%	25.0%	35.4%	7.5%	2.0%	9.0%	21.1%
EU28	2438.6	33.6%	19.1%	22.8%	16.8%	13.4%	11.9%	16.0%
Local government alone	*1685.4*	*23.2%*	*16.8%*	*24.5%*	*14.5%*	*13.9%*	*12.2%*	*18.1%*

Source: OECD (2019).

** Social protection expenditure includes both capital and current expenditure.*

*** Other: defence; public order and safety; housing and community amenities; recreation, culture and religion; environmental protection.*

Table A.2: Subnational government revenue

	Subnational government revenue						
	EUR billions, 2018	% of general government revenue, 2018	By classification of the functions of government, 2018 (as % of subnational government revenue)				
			Taxes	Grants and subsidies	Tariffs and fees	Property income	Social contributions
Federations and quasi-federations							
Austria	67.2	35.8%	11.4%	72.9%	11.2%	2.1%	2.4%
Local government alone	*32.1*	*17.1%*	15.4%	*64.7%*	15.6%	2.3%	1.9%
Belgium	120.0	51.5%	25.1%	57.3%	9.2%	1.8%	6.6%
Local government alone	*32.5*	*13.9%*	28.9%	*50.1%*	12.7%	3.4%	4.9%
Germany	744.1	48.2%	56.8%	26.9%	11.3%	1.1%	3.8%
Local government alone	*284.6*	*18.4%*	38.7%	*42.9%*	15.5%	1.6%	1.3%
Spain	253.7	54.0%	40.4%	51.4%	7.6%	0.4%	0.2%
Local government alone	*75.7*	*16.1%*	52.1%	*37.1%*	9.8%	0.6%	0.4%
Unitary countries							
Bulgaria	4.2	20.5%	12.2%	69.0%	16.1%	2.8%	0.0%
Croatia	6.2	25.7%	37.6%	49.3%	11.3%	1.8%	0.0%
Cyprus	0.3	3.7%	22.6%	43.0%	34.2%	0.2%	0.0%
Czech Republic	25.0	29.0%	45.2%	40.5%	12.8%	1.3%	0.2%
Denmark	100.1	64.5%	36.1%	58.8%	4.7%	0.4%	0.1%
Estonia	2.5	24.9%	2.8%	86.7%	9.3%	0.9%	0.2%
Finland	48.8	39.8%	46.0%	29.8%	21.7%	2.4%	0.0%
France	262.6	20.9%	53.2%	29.6%	15.7%	1.1%	0.3%
Greece	7.2	8.2%	23.6%	66.3%	9.1%	1.0%	0.0%
Hungary	7.9	13.6%	36.1%	52.3%	10.8%	0.7%	0.1%
Ireland	7.1	8.7%	19.4%	50.3%	26.6%	0.4%	3.2%
Italy	247.6	30.3%	42.6%	44.0%	11.5%	1.4%	0.5%
Latvia	2.9	26.2%	56.7%	34.8%	7.2%	0.4%	0.9%
Lithuania	3.7	23.8%	4.3%	88.4%	5.9%	1.3%	0.1%
Luxembourg	3.1	11.6%	34.7%	49.0%	15.4%	0.8%	0.1%
Malta	0.0	1.0%	0.0%	92.1%	7.9%	0.0%	0.0%
Netherlands	99.6	29.5%	10.3%	72.1%	13.8%	2.2%	1.5%
Poland	68.6	33.5%	32.5%	58.7%	7.3%	1.2%	0.4%
Portugal	12.2	13.9%	42.4%	32.3%	17.2%	2.8%	5.3%
Romania	16.5	25.3%	10.4%	81.3%	6.7%	1.6%	0.0%
Slovakia	6.5	18.0%	7.0%	76.0%	15.5%	0.9%	0.7%
Slovenia	3.7	18.8%	41.3%	39.1%	17.8%	0.5%	1.3%
Sweden	115.3	48.7%	54.7%	33.6%	9.2%	1.5%	1.1%
United Kingdom	221.5	23.5%	17.8%	65.2%	14.7%	0.9%	1.4%
EU28	2458.2	34.4%	42.1%	43.3%	11.5%	1.2%	2.0%
Local government alone	*1698.1*	*23.7%*	*37.4%*	*47.3%*	*13.1%*	*1.4%*	*0.9%*

Source: OECD (2019).

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