



CEMR analysis
**COVID-19's impact
on local and regional finances**

“The situation in Europe’s towns, cities and regions is critical. In several countries, local councils are at risk of not being able to ensure the services they have to provide or, worse still, of being in an illegal situation when the national law forbids them from engaging in deficit spending.

In these circumstances, it is more important than ever that the voice of local and regional governments be heard by national and European authorities, and that they are partners in decisions on recovery policies that affect local economies and citizens. The recovery process will fail if it does not fully take on board Europe’s local and regional governments.”

Flo Clucas
Councillor of Cheltenham (UK)
CEMR spokesperson on local finances



Executive summary

The Council of European Municipalities and Regions (CEMR) conducted a survey in May 2020 to better understand COVID-19's impact on local and regional governments' finances. The picture that emerges from the survey's results is not a pretty one: local and regional governments in Europe are facing both significant increases in expenditures and significant losses in income.

The rise in expenditures is mainly due to the purchase of protective equipment for civil servants, the most exposed workers and the population, the costs of implementing the lockdowns and protection measures, and social support for the most vulnerable.

Concerning the loss of sources of income, the majority of associations point to a fall in tax revenues from personal income taxes and taxes on businesses as a result of the halt or drastic slowdown of economic activity. However, the impact can vary greatly depending on the region or municipality's economic profile (e.g. tourism or industry).

National governments have, with few exceptions, not yet provided support to local and regional governments to better cope with these increased expenses and decreased incomes. Overall, it is still too early to know the exact extent of the financial pressures on local and regional governments. Central governments may be waiting for a more accurate assessment of the situation before providing support. When support has been provided at this stage appears to be insufficient.

Support from each level of government (regional, national, European) will be vital for some municipalities and regions. The examples presented in this paper could serve as inspiration for the adoption of further measures to support local and regional governments.

The European Commission's recovery package must support municipalities and regions. In particular, parts of the new Recovery and Resilience Facility and Cohesion Funds should be made directly available at local and regional level. If not, we fear that COVID-19 could have a very serious impact on local and regional governments' ability to invest in the future, in a context of already low subnational public investment in Europe, as compared with other regions and with levels before the 2009 financial crisis.

I. What is the impact of COVID-19 on subnational finances? – May 2020

The COVID-19 pandemic is having a strong impact on local and regional governments, which are at the frontline in facing the crisis. Indeed, they are playing an essential role in safeguarding citizens' health and preserving the continuity of public services. From the economic point of view, this is having significant consequences for their budgets, both in terms of the new costs they have to cover and the loss of income experienced due to the lockdown and the halt of economic activities. This situation could have longer-term consequences, in particular on jeopardising local and regional governments' ability to invest for sustainable development in the coming years. To avoid this, it is vital that they receive support to mitigate their financial difficulties as soon as possible.

In this context, CEMR launched on 5 May a survey to identify in more detail the budgetary difficulties faced by local and regional governments in these trying times and draw a more complete picture of the economic challenges they are experiencing. The survey asked the following questions:

Q1. Significant costs are faced by local/regional governments due to COVID-related tasks: YES/NO?

- If YES, has national government given special financial assistance, was it sufficient?

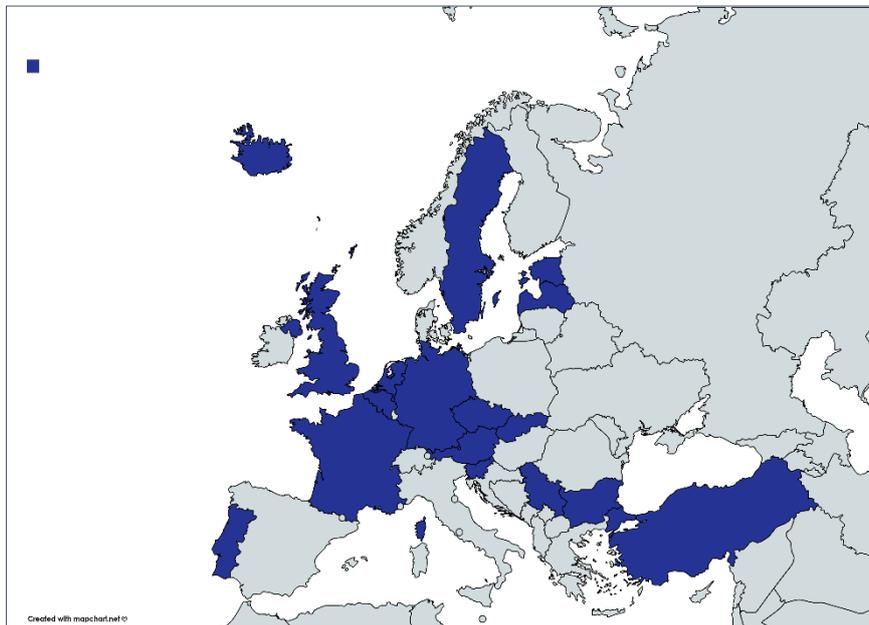
Q2. There has been a significant loss of income: YES/NO?

If YES,

- in which areas: (i) tax revenues; (ii) municipal companies; (iii) cultural/sporting institutions; (iv) other.
- has the national government given special financial assistance to cover lost income, if so was it sufficient?

As of 1 June 2020, CEMR had received **21 answers** from **17 countries**: **Austria** (Austrian association of municipalities, Austrian Association of Cities and Towns), **Belgium** (VVSG, UVCW), **Bulgaria** (NAMRB), **the Czech Republic** (Union of Towns and Municipalities of the Czech Republic), **Estonia** (Association of Estonian Cities and Municipalities), **France** (AFFCRE), **Germany** (DSTGB, DST), **Iceland** (SAMBAND), **Latvia** (LALRG), **the Netherlands** (VNG), **Portugal** (ANMP), **Serbia** (SCTM), **Slovakia** (ZMOS), **Slovenia** (Association of urban municipalities of Slovenia), **Sweden** (SALAR), **Turkey** (UMT), and **the United Kingdom** (LGA, COSLA).

Additional information could also be found on the CEMR extranet (for Hungary) or through reports available online (such as from Spain's Spanish Independent Authority for Fiscal Responsibility¹). The answers were collected during May 2020. This analysis has also benefited from additional inputs gathered during the 14 May meeting of CEMR's expert group on local finances, as well as research drawn from available publications. As knowledge and estimations of the COVID-19 crisis' impact on subnational finances are still changing, this analysis provides a snapshot of the situation at the beginning of the summer of 2020. It could later be updated if the need arises.



The answers to the survey emphasise that it is still too early to have a clear view of the exact impact and scale of additional costs or losses resulting from this situation, especially as some European countries are only beginning to slowly lift lockdown measures.

¹ <https://www.airef.es/es/centro-documental/informe-sobre-la-actualizacion-del-programa-de-estabilidad-ape-2020-2021/>

All national associations of local and regional governments are in dialogue with their central/regional governments on possible support measures. However, few countries had adopted measures to support local and regional governments at the time of this survey.

The data and figures appearing in this paper are estimates provided by CEMR members, either obtained from national expert analysis, official ministry information or directly from local and regional governments. Finally, the examples of measures put in place by local and regional governments provided below are not exhaustive. When we mention that a particular measure has been taken by a country, this does not mean that no other countries have adopted such measures.

1. Local and regional governments face significant increases in expenditure

In the first question of the survey, we asked whether local and regional governments are taking on significant costs due to COVID-related tasks. All the answers we received confirmed that this is the case. In particular, several respondents² mentioned the high **costs for protective equipment** (in particular, the costs related to providing masks for the population, municipal staff and local public services staff, health professionals, gel and disinfectant products in massive quantities, tests, etc.) **and other hygienic measures** (cleaning, sanitising and disinfecting streets, public spaces, municipal vehicles, containers and waste collection vehicles, etc.)

Responsibility for health services varies in each country. For instance, in some countries, hospitals can be under the responsibility of a local or regional government (e.g. municipal hospitals in Germany), which had to purchase costly protective equipment and postpone non-urgent life-saving operations. Furthermore, in some countries³, municipalities contributed not only to buying protective equipment for staff and the general public, but also directly supported hospitals and health institutions.

Many local and regional governments⁴ provided stronger **social support** to residents. Portuguese municipalities for instance quickly implemented a vast and diversified set of exceptional and individual measures to support families, non-profit entities and companies. Examples of such social measures in different countries include:

- Provision of meals and home deliveries of food and medicines
- Psychological support
- Emergency funds for most vulnerable populations
- Accommodation for health professionals and isolated persons, homeless people reception centres with improved hygienic measures
- Provision of digital technological means for distance learning to students and of educational establishments to host the children of workers in essential services and professions

Other answers also pointed to other costs municipalities and regions had to cover, such as:

- Costs related to the cancellation of many events, including shows and festivals until the end of summer or even into autumn; local governments have to take on expenses related to agreed contracts without the expected revenue (France).
- Costs related to the implementation of anti-coronavirus measures such as the closure of all public venues and new methods of waste management, among others (Slovenia, Bulgaria).
- Support for local businesses, independent workers or non-profit associations in the field of social support, cultural or sport activities (Belgium, Portugal).
- Support for municipal police and public officials to ensure the enforcement of lockdown and physical distancing measures (Belgium, Bulgaria).

² Slovenia, Germany, Portugal, Turkey, France, Belgium, Bulgaria.

³ Portugal, Belgium, Bulgaria.

⁴ France, Portugal, Germany, Bulgaria.

- Increased public communication to inform the public of measures being applied in their municipality, as well as to encourage citizens to come back to city centres at the end of the lockdown. (Belgium).
- Expansion of regular public services (e.g. in Scotland all Councils are providing death registration services seven days a week and on bank holidays).
- Compensation for municipal transport companies (Bulgaria).
- Additional investments in teleworking infrastructure (laptops, secure video conference systems, etc.).

Without downplaying the scale of these additional costs, the Association of Flemish Cities and Municipalities (VVSG, Belgium) also highlighted the various possible savings: reduced energy and operating costs for buildings and services closed due to the lockdown, reduction in overtime pay for cultural staff due to the halt of all cultural activities and lower wage growth due to falling inflation. In its matrix of financial risks⁵, the Union of Cities and Municipalities of Wallonia (UVCW, Belgium) however points to a possible increase in overtime work after the lockdown to make up for possible delays (e.g. for planning or environmental permissions), as well as risk of possible demands for compensation for the non-fulfilment of public procurement contracts.

Some associations⁶ highlighted the fact the impact has differed between municipalities in the same country. This is due to differences of size, population and of the range of services that these cities or municipalities offer. In most cases, bigger cities are expected to face higher expenditures due to the range of services provided and the more numerous populations, while smaller municipalities could face less drastic increases in spending.

We generally see a significant increase in unexpected expenditures. Local and regional governments have to face new demands for additional health and sanitary measures in a context where delivering normal services is already more costly. A first analysis, from Spain estimates an increase in expenditure of over 3% for municipalities. For France, the cost of 8 weeks of lockdown are estimated to reach 120 billion euros (of which 70 billion is borne by public finances, 40 billion by the private sector and 11 billion by households). In Bulgaria, the total cost for municipalities is over €3 million 1 March-31 April 2020 alone and the expected amount needed to cover these costs running up the end of June 2020 is around €9.2 million. These answers confirm that throughout Europe local and regional governments were truly on the frontline of the COVID-19 crisis, taking action in its health, social and economic dimensions.

2. Central governments' support is still rare and insufficient to cover the extra costs

The survey results show that up to now most **national governments are not providing financial help to cover the costs faced by municipalities and regions. Where such support does exist, it is not deemed sufficient.** In particular:

Three associations answered that their government has not yet granted any financial help (Iceland, Turkey, Bulgaria).

In some countries there seemed to be a possibility (promises from the government) of such measures, but these have yet to be defined or delivered:

- In **Slovenia**, financial measures for municipalities were included in two separate “anti-corona laws”. They include an increase in financing for municipalities. The system for financing municipalities is based on a complex formula, of which the agreed upon average sum per inhabitant is the most important part. The government raised this figure from €589/inhabitant to

⁵ <http://www.uvcw.be/actualites/2,129,1,0,8780.htm>

⁶ Czech Republic, Serbia

€624/inhabitant, meaning roughly €70 million more financing for all municipalities. However, the Association of Urban Municipalities of Slovenia (ZMOS) indicates that this will not be sufficient, in particular for bigger municipalities to cover the costs of all the tasks that are prescribed by law. The state budget should cover the running costs of public services that were not performed during the epidemic, however there are issues with interpretation of this article of the “anti-corona law” as it is still not clear which are the public services or who are all the beneficiaries. It is not clear for example whether it includes kindergartens and whether it will cover 100% of the costs or just a portion. To obtain these clarifications the association is in regular contact with government officials and ministries.

The national government is also supporting employers that receive no more than 70% of their income from public funds. They will receive funds from the state budget to cover the expenses of payrolls and insurances for employees on furlough (which is equal to 80% of employees’ standard pay) – but only a small part of municipal public companies will be eligible for this measure. Finally, the state is providing welcome support to cover the cost of private kindergartens, which normally receive 85% funding from municipalities.

- In **France**, the national government has announced that specific decisions for local and regional governments will be taken in autumn when preparing the 2021 budget. It had already agreed to finance 50% of the purchases of masks by municipalities and regions.
- In **Sweden**, the national government has promised compensation for certain additional costs due to the pandemic. It is however still too early to provide an overall picture of the economic consequences for municipalities and it is still unclear whether the state will cover municipalities’ additional costs or reduced income, in addition to what has been promised by the government for health and social care.

In some cases, financial help has been provided but it may not be sufficient for covering the costs:

- In the **United Kingdom**, the national government has provided approximately €3.5 billion⁷ (in two injections) of new funding to local government in England to tackle coronavirus, as well as liquidity measures aimed at improving cash flow worth over €6.7 billion⁸. There is already some feedback on the initial €1.8 billion⁹ allocation that seems to have been mostly spent on adult social care (which is in line with the national government’s approach to the distribution of the funding although it is appreciated that these funds are not to be ringfenced and that councils will be able to spend this on local priorities and pressures). Elsewhere in the UK, the UK Treasury sent what is known as “consequential” that are disbursed by the three devolved governments. Scotland’s consequential COVID funding is worth approximately €4.1 million¹⁰. Around 56% of that allocation is planned for health and social care.
- In **Belgium** support can come from the regional level, for instance the regional Flemish government provides extra funding for day care (care for the children of parents who are working in essential professions). But not all extra costs incurred by COVID-19 and the lockdown are covered.
- In **Austria**, at the end of May, the federal government announced an investment programme for municipalities for the 2020-2021 period¹¹ with a focus on green and sustainable infrastructure. The funding volume will be €1 billion for two years, which equals one quarter of municipalities’ annual investment volume and comes with a 50% co-financing rate. Municipalities can top-up their share of co-financing with other sources of funding. However, financial support from the federal

⁷ £3.2 billion, converted in euros with https://ec.europa.eu/info/funding-tenders/how-eu-funding-works/information-contractors-and-beneficiaries/exchange-rate-infoeuro_en 8 June 2020.

⁸ £6 billion, converted in euros with: see above.

⁹ £1.6 billion, converted in euros with: see above.

¹⁰ £3.682 million, converted in euros with: see above.

¹¹ Additional information may be found here: <https://covid-congress-hub.org/en/city/7-austrian-association-of-municipalities.html>

government to remedy liquidity problems is still lacking. Many regional governments have now pledged financial assistance for municipalities (e.g. Tyrol region pledged €70 million to support local services and municipal investment projects, Lower Austria prepared a package worth €836,5 million containing measures to improve liquidity and cash flow, Styria supports green investment and sustains liquidity).

- In **Slovakia**, the ministry of social affairs approved support to stabilise the network of kindergartens, which should also ensure the maintenance of jobs in kindergartens. To support kindergartens, €90 million is to be transferred from the Operational Programme. A financial instrument has also been created for small and medium-sized enterprises. Under this financial instrument, employers who maintain jobs in times of crisis are entitled to a wage allowance of equal to 80% of the employee's average salary. Communal companies – which are completely or partially owned by local governments – and other public sector employers are however not eligible for this support. The ministry has promised to include extend coverage to communal companies but the Association of Towns and Communities of Slovakia (ZMOS) is still waiting for an official approval of this measure.

In some case, financial help coming from central government is still operational and is positively perceived by our members:

- In **Estonia**, €30 million in support for day-to-day operations and €30 million in support for the improvement of local roads were allocated directly to local governments from the supplementary state budget. In addition, €70 million were also allocated for local governments to support investments and small projects. The Association of Estonian Cities (ELVL) considers that this measure will certainly contribute to the revitalisation of the economy and business at local level and will make it possible to promote the optimal and regionally-balanced development of the local living environment.
- We can also note the case of **Scotland** in the UK, where the Scottish government made available a €390-million-¹² communities support package. The Scottish government also agreed to pass around €172 million¹³ from the UK national government directly to local councils, accepting the request from the Convention of Scottish Local Authorities (COSLA). The Scottish government has also agreed to underwrite the additional costs of death registration expanded services for up to approximately 668,000 euros¹⁴.
- In the case of **Germany**, the governing coalition unveiled a stimulus package (targeted measures totalling €130 billion) on 3 June 2020.¹⁵ The federal level will raise its financing share for municipal costs of housing and heating for benefits claimants by 25% (representing additional financial relief of around €4 billion each year for the local level). To support local public transport, the federal government will provide an extra subsidy of €2.5 billion. In addition, there are several investment programs, some of which are designated to be used by the municipalities.

In some cases, **other types of help** are provided by the central government to compensate the additional costs faced by local and regional governments. These include extended deadlines for payments, to facilitate the payment of loans, and the speeding of various procedures, including contracting, so that municipalities can avoid liquidity problems (Slovenia, Portugal, Belgium, Turkey). In most of the federal states in Austria, local authorities are being granted relief when taking out loans. In the Czech Republic, the national government tried to redistribute as much as possible and provide the necessary materials (protective equipment, disinfectant, etc.) to municipalities and regions.

¹² £350 million, converted in euros with: see above.

¹³ £155 million, converted in euros with: see above.

¹⁴ £600,000, converted in euros with: see above.

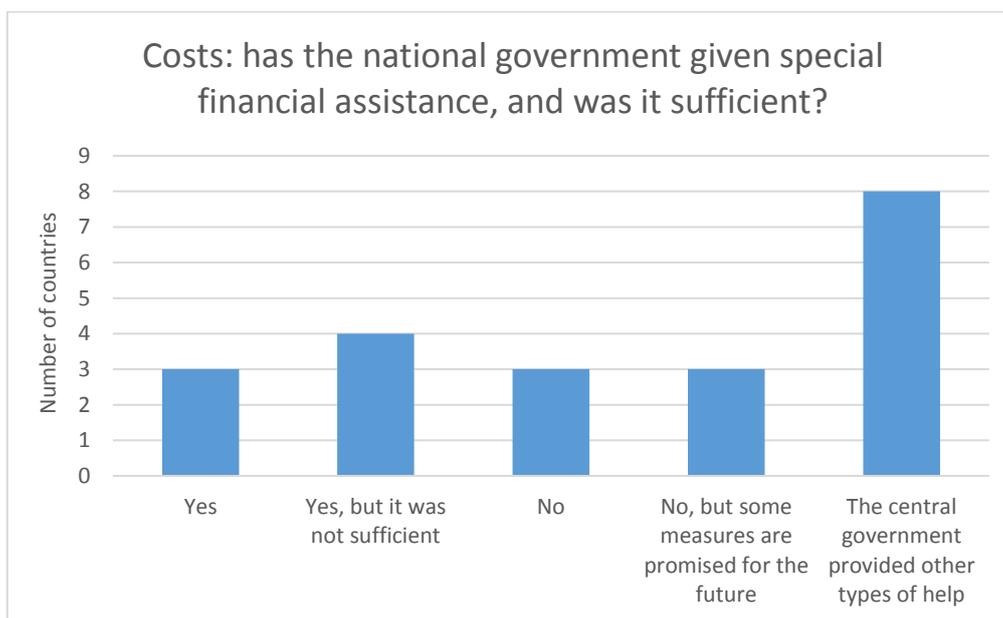
¹⁵ Information on the German fiscal package:

<https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Topics/Public-Finances/Articles/2020-06-04-fiscal-package.html>

Assistance from the central government was also sent to the most affected areas. In France, the government has authorised local and regional governments to allocate exceptional bonuses for staff mobilised during the lockdown. The recommendations from the National Association of Municipalities in the Republic of Bulgaria (NAMRB) concerning the enhanced flexibility and higher level of liquidity for municipal budgets during the crisis period have been adopted in the amendments of the Healthcare Act.

These include: no claims for the attachment of municipal bank accounts will be enforced for two months after the end of the state of emergency, state-issued interest-free loans until the end of 2020 for anti-epidemic measures implemented by municipalities, the possibility of using transfers left over from the “winter maintenance” budgetary item, use of deductions accumulated under the Waste Maintenance Act for 2020, etc.

Most associations seem to be in regular exchange with the central government so as to inform them on the impact of COVID-19 on municipalities and regions’ finances and to try to find possible solutions.



3. Significant losses of income are also expected in most countries

The second question of the survey concerned the loss of income for local and regional governments. In general, even if some associations¹⁶ stated that it is still **too early to provide a general assessment**, almost all associations¹⁷ confirmed that municipalities and regions are facing **significant losses of income**.

According to initial assessments, in Austria the fall in municipal revenue is estimated between €900 million and €2 billion, while in Germany a €15.6 billion decrease in municipal tax income is estimated¹⁸. In the UK, the loss of income for the local level represents about two thirds of the financial pressure on local governments. In France, losses could total between 7 and 10% of municipal and regional income in 2020. In Bulgaria there is an average 41% decrease of the income from own sources of revenue, affecting 95% of municipalities. The loss of own revenue for the period March-April 2020, compared to the same period of the previous year, amounts to over 81 million euros, which will lead to an 11%

¹⁶ Belgium, Estonia, Serbia

¹⁷ Iceland, Slovenia, Germany, Netherland, Belgium, Portugal, UK, Estonia, Sweden, Turkey, France, Czech Republic, Austria, Slovakia, Bulgaria

¹⁸https://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Steuern/Steuerschaetzungen_und_Steuerinna_hmen/Steuerschaetzung/2020-ergebnisse-157-sitzung-steuerschaetzung-dl.pdf?__blob=publicationFile&v=0

contraction in planned annual revenue. According to expert estimates, by the end of May this year these losses are expected to reach over €100 million.

4. Loss of tax revenue is the primary cause of fallen income

When asked what is the biggest cause of local and regional governments' loss of revenue, almost all associations mentioned "tax revenues". Associations have provided some useful examples to better understand the situation:

- **Germany:** Local authorities' revenue in Germany is made up of three sources: tax revenue, fees contributions and fiscal attributions. The local business tax (*Gewerbesteuer*) contributes significantly. According to the recent tax estimate from May 2020, the local business tax (net) in 2020 will drop by €11.8 billion compared to last year's estimate for 2020. In total, municipal tax losses are estimated at around €15.6 billion. In the runup to the tax estimate, the Association of German Cities (DST) had already made it clear that it is expecting municipalities to face financial burdens of around €20 billion this year due to collapsing tax revenues and rising expenses.
- **Austria:** Municipalities receive 11.8% of federal taxes. Both shared tax revenue as well as own municipal taxes have fallen significantly. Most of the losses of income for cities and municipalities in Austria are due to drops in tax revenues, estimated between €775 million and €1.1 billion for 2020. Municipalities are particularly impacted by unemployment because part-time employees and the unemployed are less subject to local taxes. There are also losses in tourism taxes. Losses for municipalities amounted to 12.4% of shared tax revenue in May and 31.5% in June. Own tax revenue heavily depends on the economic mix within territories. The crisis has hit touristic regions and cities harder than agricultural or industrial regions. The Austrian Association of Municipalities calculates that losses will continue into July (municipalities will lose up to 20% of their monthly revenue). Over the whole year this could amount to €2 billion or 5-6% of yearly revenue (Vienna not included).
- **Czech Republic:** A 20% decrease of municipal income from taxes in 2020 is expected relative to 2019. Tax revenue represents the greatest share of municipalities' income. Most tax revenue is raised via a formula-based redistributed allocation of personal income tax, corporate income tax and value-added tax.
- **Latvia:** A decrease in immovable property tax is expected. While the majority of municipalities have postponed the deadline for the first payment (the tax can be paid in four separate payments during the year), but it is forecasted, that the overall level of payment of this tax will decrease.
- **Slovenia:** Some municipal revenues are based on consumption and services, such as the tourist tax (the amount is set by municipalities, €/per overnight stay of any tourist), a share of the tax on casinos, a tax on property sales (2% of property value), etc. Another important tax revenue for municipalities is the tax on the use of construction land - many municipalities decided to postpone the payment of this tax for 3 months or more, which could cause liquidity issues for some. The size of the tax is set by municipalities for one year and so no changes are possible for 2020. The financing of Slovenian municipalities is connected to the income tax. Due to the economic crisis we expect that the total amount of income tax will be lower which means less financing for municipalities in the coming years (financing for this year is based on the income tax paid last year or the year before last year).
- **Iceland:** Tax revenues will fall significantly. 85% of local governments' revenue comes from own taxes
- **United Kingdom:** There is no a UK-wide municipal finance system but overall drastic losses of council tax have a very significant impact. Losses from council tax and business rates are

estimated to represent 60% of projected income losses. Scottish councils' fees and charges account for 5-10% of gross spending, with council tax accounting for around 17% of councils' spending powers.

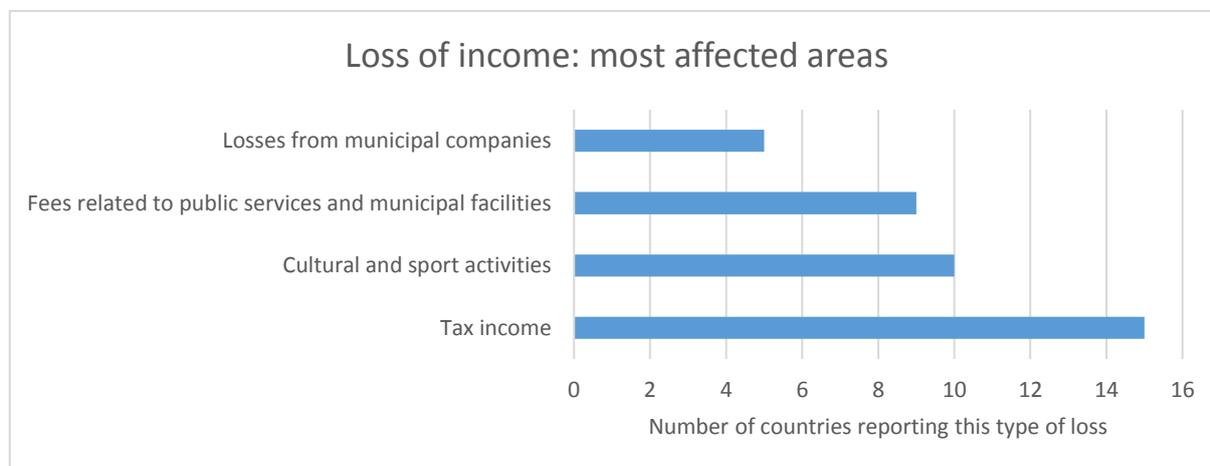
- **Belgium:** Part of municipal income depends on the personal tax declaration of residents and on the property tax. The former will fall in 2021 and 2022.
- **France:** The decrease in economic and commercial activity will have major consequences for local and regional governments (although these are difficult to estimate accurately), in particular because of the impact on local taxes. Different tax revenues benefiting local and regional governments are impacted by the lockdown and the economic crisis, such as: the tax for outermost regions (*octroi de mer*), the real estate transaction tax benefiting departments and the transport tax paid by companies (which could have a significant impact on public transport). In addition, VAT losses will also affect all levels of government (an estimation of the ministry of finance estimates a €10 billion loss). Local retailers are expected to ask for various exemptions from municipal taxes and charges.
- **Slovakia:** Revenues from personal tax Income for 2020 are expected to drop by 7% (this is only one of local governments' shared taxes).
- **Bulgaria:** The bulk of income losses stem from tax revenues. The National Association of Municipalities in the Republic of Bulgaria (NAMRB) provides some data covering the period March and April and, compared to the same period last year, they show that:
 - o Real estate tax: decreased by 51% or €22 million.
 - o Vehicle tax: decreased by 42% or €18 million.
 - o Transaction tax on property acquisition: decreased by 31% or €3.3 million.
 - o Tourist tax (only 3% share of municipal revenues): decreased by 43%.

Other mentioned areas that are experiencing a loss of income or which expected a significant loss of income include:

- Losses of **fees related to public services and municipal facilities**, including transport, kindergartens, swimming pools, extracurricular activities, waste, administrative services, car parks or rental of public spaces (Latvia, Turkey, Germany, UK, France, Netherlands, Belgium, Austria). In Bulgaria, the fall in the waste fee led to a municipal revenue decline of 38% or €28 million. The same applies for other fees:
 - o Use of kindergartens: - 64%
 - o Use of nurseries and other health care facilities: -45%
 - o Use of markets and marketplaces: - 56%
 - o Technical services: - 22%
 - o Administrative services: - 34%
 - o Other municipal fees: - 35%
- Losses **from municipal companies** when services could not be delivered or to a lesser extent (Slovenia, Iceland, Portugal, Czech Republic, Sweden)
- Losses related **to culture and sport activities**, for instance closing of theatres or museums (Slovenia, Estonia, Iceland, Portugal, UK, Sweden, Czech Republic, Belgium, Germany). This seems particular critical in **Slovakia**: towns and communities expect serious negative impacts in the areas of culture, tourism and sports at local level, which are extremely vulnerable in terms of funding. We fear that not solving them may jeopardise its further functioning. Some of these entities operate as city contributory or budgetary organisations city, and their budget consists of a subsidy from the town and its own revenues, which usually represent a 50% share. Own revenues

are currently completely absent, which may soon result in the insolvency of these entities, putting them in a situation where they will have to resort to redundancies and other measures.

- Delays or suspensions in payments for individuals or small businesses and tax relief authorised by the national government (Belgium, Portugal, Austria)



In **Belgium**, the Association of Flemish Cities and Municipalities (VVSG) noted that local governments are in the first year of a six-year planned budgetary cycle, so they could still at this stage have some margin to adapt their policy plans to COVID-19. In the UK, fees and charges such as leisure services, commercial estates and banking are estimated to represent 40% of the projected losses.

Again, local and regional governments will be differently affected depending on their size, the number of services they offer and their economic profile (e.g. relying on tourism or on industrial activities). The CEMR's French Association (AFCCRE) estimates that 4,000 municipalities could face cash flow difficulties and are considered at risk.

5. Little financial assistance, not sufficient to compensate losses of income

In the survey we also asked whether governments are given special financial assistance to cover lost income and, if so, whether these are sufficient.

Main findings:

In a number of cases¹⁹, no financial assistance has been provided yet from national government. However, **negotiations are in process** and some national governments are in dialogue with the national association of local and regional governments or have already promised help for the future:

- Estonia: Pursuant to the Local Government Financial Management Act, the ministry of finance keeps records of local government revenues and expenditures, and constantly monitors the budgetary position of local governments. The country's summer economic forecast will indicate the financial situation of local governments and whether additional stabilization measures are needed.
- Hungary: On 6 April 2020, the government issued a decree on a Fund for Protection against the Epidemic and a Fund for Economic Protection. These stated that local governments are not

¹⁹ Czech Republic, Iceland, Bulgaria, Austria, Latvia.

entitled in 2020 to receive 40% of the income from taxes motor vehicles, because this amount will transfer to Fund for Protection against the Epidemic

- Portugal: The granting of financial support to municipalities is currently under negotiation. Several measures have been adopted to facilitate the payment of loans and streamline the functioning of agencies and other procedures, including contracting.
- The National Association of Municipalities in the Republic of Bulgaria (NAMRB) is in constant communication with the government looking for solutions to support local authorities' recovery, but so far there are no indications of special financial assistance.

In nine countries, answers mentioned a special finance assistance given by the government or regions:

- Belgium: The regional Flemish government is responsible for local governments' financial status. Income from the regional level therefore remain stable through the Municipal Fund (that will increase yearly by 3.5%) as established by the Flemish government policy framework last year. No additional funding from the national or regional government has been asked for at this stage, especially since the new Flemish government has significantly raised the funding of Flemish municipalities since 2019. The Wallonia region will also compensate some of municipalities' losses for instance the tax relief decided by the federal government will be compensated by a €4 million allocation from the region for municipalities and provinces. However, this support risks being insufficient.
- France: The national government presented on 10 June different measures to support local and regional governments including compensation of important tax revenue losses (based on 2017-2019 average), and state support to local investment ("Dotation the soutien à l'investissement local" – DSIL) will provide up to €1billion for 2020-2021.
- Turkey: The government has given special salary support to municipal companies where such companies have stopped operating. For example, if a municipal company operates a restaurant, the government now pays salary support for non-working employees.
- Slovenia: For now, the government is not interfering in municipal taxes. Revenues based on consumption and services will fall sharply and the government will not compensate municipalities for this loss of income.
- UK: The government has given some assistance²⁰, but it is not deemed sufficient to cover the extent of income losses.
- Sweden: The Swedish Association of Local Authorities and Regions (SALAR) considers that "the level of increase in general government grants this year is historic. It covers the loss of tax revenue for now."
- Latvia: The forecasted level of the personal income tax in Latvia every year is guaranteed for municipalities by law, thus theoretically also in this COVID-19 situation, although nothing can be certain given the scale of the crisis. The government has declared more room for manoeuvre in implementing these guarantees. No support is planned to compensate the decrease of other kind of income.
- Germany: The governing coalition unveiled a stimulus package (targeted measures totalling €130 billion) on 3 June 2020. The federal and state levels will cover the income loss of the municipal business tax in 2020 (approximately €12 billion). Regarding kindergarten fees, most of the *Länder* take on (parts of) the fee losses

²⁰ <https://www.gov.uk/government/news/government-pledges-extra-16-billion-for-councils>

- Serbia: the national government has earmarked significant funds for financial assistance to local and regional government with the budget re-balance adopted in the first week of May. Nevertheless, distribution of these funds to local and regional governments will be decided upon later during the year, when the data on losses become available, and only then will it be evident if the allocated funds are sufficient.

Other types of support to compensate the losses of income are being explored in some countries. For instance, in France local and regional governments are currently receiving some support based on existing tools. A government ordinance adopted 5 May provides an overview of what is possible: local and regional governments can get a cash advance from local and VAT taxes, and from the General Operating Grant (DGF). In addition, they can have investment grant advances for projects supported by a national financial scheme. The next spending bill will be presented together with an economic recovery plan in September, which could provide more clarity for local and regional support.

In some countries, the situation raises questions on whether local and regional governments could even go bankrupt or be in a situation breaching the law. For instance, in Spain, the Fiscal Stability Law implementing the EU Fiscal Compact states that municipalities must not run a deficit. The Spanish Independent Authority for Fiscal Responsibility warns that the situation will make it difficult to comply with this law.

II. Some general estimates

Some first estimates are starting to be calculated:

- United Kingdom: The total projected financial pressure for the years 2020-2021 in England arising from the impact of COVID-19, including cost pressures, lost income and savings opportunities, would amount to between 3 to 4 times the €3.5 billion²¹ that has been allocated by Government so far. Even if councils used all their unallocated reserves, this would only cover up to half of the remaining shortfall on average.
- France: The estimated impact for local and regional governments would be of €14 billion in 2020 and 2021, and of about €20 billion for the period 2020-2022.
- Spain: The 8,000 municipalities could go from a surplus of 0.3% of GDP in 2019 to 0% of GDP in 2020, in the least adverse scenario, and a deficit of -0.1% of GDP, in the most adverse scenario.

Can local and regional governments go bankrupt?

The question was raised during the meeting of the CEMR expert group on local finances on 14 May 2020 and here were some of the answers.

In France, Flanders and Wallonia it is impossible to go bankrupt. The same is true in Portugal where there is a fund to help municipalities in the worst financial situations (50% of the money from the central government and 50% from all 308 municipalities).

In Austria municipalities cannot go bankrupt but highly indebted municipalities can be put under supervision by the regional authority.

In the UK if municipalities are at risk, the government sends in a team to sort the finances out. However, this time, it seems many councils would face difficulties which really raises questions on how the situation will be dealt with. There would be so many in that situation it would be impossible to do.

In Latvia municipalities cannot go bankrupt, but the state could undertake a so-called financial stabilisation procedure. Overall debt level for municipalities is low.

In Estonia local governments cannot go bankrupt, there is a special department in the ministry of finance which monitors the financial situation of local governments.

In Czech Republic, municipalities cannot go bankrupt, but in recent years, this possibility has been under discussion.

III. Conclusions

Although it is still too early to obtain definitive estimates of the impact of the COVID-19 crisis on local and regional governments' finances, the above findings clearly outline a worrying picture. In many countries the situation is critical and support from central (or regional) governments, and possibly from the European Union, will be absolutely vital for the continuation of public services in some cities and municipalities.

Not only does the impact vary depending on the size of the city or municipality, but we should also consider the different levels of subnational government and their competences²². Thus, in the UK for instance different types of council will face **different kinds of pressure**. District councils are more exposed to losses of income, while county councils are dealing primarily with cost pressures in areas such as adult social care and children's services. Unitary councils are facing a mix of both, but each council is unique.

Similarly, the survey's results suggest the different ways local and regional governments are financed throughout Europe (share of own resources as opposed to state allocations) and this obviously will lead to different impacts on subnational governments' finances.

We fear that, like after the 2009 financial crisis, local and regional governments will need time to recover financially and we can expect a significant reduction in local and regional investments in the coming years – in a context where some countries already suffer from an investment gap. This situation is very problematic as these investments are really needed to put Europe on track to meet its objectives in terms of sustainable development. Local investments are also a key factor for job recovery.

Certainty on sufficient funding and liquidity is vital to ensure that local and regional governments can successfully deliver the best possible response to COVID-19. However, many municipalities and regions already find themselves in a very challenging financial situation.

In this context, it is absolutely vital that support be brought from all levels (regional, national and European) to help cities and municipalities. The examples from some countries could inspire other states to take similar measures. We note that most of the associations representing local and regional governments seem to be in regular contact with their national governments to inform them on estimated costs and losses at local and regional level. Associations are also developing tools to help local and regional governments understand the impact of COVID-19 on subnational finances such as UVCW's matrix [available here](#).

The EU should provide support for local and regional governments. In particular, parts of the new €560 billion Recovery and Resilience Facility and Cohesion Policy Funds should arrive directly at the local and regional level to help municipalities and regions face the financial pressure and become the drivers of sustainable recovery and resilience.

The EU and Member States should also reconsider EU budgetary rules and their impact on local and regional governments' ability to invest.

²² See CEMR publication "[Local and Regional Governments in Europe - Structures and Competences](#)", 2016

Further reading

Publications and articles

- [“Corona crisis hits municipalities: revenues collapse, investments are at risk”](#), KfW Municipal panel 2020
- [“The territorial impact of COVID-19: managing the crisis across levels of government”](#), OECD, 2020
- [CEMR Survey on COVID-19 exit strategies results](#)
- [“Guidance Note for Immediate Responses to the COVID19 Recommended for Local Governments”](#), UNCDF, 2020
- [“Ensuring income and investment in local service provision is critical for global recovery”](#), UCLG Press release, 2020
- [“Local Public Finance in Europe – Country reports”](#), René Geißler, Gerhard Hammerschmid, Christian Raffer (eds.), Bertelsmann Stiftung, September 2019
- [“The economic impact of COVID-19 on the EU: From the frying pan into the fire”](#), EPC, April 2020
- [“The economy and coronavirus: Weekly Picks”](#), Economic Governance Support Unit (EGOV), June 2020
- [“The fiscal response to the economic fallout from the coronavirus”](#), Bruegel, 2020

Useful websites

- Committee of the regions, COVID-19 exchange platform: <https://cor.europa.eu/en/engage/Pages/COVID19-exchangeplatform.aspx>
- UNCDF COVID-19 page: <https://www.uncdf.org/article/5452/covid-19>
- OECD COVID-19 page: <http://www.oecd.org/coronavirus/en>

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- Association of Estonian Cities and Municipalities
- Association of Flemish Cities and Municipalities (VVSG)
- Association of German Cities (DST)
- Association of Local Authorities in Iceland (SAMBAND)
- Association of Netherlands Municipalities (VNG)
- Association of Towns and Communities of Slovakia (ZMOS)
- Association of urban municipalities of Slovenia
- Austrian Association of Cities and Towns
- Austrian association of municipalities
- Authorities in Serbia (SCTM)
- Convention of Scottish Local Authorities (COSLA)
- French Association of the Council of European Municipalities and Regions (AFFCRE)
- German Association of Towns and Municipalities (DSTGB)
- Latvian Association of Local and Regional Governments (LALRG)
- Local Government Association (LGA)
- National Association of Local
- National Association of Municipalities in the Republic of Bulgaria (NAMRB).
- National Association of Portuguese Municipalities (ANMP)
- Swedish Association of Local Authorities and Regions (SKL/SALAR)
- Union of cities and municipalities of Wallonia (UVCW)
- Union of Municipalities of Turkey (UMT)
- Union of Towns and Municipalities of the Czech Republic

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About CEMR

The Council of European Municipalities and Regions (CEMR) is the broadest organisation of local and regional authorities in Europe. Its members are over 60 national associations of municipalities and regions from 41 European countries. Together these associations represent some 130 000 local and regional governments. CEMR's objectives are twofold: to influence European legislation on behalf of local and regional authorities and to provide a platform for exchange between its member associations and their elected officials and experts. Moreover, CEMR is the European section of United Cities and Local Governments (UCLG), the worldwide organisation of local government.

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CEMR

The Council of European Municipalities and Regions is the united voice of Europe's local and regional governments federated through 61 national associations.

CEMR is the European section of United Cities and Local Governments (UCLG), through which it represents European local and regional governments at international level.

Our mission

We promote the construction of a united, peaceful and democratic Europe founded upon local self-government and respect for the principle of subsidiarity.

Founded in
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associations

41
countries

100,000
local and regional
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