

The financial situation of the Belgian local public sector

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ICLC conference

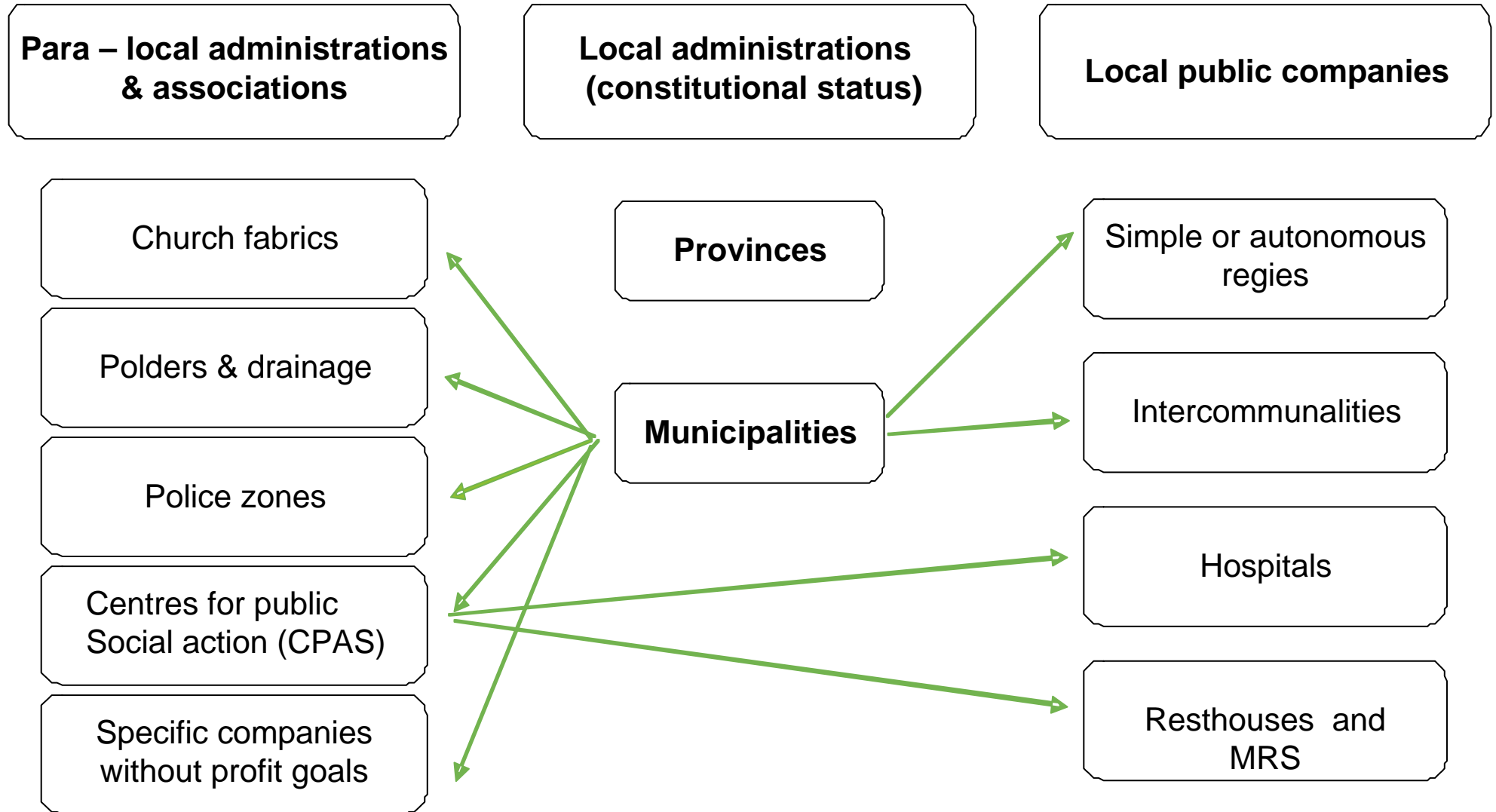
Brussels, October 16, 2009

The financial situation of the Belgian local public sector

- The local authorities : an overview.
- The revenues ;: structural shift ?
- The expenditures : how to limit increase ?
- The financial equilibrium in danger ?
- Conclusion : threats for the future ?

The local authorities : an overview.

Local authorities.



The local authorities : an overview.

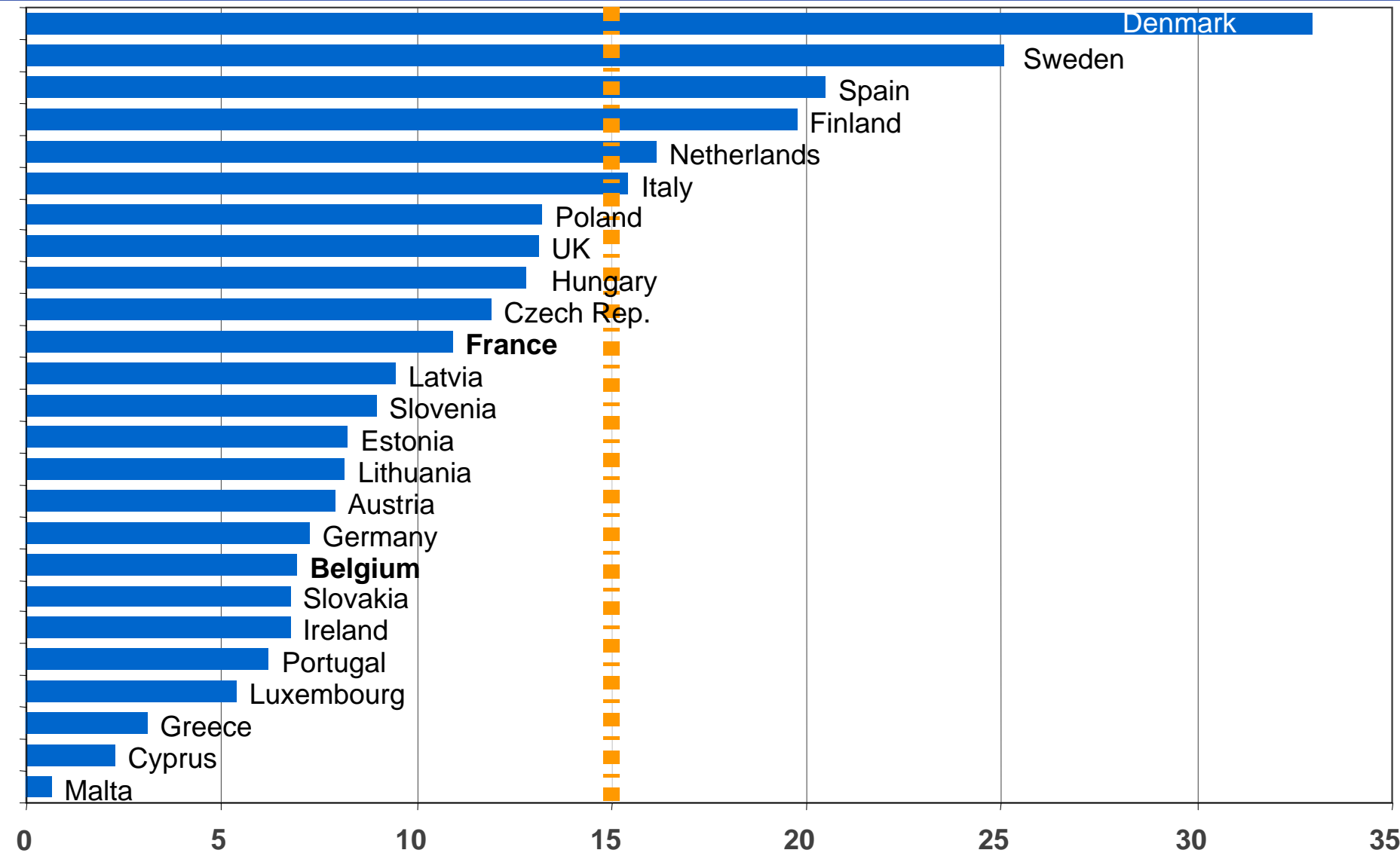
Local authorities.

	Number municipalities	Average population	Average surface (in km ²)	Population Density (nb inhab/ km ²)
Flemish region	308	19.621	43,9	446,9
Walloon region	262	12.962	64,3	201,6
<i>of which Germanspeaking community</i>	9	8.057	94,9	84,9
Brussels region	19	52.897	8,5	6.214,5
Kingdom	589	17.735	51,8	342,2

Merger of municipalities in 1977 : 2.359 → 589 entities

The local authorities : an overview.

Public local expenditures (in% of GDP)..



The local authorities : an overview.

Regulatory environment.

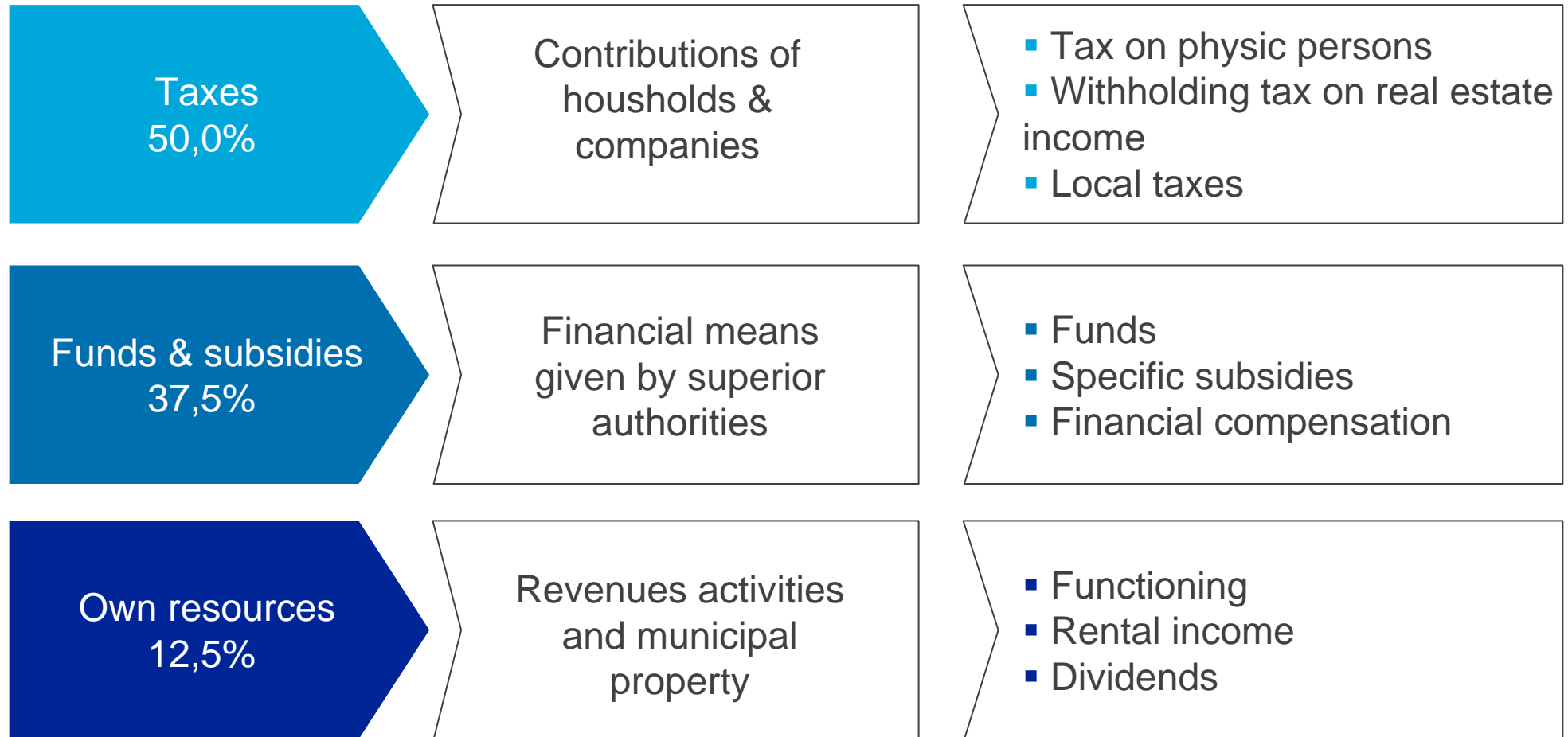
- ❑ Constitutional status
- ❑ Increased competences of regions regarding to local authorities
 - Organic law
 - Supervisory decret
 - Financing (funds of municipalities, subsidised works)
 - Territorial public service
 - Accounting rules

- Important exception **local taxes** given to municipalities and

*Increased
differentiation
between the 3
regions!*

The local authorities : an overview.

Main revenues (budgets 2009).



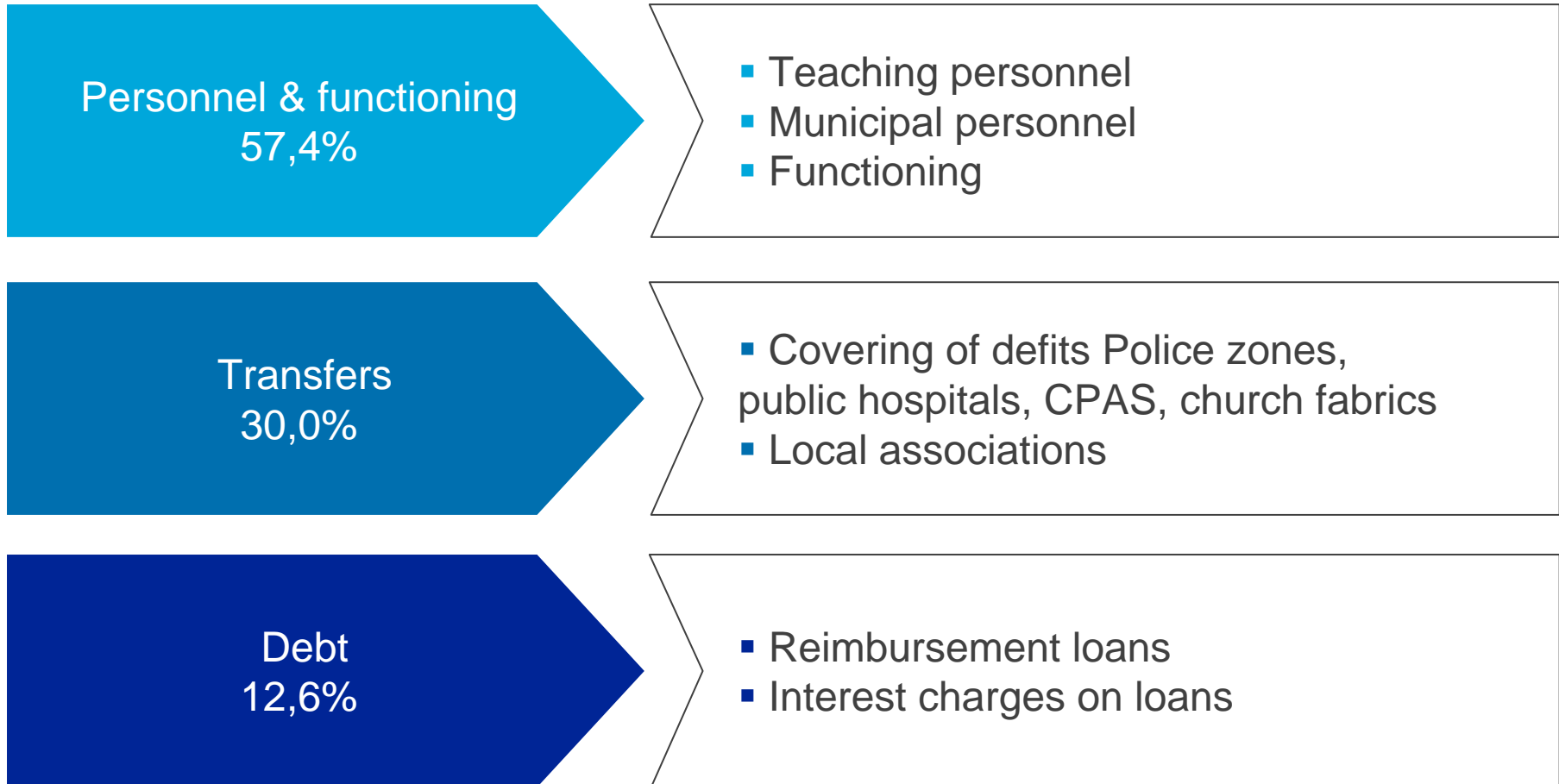
The local authorities : an overview.

Main revenues.

- ❑ **Principal of fiscal autonomy is → only possible restriction (federal law)**
- ❑ **Two important tax categories**
 - **Additional taxes** → + / - 80%
 - **Taxes on income (federal)**
 - **Land tax (region)**
 - **Local taxes** → + / - 20%
 - **Taxes completely fixed by Municipal council**

The local authorities : an overview.

Principal expenditures (budgets 2009).



Case study finances municipalities.

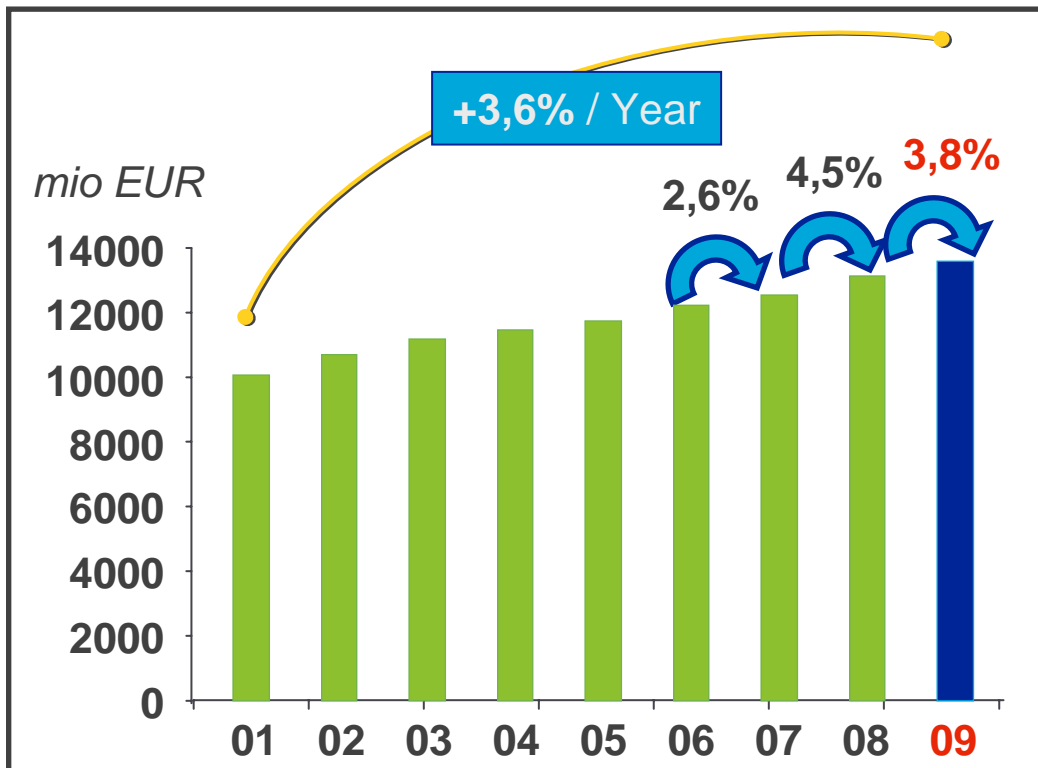
- The local authorities : an overview.
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The revenues : structural shift ?

Ordinary revenues
(budgets 2009)

13 722 mio EUR

1 286 EUR/inhab.



Belgium

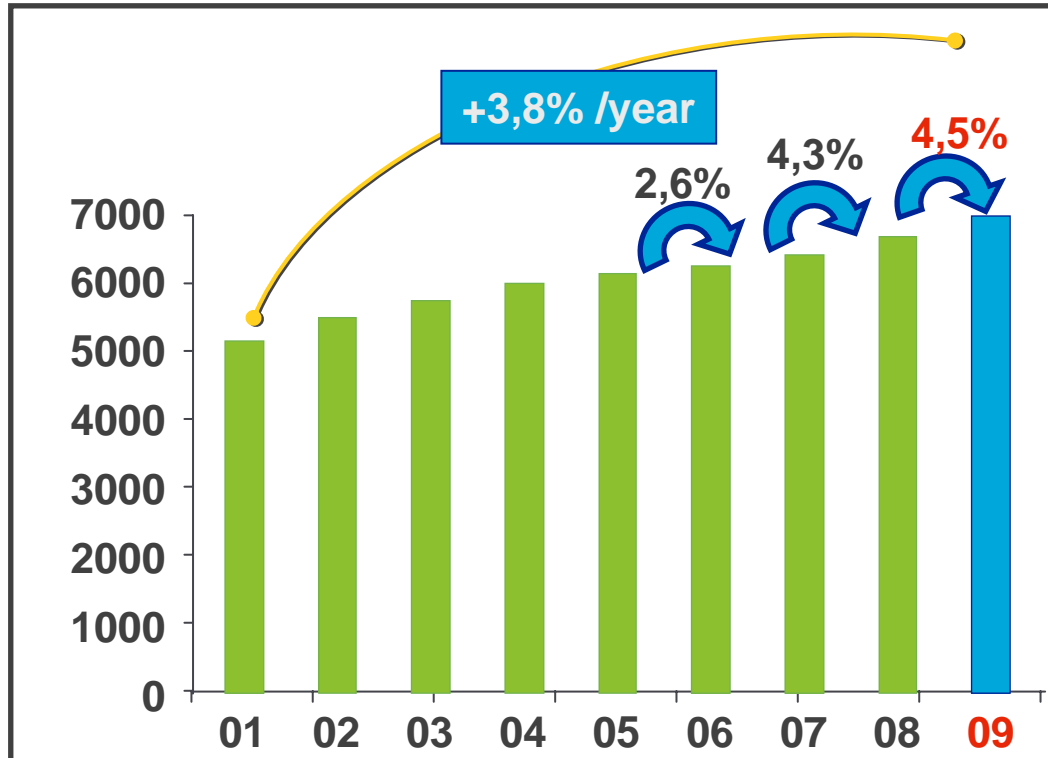
- 2008
Important increase
- 2009
Slowing down

Regional disparities

	%	Flanders	Wallonia	Brussels
2008		5,1	2,6	4,1
2009		4,6	2,7	4,8
'06-09		3,9	2,5	5,0

The revenues : structural shift ?

Taxes <i>(budgets 2009)</i>	6 865 mio EUR
	644 EUR/inhab.
	50 % revenues



2001 - 2004

- Important increase (5,3 % per year > % total revenues)

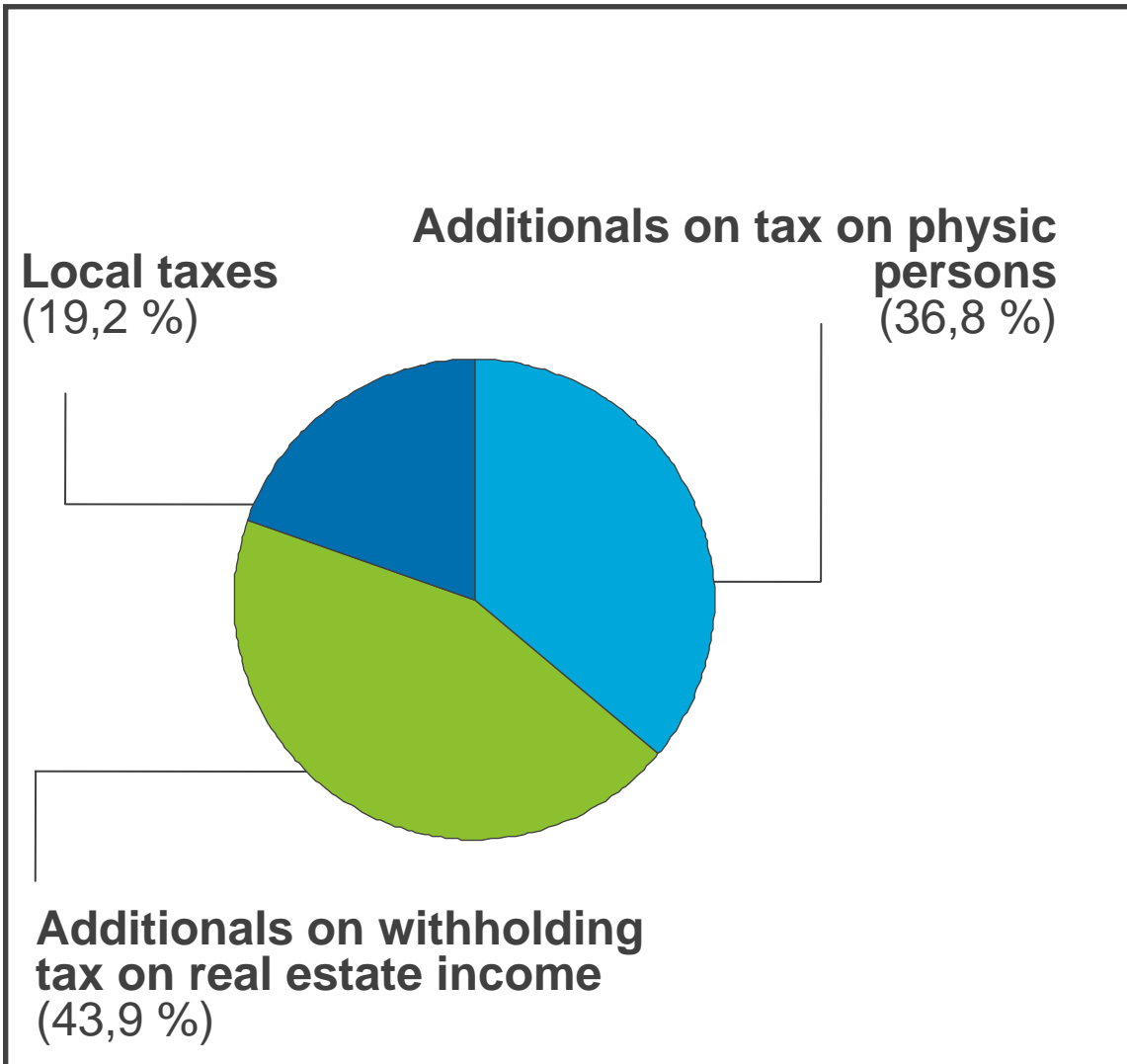
2005 – 2006

- Progressive erosion (impact fiscal reforms) + 2 % per year

2007 - 2009

- Progressive increase

The revenues : structural shift ?

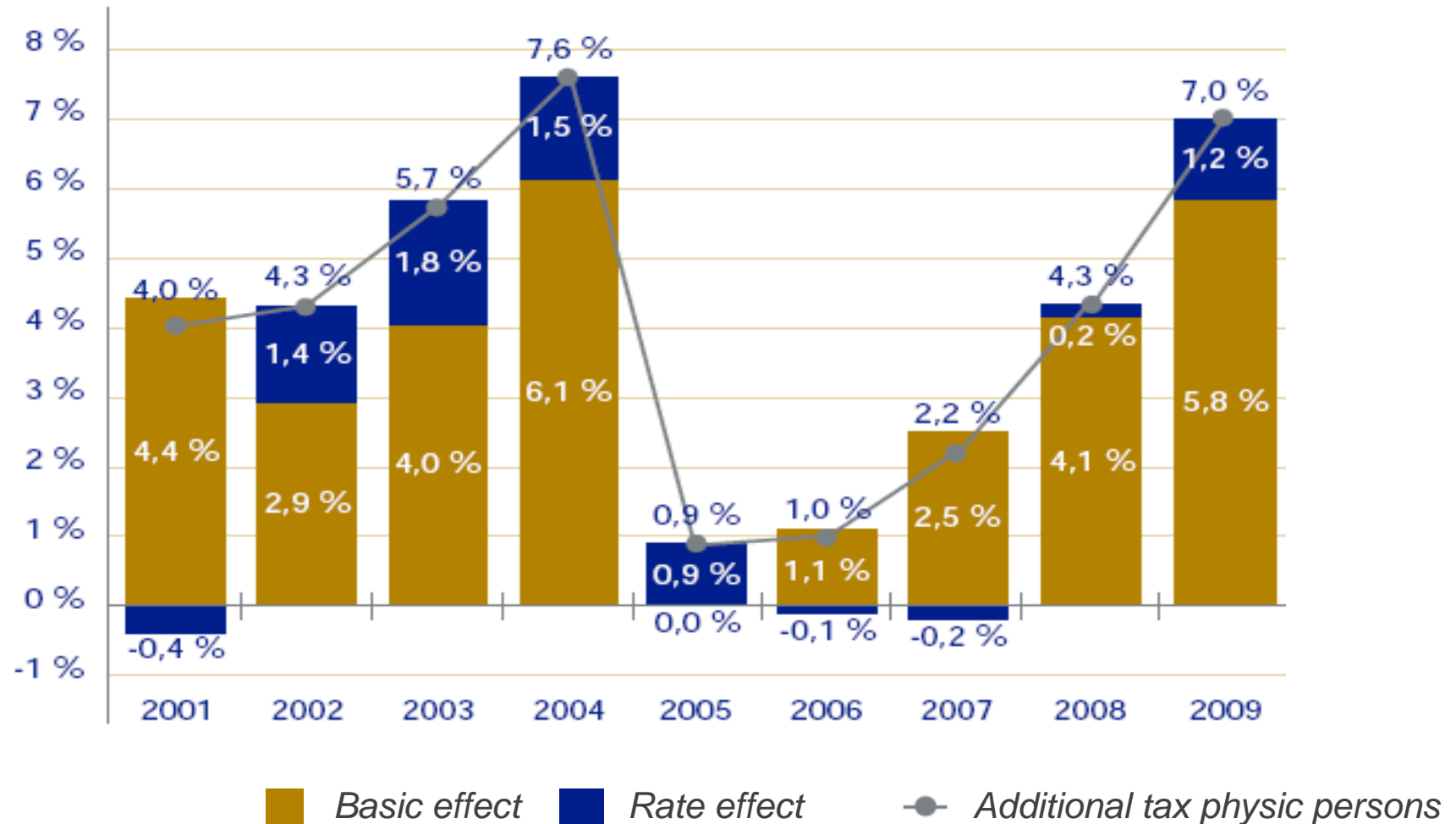


Structure different according to :

- Regions (mainly Brussels)
- Social economic clusters

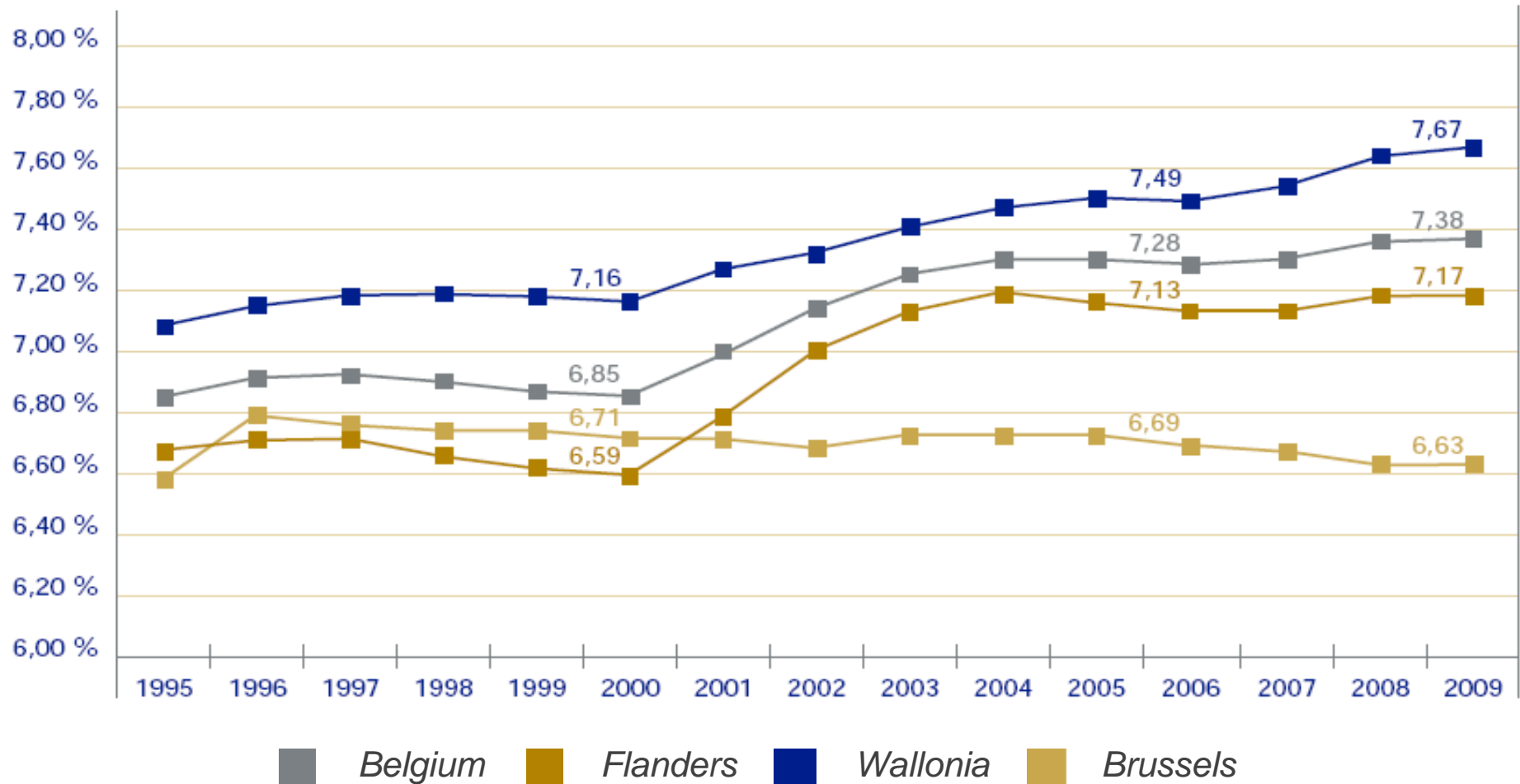
The revenues : structural shift ?

Growth of additional tax physic persons – (Budget 2001 – 2009).



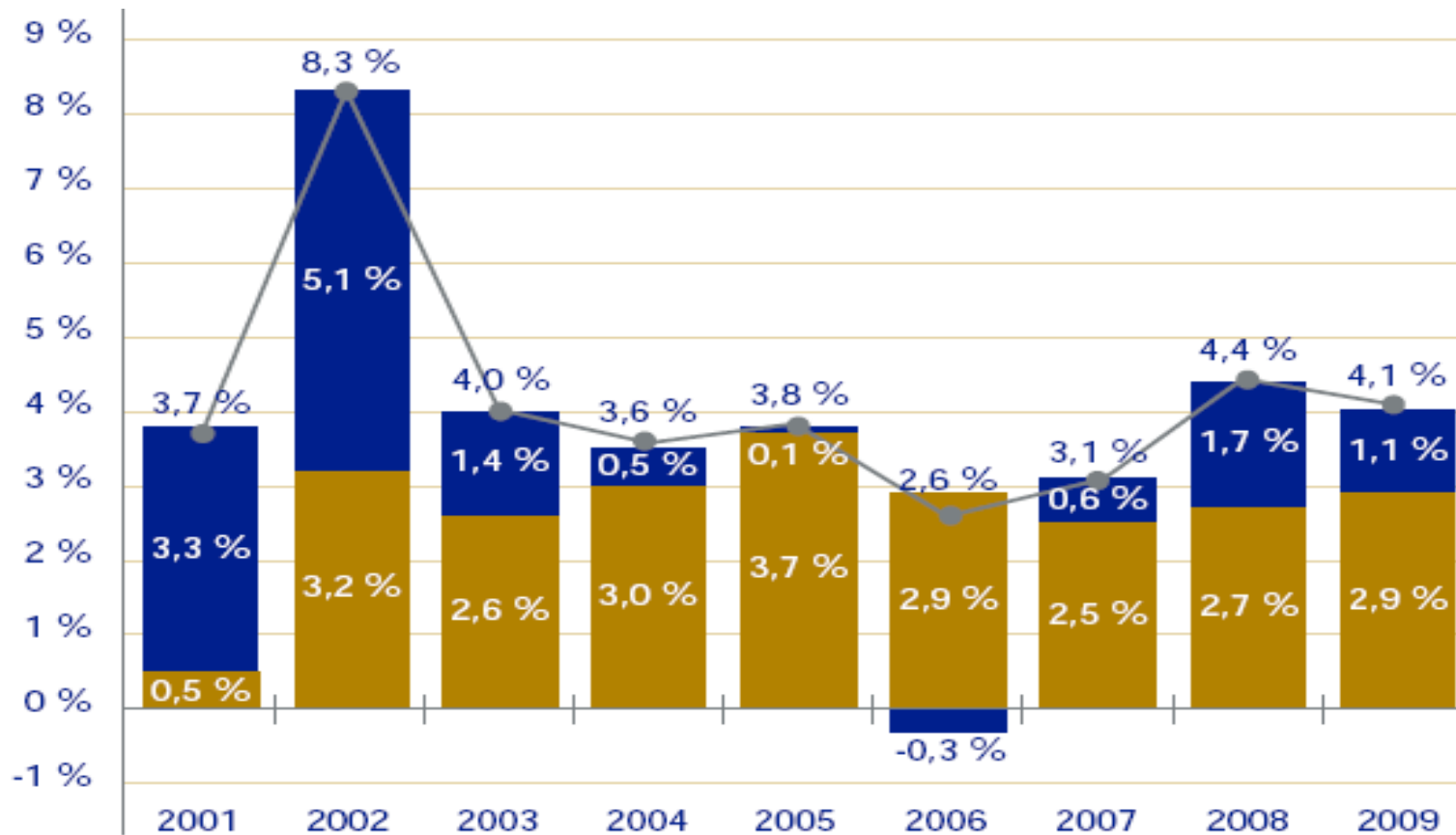
The revenues : structural shift ?

Average additional tax physic persons (1995 – 2009).



The revenues : structural shift ?

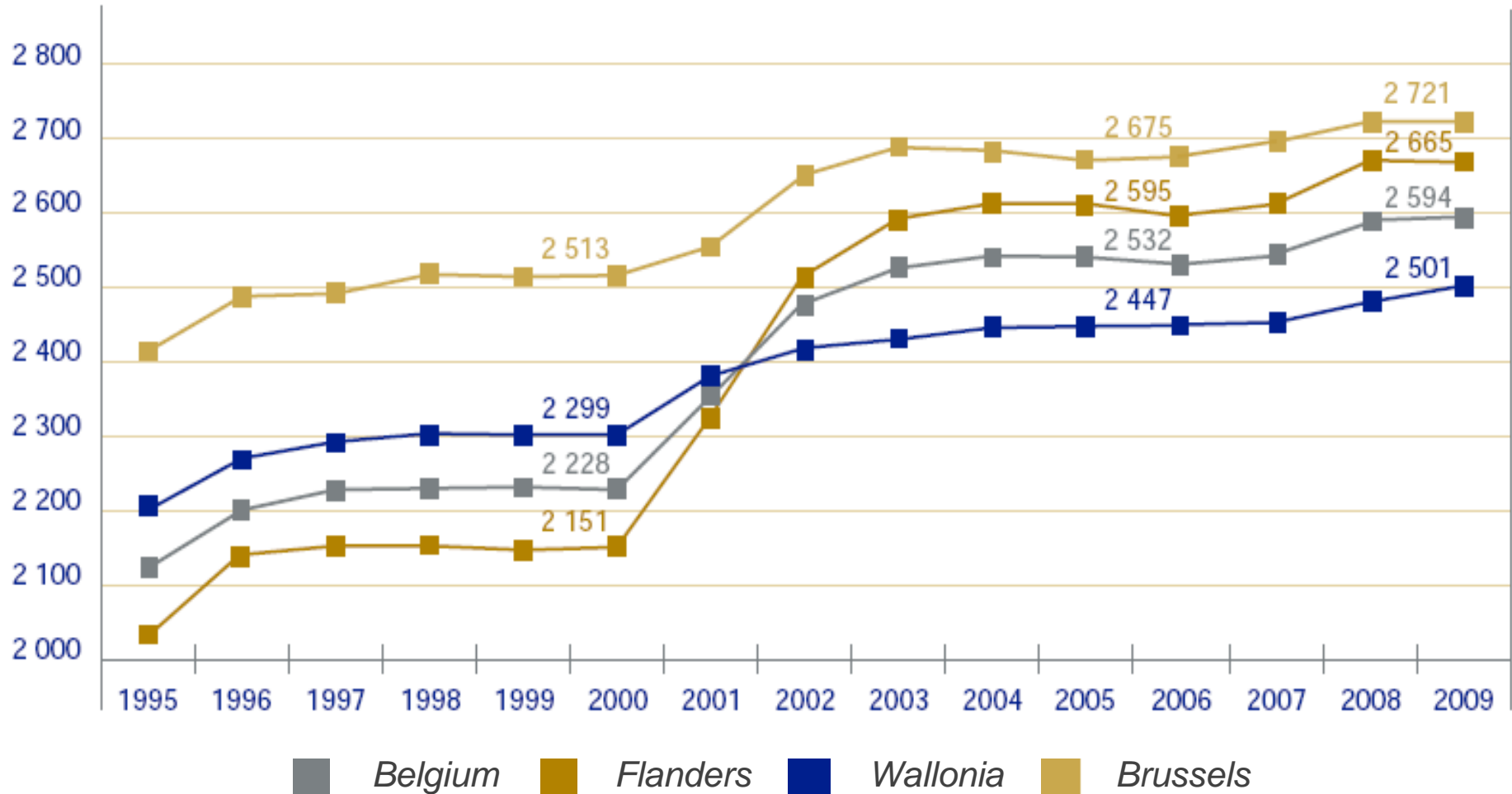
Growth of additional on withholding tax on real estate income – (Budget 2001 – 2009).



■ Basic effect ■ Rate effect ● Growth of additional on withholding tax on real estate income

The revenues : structural shift ?

Average of additional on withholding tax on real estate income (1995 – 2009).



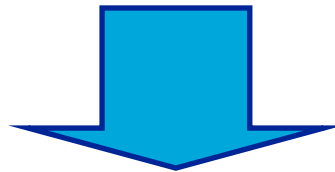
The revenues : structural shift ?

Observations :

- ❑ Part of local taxes and handicap for economic activities (withholding tax, local taxes).
- ❑ Regions modified their tax systems.
- ❑ Regions are competent for financing and organic law but not for taxes (federal).

Objective :

Limitation of progress of local taxes in order to stimulate economic development.

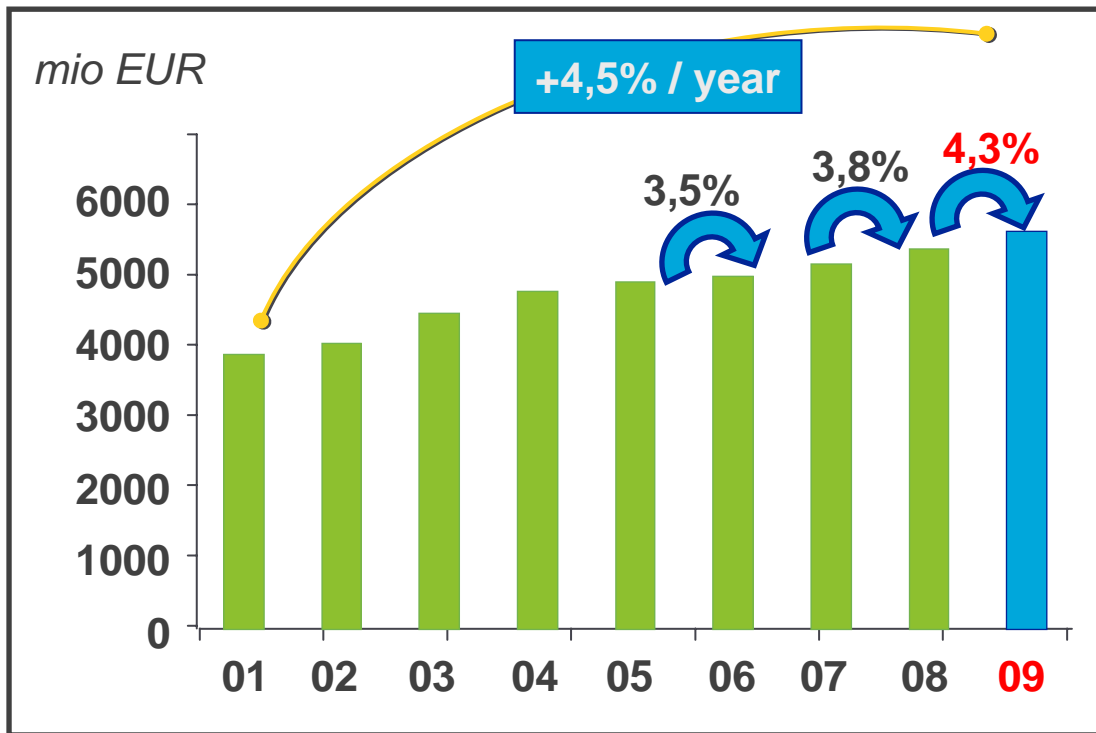


Instrument = “ Fiscal Pact “

Negotiated on contractual formula between the region and the municipalities.

The revenues : structural shift ?

Funds & subsidies <i>(budgets 2009)</i>	5 141 mio EUR
	482 EUR/inhab.
	37,5 % revenues



□ 2001 - 2006

- Increase > total revenues
- Refinancing efforts of regions
 - FL : reform of municipalities funds

- Wal : Tonus plan
- Brus : Lombard agreements

□ 2007 – 2008

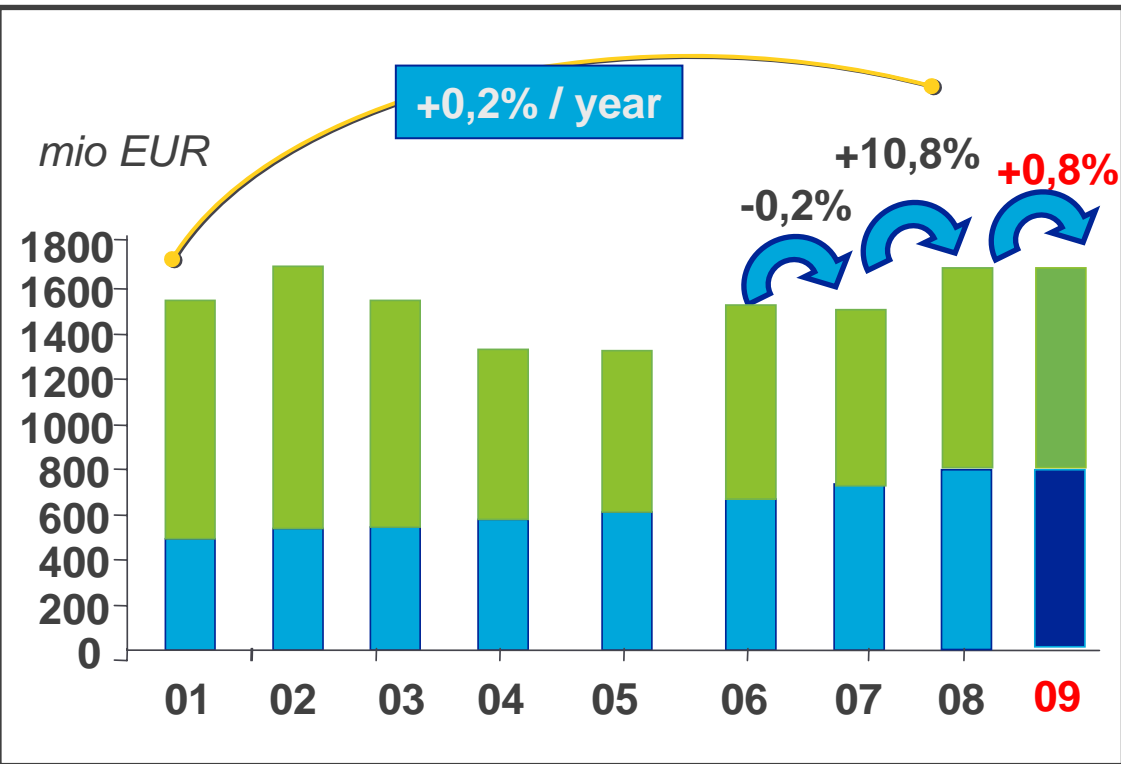
- slowing down (\pm -3%)
 - FL : decrease Elia tax
 - Wal : decrease Tonus plan
 - Brus : sharp increase (> 10%)

□ 2007 - 2009

- Renewed increase
 - FL / Wal / Brus

The revenues : structural shift ?

Own revenues (budgets 2009)	1 715 mio EUR
	159 EUR/inhab.
	12,5 % revenues



Divergent evolution

- Financial products
 - 3,2 % / year (energy div.)
- Achievements
 - + 8,4 % / year (road fee)



Case study finances municipalities.

- The local authorities : an overview.
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- The expenditures : how to limit increase ?
- The financial equilibrium in danger ?
- Conclusion : threats for the future ?

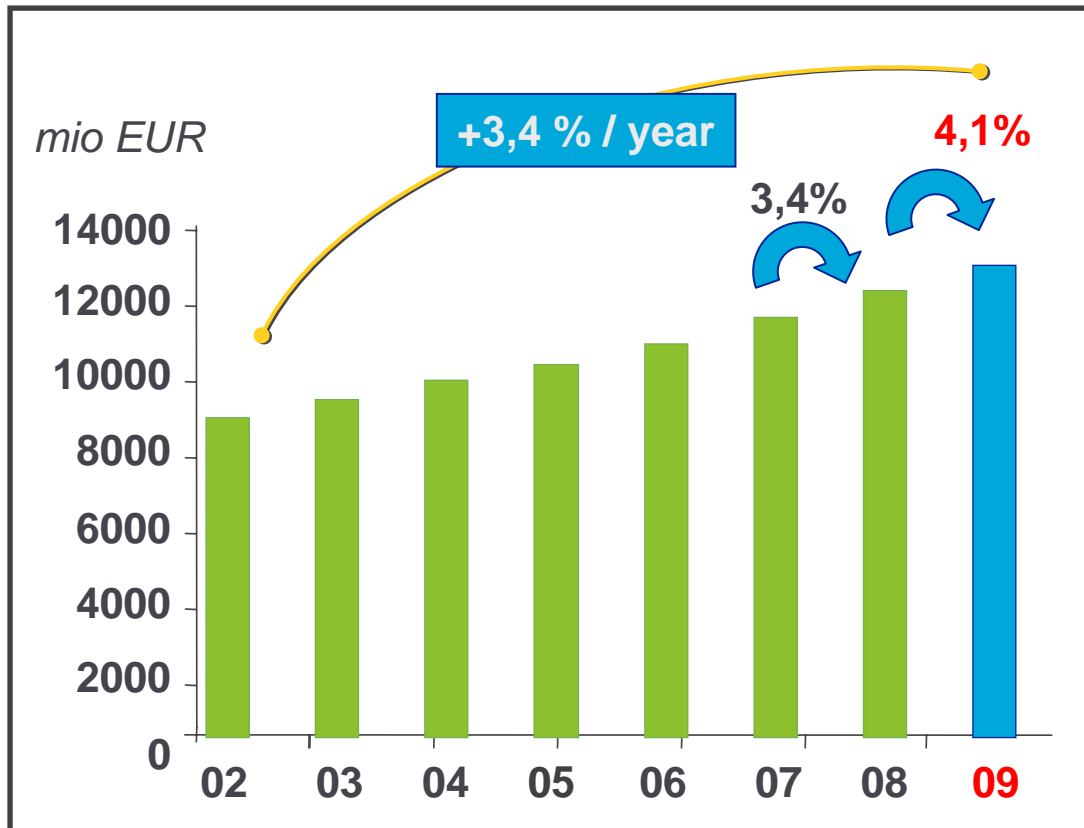
The expenditures : how to limit increase ?

Total ordinary expenditures : evolution 2006 – 2009.

Ordinary expenditures
(budgets 2009)

13 875 mio EUR

1 301 EUR/inhab.



Belgium

- 2009 continuous growth (4,1 %) but < inflation 2008

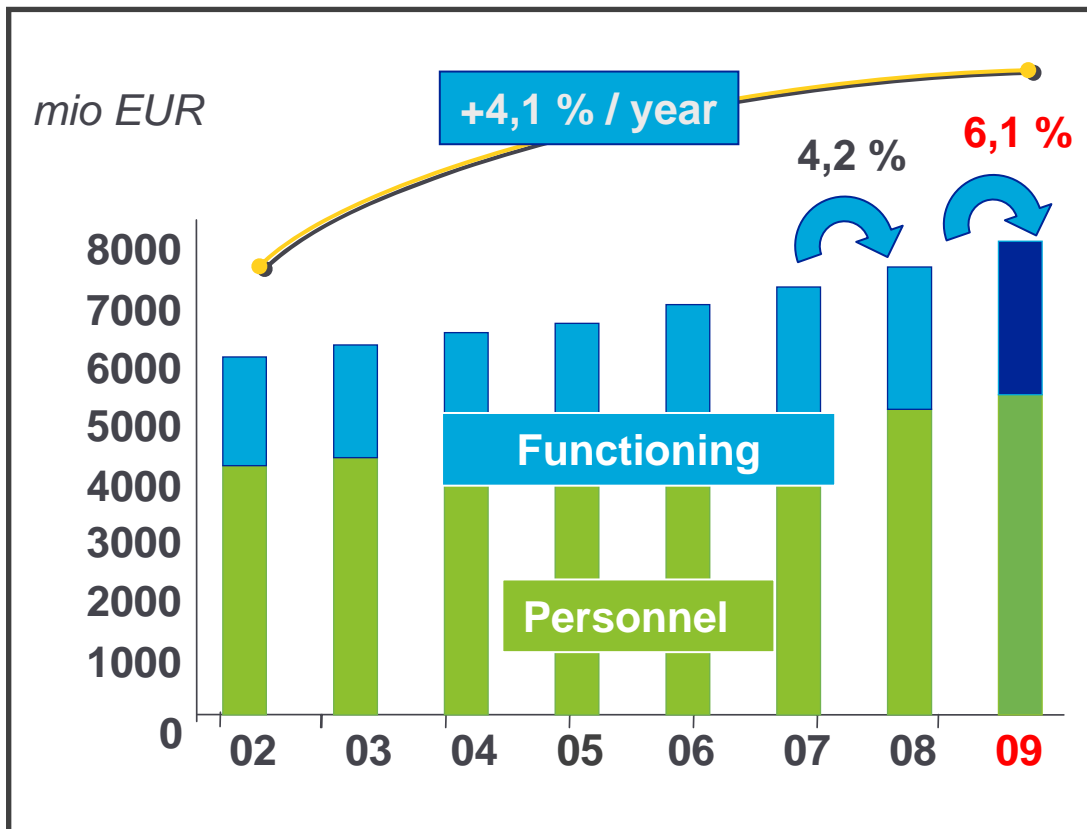
Regional disparities

	%	Flanders	Wallonia	Brussels
2008		4,2	1,9	1,5
2009		5,0	3,1	4,5
'06-09		4,4	2,6	4,2

The expenditures : how to limit increase ?

Personnel & functioning : evolution 2006 – 2009.

Personnel & functioning (budgets 2009)	7 973 mio EUR
	747 EUR/inhab.
	57,4 % expenditures



Personnel

- % increase (08-09) : +5,7 %
→ Three times excess of pivot index in 2008 !

Functioning

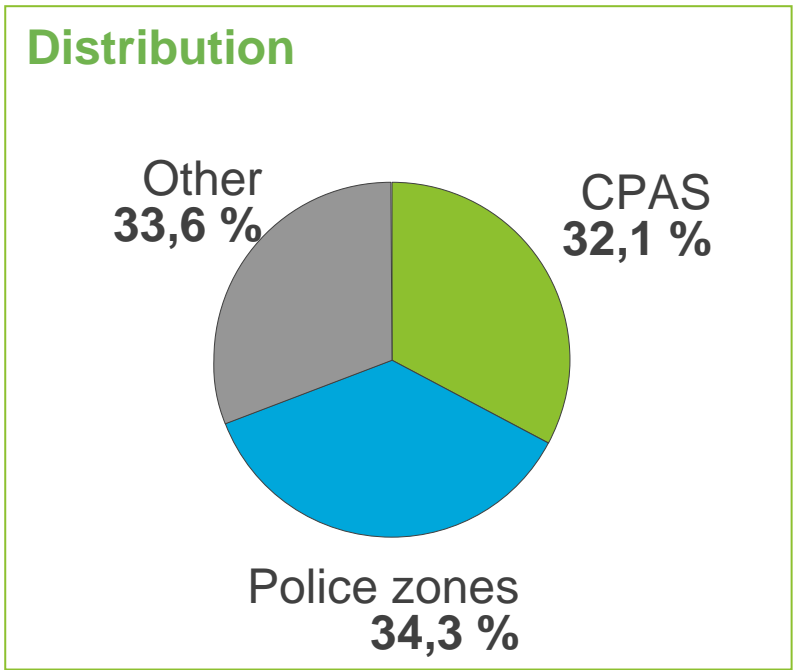
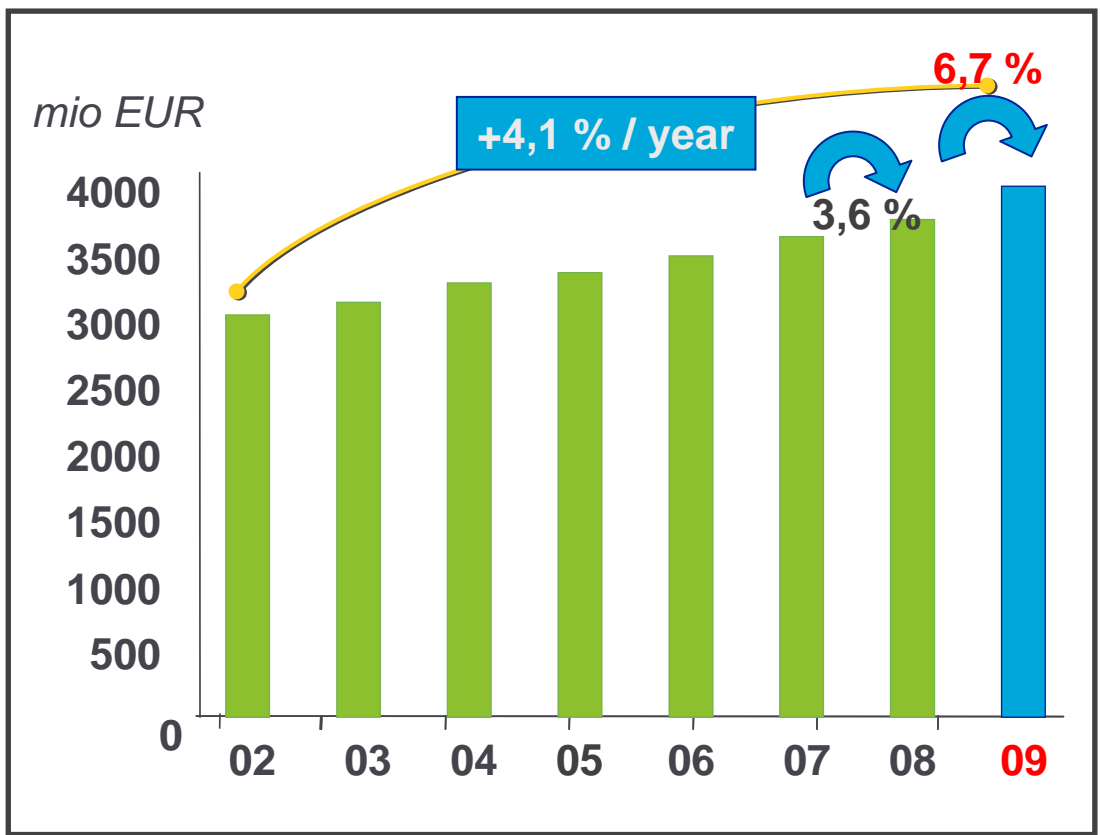
- % increase (08-09) : +7,0 %
→ Increase of energy costs & public lightening

(no doubt overestimated since the strong decrease of the energy prices in 2009)

The expenditures : how to limit increase ?

Personnel & functioning : evolution 2006 – 2009.

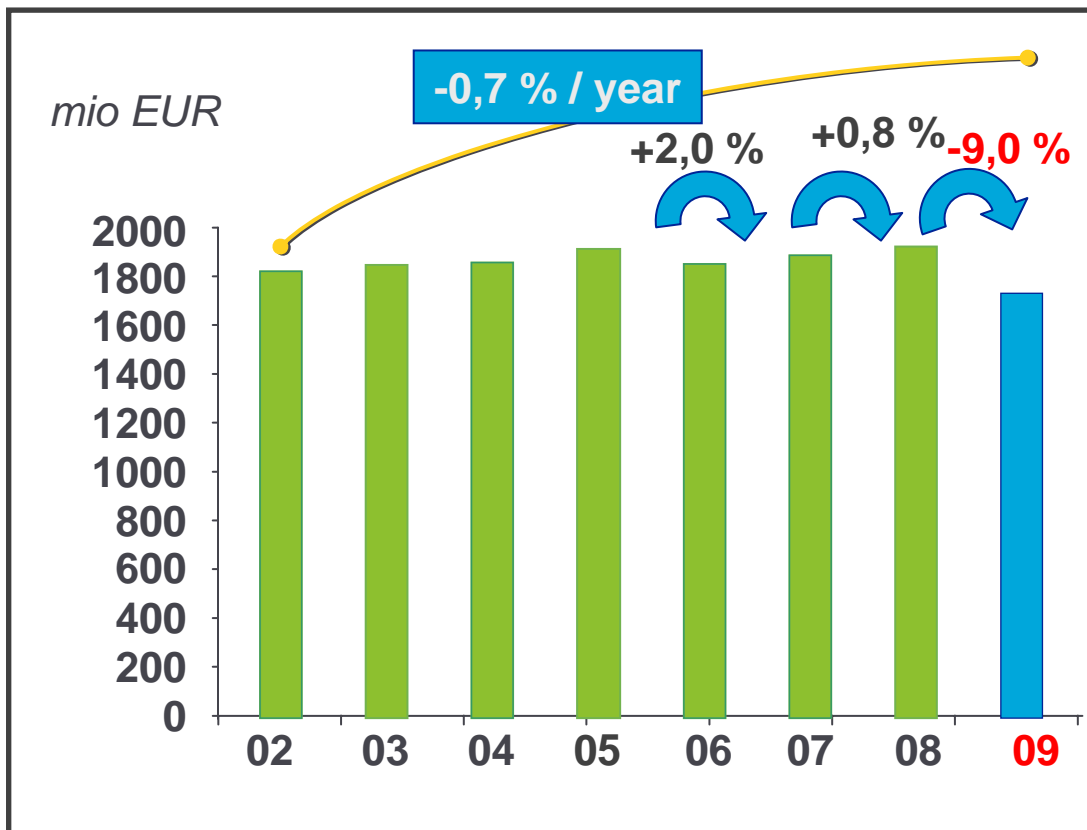
Transferts <i>(budgets 2009)</i>	4 155 mio EUR
	389 EUR/inhab.
	30,0% expenditures



The expenditures : how to limit increase ?

Debt : evolution 2006 – 2009.

Debt <i>(budgets 2009)</i>	1 744 mio EUR
	163 EUR/inhab.
	12,6% expenditures



Regional disparities

%	Flanders	Wallonia	Brussels
2009	- 8,2 %	- 14,0 %	+ 4,2 %

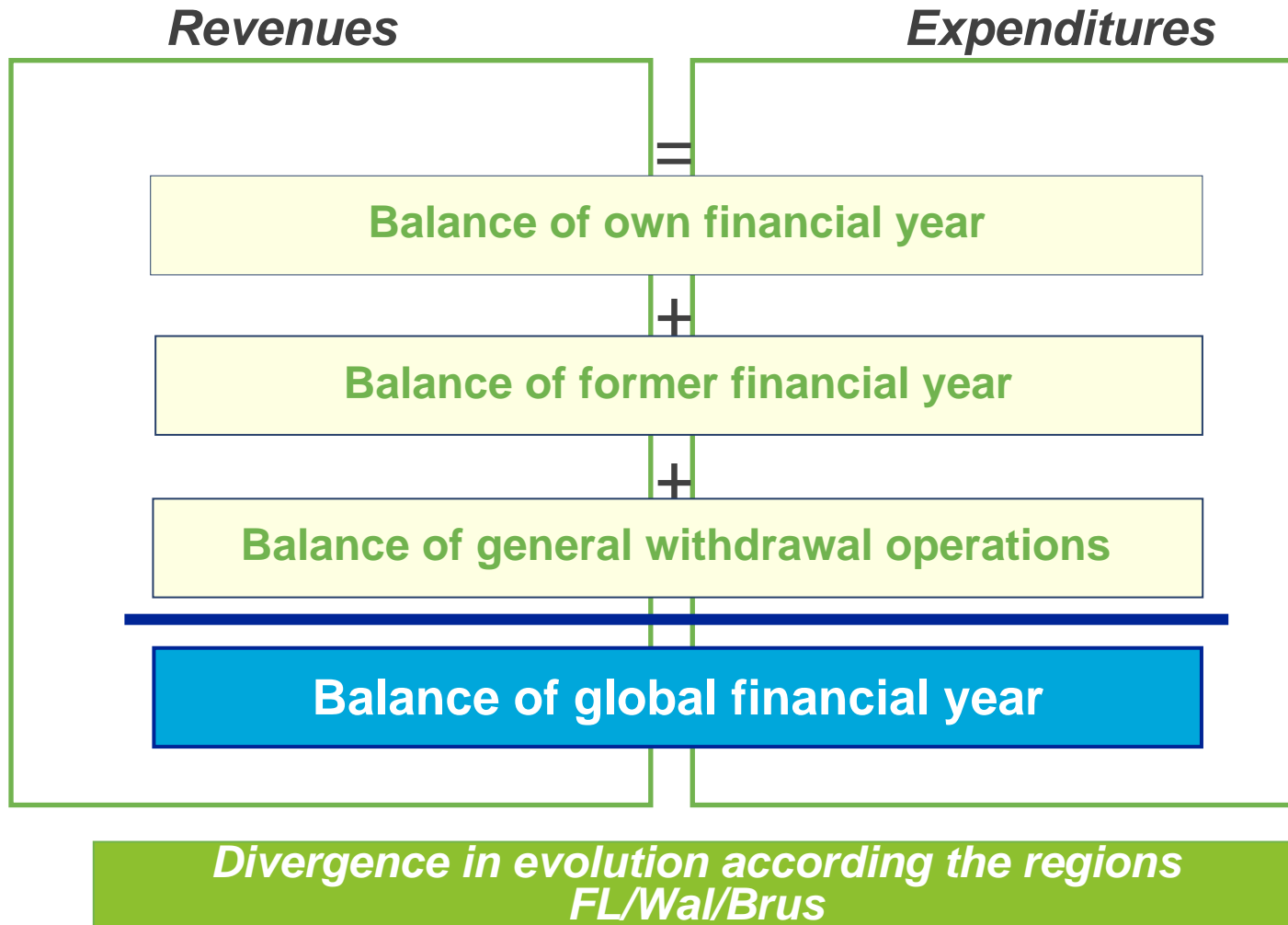
Clear decline of debt

- In Flanders : reimbursement of municipality debt (100 eur/inhab) within the scope of the **Local Pact**
- In Wallonia : taking over of the debt of the big cities linked to the reform of the municipal fund

Case study finances municipalities.

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The financial equilibrium in danger ?

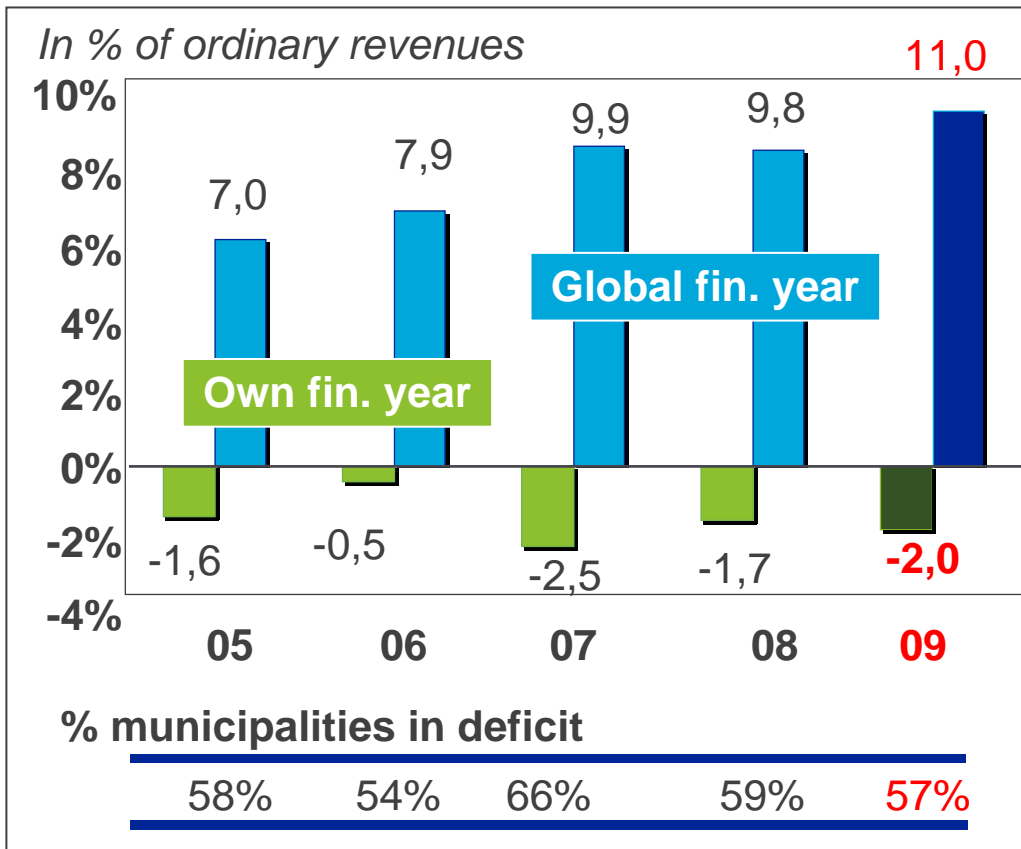


The financial equilibrium in danger ?

Flemish municipalities.

Budgets Flemish municipalities

(budgets 2009)
own fin. y : -159 mio EUR
global fin. Y : 1 048 mio EUR



Own fin. Year :

- Light deterioration compared with 2008
- - 159 mio EUR (-2,0% ord.rev.)
- 57 % municipalities with deficit

Global fin. Year

- Regular improvement
 - divergent evolution of accounts with own fin. year
- Explanation?
 - attractive evolution of accounts (year -2)
 - financial products, exceptional (Telenet, Suez, SPE, ...)

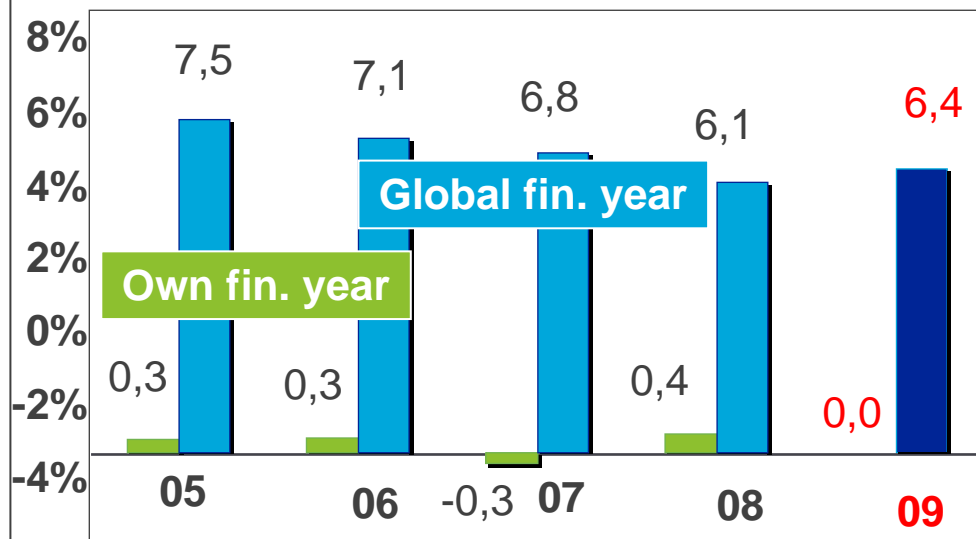
The financial equilibrium in danger ?

Walloon municipalities.

Budgets Walloon municipalities

(budgets 2009)
own fin. y : -1,5 mio EUR
global fin. Y : 293 mio EUR

In % of ordinary revenues



% municipalities in deficit

35% 29% 40% 36% 42%

Own fin. Year :

- Almost in balance (since 2005)
- - 1,5 mio EUR (0,0% ord.rev.)
- 42 % municipalities with deficit
→ highest % since 2005

Global fin. Year

- Decreasing trend
 - stays excessively large
 - slight improvement compared with 2008

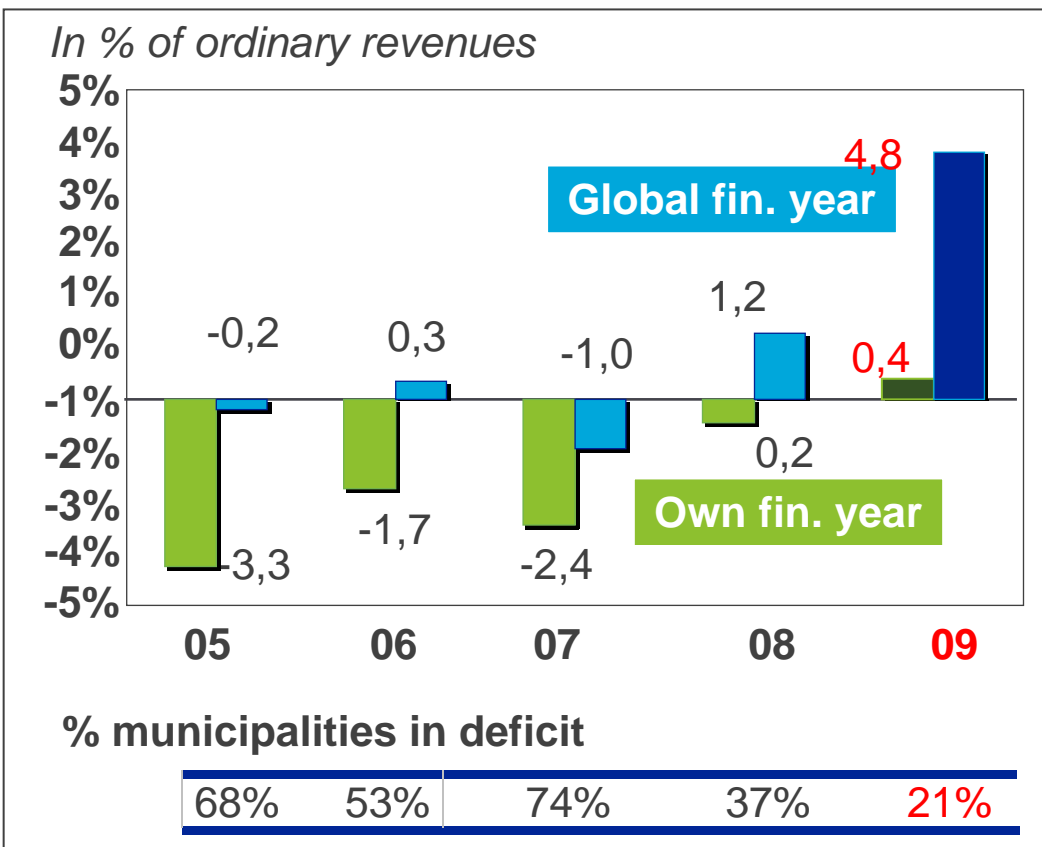
The financial equilibrium in danger ?

Brussels municipalities

Budgets Brussels municipalities

(budgets 2009)

own fin. y : 8 mio EUR
global fin. Y : 91 mio EUR



Own fin. Year :

- Sharp decrease of deficit in 2008 and 2009
 - important regional intervention (2 x 30 mio EUR)
 - - 8 mio EUR (0,4 % ord.rev.)
 - 20 % municipalities with deficit

Global fin. Year

- Difficult situation since 2001
- Clear improvement in 2008 - 09

But still 4 out of 19 municipalities in deficit

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Conclusion : threats for the future ?

- 2009 : impact of financial and economic crisis on the budgets of municipalities.
 - Some effects are already in the initial budgets, but changes are expected
 - Deterioration of the financial situation has been limited thanks to regional help in 2009 (Local Pact in Flanders, Municipalities Funds in Wallonia, help for municipalities in trouble in Brussels).

- Huge uncertainty concerning the budgets and high pressure on the budgets for the coming years.

Conclusion : threats for the future ?

Points “ + “

- Stronger increase of IPP.
- Impact of financial help offered by Regions
 - Flanders : compensation via Local Pact
 - Wallonia : reform Municipalities Fund + complementary measures (debt, pensions)
 - Brussels : financial restructuring fund and tax compensation
- Debtlevel is decreasing, even the debt burden
- Important surplus of balance of global financial year (reserves former years)
- Strong growth investmentprojects (recovery plan ?)

Conclusion : threats for the future ?

Points “ - “

- Increased impact of crisis on future revenues and expenditures (transfers to CPAS, dividend, IPP, ...).
- Strong growth of personnel costs (→ impact on 50 % of budget).
- Regional help do have only a temporarily effect.
- High % municipalities with a deficit for the own financial year.

Conclusion : threats for the future ?

Treats challenges 2009 - 2010

□ Pensions

- Change of the contributions ?
- “Second pillar “ for contracted personnel ?

□ Reform of “ fire “ services ?

- Implementation of the reform in 2010 and 2011 ?
- Impact on the financing ?

□ Deterioration of public finances

- Measures to tackle the deficit ?
- Regional policy of financing local authorities ?

Conclusion : threats for the future ?

Much more other financial challenges.

- Ageing of population
- Waste management (European directive)
- Sustainable development (climate change, energy, ...)
- Public health services (hospitals, resthomes, ...)
- Water distribution and cleaning (European directive)
- E – government
- Financing of police zones
- ...