



MCL-17(2011)15

## **Council of Europe Conference of Ministers responsible for Local and Regional Government**

*17th Session, Kyiv, 3 - 4 November 2011*

**Kyiv Guidelines**

**KYIV GUIDELINES**  
**AGREED BY THE COUNCIL OF EUROPE CONFERENCE OF MINISTERS**  
**RESPONSIBLE FOR LOCAL AND REGIONAL GOVERNMENT**  
**AT ITS 17th SESSION (KYIV, 3-4 NOVEMBER 2011)**

1. The survey of members carried out in preparation of the 16th Session of the Council of Europe Conference of Ministers responsible for local and regional government in Utrecht (The Netherlands) in November 2009 identified main possible policy responses for which more detailed guidelines were adopted in the so-called Utrecht guidelines. In the light of experience gained since 2009, the guidelines have been further developed into those set out below. It is to be stressed that the feasibility and desirability of individual guidelines may vary from country to country and thus are to be seen as range of policy options and not a prescriptive set of measures.

2. The economic crisis has generated a widespread recognition of the need for radical improvements in governance and in the management of public expenditure. Even when the worst of the crisis is over and whilst the means to be deployed will differ over time and vary from place to place, there will be a constant need for increasing efficiency across the whole of the public sector, and hence for greater collaboration between all the stakeholders, central government, local and regional authorities as well as their associations. The aim should be to remove duplication and to drive down costs arising from a lack of co-ordination, integration and flexibility in the delivery of public services, not only to meet the demands of the current fiscal situation, but also to be better placed to address longer term social, economic, demographic and environmental changes the challenges of which will no doubt outlast the crisis. These challenges also place emphasis on the value of partnership with private and social enterprise and the voluntary sector.

3. Above all, the Council of Europe is concerned to protect and enforce the values of local democracy enshrined in the Charter of Local Self-Government and also of social responsibility, embodied in the European Social Charter. Exchanging and sharing information and experience at local, regional, national and international level, as well as the identification of good practices this enables, will be key to achieving success at the earliest possible time.

**I. Council of Europe standards**

4. Any policy response by central government to the impact of economic downturn on local government must be fully compatible with its obligations under the European Charter of Local Self-Government (CETS 122), which recognises that questions as to the financial resources for local authorities are to be determined within a Party's national economic policy.

5. The two recommendations of the Committee of Ministers in the field of local finance: Rec(2004)1 on financial and budgetary management at local and regional levels and Rec(2005)1 on the financial resources of local and regional authorities, offer a powerful and coherent set of guidelines aimed at ensuring a sound local finance system, many of which are ever the more useful in the context of the economic downturn.

## **II. Possible policy responses identified so far**

6. The main options identified so far are:

1. Stabilising local revenue bases;
2. Improving accountability and efficiency;
3. Combating social deprivation;
4. Partnership in delivering public services;
5. Enhancing local flexibility and discretion;
6. Promoting Economic Recovery.

### ***1. Stabilising Local Revenue Bases<sup>1</sup>***

Tax assignments

7. Local budgets are heavily encumbered by regular operating costs. This is particularly the case where they include teachers' salaries, social assistance or medical services, but most pay for basic essential services like road maintenance, waste management, care for the elderly, and water supply. They need relatively stable revenues to sustain these responsibilities.

8. Governments and local authority associations might wish to consider changes in those local revenue bases which depend excessively on shares of highly volatile taxes such as those on corporate profits and property transactions. Overall, the ratio of own revenue to transfers does not seem to make much difference to the stability of the local budgets in crisis. What is important is to ensure a broad and diverse basis of own revenues, avoiding over-reliance on a single volatile tax.

9. Alternatively, consideration should be given to transfer mechanisms with automatic stabilizers incorporated, such as those used in Northern Europe to finance the social services. Where volatile taxes are already assigned to local governments and legal changes are difficult to make, local governments might consider to introduce "buffer" mechanisms, which would neutralise revenue fluctuations.

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<sup>1</sup> France and Malta reserve the right not to take account of the guidelines in paragraphs 7-20.

10. Personal income is the only tax base which is both technically susceptible to variation by local decision and capable of funding a large proportion of the costs of major services, such as education and social and health care. Revenue from local budget shares of personal income taxation has inevitably suffered from reductions in employment, hours, salaries etc, but less dramatically than that of corporate income. It remains the most effective alternative to over-dependence on transfers and should be protected or may be introduced where it does not exist.

11. Taxation of property ownership or occupation has proved remarkably resilient. This is because in most European states liabilities do not vary according to annual changes in property values; municipalities also have used freedom to increase rates or intensify administration to compensate for decline of other sources. Conferring such opportunity on local governments who do not have it would contribute to financial resilience.

12. The property tax based on effective market values has no tradition in Europe (with exceptions, such as Denmark and Sweden), and where it is applied, e.g. in the United States, its drawbacks have come to the fore during the recent crisis. Stability is enhanced where property taxes are based on statutory values and are revised from time to time, but not annually. In the interest of stability, such revisions should reflect long term market developments, rather than short term fluctuations.

13. Regular changes to property tax liabilities will be needed between periodic revaluations to reflect increases in the municipal costs which they fund, but they should not be subject to the severe fluctuations which sometimes influence property market values because of the potential damage to either municipal budgets when these are depressed or to taxpayers' pockets when they surge. Indexing the base to an appropriate price index is one possible solution. Regular increases in tax rates set by local councils is another; as practised by British and Polish local councils, for example, annual increases just above the rate of inflation have secured substantial revenue increases over time without serious political opposition.

#### *Discretion to set local tax rates and charges*

14. On balance policy responses to the crisis have reduced the freedom of local governments to determine their local tax levels though there are exceptions. This appears to weaken compliance with the European Charter of Local Self Government.

15. It must be recognised, however, that local councils' sense of accountability to their business taxpayers may be weaker than to their residents. Restrictions on rate setting powers to prevent discrimination against non-voters may well be justified. Curbs on excessive local PIT rates may also be justified where they have a proven impact on labour supply and fiscal sustainability.

16. Some countries employ caps on local tax rates or surcharges such as on the personal income tax. This is counterproductive especially if all, or almost all, municipalities have reached the rate ceiling. In this case the local taxpayer knows that he/she is protected against higher taxes and loses interest in controlling a possibly spendthrift local budget policy. Caps on local tax rates simply endanger accountability and leave scope for pressure on national governments to come to the rescue of unbalanced local budgets.

#### *Intergovernmental transfers*

17. Local budgets cannot be indefinitely shielded from national revenue losses and budget deficit. However, immediate and arbitrary cuts are damaging to local public services if conducted during the fiscal year. Such harm can be minimised where local governments are given notice in advance of finalising their budgets. Cuts, where unavoidable, should be distributed by objective formulae to ensure their equity and political neutrality.

#### *Debt*

18. Reviving capital investment will be important to recovery, which means restoring operational surplus sufficient to fund it directly or redeem debt. But growing indebtedness calls for improvements in the regulatory regime for both borrowing and insolvency. This applies also to the often murky financial relationships between municipal budgets and those of their utility companies.

19. In some member countries, unsustainable local government debt has emerged as a problem. In these instances actions must be taken to correct any fundamental imbalance between responsibilities and resources. Municipal budget autonomy needs to be exercised within clear policies over prudential and macroeconomic limits to borrowing and processes of public scrutiny. Clear rules and procedures are also needed to govern cases of municipal insolvency.

20. The Maastricht criteria induced a number of countries to introduce an intergovernmental mechanism for restricting public sector borrowing under headings such as “internal stability pact” or “debt brake”. The Council of Europe Committee of Ministers issued Recommendations in 2004 and 2005, whilst the Network of Associations of Local Authorities of South-East Europe (NALAS) has just published a very comprehensive analysis on borrowing procedures in South East Europe. These deserve constant bearing in mind.

## ***2. Improving accountability and efficiency***

21. Making the most of more limited resources will remain a priority for the foreseeable future. Much of the reduction in revenue has been absorbed simply by deferring capital investment. Reports, however, reveal many attempts to improve the efficiency and effectiveness of local budgets. These deserve dissemination and replication.

Of particular significance are:

- increasing co-operation between municipalities, particularly in operating major infrastructure or shared administrative processes like development control, tax collection, procurement and IT, and between municipalities and other public agencies;
- reductions in payroll costs which have minimised staff layoffs through pay cuts or freezes, reductions in hours and overtime, freezing vacancies etc;
- engaging staff in identifying efficiency savings;
- transparency over procurement and budget expenditure, including use of electronic auctions and online publication of expenditure;
- enhanced use of benchmarking, comparing systems and their attendant costs (a process actively promoted by the Council of Europe – Centre of Expertise for Local Government Reform);
- use of computerisation to enhance the speed, neutrality and transparency of administrative procedures.

22. In a number of countries wholesale territorial reorganisations have been carried out or are in progress to achieve scale economies or more uniform service quality. These may well be beneficial but have initial political and financial costs which limit their immediate gains. Increasing inter-municipal co-operation offers quicker returns. Territorial re-organisation will nonetheless be something that many States will wish to consider as a medium to long-term reform.

23. Obstacles to efficiency remain, which governments, associations and individual local authorities are urged to address. These include:

- the reduction in some countries of the contribution of the private sector and market mechanisms to efficient delivery of public utility services in a few countries, with potential danger to the results of successful partnerships over the past three decades;
- the continuing weakness of performance audit, particularly in countries with large numbers of small municipalities without qualified personnel;
- continuation of administrative and financial arrangements in some countries which encourage services like health and social care to be provided in an unnecessarily expensive way.

### ***3. Combating social deprivation***

24. The recession has inevitably increased social distress reflected in rising unemployment, lower household incomes, increased costs such as heating, utility charges, food and evictions. Budget cuts, national and local, threaten benefits and some programmes such as early childhood development important to the human rights of poor and minority households. In some cases support to programmes most significant for such vulnerable groups is being cut disproportionately because the services concerned are not mandatory and are provided by non-governmental organisations whose employee severance costs do not fall on local budgets.

25. Local governments' social expenditures have risen substantially and are destined for sustained growth because of long term increases in the population of elderly people requiring medical and social care.

26. Measures are recommended to mitigate these burdens. These include:

- means testing subsidies for services like heating, housing or public transport;
- shifting the bias of care for the elderly to community rather than institutional provision and increasing support for family and voluntary carers;
- giving priority to expenditure on support to vulnerable groups whether provided by public or private agencies.

27. National and local governments should also review their benefit procedures to ensure that the poor are not hindered from access by legal and bureaucratic obstacles.

#### ***4. Partnership in delivering public services***

28. Local government faces long-term challenges, which will outlast the crisis. The autonomy promoted by the European Charter should give the freedom to innovate in meeting these and some security over resources. But these challenges require a style and habit of partnership with other key actors such as other levels of government, the private sector, universities and other members of the research and training communities, social enterprises and other non-governmental organisations

29. The crisis has slowed down the spread of partnerships involving the private sector in carrying out the initial investment in a public service facility. These remain widespread in cases such as waste disposal where construction and operation can be combined in a single management and where costs can be recouped directly from beneficiaries. Efficiency can suffer, by contrast, where responsibility for operation becomes fragmented between commercial investors and public service professionals; costs can also escalate substantially when loaded with the higher interest rates attached to private sector borrowing.

30. By contrast, the crisis has increased interest in partnership with the voluntary sector and social enterprise in running community level services. Care of the elderly is an increasingly important field for such partnership. Giving social enterprises freedom to provide both residential and domiciliary care services and providing beneficiaries with cash benefits rather than services in-kind, provides an arena for choice and competition which can enhance quality of life. Family and voluntary carers, in practice mostly women, can also be supported and encouraged by measures like compensation for pension losses, arrangements for career breaks, re-entry on the labour market, respite care and even petrol allowances. Involvement of the private or voluntary sector in provision of public services must be in line with public policy and have regard to the requirements of efficiency and value for money and, above all, the needs of those which services are intended to address.

31. Partnership will also be vital in keeping local economies ahead of the game. Partnership with other local actors will be crucial in identifying contemporary opportunities, promoting technological research and innovation, providing education to improve the local skill base and providing the planning and infrastructural framework (including information and communication technology).



## ***5. Enhancing local flexibility and discretion<sup>2</sup>***

32. The impact of the crisis on compliance with the Charter of Local Self Government has been mixed. The Report "Local government in critical times: Policies for crisis, recovery and sustainable future" gives examples of both increases and losses of local tax autonomy. Examples have been given of national governments intervening in detailed local budget decisions, while there are fears that EU attempts to impose common economic government within the Eurozone will curtail the ability of local government to determine their spending levels. On the other hand some conditionality and control have been relaxed by national governments to avoid responsibility for detailed cuts in services.

33. The need to preserve and possibly enhance local discretion over local taxes and charges has already been highlighted. It will also be important to

- avoid an intuitive recentralisation of authority;
- abolish unsustainable expenditure norms which prevent efficient management of local public services; these tend to regulate inputs rather than outcomes;
- reform funding mechanisms which encourage costlier types of service provision.

## ***6. Promoting Economic Recovery***

34. With GDP almost static and unemployment still rising in much of Europe, helping to engineer recovery must be a priority for local government.

35. Its first contribution should be to revive its former levels of infrastructural investment which have been the biggest casualty of budget squeeze. This primarily means restoring the operational surplus which funded investment directly, serviced loans, repaid bonds and provided pre-finance and counterpart support for EU structural funds.

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<sup>2</sup> France reserves the right not to take account of the guidelines in paragraphs 32 and 33.

36. Its second major role is to work with banks, private enterprise and the local research and training community to identify and exploit opportunities for economic growth in the 21st century. Vocational training and broadband networks are key components. So are planning framework and development control procedures which create a favourable business environment and increase the competitiveness of local economies.

37. Finally local governments are key actors in responding to climate change and rising energy prices. Making municipal assets more energy efficient, increasing the use of renewable energy, reforming transportation, increasing the capacity of stormwater drainage are all key tasks for local government, requiring partnerships with utility and transport companies, "green" technology companies and any other suitable actors with capabilities and commitment.