



Japan Local Government Centre, London

Monthly Report for April 2009 (Germany) - Financial outlook for German cities in the downturn, and federal measures kicking in

The economic downturn will also affect local government income. Cities must brace themselves for a fall in the trade tax, the main local tax, of up to 18%. This translates into a decrease of eight billion euros. In addition to the decrease in the local tax, the financial transfers from the *Länder* to the local authorities will decrease also, as income tax and other tax takings in which the local authorities share will also be affected. To this fall on the income side are added the expected increases on the expenditure side, as local authorities are responsible for some of the social welfare payments which people who lose their work are entitled to. Therefore local government is bracing itself for this double squeeze.

However, the measures the federal government has announced to inject direct capital into the economy will benefit local authorities as well. In 2009 and 2010, seven billion of investment funding will go to the local authorities. The bulk of this money will be used to upgrade local facilities such as schools, child care facilities as well as physical infrastructure such as roads and tunnels. By employing local contractors, local employment can be secured and the loss of jobs prevented, at least to some extent. The promised change in the rules about how federal funding can be used should also help to make the process smoother and less bureaucratic.

In Bavaria, parts of the federal funding will be used for one special programme: namely, to increase broadband provision for all those areas which are not connected yet. Bavaria, with more than 70,500 km² geographically the largest *Land* in Germany, still has rural areas without broadband connection, and since November 2008 is running a programme which aims to close the gaps. Under this programme, local authorities can apply for funding, but also have to contribute themselves. Originally 19 million Euros over a period of three years were envisaged, now additional money from the federal recession-busting programme will be added to reach overall 38 million Euros. Also, local authorities can now apply for up to 70% of total cost, while previously it was capped at 50% of cost.

By making broadband internet connections available everywhere, it is hoped that this will also improve economic possibilities and competitiveness.

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