



Japan Local Government Centre, London

Monthly Report March 2010 (Germany) – New Commission on Local Government Finance established

On 24th February 2010, the federal cabinet approved the implementation of a new commission on local government finance. This commitment stemmed from the coalition agreement, following on from previous attempts to include local government financial reforms in the federal reforms, which so far have been unsuccessful.

The members of the commission are several federal ministers: besides the finance minister and the minister of the interior, the minister for business and technology has a seat as well. The Länder Bavaria, Berlin, Rhineland-Palatinate, Lower Saxony and Brandenburg will be represented by one minister each, while North-Rhine Westphalia will send two, reflecting its status as most populous Land. The local authorities are represented by the presidents of the three associations (German Association of Cities, German Association of Municipalities and German Association of Counties). However, there will be a possibility of replacement participants – it is most likely that not the political presidents, but the professional chief executives of the associations will be the main participants.

The aim of the commission is to make proposals to restructure local government finance, in particular local tax, and a look at the expenditure side, in particular in the area of social welfare. Other topics include better participation of the local government level in the legislative process.

Because the timeframe for reporting is very tight – the final report should be delivered by the end of this year – the real work of the commission will be accomplished in working groups, of which there will be three.

The working group on ‘local taxes’ which will have another look at the current system of taxation, in particular the main tax local government currently relies on: trade tax. From the point of view of the cities, it is important that this tax is strengthened, however in particular the Länder are saying that because it is a volatile tax dependent on the economic situation, local government needs a more stable tax base and therefore possible alternatives like a local income tax or changing the local portion of other shared taxes. It is likely that this area will be the most contentious.

The second working group will be called ‘standards’ and will look at the expenditure side. Over the past years, expenditure on welfare has increased

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exponentially, and much of this is mandated by legal standards over which local government has no control. By looking at ways of relaxing standards or regionalisation, efforts will be made to lighten the current burden.

The third working group is to be called 'legislation' and will be concerned with better involvement of the local level in the federal as well as the EU legislative process.

In North-Rhine Westphalia, the Land government has established its own commission in order to do preparatory work for the federal commission and in order to involve more people for the local government level in it.

The local authorities welcomed the formal establishment of the commission; however they see a danger in the concentration of the focus on replacing the trade tax. Although the drawbacks of the tax have been established for a long time, it has proven difficult to find an alternative, and the cities are keen to preserve the tax as such, although there is no general rebuttal of reform, However the president of the German Association of Cities, Frankfurt's mayor Petra Roth, warned that replacing the trade tax levied from business with some form of local income tax would inevitably mean a higher tax burden on citizens.

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