



## Japan Local Government Centre, London

### **Monthly Report November 2009 (Germany) - German Association of Cities reacts to policies of the new government**

When a new coalition government is formed in Germany, negotiations for a coalition treaty take place first. The treaty contains the main policies that the government will pursue and is therefore the most important document to scrutinise when a new government comes to power. On the 5<sup>th</sup> of November 2009, the German Association of Cities issued a detailed statement on the main policies that will impact on local government and in particular on the larger cities.

The main concern is the rapidly deteriorating financial situation of many cities, which are also affected by the general economic crisis insofar that their income from taxes and other sources is falling. Recent figures show that tax income from the main tax for local authorities, the trade tax, will fall by 18%. At the same time, social expenditure is rising – to nearly double the amount it was shortly after German re-unification.

The president of the Association, Frankfurt Mayor Petra Roth, said: “Local government is all too aware of its responsibility for most public services for citizens as well as those for business. Especially in an economic crisis it is vital that local government remains able to deal with such tasks as tackling long-term unemployment, provision of child care and education, as well as community integration services, and last not least infrastructure provision. People trust in local government services where they live.”

Therefore, the policies regarding tax reductions, the long-running dispute over services for the long-term unemployed and the area of child-care are coming in for criticism from the cities.

The coalition government has declared its goal of reducing taxes for citizens as well as for business, however this is viewed very critical by the cities in the light of their financial difficulties. Although tax reductions are not in general refuted, those that result in income reductions for the cities cannot be endorsed by the cities. Currently planned immediate reductions mainly for business will lead to income falls for the cities, and a planned reduction in income tax to be introduced at some point in the future will have repercussions for local authorities as well, as this forms part of the shared taxes of which a specific percentage is going to local authorities. In the same vein, any further tinkering with trade tax is vehemently opposed – the cities

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remind Chancellor Merkel that she promised just this spring to leave trade tax in its current form.

Regarding the currently untenable situation that the legal environment of services for the long-term unemployed is not clarified, leaving those local governments which share services with the federal employment agency in a very weak position, cities strongly demand strongly this situation is rectified and a better arrangement between cities and the federal agency is found. The aim must be to provide the best and most coherent service for the people who need it, and not get distracted by organisational disputes.

Another long-standing contentious issue is the provision of child-care services. The Association emphasises how much effort local government has already undertaken to improve services for families, in particular improving child care offers for the under-threes. However, the new legal right which will come into force from 2013 to access these services is still under-funded, and the federal government needs to recognise that this situation must be improved.

It remains to be seen if the demands of the cities are going to be met. The previously voiced demand to include a statutory right of local government and its representative associations to be heard and to contribute to the legislative process areas with direct implications for local government has not met with great enthusiasm in federal government circles yet, so it remains doubtful if these new demands will find open ears.

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