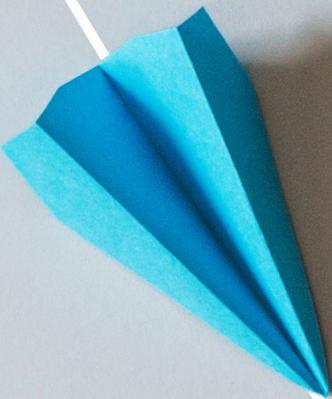




Local & Regional
Europe

Local Finances and the Green Transition

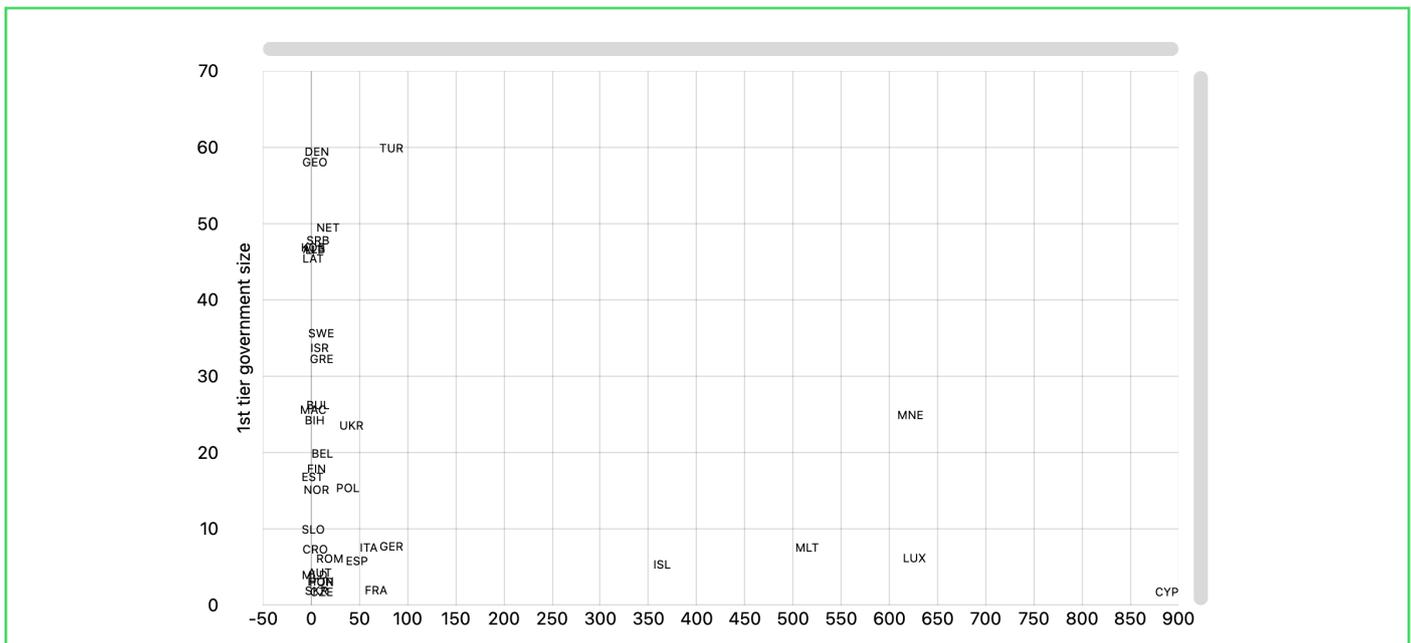
Managing Emergencies and
Boosting Local Investments
for a Sustainable Recovery in
CEMR member countries



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2. Decentralisation trends in Europe

FIGURE 4 COUNTRY POPULATION AND MUNICIPALITY (FIRST TIER GOVERNMENT) POPULATION SIZE, 2020



After the 2008-2009 economic crisis, subnational governments increasingly became a focal point of economic and fiscal policies. They were often regarded as sources of inefficiencies in public spending while also being viewed as opportunities for public revenue-raising. Although subnational government borrowing was less significant, it was targeted as a potential area for limiting overall government debt. The primary reason behind these attitudes and fiscal policies was the complex nature of multi-tier government structures faced with fragmented local entities of various sizes. Using an economies-of-scale approach, these reform policies tended to reflexively promote larger municipalities (or inter-municipal cooperation), partly to lower service unit costs as well as to create a network of sizable local governments, more manageable from the centre.

Given the very diverse nature of local government structures in the CEMR member countries, options for amalgamation reforms come in many forms as well. Decentralisation trends and subnational government patterns can be categorised using the following critical attributes: (i) constitutional form of the region (federal or unitary); (ii) number of elected government tiers and (iii) population size of subnational governments. All these factors influence national policies and reform options.

(i) There are three *federal countries* among CEMR's members (Austria, Belgium, Germany), where the regions/states are constituent entities of the national State. From a fiscal point of view, Spain should also be considered part of this group of countries since the Autonomous Communities, as regional entities, have extended powers.

(ii) *Number of elected subnational government tiers* further modifies these basic constitutional structures. In most countries with a smaller population size, there is only one government tier below the national one, as is the case with Estonia, Iceland, Lithuania, Luxembourg, Malta and Slovenia. In two of the federal countries, Austria and Spain, only one first-tier government exists within the Länder/regions. The vast majority of the other countries have a municipal and an intermediate level of subnational government. In certain countries, a special status has been conferred upon some local governments (e.g. capital cities, cities with county rights). The middle tiers are more fragmented, for example: France (departments and regions), Italy (provinces and regions), Poland (counties and regions), Ukraine (districts and regions) (see also CEMR, 2022).

(iii) *Population size* of the very first tier of subnational governments also varies widely in the CEMR member countries. Four major types of municipal government structures can be identified (Figure 4). In countries with a population below the CEMR average of 16.8 million, municipalities too tend to be relatively small in number and below the average of 25 600. The countries found in the lower left cells of Figure 4 are almost all from

Central and Eastern Europe, with a few from the Balkans. Two of the federal countries also belong to this group (Austria, Belgium).

Among these smaller countries, there is a subgroup with larger size municipalities (upper left cells of Figure 4). This rather heterogeneous group is made up of countries with amalgamated municipalities comprising several settlements and includes: two Scandinavian countries (Denmark, Sweden), transition countries from different regions (Georgia, Latvia, Serbia) and countries from the South (Greece, Israel).

TABLE 2 MUNICIPAL MERGERS AND TERRITORIAL CONSOLIDATION

	<i>Change in number of municipalities, 2012-2020</i>
Ukraine	-84.6%
Albania	-83.6%
Estonia	-65.0%
Latvia	-64.7%
Portugal	-25.6%
Norway	-17.2%
Netherlands	-15.8%
Austria	-11.1%

Several large countries have fragmented municipal systems (lower right cells). They include Mediterranean countries (France, Italy), two countries with federal structures (Germany, Spain) and transition countries (Poland, Romania, Ukraine). Among these larger countries, only three have amalgamated first tier subnational governments (upper right cells): Turkey, the UK and the Netherlands.

Over the past decade, several CEMR countries have implemented administrative territorial reforms. They were able to decrease the number of first tier governments to improve service efficiency through greater economies-of-scale. They either promoted mergers of municipalities or implemented comprehensive local territorial reforms (Table 2). Three of the transition countries reversed the extreme territorial decentralisation of the early 1990s by creating large-size municipalities (Albania, Estonia, Latvia). In Ukraine, a comprehensive local government reform was carried out to create larger territorial units. In Austria, the Styrian territorial reform was carried out as both a mandatory and voluntary process from 2010 to 2015. Other countries promoted voluntary administrative mergers (Portugal, Norway, Serbia, the Netherlands). In these cases, the number of government units at the lowest level declined by at least one-tenth over the past decade. Box 3 summarises territorial reforms in seven countries; Box 4 presents the recent territorial-institutional reforms in France; Box 5 outlines the decentralisation process in Portugal following its amalgamation of parishes.

Box 3 – Territorial reforms of first tier local governments

In *Ukraine*, a comprehensive reform of the territorial arrangement of government institutions and local governments was implemented after 2014. The territorial reform component instituted a radical decrease, reducing around 11 000 cities, towns and village municipalities to only 982 by 2020, initially on a voluntary basis, but later under a mandatory amalgamation stage. It resulted in a network of 1 460 first tier local self-government units. Legal-administrative and financial decentralisation reforms accompanied these territorial changes, extending local public service functions, transforming inter-budgetary relations and decentralising new own revenue sources.

In *Albania*, the decentralisation reform of 2015 created larger functional entities. The number of municipalities/communes was reduced from 373 to 61 municipalities under a far-reaching territorial-administrative reform.

In *Estonia*, following a long period of voluntary municipal amalgamation and the territorial reform of 2016-2017, the number of municipalities was reduced from 213 to 79. These mergers began voluntarily but were followed by government-mandated consolidations. In 2018, county governments were abolished and their tasks were redistributed between the central and local governments. Local governments' financial base was strengthened through an increased share of personal income tax as well as a higher equalisation fund and other grants.

In *Latvia*, 119 local governments were amalgamated into 42 new units by early 2021. The initial voluntary period of the reform began in 2016 and was followed by a compulsory phase, with 65 local mergers put forward by the national government.

In *Portugal*, the parishes, as sub-municipal entities, were amalgamated. The 2013 reform reduced the number of parishes from 4 260 to 3 092.

In *Austria*, the *state (Land) of Styria* had a very fragmented municipal structure. During the 2015 reform, the number of municipalities was reduced from 539 to 287. The process was driven by the Land. Participation and financial incentives intended to ensure voluntary amalgamations were offered; but in the end, due to strong municipal resistance, the structural reform required both voluntary and coercive mergers.

In *Turkey*, economic and political goals propelled the 2012 reform to establish new metropolitan governance structures. The number of metropolitan cities increased from 16 to 30 under Law No. 6360. To achieve increased economic efficiency, the smallest municipalities were amalgamated and their number decreased from 2 950 to 1 390. The Special Provincial Administrations (chaired by appointed governors) were abolished in these metropolitan municipalities.

Box 4 – Territorial-institutional reforms in France

The first efforts to modernise France's territorial organisation took place from 2007 to 2012. The objectives were to determine a critical size and coherent territories for local communities and their intermunicipal cooperation entities,⁴ along with a new distribution of competences. The territorial reforms were implemented under 2014 and 2015 legislation.

The new grouping of *regions* aimed to make them more homogeneous, to elevate their ranking to that of their European counterparts and to strengthen the effectiveness of regional economic action. The regions acquired authority over economic development strategy planning. All sub-regional documents now have to comply with the objectives defined by the Regional Council. This is noteworthy since, with the abolition of the general competence clause for the regions and the departments, the latter now have more competence over economic development, an area previously under the sole purview of the regions. In 2016, the number of metropolitan regions fell from 22 to 13.

Intermunicipal cooperation establishments (EPCIs) have a minimum demographic threshold of 15 000 inhabitants; however, in 2016, nearly 70% of them were below this threshold. Once they are resized, they implement the regional economic development strategies; it is compulsory to transfer municipal powers, such as waste management and water and sanitation. In 2017, their number was reduced by more than 40%, mainly through mergers, to 1 249 (compared to 2 049 in 2016).

The status of *metropolitan areas* was overhauled following the voluntary and mandatory transformation of all intermunicipal cooperation establishments of more than 400 000 inhabitants into these relatively new entities; three of the metropolitan areas added have special status. Fifteen metropolises were thus created, compared to one in 2016.

Municipal mergers were also encouraged through the use of financial incentives. Nearly 1 700 municipalities merged as a result and they now number less than 35 000.

⁴ Intermunicipal organisations (*communautés, syndicats*) are single or multi-purpose independent voluntary associations of local governments established under administrative law. They have a long legal tradition in France under various forms. See West, 2007.

Box 5 – Decentralisation of State competences in Portugal

In Portugal, the weight of local administration expenditure amounts to approximately 9% of the total public administration's, thus demonstrating a high level of centralisation. After a year of negotiations, Law No. 50/2018 (16 August) instituted a new framework for the transfer of powers to local authorities and intermunicipal entities. This Law, as well as the sectoral decrees and ordinances ("diplomas") that followed, reassigned broad competences to municipalities in the areas of education, social care services, health, civil protection, culture, heritage, housing, maritime port areas, forest management, transport and communication routes, various administrative services, fire safety, public parking, etc. With the exception of social care services and health, all competences were eventually transferred by April 2022.

A decentralisation commission made up of representatives from all the parliamentary groups, the government, the National Association of Portuguese Municipalities and the National Association of Parishes was set up to monitor these processes. It has also been tasked with assessing the adequacy of financial resources for each area of competence.

A general consensus exists among the 278 mainland municipalities that competences are best performed at the local level, and they have expressed their openness and willingness to take on new ones. However, the lack of funds, difficulties in communicating with the Central Administration and administrative constraints have caused problems for some municipalities in this regard.

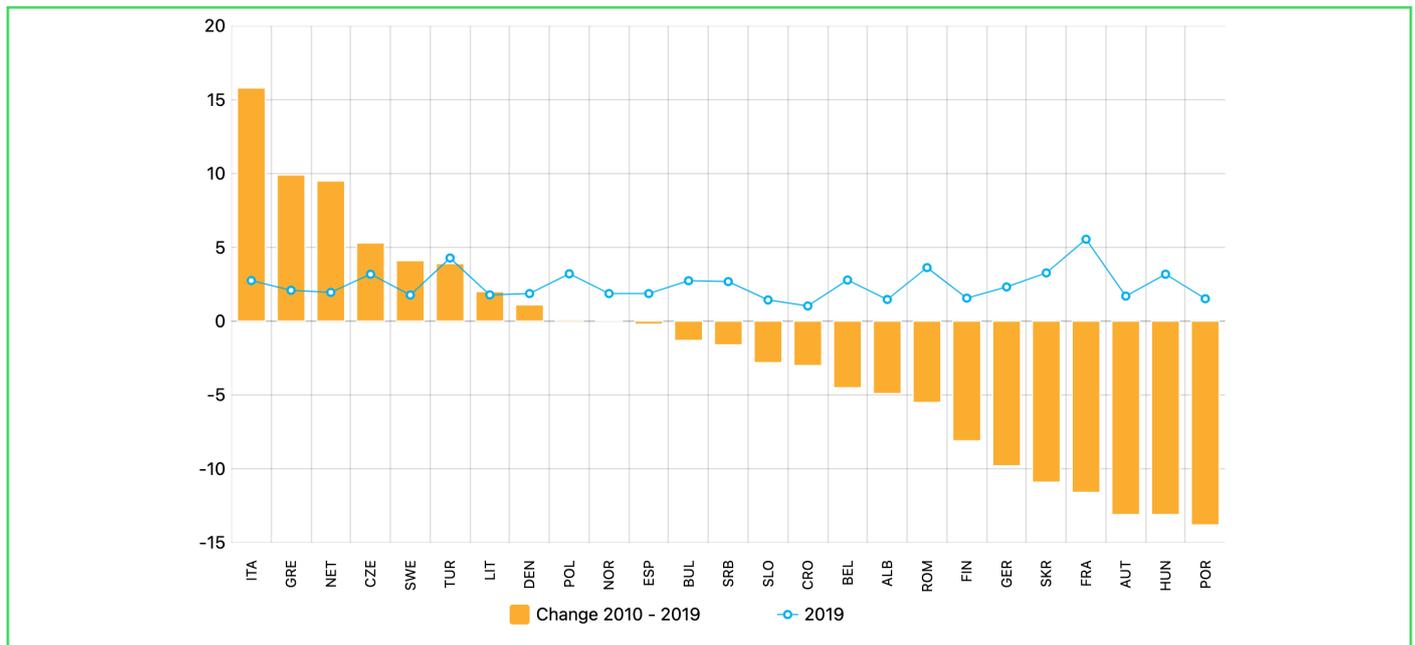
The decentralisation efforts have not been immune to the resistance stemming from the different powers of the State's deconcentrated services that delay and hinder the entire process. The main problems encountered in all areas were limited capacities, a lack of response from the central administration, insufficient access to data and the paucity of detailed information regarding the transferring of services and responsibilities, no easy access to computer platforms and, in some cases, late and insufficient financial transfers.

Regional disparities

Economic growth over the past decade has occurred alongside a growing regional differentiation. The distance between the basic (NUTS2) regions with the highest and the lowest value of GDP per capita increased. In the 36 countries where disaggregated regional data is available, this ratio went up, from 2.37 (2010) to 2.46 (2020) on average.

However, the number of countries with declining regional differentiation outnumbered those where this ratio of richest-poorest regions increased (see Figure 5). There is a total of eight rather diverse countries with increased differentiation. Setting aside Montenegro as an outlier (its ratio of GDP per capita in the richest and poorest regions doubled), this group includes the countries from southern Europe that inherited large regional disparities, e.g. Italy, Greece and Turkey. The other countries showing greater economic differentiation are usually ones with more equal regional structures: two Scandinavian countries (Denmark, Sweden), the Netherlands, Czech Republic and Lithuania.

FIGURE 5 REGIONAL DIFFERENCES: RATIO OF GDP PER CAPITA IN RICHEST AND POOREST NUTS2 REGION, 2019, CHANGE BETWEEN 2010-2019



In the past decade, the population weight of capital cities has slightly increased (by 1%) on average in the CEMR countries. In the smaller countries, the network of cities is often dominated by the capital. For one-quarter of CEMR member countries, where data was available, the capital city’s share of the total population accounted for more than 20%. Predictably, the national capitals in countries with more concentrated urban networks – the ones dominated by capital cities – increased their share further: Estonia, North Macedonia, Portugal, Finland. Declining urban concentration characterised the countries with a more diverse share of capital-city population: Cyprus, Moldova, Slovenia.



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