Local government finances: Development and selected aspects

Since reunification, Germany's local government finances have experienced considerable fluctuations. Up to the mid-2000s and in the course of the financial and economic crisis they were, overall, almost always in deficit, while perceptible surpluses were recorded in the pre-crisis boom years and have also returned lately. Debt levels have remained very limited in comparison with those of central and state government. Local government finances will probably deteriorate somewhat this year. However, the coming years are likely to see a distinct improvement, partly as a result of considerable financial support from central government. Even so, the financial situation of individual local governments varies widely, and is considerably strained in many cases. Yet the very low interest rates are currently substantially easing the financial burdens associated with debt, which is very large in some municipalities.

Central government financial support for local governments has significantly increased in recent years and is set to rise again, not least in order to boost local government investment activity. If, as some suggest, central government were to cover a larger portion of social costs, such as accommodation costs for recipients of unemployment benefit II (means-tested benefit), it would be essential to ensure that local incentives for using funds efficiently and maintaining the area's attractiveness as a business location remain intact. It is important to view the pronounced decline in local government investment expenditure up to the mid-2000s in context. This fall is partly due, for example, to some entities being outsourced from local government budgets. Nonetheless, infrastructure improvements are undoubtedly overdue in some areas, and a shift of emphasis towards investment expenditure therefore appears desirable. Calls for a swift and dramatic increase in investment spending do not seem justified, however. In particular, appropriate needs testing, and capacity for planning and implementation will be crucial. Central government support could help to achieve this. Nonetheless, if a local government is in severe financial difficulties, once full use has been made of scope for adjustment locally it is the state governments which should step in, as responsibility for supporting local governments with structural weaknesses lies with them.

Overall, the state governments strongly influence the financial situation of their municipalities – most notably via the local government financial equalisation scheme, cost reimbursements or restructuring programmes – and perform budgetary oversight which includes extensive powers of intervention. Consistent oversight will be important in order to avoid local governments running into serious financial difficulties in the future and prevent delays in resolving them. Another option worth considering would be to stipulate that local governments may only obtain multi-year cash advances from their home state government and that, as a rule, these advances should count towards that state's borrowing allowance under the debt brake so that all levels of government are aware of any problems at an early stage.

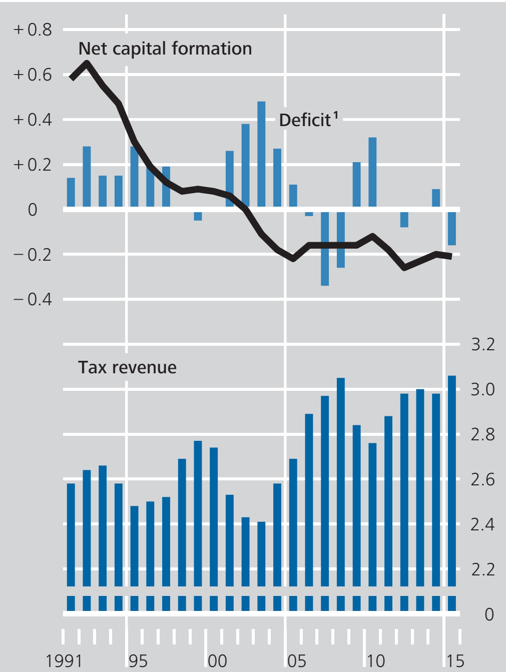
Overview of local government finances

Important role of local governments in Germany's federal system

In Germany's federal system, local governments[1] perform key functions and, at present, account for one-quarter of total general government expenditure (excluding social security). In particular, they are responsible for many social benefits, day care for children, parts of the school education system and public administration, local transport and recreational infrastructure, as well as public utilities and waste disposal. Germany's Basic Law *(Grundgesetz)* tasks local governments with conducting their affairs on their own responsibility within the framework of the law. In addition to transfers from state government, they obtain their funding from service charges, shares in joint taxes and from taxes with multipliers that vary across local governments, with the latter accounting for one-fifth of their revenue according to recent figures. Through their allocations under local government financial equalisation arrangements and supplementary rules on (sometimes lump-sum) cost reimbursements, state governments have a key impact on local government finances. Local governments are generally subject to strict (state-specific) budgetary rules, and their compliance must be monitored by the state government in question. Overall, local government accounts for only a small portion of general government debt. However, there are major differences between individual local governments, some of which have very high debt levels and persistent structural budget imbalances.

Local government deficit, net capital formation and tax revenue*

As a percentage of GDP



Sources: Federal Statistical Office and Bundesbank calculations. * National accounts data. **1** Surplus denoted with negative sign.

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Larger fluctuations in finances since the turn of the millennium

Particularly since the turn of the millennium, there have been significant fluctuations in local government finances,[2] largely as a result of tax developments[3] (see the adjacent chart). Up to the mid-2000s, local government was almost always in deficit. The economic upturn helped local government to achieve marked surpluses in 2007 and 2008 for the first time, but this was followed by higher deficits in the wake of the financial and economic crisis. Since 2011, their finances have largely improved again, and

1 In this article, the term generally includes local government associations.
2 The last in-depth Monthly Report article on local government finances (Deutsche Bundesbank, Trends in local government finances since 2000, Monthly Report, July 2007, pp 25-44) referred to the period from 2000 to 2006. Unlike the 2007 article, this one analyses local government budgets including off-budget entities, as defined in the national accounts. The local government tier of city-states falls under the category of state government and is therefore disregarded here. The national accounts demarcate the government sector more consistently over time than the government finance statistics, which have only included local government off-budget entities since 2011 and in numbers which vary from year to year. The full impact of the sometimes extensive outsourcing of entities from local government core budgets up to 2010 is thus reflected by the development of individual expenditure components in the government finance statistics, whereas the national accounts data are only affected in cases of outsourcing to (possibly public) enterprises not categorised as belonging to the government sector. However, the changeover to double-entry accounting in most local governments, which took effect on different cut-off dates, may also have an influence on the national accounts figures.
3 Local government taxes encompass, most notably, local business tax, shares in income tax, and real estate tax. General purpose grants from state government, which are tied to state government revenue developments, further amplify the tax-induced fluctuations.

Revenue and expenditure in local government budgets from 2005 to 2015

Item	2005	2010	2012	2013	2014	2015	Change
	€ bn						% pa
Revenue	165.16	194.77	210.63	219.18	226.30	240.27	3.82
of which							
Sales	31.25	37.86	38.21	37.70	39.01	39.54	2.38
Taxes	61.99	71.24	82.19	84.67	87.12	92.89	4.13
Transfers (from government)	56.60	68.20	72.42	78.64	82.80	89.88	4.73
Expenditure	167.71	202.90	208.39	218.95	228.84	235.55	3.46
of which							
Intermediate consumption	35.27	48.48	48.22	50.45	50.32	52.37	4.03
Personnel expenditure 1	46.86	53.75	56.81	58.91	61.46	62.96	3.00
Interest	4.55	4.96	4.52	4.15	3.72	3.59	− 2.36
Subsidies	5.68	5.57	5.79	6.30	6.35	6.58	1.47
Social benefits 2	39.41	45.67	48.09	50.44	53.76	58.01	3.94
Transfers (to government)	7.16	8.66	8.97	9.22	9.71	10.09	3.49
Gross capital formation	16.98	22.60	19.79	21.32	22.39	22.51	2.86
Budget balance	− 2.55	− 8.13	2.23	0.23	− 2.54	4.72	
	% of GDP						Percentage points
Revenue	7.18	7.55	7.64	7.76	7.74	7.92	0.74
of which							
Sales	1.36	1.47	1.39	1.33	1.33	1.30	− 0.05
Taxes	2.69	2.76	2.98	3.00	2.98	3.06	0.37
Transfers (from government)	2.46	2.64	2.63	2.78	2.83	2.96	0.50
Expenditure	7.29	7.86	7.56	7.75	7.83	7.77	0.48
of which							
Intermediate consumption	1.53	1.88	1.75	1.78	1.72	1.73	0.19
Personnel expenditure 1	2.04	2.08	2.06	2.08	2.10	2.08	0.04
Interest	0.20	0.19	0.16	0.15	0.13	0.12	− 0.08
Subsidies	0.25	0.22	0.21	0.22	0.22	0.22	− 0.03
Social benefits 2	1.71	1.77	1.74	1.78	1.84	1.91	0.20
Transfers (to government)	0.31	0.34	0.33	0.33	0.33	0.33	0.02
Gross capital formation	0.74	0.88	0.72	0.75	0.77	0.74	0.00
Budget balance	− 0.11	− 0.32	0.08	0.01	− 0.09	0.16	

Source: Federal Statistical Office, national accounts, as at August 2016. **1** Compensation of employees, civil servant pensions and healthcare payments. **2** Monetary social benefits (excluding civil servant pensions and healthcare payments) and social transfers in kind.

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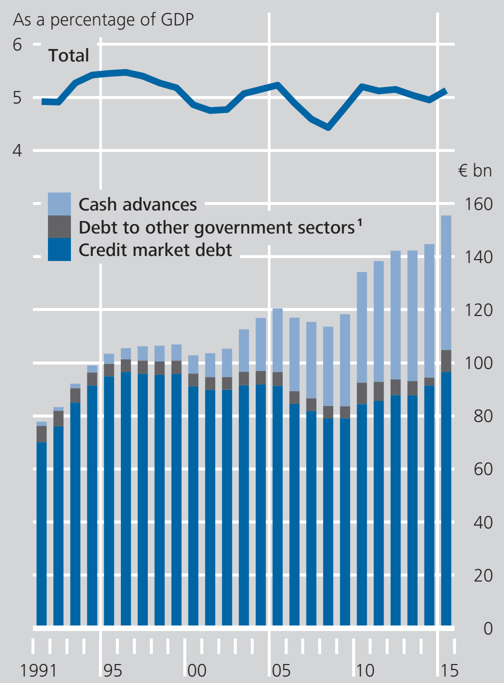
last year a surplus of €4½ billion (0.2% of gross domestic product (GDP)) was recorded.[4]

Clear net depreciation of fixed assets and costs of civil servant pensions put surpluses in perspective

Although local government budgets were close-to-balance on average over the last decade, net capital formation was negative throughout. Last year's significant surplus was not sufficient to compensate for this net depreciation of fixed assets (as understood in the "golden rule").[5] In addition, many local governments face considerable legacy burdens connected with future pension entitlements which are not visible either in the national accounts budget balances or the aggregated debt fig-

4 The temporarily stronger deterioration in 2014 is linked to one-off burdens. These were caused by court rulings leading to tax refund claims which, in the national accounts, had to be recorded on the expenditure side when the rulings were issued. By contrast, the government finance statistics, on which the short commentary on pp 7-8 is based, only record the subsequent repayments as reflected in the cash position.
5 A "golden rule" does not require a balanced budget without net borrowing but limits the permissible deficit to the amount by which investment adjusted for asset sales exceeds depreciation not captured in the balance (depreciation during the relevant period of assets built up through past investment). In the event of negative net capital formation – as seen in the local government budgets since 2003 – this rule therefore requires a surplus. Financial transactions not included in the national accounts balance are irrelevant here, since they do not change the net asset position.

Local government debt*



Sources: Federal Statistical Office and Bundesbank calculations. * From 2010 figures include off-budget entities. **1** Debt owed to other government sectors and specific public entities, excluding cash advances.

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ures.[6] All in all, local government was not in an especially comfortable financial position last year either, despite posting a surplus.

Intermediate consumption and social benefits important drivers of relatively strong expenditure growth

In the past ten years, the increase in local government spending, at an average annual rate of 3½%, was distinctly stronger than nominal economic growth (2¾%). This development was largely driven by social benefits (excluding civil servant pensions and healthcare payments) and intermediate consumption[7] (annual average of +4% in both cases). Recording a not inconsiderable average increase of 3%, personnel expenditure (including civil servant pensions and healthcare payments) also rose somewhat faster than GDP, while gross capital formation grew in parallel with GDP on average. Alongside a higher number of beneficiaries, and adjustments to social benefits which, combined, drove up expenditure (above all, affecting integration assistance for disabled persons, assistance for young people and the basic allowance for the elderly), the significant expansion of day care for children played a particularly important role in this. The expansion of day care was the main reason why staff numbers at local government level, which had been falling for many years, started to increase again moderately from 2008. At the same time, higher wage increases than at the start of the millennium also had an impact on personnel expenditure. By contrast, interest expenses decreased substantially overall (-2½% per year), as the relief brought about by falling interest rates outweighed the cost of rising debt levels. The share of interest expenses in total expenditure has thus almost halved since 2005, to 1½% at last report.

Somewhat stronger rise in revenue from transfers and taxes, with some multipliers raised

At an average annual rate of almost 4%, revenue has grown somewhat faster than expenditure since 2005. Growth in transfers received from the government sector (4½%) and tax revenue (just over 4% per year) was above average, with the latter accounting for almost two-fifths of total revenue according to the latest figures. If the rise in tax revenue is adjusted for the arithmetical effects of the overall increase in the multipliers for real estate and local business tax (additional revenue of €2½ billion in 2015 compared with 2005), the average annual growth would have been just under ½ percentage point lower.

Local government debt stood at just over €155 billion at last report. In relation to GDP, it has thus remained broadly stable at a relatively low level (around 5%) since Germany's reunification

6 In the local governments using double-entry bookkeeping, the balance sheet must capture increases in pension provisions. Notably, the persistently low interest rates are currently placing a strain on the balance as a result. In local governments using single-entry accounting systems, the only negative impact in this context, if any, is from higher payments to precautionary special funds. Provided that, like pension reserves, these special funds are also included in the government sector, these transfers do not affect the national accounts balance. Acquisitions or revaluations of pension entitlements are not recorded in the core system of the national accounts. However, the subsequent pension payments do affect the fiscal balance. There are no nationwide statistics on the development of pension provisions in local government budgets.
7 This primarily includes (non-investment) tangible goods purchases, including the procurement of services.

Debt ratio stable at a relatively low level, but strong increase in cash advances in many local governments

(see the chart on page 16) – unlike in the case of central and state government. However, developments varied substantially across local governments, both within federal states and among them.[8] Until well into the 1990s local governments still almost exclusively took up investment loans, mostly agreeing fairly long maturities, whereas the share of cash advances, which should be interpreted as an indicator of budgetary imbalances, has now risen to almost one-third of their total debt (see the box on page 18). By contrast, regular investment loans declined in relation to GDP. While in 1991 hardly any cash advances were recorded, their outstanding volume has since risen steadily, reaching €24 billion at the end of 2005 and €48½ billion at the end of 2012. Since then, it has increased comparatively little, standing at almost €51 billion at last report.[9] These cash advances are heavily concentrated in the local governments of just a few federal states (see the Annex to this article, pages 30 to 36).

The social benefits burden on local government budgets

Trend increase in social benefits has recently further intensified with influx of refugees

In the past, developments in local government finances were influenced, not least, by a significant rise in spending on social benefits. Following a sharp surge in the first few years following German reunification, there were further marked increases in the run-up to and the year of the Hartz IV reform (2005), and also following the recent influx of refugees. By contrast, the rise was dampened, in particular, by transfers of responsibility for providing certain benefits when the public long-term care insurance scheme was launched in the mid-1990s. In 2015, social benefits reached €58 billion (or 2% of GDP). They thus accounted for one-quarter of total local government expenditure.

Cost reimbursement by state and central government partly offsets burden

However, the volume of social spending does not reflect the actual net burden on local government budgets, not least because the state governments forwarded central government funds – which have seen a significant overall rise in recent years – to cover the cost of accommodation for recipients of unemployment benefit II[10] and the basic allowance for the elderly (see the box on pages 20 to 22). Moreover, the state governments also cover some costs under the local government financial equalisation scheme or special reimbursement rules. In some instances, it seems that certain costs may even be overcompensated in cases where they are used as an auxiliary indicator to estimate other social spending.[11] It is still likely that social benefits result in a significant net burden for local government, however.[12]

In some cases, large differences in local social spending

In some cases, social spending in individual local governments differs very widely, with large discrepancies already apparent between the aggregate results for the individual federal states (see the Annex to this article).[13] This is mainly due to structural differences in their

8 According to the government finance statistics.
9 However, the stabilisation seen in recent years is partly due to state government's redemption of €3 billion in cash advances under the debt relief programmes in Hesse and Lower Saxony and to special authorisations to convert cash advances into other forms of credit.
10 The 2005 reform aimed to provide relief to local government budgets amounting to €2½ billion per year. To achieve this, it was agreed that central government would assume part of the accommodation costs incurred by local government. For a more detailed evaluation of the reform, see Deutsche Bundesbank, An estimate of the fiscal costs of the Hartz IV reform, Monthly Report, September 2006, pp 72-73.
11 For information on the overweighting of the number of income-support households under the local government financial equalisation scheme of North Rhine-Westphalia (while acknowledging the fundamental suitability of this indicator as a starting point for targeted relief measures) see, for example, I Deubel (2014), Soziallastenberücksichtigung im Finanzausgleich und Lösung des Altschuldenproblems, in G Henneke (ed), Gesicherte Kommunalfinanzen trotz Verschuldungs- und Finanzkrise, p 125 f.
12 In reality, it should not be assumed that state government provides precisely the right amount of funds to reimburse social spending. Instead, there is probably often a predefined sum of funds earmarked for financial equalisation, which is then simply distributed differently. Consequently, the real cost reimbursement would only be the amount by which the allocation of funds for the local governments in question differs from the result without taking account of social spending. Where reimbursements are made separately in the form of case-based lump-sum payments, their overall volume really is flexible.
13 See also F Arnold, F Boettcher, R Freier, R Geißler and B Holler (2015), Kommunaler Finanzreport 2015, Bertelsmann Stiftung, pp 67-84 for analysis regarding accommodation costs, as well as R Geißler and F-S Niemann (2015), Kommunale Sozialausgaben – Wie der Bund sinnvoll helfen kann, Bertelsmann Stiftung, pp 66-81.

Local government fiscal rules and the problem of cash advances

State government fiscal rules generally permit local government borrowing to cover expenditure only in the case of investment and usually only in cases where the local government can demonstrate that it has sufficient financial capacity. A local government is deemed to have satisfied this latter requirement if its fiscal situation offers evidence that the additional future expense associated with borrowing-based investment can be borne without breaching the fiscal rules.

These rules expect local governments that use single-entry (cameralistic) accounting systems to prove that both the additional interest payments and the funds required to honour redemptions due can be generated from the current budget – ie without any need to dispose of assets or tap the follow-up financing arrangements that are customary at the central and state government levels. As for local governments using double-entry bookkeeping systems, they are obliged to demonstrate in their profit and loss accounts that their current revenue is sufficient to cover both the depreciation and the additional interest charges. Assuming the maturity schedule of the borrowing arrangement matches the depreciation profile, the requirements will be broadly identical. Diminishing interest rates, then, permit greater borrowing-based investment in both accounting systems.[1]

Assuming the fiscal rules are applied consistently, local governments that cannot furnish proof of sufficient financial capacity are unable to access normal budgetary loans. This means that if they are unwilling to consolidate the current budget, they will need to curtail their investment (at least outside fee-financed areas).

In many cases observed in recent years where local governments failed to generate sufficient current revenue to cover their current expenditure (including redemptions due), thereby breaching the fiscal rules, state-level supervisory authorities have turned a blind eye to the cash advances[2] those local governments took out, which were no longer used for their intended purpose, which is solely to bridge short-lived intrayear liquidity bottlenecks. The amount of cash advances not replaced by normal revenue in the end-of-year budget outturn equates to the remaining funding needs that ought, by rights, to be fully covered in the next draft budget.

Reported levels of cash advances have actually been rising almost continually for many years. Evidently, then, many local governments regularly underfund their current budgets and neither local government policymakers nor state-level supervisory authorities have been as rigorous as they should in tackling this issue. Instead, local governments in several Federal states are permitted – in view of the difficult situation[3] – to take out cash advances with long maturities or fixed rates of interest for periods of up to ten years.

1 Note, however, that there are differences between the two systems that tend to make it more difficult for local governments with double-entry accounting systems to show that they have sufficient financial capacity when interest rates are declining. That system has to account for provisions for pension obligations, for example. As much as low interest rates push up the present value of benefit obligations, so will higher additions to provisions need to be recorded in their profit and loss accounts, which might come at a tangible expense.
2 In double-entry accounting systems, these are typically called liquidity credits.
3 In a negative net investment situation, the budget balance alone does not allow any conclusions to be drawn about the state of the current budget, which is the main item of interest here.

economic situation and development. For instance, economically weaker areas have a higher proportion of unemployment benefit II recipients and thus ultimately larger accommodation costs. By contrast, the distribution of those who meet the criteria for integration assistance for disabled persons or assistance for young people should depend less on the regional economic situation. Differences in this area tend to stem from how benefits are granted in practice in each municipality.[14]

Awareness of incentive problems needed where central government assumes costs

The current central government relief measures and those that are additionally planned for the future, particularly for accommodation costs, sometimes entail a targeted reduction of local differences in the social benefits burden. Some are calling for even more cost reimbursement by central government for social benefits which are regulated in the same way nationwide in order to give the local governments most burdened by them greater room for manoeuvre. However, in view of the influence that local governments have on the basic conditions for the local economy (and thus, up to a point, on the number of persons receiving basic social welfare allowances) and, in particular, given their leeway in granting benefits, greater cost reimbursement from central government would need to go hand in hand with a heightened awareness of incentives to ensure an efficient use of funds and to maintain attractive business locations. It would therefore seem advisable for municipalities to continue to cover at least a portion of these costs themselves.

Conceivable for central government to cover larger portion of accommodation costs, but state government should also step in

These criteria could probably be satisfied, in particular, by central government covering a larger portion of the accommodation costs for recipients of unemployment benefit II. This would be of most benefit to the local governments with higher accommodation costs, whose budgets tend to be under greater strain. However, given the recently implemented and forthcoming funding increases, central government's share will already have reached a size beyond which it would be necessary to switch to (centralised) administrative execution by the federal states on federal commission.[15] To provide leeway for reimbursements without such a change of system, funds could be increased and the group of recipients expanded for special-need supplementary central government grants under section 11 III a of the Financial Equalisation Act *(Finanzausgleichsgesetz).* This legislation cites high burdens caused by long-term unemployment as justification for annual payments of just under €1 billion to date to the east German federal states. Provided that targeted support for individual, particularly hard-hit local governments is the priority – as opposed to addressing differences in the cost burden among the federal states – it is primarily the individual state governments that should step in, however. It would therefore make little sense to replace the special-need supplementary central government grants for infrastructure reconstruction in eastern Germany, which will be discontinued in 2019, with new inter-state redistribution of funds by central government.

Greater involvement of central government in other social benefits inappropriate

In terms of spending on social benefits which hinge less on regional differences in economic strength or which entail more discretionary scope for state and local government, greater central government involvement to limit the burden on individual local governments would

14 See I Deubel (2014), op cit, p 125.
15 This arrangement is a "middle road" between administrative execution by central government and execution of federal laws by the federal states as their responsibility. Here, central government has far-reaching powers to issue instructions, and execution is subject to monitoring of compliance with legal requirements and suitability. Laws on the granting of payments in cash which stipulate that central government shall finance one-half or more of the expenditure must be executed by the state governments on federal commission pursuant to Article 104a III of the German Basic Law. With regard to this arrangement, under the current administrative framework J Wixforth (Bundesbeteiligung an den Kosten der Unterkunft als Sammelbecken der Kommunalentlastung?, Wirtschaftsdienst 96(7), 2016, pp 501-509) found there to be remaining potential for financial relief amounting to €2½ billion from 2018 onwards when factoring in the education and integration package. Under the latest draft legislation aiming to further ease the burden on state and local government, this leeway would be almost exhausted, however. R Geißler and F-S Niemann (op cit, p 82 ff), by contrast, advocate a much higher contribution of up to 65%, on condition that new executive administration managed by central government be established.

Specific social benefits included in local government budgets

According to the government finance statistics, social benefits accounted for €54 billion, or one-quarter of total local government spending last year.[1] Accommodation costs for recipients of unemployment benefit II (means-tested benefit) came to just over €12 billion (in the non-city states), or a little more than one-fifth of social benefits. In 2005, as part of the Hartz IV reform, the local government-financed assistance for living expenses (social assistance) for persons who are able to work was combined with central government's unemployment assistance (granted subsequent to the temporary benefits paid by unemployment insurance) to form the basic allowance for job seekers. Since then, local government has assumed the costs of providing accommodation for this group of recipients, while central government has covered the standard benefits, integration assistance and administration costs. Compared with the other social benefits provided by local government, accommodation costs have since grown at a relatively moderate annual rate of no more than roughly 1½%.[2]

Around half of the social payments made by local government were attributable to the social assistance benefits remaining after the reform, which are governed by the Twelfth Book of the Social Security Code (*Sozialgesetzbuch,* or SGB XII). In particular, these encompass integration assistance for people with disabilities.[3] They also include, *inter alia,* the basic allowance for the elderly and for persons with reduced earning capacity that was introduced in 2003 as well as assistance for living expenses (less substantial in quantitative terms since the Hartz IV reform) and for long-term care.[4] Since 2005, there has been a sharp increase in the basic allowance for the elderly, in particular. As with unemployment benefit II, regular rate adjustments to this allowance have, since 2011, tracked past developments in price and wage levels. A more extensive recalculation is performed at longer intervals based on data from the sample survey of income and expenditure. Legislative changes in other areas also had an impact on social spending by local government. For example, after the introduction of the public long-term care insurance scheme in the mid-1990s, the number of recipients of assistance for long-term care was halved. Following the introduction of regular benefit adjustments in the long-term care insurance scheme from 2008, it is fair to assume that the associated strain on local government budgets is likely to remain in check over the next few years as well.

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1 The deviation from the amount given in the main article as defined in the national accounts is mainly the result of the transfer component of child benefit being reported as an expense in the national accounts. As expenses for numerous individual types of benefit were published in the government finance statistics, data from that source are used in this analysis.
2 Given an average decline of just over 1% per year in the number of income-support households, payments for unemployment benefit II fell by an annual average of 2% during this period, not least because of the pension contributions that no longer had to be paid. See also Deutsche Bundesbank, The evolution of labour market-related government expenditure in Germany, Monthly Report, April 2015, pp 13-33.
3 While this refers, in particular, to measures designed to enable people with disabilities to engage in an occupation, it also covers benefits for medical rehabilitation, for instance.
4 Following the Hartz IV reform, assistance for living expenses is now only paid to persons in need who are unable to work and whose earning capacity is not fully reduced, provided they have not yet reached the statutory retirement age. This meant that the number of benefit claims – outside facilities or institutions – dropped from 3 million to around 80,000 in 2005. Payments of the basic allowance for the elderly and for persons with reduced earning capacity are made to older people in need once they reach the standard retirement age, and to persons with permanently fully reduced earning capacity once they turn 18. The benefit has the same scope as social assistance, although the basic allowance for the elderly entails lesser maintenance obligations on the part of dependents. Assistance for long-term care is granted when long-term care payments cannot be paid in full by the person in need of care or covered by a third party (such as the public long-term care insurance scheme). Other benefits encompassed by social assistance include, inter alia, assistance for overcoming particular social difficulties. In 2013, according to the social assistance statistics (including expenditure by the city states and at the state government level), €15½ billion went towards integration assistance, €5½ billion towards the basic allowance for the elderly, just under €4 billion towards assistance for long-term care and €1½ billion towards assistance for living expenses.

Social benefits included in local government budgets*

Item	2005	2010	2012	2013	2014	2015	Change
Expenditure	€ bn						% pa
Social assistance[1]	17.28	21.03	22.79	24.02	25.48	26.64	4.4
outside facilities or institutions	4.64	5.97	6.90	7.45	8.13	8.77	6.6
in facilities or institutions	12.64	15.06	15.89	16.57	17.35	17.87	3.5
Benefits under SGB II	10.55	12.14	11.32	11.91	11.92	12.57	1.8
of which accommodation and heating	10.32	11.66	10.94	11.58	11.57	12.20	1.7
Benefits for education and integration[2]			0.27	0.25	0.25	0.28	1.4
Assistance for young people	5.10	6.53	7.36	7.71	8.32	9.29	6.2
Asylum seeker benefits	0.95	0.55	0.75	1.04	1.59	3.14	12.7
Other social benefits	1.56	1.87	1.93	2.02	2.01	2.07	2.9
Total	35.45	42.12	44.42	46.95	49.56	54.00	4.3

Sources: Federal Statistical Office, quarterly cash data for local government budgets; up to 2013: Deutscher Städtetag (Association of German Cities), Gemeindefinanzbericht. * Local government expenditure in the non-city states, ie excluding Berlin, Bremen and Hamburg. **1** Including, in particular, integration assistance for people with disabilities and the basic allowance for the elderly. **2** Pursuant to section 28 of the Second Book of the Social Security Code (SGB II) and section 6b of the Federal Child Benefits Act (Bundeskindergeldgesetz).

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Dynamic growth was recorded in expenditure on assistance for children and young people (Eighth Book of the Social Security Code (SGB VIII), but excluding day care for children),[5] which has nearly doubled since 2005 to just under €9½ billion (just over one-sixth of social spending). This growth was given a distinct boost last year by benefits for unaccompanied refugee minors.

Lastly, payments of asylum seeker benefits, which are also borne by local government, have likewise seen stronger year-on-year increases since as early as 2010 and, after doubling last year, reached a volume of €3 billion (6% of social benefits). While state government is responsible for the initial reception and provision of initial support to asylum seekers, local government bears responsibility for subsequent support up until a decision is made on their applications and, in the event that they are rejected, up until their exit from the country.[6] The rules on the reimbursement of costs vary greatly from one federal state to the next. In some instances, case-based lump-sum payments are made, which can also vary by region within a federal state and likely provide only partial compensation for actual costs in many cases. By contrast, some federal states – such as Bavaria – make final settlements in order to ensure that the costs of statutory asylum seeker benefits are reimbursed in full.

The net burden on local government arising from social benefits is significantly smaller than the gross expenditure outlined above because central and state government make financial contributions in other areas, too. Central government, for instance, generally makes special-purpose transfers to state government, which are passed on to local government. While the initial 29% share of accommodation and heating costs for recipients of unemployment benefit II[7] that was

5 Expenses for accommodation in facilities or institutions such as homes and for other special assistance for education and care are recorded as assistance for young people.
6 The basic benefits for asylum seekers primarily comprise the costs of accommodation, food and medical care as well as durable and non-durable household goods – chiefly in the form of benefits in kind. In addition to this, a monthly cash stipend is paid to cover day-to-day personal needs. Ancillary costs, eg for administrative staff, are not included here. After having stayed in Germany for 15 months, the persons entitled to benefits no longer receive the basic benefits; instead, they are granted higher rates pursuant to the provisions on assistance for living expenses (SGB XII). After being officially recognised, persons in need who are entitled to asylum normally receive the basic allowance for job seekers pursuant to the Second Book of the Social Security Code (SGB II), which is largely funded by central government.
7 Further to this, state government passes on to local government the relief arising from the Hartz IV reform in relation to the housing allowance, for example (approximately €1 billion in 2015), as well as the special-need supplementary central government grants owing to higher burdens caused by structural unemployment in the east German states (€¾ billion).

assumed by central government under the Hartz IV reform in 2005 temporarily declined somewhat, it has risen by around 3 percentage points on balance since 2011 in the wake of several adjustments being made.[8] In addition, in the case of the basic allowance for the elderly and for persons with reduced earning capacity, central government has, after incrementally increasing its share, fully reimbursed the expenses not covered by third parties since 2014.

Alongside central government, state government supports local government in the provision of social benefits through financial equalisation schemes, for example. However, it is virtually impossible to quantify the total relief that this provides to local government. In particular, the equalisation amount paid in most federal states to local government is not pegged to the actual spending requirement for the social benefits taken into account under these schemes; instead, this requirement is merely used as one of several allocation criteria in those states. The annual accounting figures for the local government core budgets available for 2014 do not break down the proceeds received in relation to social and youth assistance (including day care for children) any further. For that area as a whole, with expenditure of just over €82 billion (including administration costs and investment), the budgets nonetheless show directly allocable transfers (ie excluding funds relating to social costs distributed under local government financial equalisation schemes) from other levels of government amounting to €24 billion and other receipts of €6½ billion. Thus, while expenditure rose by an annual average of 5% against the comparable data for 2005, the increase in transfers was considerably higher, at almost 8%. The expenses remaining after also deducting other task-specific receipts grew by 4%, putting them less strongly above GDP growth.

The Federal Government recently set in motion further relief pertaining to local government social spending. Central government's share in the accommodation costs for persons claiming unemployment benefit II will be raised to an average of 35½% in 2017.[9] According to the Draft Act on the Contribution of the Federal Government towards the Costs of Integration and on the Further Easing of the Burden on State and Local Government *(Gesetzentwurf zur Beteiligung des Bundes an den Kosten der Integration und zur weiteren Entlastung von Ländern und Kommunen),* this share is to be increased incrementally, but remain below the 50% threshold so as to avoid triggering a switch to the procedure of state government administration on behalf of central government. Expenditure on recognised refugees is ultimately to be assumed in full, however, and central government will also transfer turnover tax revenue using an allocation key that is not contingent on social spending by the individual local government. Altogether, the package is set to provide local government with permanent relief payments of €5 billion annually from 2018, as laid out in the coalition agreement.

8 In order to ensure that local governments in all federal states across the country receive a balanced level of relief, the shares for Baden-Württemberg and Rhineland-Palatinate were raised from 2007. Overall, central government's percentage shares were initially adjusted annually in line with the change in the number of income-support households in order to preserve the target level of relief. This adjustment formula was altered as part of the 2011 reform. The costs of the education and integration package, newly introduced at that time, for the children of recipients of unemployment benefit II, additional children's allowance and housing allowance are covered by way of an additional contribution to accommodation costs (most recently just over 3½ percentage points, on average, in addition to central government's aforementioned share in the costs).
9 A detailed description of this can be found in J Wixforth, op cit. See also Federal Ministry of Finance, Bund unterstützt Kommunen auf vielfältige Weise, Monatsbericht, December 2015, pp 9-20.

be a less targeted course of action. The central government contribution to integration assistance for disabled persons envisaged in the Federal Government's coalition agreement was therefore unconvincing and is now no longer being pursued. Such assistance includes personalised transfers in kind and affords the relevant local government considerable scope for discretion. The most sensible course of action for central government to assume a limited portion of these costs, in the current legal framework, would seem to be to switch over to lump-sum monetary benefits, which would, *de facto,* sharply limit leeway in granting the benefits. In addition, these benefits are already financed at the state level in many cases. For similar reasons, it would be inappropriate for central government to contribute to long-term care assistance or assistance for young people; in the case of the latter, some variation in how details are legislated across the federal states is permitted, too.

Lump-sum refunds of benefits for asylum seekers

By contrast, individual municipalities have very little influence on the granting of benefits for asylum seekers. Decisions on the status and distribution of asylum seekers are initially made at the central government level, with the financial capacity of the individual states being taken into account. Against this backdrop, cost-sharing in the form of case-based lump-sum payments (which central government has indeed been paying from 2016), would seem essentially appropriate, not least with regard to the incentive to make efficient use of resources. In order to also ease the burden on the individual local governments which were allocated refugees by state government, it would seem sensible to grant lump-sum reimbursements on a case-by-case basis.

The decline in local government investment

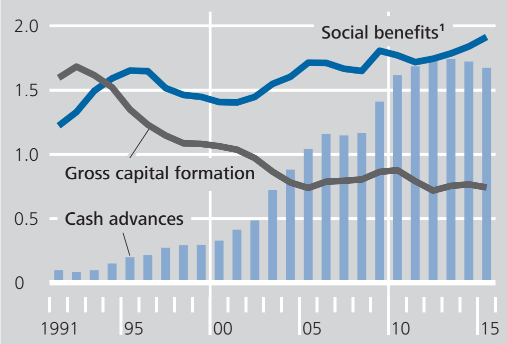
The ratio of government investment to economic output in Germany has plummeted, particularly at the local government level, over the past four decades.[16] The sharp decline at the local government level persisted until the mid-1980s after which, following just a temporary rise in the wake of German reunification, the deterioration continued at a decelerated pace until the mid-2000s. Thereafter, the ratio stabilised at ¾% of GDP (see the chart above). The long-term downward trend essentially affected local governments in both financially weak and financially strong federal states (at a higher investment level in the case of the latter, however).[17] Since 2003, capital consumption has consistently outstripped gross capital formation (currently by 0.2% of GDP). As central and state government investment has risen more sharply, primarily in connection with education and research but also in relation to construction work, local government's share in general government gross capital formation has fallen from over 50% at the start of the 1990s to 35% at the current juncture.

Stabilisation of capital formation in recent times, but new investment outstripped by capital consumption

Generally speaking, a needs-based level of infrastructure is, first and foremost, a crucial factor affecting (the location of) economic activ-

Selected local government expenditure* and cash advances

As a percentage of GDP



Sources: Federal Statistical Office and Bundesbank calculations. * Pursuant to the national accounts. **1** Excluding civil servant pensions and healthcare payments and without deducting refunds and cost-sharing.
Deutsche Bundesbank

16 Based on the data available for this longer period pursuant to ESA 1995, the general government gross capital formation ratio fell from just over 4½% in 1970 to around 1½% in 2005 (with the ratio at the local government level dropping from 2¾% to ¾%).
17 According to government finance statistics as the national accounts do not contain state-specific data.

Long-term decline also as a result of a certain degree of saturation and decreasing need for investment in east German states

ities. There is evidence to suggest that there is some catching-up to be done in certain areas, as well as a need to shift towards investment expenditure. However, the significance of the long-term decline in investment expenditure at the local – and general – government level does have to be viewed in context to a certain extent. For example, following the extensive build-up of infrastructure in the west German states in previous decades, it is likely that a certain degree of saturation was reached, with the result that scaled-back investment did not necessarily lead directly to a significant supply shortfall. A similar conclusion can be drawn about the gradual tapering-off of infrastructure build-up in the east German states. In addition, construction price rises, which have long remained relatively low in relation to general price developments since the mid-1990s, have suppressed the investment ratio. Lastly, demographic change, characterised by relatively low birth rates, will – at least in the longer term – curb the demand for certain local services and subsequently the need for investment as well.

In addition, some tasks merely transferred to the private sector

It is also especially important to take into account with respect to the decline in local government investment that an increased share of infrastructure is provided by the private sector. This applies, *inter alia,* to investment in schools, day care facilities for children, sports facilities and other recreational facilities. Over time, outsourcing of fee-funded local amenities to entities that are assigned to the corporate sector has also taken place on a large scale. For example, half of the decline in local government investment recorded between 1991 and the mid-2000s was attributable to areas affected by this: environmental protection (eg waste and sewage management)[18] as well as housing and local amenities (eg water supply).[19]

Investment restraint also partly due to stretched budgets, however

Irrespective of this, it is likely that the increased financial strain has also led to a more problematic throttling of investment, at least for some local authorities. The very sharp rise in cash advances since the turn of the millennium, for example, highlights the extent of the budget strains that many local authorities are experiencing. In such an environment, many local governments have had only limited access to investment loans as they have been either unable or limited in their ability to prove that they can bear the future interest and depreciation charges (or repayments).[20] As a result, local authorities have cut back on their investment activities, which are more disposable in the short term. In fact, the decline in local government investment is strongly correlated, especially up to the mid-2000s, with the increase in social benefits and cash advances. Higher social spending also appears to be accompanied by lower investment when comparing aggregate figures for federal states and individual local authorities.[21]

Several studies recently identified an increasing, significant investment gap in Germany, which is primarily making itself felt at the local government level in the areas of transport infrastruc-

18 See, for instance, the example of Frankfurt am Main in Deutsche Bundesbank, Trends in local authority finance since the mid-nineties, Monthly Report, June 2000, p 52.
19 However, investment in the areas of energy supply and sewage and waste management also fell significantly in terms of aggregate government and private sector activity – ie including the outsourced amenities – during this period. See N Schmidt (2011), Ausgliederungen aus den Kernhaushalten: öffentliche Fonds, Einrichtungen und Unternehmen, Wirtschaft und Statistik, pp 154 ff; and M Gornig, C Michelsen and K van Deuverden (2015), Kommunale Infrastruktur fährt auf Verschleiß, DIW Wochenbericht 43, pp 1023-1030.
20 However, this ought to have been counteracted for some time and to an increasing degree by the sharp decline in capital market rates, which is making it easier for local authorities to furnish this proof, although this in turn may sometimes be offset by higher transfers to pension provisions in the low-interest-rate setting.
21 See also F Arnold, R Freier, R Geißler and P Schrauth (2015), Große regionale Disparitäten bei den kommunalen Investitionen, DIW Wochenbericht 43, pp 1031-1040. The authors find a significantly negative correlation between the cost of accommodation for the long-term unemployed and the investment expenditure of districts and independently administered cities.

Level of infrastructure still a locational advantage overall, but lagging investment evident in some areas

ture and schools, in particular.[22] There were also numerous calls for a substantial boost in local government investment given the low general government investment ratio by international standards.[23] Caution is advised when comparing government investment ratios at the international level – much as it is when making the aforementioned comparisons over time – on account of differences in the tasks assigned to government and the corporate sector. In principle, the decisive factor is not the amount of expenditure *per se* but rather the needs-based level of infrastructure and efficient use of resources. For example, international comparisons of business locations generally continue to indicate that Germany's infrastructure is comparatively very good, although its rating has deteriorated somewhat in recent years.[24] Overall, it would appear that there has indeed been a pent-up need for investment in specific areas for an extended period of time and that greater emphasis on investment would be desirable at the local government level as well. However, it is of key importance to identify bottlenecks and replacement needs in a targeted manner and to efficiently allocate the funds for these projects. Various factors, not least a lack of planning and implementation capacity, would likely be barriers to an abrupt, massive increase in government investment, as has occasionally been called for, and it is questionable whether funds would be carefully allocated.

Investment grants from central government less promising than planning assistance …

Under the Basic Law, central government's capacity to provide targeted support for local government investment is tightly restricted. While Article 104b outlines financial assistance for particularly important local government measures, in the absence of a serious emergency, the funds may only be granted for areas in which central government has legislative powers of its own. Consequently, it is only possible to provide financial assistance for noise reduction measures and renovation work to improve energy efficiency rather than for general maintenance measures or the expansion and construction of local roads and schools. It is likely that, under the current rules, priority needs cannot be covered in many cases.[25] However, this does not appear to be the main reason why only 1% of the €3½ billion held in 2015 in a central government special fund for promoting the investment projects of financially weak local governments had been spent by the end of September 2016. As previously mentioned, it is probably often due to a lack of planning capacity more than anything. One proposal put forward to remedy this – such as by the Expert Commission (otherwise known as the Fratzscher Commission) in its report "Increasing Investment in Germany" in 2015 – was to offer central government planning assistance to local government. The current plan in this respect is for a company that was originally founded to assist public-private partnerships to now advise local governments. In order to effectively avoid delays and allocate resources more efficiently, it appears important not only that projects are better planned out on the basis of thorough calculations prior to the conclusion of construction contracts but also that responsibilities do not become blurred.

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22 See, for example, KfW, KfW-Kommunalpanel 2016, June 2016; S Brand and J Steinbrecher, Kommunaler Investitionsrückstand bei Schulgebäuden erschwert Bildungserfolge, KfW Research Fokus Volkswirtschaft, No 143, September 2016; DIW, Investitionen für mehr Wachstum – Eine Zukunftsagenda für Deutschland, DIW-Wochenbericht 26/2013; and M Reidenbach, T Bracher, B Grabow, S Schneider and A Seidel-Schulze (2008), Investitionsrückstand und Investitionsbedarf der Kommunen, Difu. By contrast, the German Council of Economic Experts established a less pronounced need for investment in its Annual Economic Report for 2014/15 (see pp 12-18).
23 See, for example, European Commission, Germany Country Report 2016 (which includes an in-depth review of the prevention and correction of macroeconomic imbalances), 26 February 2016, and the report prepared by the Expert Commission on behalf of the Federal Minister for Economic Affairs and Energy, Increasing Investment in Germany, April 2015 (http://www.bmwi.de/EN/Service/publications,did=709422.html).
24 For example, Germany was ranked eighth globally for infrastructure in World Economic Forum (2016), The Global Competitiveness Report 2016-17, having been ranked seventh the year before and third in 2013. This downgrade was partly attributable to the quality of roads scoring lower.
25 Against this background, these rules are set to be relaxed somewhat as part of the agreement reached between central and state government in October 2016 on the reform of federal financial relations from 2020 onwards.

… and targeted state government measures

In principle, the aforementioned options to provide financial support to those local authorities hit especially hard by high social expenditure, thereby strengthening their capacity to invest, are still open to central government. However, it is ultimately state government that decides, not least based on the financial equalisation scheme for local government, how funds are to be allocated to individual local authorities. It is responsible for regional policy and determines how it allots general financial resources and targeted support for investment projects within the respective state as well as how structurally weak regions should be assisted. For example, needs-based conditions may be placed on the way in which transfers are used, and funds may be distributed in a targeted manner in order to avoid significant local supply shortfalls.

Outlook and considerations concerning the prevention of local government overindebtedness

Deterioration in financial situation this year, but outlook more favourable again overall

A deterioration in the local government budget balance is on the cards this year.[26] For instance, it would appear that spending in connection with refugee migration is only being partially offset by reimbursements provided by state government. Furthermore, local business tax refunds to be made in the wake of court rulings are likely putting a strain on cash balances. The outlook for the coming years, however, is significantly brighter once again. For example, in 2017, central government will provide – over and above the amount of €1 billion granted for three years from 2015 onwards – additional one-off relief payments in the amount of €1½ billion, which are set to be followed on a permanent basis by funds of €5 billion *per annum* as of 2018. Furthermore, agreements reached in summer envisage the full assumption of accommodation costs for recognised refugees between 2016 and 2018 by means of additional payments from central government, which will rise from €½ billion this year to €1 billion for the years thereafter. Given the significant drop in immigration, expenditure on benefits for asylum seekers (support until a decision is reached regarding their application for asylum and, in the event that it is rejected, until their exit from the country) is likely to fall sharply.[27] To this extent, there should be additional financial scope at the local government level – above and beyond the €3½ billion from the fund to promote municipal investment that has been available since mid-2015 – to step up investment activities.

Interest burden for large volume of cash advances currently low, but greater structural budget imbalances and risks at times

Although the overall level of local government debt does not appear problematic, alarming budget imbalances have been built up by a number of local authorities in the past. This is proven not least by the volume of cash advances, which is now very high. Some local governments using double-entry bookkeeping systems are now even recording excess debt on their balance sheets.[28] The budget imbalances are, in the context of high debt, partly obscured by the low interest rates but would, however, intensify if interest rates were to rise. Against this background, major budget consolidation programmes have since been established in some federal states with local authorities that are particularly affected. The earlier erroneous developments show that the combination of budgetary legislation, which is actually strict, and oversight by state government has more often than not failed to effectively prevent nascent budgetary emergencies. By not prescribing the necessary adjustments, or refraining from making them altogether, problems were prolonged and ultimately exacerbated.

Individual state governments are responsible for supplying their local authorities with ad-

26 For information on developments throughout the year, see Public finances in the Commentaries section of this Monthly Report, pp 7-8.
27 By contrast, expenditure on unaccompanied refugee minors, which appeared to rise sharply until recently, is expected to decline at a considerably slower rate.
28 In such a case, the assets shown on the balance sheet are not sufficient to cover the liabilities. Equity capital (net worth) is thus negative and recorded on the assets side.

Key influence of local government financial equalisation scheme, assignment of tasks …

equate financial resources – where necessary, above and beyond their own sources of income, which they are responsible for maintaining – in order to allow local governments to exercise the autonomy afforded to them under the Basic Law.[29] This duty is supposed to be met first and foremost by the local government financial equalisation scheme, which is governed by individual state governments.[30] Individual state governments also decide on the scope of the tasks assigned to local authorities, *ipso facto* establishing their financing needs. In this context, the connectivity rules introduced a number of years ago should, in principle, guarantee an entitlement to compensation if tasks are transferred from state to local government. That being said, the specific arrangements for this appear to be shrouded in legal ambiguities.[31] In many cases, a key question is whether a new task, and thus one that truly falls within the scope of the connectivity principle, really has been assigned.

… and, in particular, of budgetary legislation and oversight by state government

State-level financial oversight of local government, the set-up of which also differs from state to state, likewise plays a key role in ensuring sound local government budgets as it monitors compliance with what are, in principle, strict budgetary rules. If local authorities fail to achieve the balanced budget[32] generally prescribed throughout Germany, they must, where required, draw up a budget consolidation programme to be approved by the budget supervisor. Should the planned measures be deemed insufficient, these must generally be amended. Temporary budgeting rules designed to be restrictive will then be put in place until the revised measures are approved. In extreme cases, the state government may send a representative to go over the heads of elected local decision-making bodies and implement restructuring measures.[33] As such far-reaching steps would likely be extremely unattractive, not least for local politicians, they provide conscientious state-level supervisors with a useful potential threat – one that has also been acted upon in certain cases – to help steer local authorities towards sustainable budgeting in a timely manner.

Easing of budgetary rules impeding consistent oversight in some federal states

While investment borrowing generally has to be tailored to financial capacity and can thus be relatively tightly restricted, there are no comparable rules that apply to cash advances. The way in which cash advances are handled differs from state to state, and a connection between that and the greater volumes of cash advances taken out in certain states seems likely. For example, the supervisory approval previously required for local authorities to take out larger cash advances was abolished in North Rhine-Westphalia as early as 1994 and later in other federal states,[34] too. Furthermore, the municipal codes and loan ordinances in some federal states make it possible to take out

29 Article 28 II of the Basic Law protects local government autonomy, while Article 106 VII guarantees local authorities an additional portion of state government's share of total revenue from joint taxes in order to ultimately safeguard this autonomy.
30 Studies appear to indicate that financial resources may not always be sufficient; according to these studies, lower general-purpose grants from state government are sometimes accompanied by higher local government cash advances. See F Heinemann, L Feld, B Geys, C Gröpl, S Hauptmeier and A Kalb (2009), Der kommunale Kassenkredit zwischen Liquiditätssicherung und Missbrauchsgefahr, ZEW-Wirtschaftsanalysen, Vol 93; and C Gröpl, F Heinemann and A Kalb (2010), Die Zweckentfremdung des kommunalen Kassenkredits – eine rechtlich-ökonomische Analyse, Perspektiven der Wirtschaftspolitik, Vol 11(2), pp 178-203.
31 See, for example, Gemeindefinanzbericht 2011, in der städtetag 5/2011, pp 46 ff.
32 Under single-entry bookkeeping, a budget is deemed to be balanced if current revenue is sufficient to cover current expenditure, including compulsory repayments. In the case of double-entry bookkeeping, a balanced budget requires that all expenditure – ie including write-downs and transfers to pension provisions – is covered by earnings. Disparities between the rules introduced in different federal states arise, for instance, with respect to the inclusion of asset realisations at prices above their carrying amount and whether it is permissible to utilise parts of equity capital.
33 In this case, the state-level budget supervisor could, in particular, impose higher multipliers on local business tax and real estate tax.
34 In Bavaria, Brandenburg, Hesse, Rhineland-Palatinate, Saarland, Saxony-Anhalt and Schleswig-Holstein. See also K Herrmann (2011), Der Missbrauch kommunaler Kassenkredite, Wirtschaftsdienst, 91(10), pp 686-693. However, since 2016, section 105 of the Municipal Code of the State of Hesse (Hessische Gemeindeordnung), to name one example, has stipulated that the authorised volume of cash advances generally has to be approved by the budget supervisor. In Saxony-Anhalt, there is currently a threshold above which cash advances must be approved.

longer-term cash advances.[35] The option now enshrined in section 76 II of the Municipal Code of the State of North Rhine-Westphalia *(Gemeindeordnung für das Land Nordrhein-Westfalen)* for local authorities with budgets that are under particular strain to hold off on balancing their budgets as required until the end of a ten-year period likewise ultimately hampers oversight of local government.

Aid programmes coupled with stringent consolidation requirements promising

In the first few years of this decade, local government debt relief and consolidation programmes were launched – especially in North Rhine-Westphalia, Rhineland-Palatinate and Hesse, which are home to the local authorities holding the lion's share of cash advances – with the aim of stemming the altogether worrying rise in cash advances.[36] These programmes differ considerably with regard to their consolidation requirements, and the results seem to have varied wildly thus far. It is crucial to their success that the assistance provided is tied to long-term, sufficient improvement in the primary balance, which has to be brought about by the local government (by way of spending cuts or, if need be, adjustments to local business and real estate tax multipliers), and that the targeted implementation of the consolidation programme is ensured by means of consistent budgetary oversight. It could potentially be helpful to enshrine thresholds for budget imbalances in law – thresholds that, if exceeded, would immediately trigger stringent intervention by state-level supervisors.

Favourable financing conditions for local authorities – even those in precarious budgetary situation

The fact that it was possible for persistent budget imbalances to arise is ultimately due partly to the state of affairs in which the local authorities, despite major differences in their budgetary situations, have apparently been able to obtain funding on the financial markets – even, standardly, from the savings banks that they themselves own and control[37] – with next to no risk premiums. Interest rates are currently very low – and even negative in some cases – for short-term cash advances, in particular. Lenders evidently assume that, in the event of a local government running into payment difficulties, state government will step in to service the debt. In order to mitigate any spillover effects on borrowing options and costs for other local governments, the incentive for state government to step in and provide assistance in a worst-case scenario may well be high. However, it is not clear whether, due to individual state governments' joint responsibility for ensuring that their local governments are supplied with adequate funding and their responsibility for local government budgetary oversight, external creditors could assert claims against federal states. State government assumes no liability for local government debt vis-à-vis external creditors, in any case; consequently, the possibility that loans granted to local governments will not be serviced on time cannot be ruled out altogether.

Taken as a whole, this combination of local government liability, control and funding is un-

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35 For example, in the event of it not being possible to achieve a balanced budget in the foreseeable future, local authorities in Saarland are able to take out unlimited cash advances with maturities extending beyond the fiscal year (section 94 II of the Local Self-Government Act (Kommunalselbstverwaltungsgesetz)).

36 North Rhine-Westphalia's programme to strengthen city finances (Stärkungspakt Stadtfinanzen), which was set up in 2011 and will run until 2020, has a total volume of €6 billion, while Hesse's debt relief programme set up in 2012 amounts to €3 billion and the local government debt relief fund in Rhineland-Palatinate, which was set up in 2012 and will run until 2026, contains €4 billion. Hesse regularly reports on progress made by a total of 100 municipalities (just under one-quarter of all local authorities in Hesse; participating on a voluntary basis) in reducing their budget imbalances as contractually agreed. The minimum consolidation contribution was set at €100 per capita annually until a balanced budget was achieved; partial debt relief was offered in return.

37 There is often a close link between local authorities and local public credit institutions. For example, various studies have found evidence of a relationship between local government election years and lending by savings banks; see R E Gropp and V Saadi, Electoral credit supply cycles among German savings banks, IWH Online 11/2015; or F Englmaier and T Stowasser, Electoral cycles in savings bank lending, Munich Discussion Paper No 2014-14, LMU Munich. Overall, public credit institutions issued the lion's share of cash advances – in addition to savings banks (about one-quarter of short-term loans), Landesbanken and promotional banks (just over one-third) once again played a major role. See also S Brand (2015), Paradigmenwechsel in der Kommunalfinanzierung – der lange Schatten der Finanzkrise, Wirtschaftsdienst, 95(1), pp 51-55; and R Freier and V Grass, Kommunale Verschuldung in Deutschland: Struktur verstehen – Risiken abschätzen, DIW Wochenbericht 16/2013, pp 13-21.

Lack of risk premiums opening door to erroneous developments

satisfactory. It does not appear to create sufficient incentives for state or local government to avoid excessive local government debt. At the same time, there is a lack of transparency surrounding the substantial risk to which state government budgets are exposed – that is to say, the potential assumption of local government debt as part of debt relief programmes or in crisis situations. Even budgetary surveillance by the Stability Council does not take into account developments at the local government level of individual states in terms of the main indicators. All in all, when local government finances are knocked off course, it sometimes takes too long to take back control of the helm, which can result in serious local government budget imbalances. Ultimately, it cannot be ruled out that, in event of a failure to service local government debt on time, individual credit institutions operating in this sector would run into difficulties. This would be the case, in particular, if the amount of receivables outstanding exceeded the bank's equity capital. It should be noted here that institutions such as savings banks are members of protection schemes within their associations. Nonetheless, the cluster risk associated with individual local authorities should also be monitored from a risk-based perspective.

If necessary, recourse to cash advances via state government only

If the provisions of the financial constitution currently in place were to be overhauled, consideration could also, theoretically, be given to a major change of regime aimed at strengthening the financial markets' disciplining effect on local government – for example, by partially incorporating municipalities into the German Insolvency Code *(Insolvenzordnung),* similar to chapter 9 of the US Bankruptcy Code.[38] This would have to be accompanied, in any case, by the introduction of stricter bank regulation covering lending to local government so that local authorities that find themselves in a deteriorating budgetary situation would have only limited access to credit. However, such a fundamental change of regime, which would necessitate amendments to the Basic Law and changes to state governments' legislation governing local government finances, is not on the agenda. By contrast, it would be simpler to establish a financial framework under which local governments are only permitted to take out from state government cash advances for which repayment using covering funds is not envisaged within one fiscal year. As a result, responsibility would clearly lie with state government, while liability and control would be brought broadly into line. An individual state government's interest in swiftly counteracting any growing financial difficulties of its local authorities could be safeguarded by means of a provision stipulating that these cash advances be counted towards borrowing under the debt brake framework.[39] Nevertheless, in order to avert persistent structural budget imbalances and excessive local government debt in future, it is crucial that state-level supervision stringently enforces budgetary rules and that financial resources are allocated commensurate with the tasks at hand.

38 State governments could potentially make their local governments subject to the Insolvency Code; see section 12 I paragraph 2 of the Insolvency Code. This would make it possible, for instance, for provisions from the part covering insolvency plans to be declared applicable.
39 This form of lending to local government could either not be factored out as a financial transaction under any circumstances or only factored out in instances where the local governments receiving assistance had committed, either contractually or by statutory resolution, to adhere to a budgetary plan (with specific measures) deemed sufficient by a body such as the State Court of Auditors and guaranteeing repayment.

Annex

Key figures outlining the state-specific differences in local government finances

While the aggregate data for Germany's national accounts indicated local government budget surpluses with a stable local government debt ratio of late, the situation for the individual municipalities was very heterogeneous. However, given that the national accounts do not show state aggregates or data for individual municipalities, in the following we essentially draw on per capita results from the government finance statistics aggregated to the state level for illustrative purposes.

Budget balances and debt

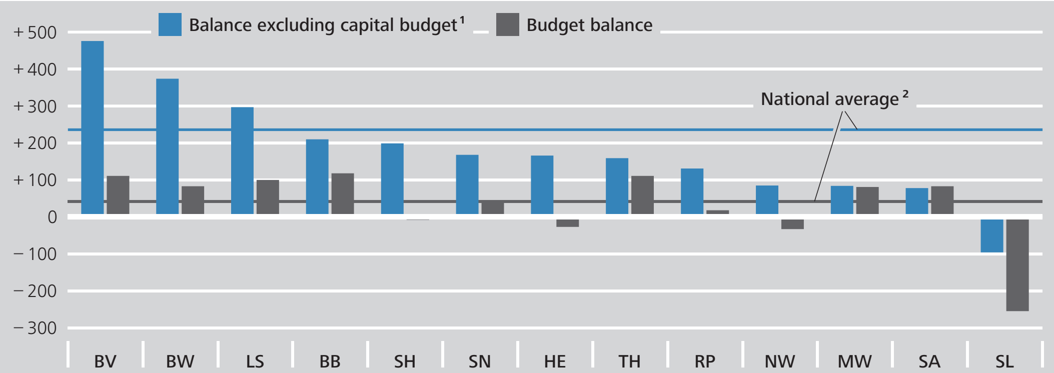
A key yet potentially relatively volatile indicator of the fiscal position is the budget balance.[40] With a national cash surplus posted by local governments of €3 billion, the aggregated state results for the municipal budgets were predominantly distinctly positive in 2015. Only the state of Saarland posted a high per capita deficit. North Rhine-Westphalia, Hesse and Schleswig-Holstein recorded moderate deficits, while Rhineland-Palatinate attained only a relatively small surplus. Looking at current revenue and expenditure alone to identify the budgetary strain excluding the discretionary fluctuations in investment revenue and expenditure, the surplus was a great deal higher on average. The range was also more extensive in this way, however, as municipalities in states with more favourable current budget balances had higher self-financed investment expenditure (ie without using proceeds from asset realisation, investment grants or contributions). Besides the above-mentioned states, all east German states, too, showed below-average results.

The level of debt captures the budget deficits and surpluses of the past. Per capita, the figures ranged from below €1,000 in Brandenburg and Baden-Württemberg to at times considerably above €3,000 in the states of Saarland, Hesse, Rhineland-Palatinate and North Rhine-Westphalia (with a mean value of €2,070 across all non-city states). At the same time, more than half of all cash advances – which are an especially good indicator of a tight budgetary position – were concentrated in the municipalities of North Rhine-Westphalia; an additional more than 30% was accounted for by the other three states mentioned above. In terms of per capita results, the highest figure in Germany was recorded in Saarland (€2,170). Rhineland-Palatinate (€1,870) and North Rhine-Westphalia (€1,520) came in second and third

40 Generally speaking, it needs to be taken into consideration for individual municipalities that the volatility of the revenue from local business tax in particular is often even more pronounced than at the aggregated national level due to economic developments or as a result of tax refunds, and that considerable fluctuations in the budget balances may occur in individual years without this having any impact on the overall fiscal position.

Local government budget balances* by federal state in 2015

€ per capita



Sources: Federal Statistical Office and Bundesbank calculations. BV = Bavaria, BW = Baden-Württemberg, LS = Lower Saxony, BB = Brandenburg, SH = Schleswig-Holstein, SN = Saxony, HE = Hesse, TH = Thuringia, RP = Rhineland-Palatinate, NW = North Rhine-Westphalia, MW = Mecklenburg-West Pomerania, SA = Saxony-Anhalt, SL = Saarland. ***** According to cash statistics, core budgets and off-budget entities. **1** Balance of current revenue and expenditure. **2** Aggregate of non-city states.

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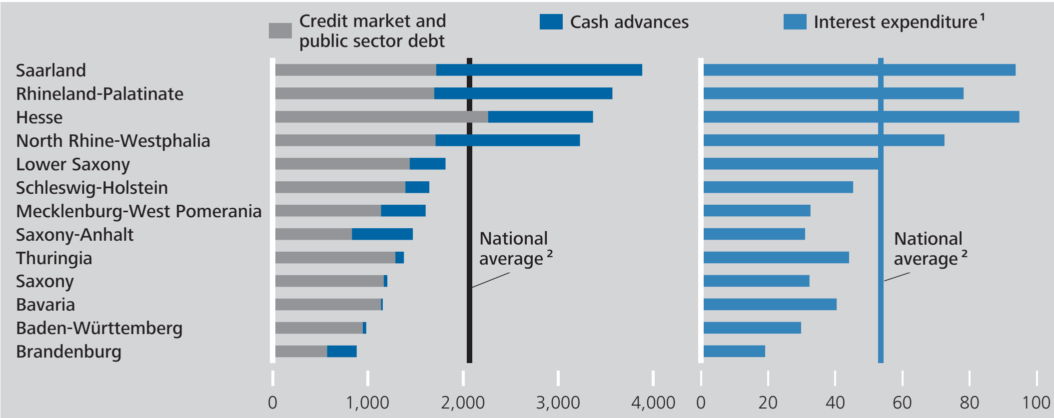
Local government debt and interest expenditure by federal state in 2015

€ per capita



Sources: Federal Statistical Office and Bundesbank calculations. **1** According to cash statistics, core budgets and off-budget entities. **2** Aggregate of non-city states.

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place, followed by Hesse (€1,100). At the other end of the spectrum stood Bavaria, Baden-Württemberg, Saxony and Thuringia (at times well below €100). The gaps between the aggregated state figures increased markedly over the past years.[41] Interest expenditure on the whole did not diverge as heavily because the lower average interest rates[42] reduced the burden more strongly for the municipalities with higher debt. However, the range of interest expenditure per capita continued to expand to between €20 and €95 (average of €55) of late compared with between €35 and €80 (average of €65) in 2005. The vast differences in debt developments are put into perspective by the very low interest rates, bringing significant relief to highly indebted local governments, in particular. However, the differences in the levels of indebtedness within the states are even more strongly pronounced in a comparison of individual municipalities than when comparing the aggregate state levels (see the table on page 35, and for the shared responsibility of state governments in this regard, see pages 26 to 29).[43]

Social benefits

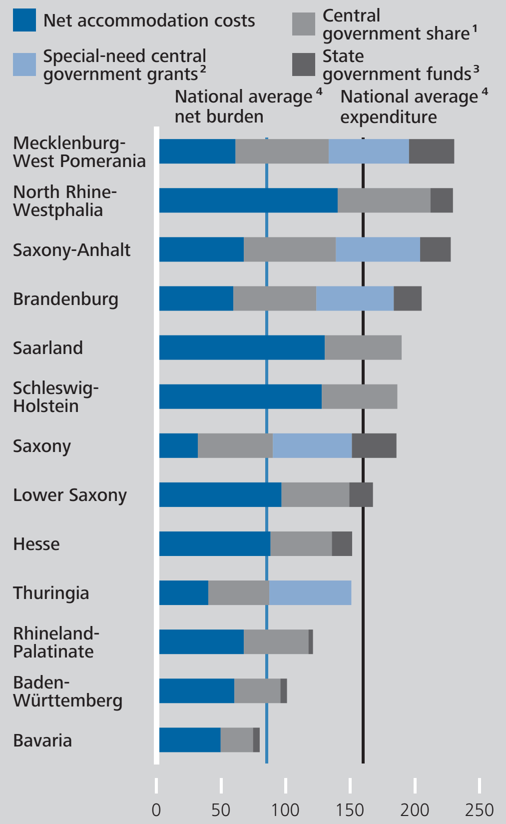
Varying expenditure burdens as a result of social benefits are often cited as the reason for deviations in the budgetary position. North Rhine-Westphalia was the state with the highest per capita expenditure, followed by Hesse with a substantial margin. However, the informative value of this rough comparison already appears to be strongly limited by the different extents to which the responsibility for the provision of benefits is taken at the state level.[44] In addition, it is not possible to derive from the cash statistics data unambiguous figures regarding the varying degrees to which central government and state governments assume shared costs.

On the other hand, accommodation costs for recipients of unemployment benefit II in the non-city states are solely allocated to municipal authorities and thus comparable. The differences between states were relatively pronounced here, the highest level of expenditure being exhibited in most east German states as well as in North Rhine-Westphalia, Saarland and Schleswig-Holstein. It is evident that this expenditure correlates negatively with the eco-

41 In 2005, the range of cash advances per capita spanned from very considerably below €100 to almost €1,000.
42 Since 2005, the average interest rate calculated for local government debt across all non-city states has decreased by 1½ percentage points to 2½% at present. The decreases were especially prominent in some east German states.
43 Extensive cash advances among the highly indebted municipalities also left a distinct mark in the equity capital positions where double-entry bookkeeping is applied. In North Rhine-Westphalia alone, 29 of the 430 municipalities were expected to exhibit a negative equity balance as at the end of 2015. In the case of the city of Oberhausen, for example, total assets came to just under €3 billion, while a shortage in equity capital was recorded of just over €1 billion (around -€5,500 per capita). By contrast, the state capital of North-Rhine Westphalia, Düsseldorf, posted a high positive net asset value of around €13,000 per capita.
44 The results are correspondingly different, for example, when referring to joint expenditure on social assistance by state and local governments (according to social assistance statistics). In that case, Saarland would occupy second place after North Rhine-Westphalia, and Hesse would only come in fifth.

Local government expenditure on accommodation costs* by federal state in 2015

€ per capita



Sources: Federal Statistical Office and Bundesbank calculations. * For recipients of unemployment benefit II, data generally in accordance with cash statistics, core budgets and off-budget entities. **1** Including reimbursements for the education and integration package. **2** Special-need supplementary central government grants to offset the higher burdens caused by long-term unemployment. Rough breakdown. **3** Forwarded savings resulting from the Hartz IV reform. **4** Aggregate of non-city states.

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nomic strength of the individual states[45] (whereas other factors appear to be relevant in terms of integration assistance for disabled persons or assistance for young people, for instance). After adjusting for the central government share,[46] the forwarded savings by the state governments resulting from the Hartz IV reform and also the (rough breakdown of the) corresponding special-needs-related supplementary central government grants for the east German states, the actual net burden[47] was even clearly below average in some of those states. Conversely, North Rhine-Westphalia exhibited an above-average burden, which per se represented just over one-third of the gap in terms of the average current budget balance. Within the states, the disparities in accommodation costs across municipalities are likewise very discernible and also persistent, with a negative correlation in terms of tax revenue capacity.[48]

Investment expenditure

To ensure a municipality's sustainable development, needs-based construction and maintenance measures are important for the local infrastructure. A financial statistics indicator in this context is provided in the form of expenditure on fixed asset formation (especially transport facilities and school buildings).[49] Although the relevant data are to be interpreted with considerable caution given that – amongst other things – investment grants with similar objectives to entities outside of the government sector remain unaccounted for, a correlation with the state-wide economic performance of the municipalities becomes evident. The municipalities in Bavaria and – to a somewhat lesser extent – in Baden-Württemberg have been very noticeably exceeding the national average value for some years now (by two-thirds and one-third respectively in 2015), whereas the levels of investment are less dispersed among the other states. Particularly low values (ie at least three-tenths below the average) were reported by Mecklenburg West-Pomerania, Saxony-Anhalt, Saarland and North Rhine-Westphalia. In the east German states, the extensive investment activity following reunification has been scaled back considerably over the past decade. At the same time, a continuing trend of population decline in those states can lead to maintenance and modernisation, for example, no longer being considered necessary in some cases, resulting in only a minor need for investment in some areas. The differences in investment activity in the individual municipalities are likewise large and persistent, although not as extensive as with debt or the cost of accommodation, and are subject to substantial annual fluctuations. It appears

45 Yet a stronger economic capacity ought to have a positive impact on the local level of rents for dwellings, keeping the differences in check.
46 The data are not adjusted for the reimbursements for the education and integration package, which have only a small impact.
47 For the state-wide results, the redistribution of costs associated with this expenditure item in the context of the states' financial equalisation systems for municipalities does not need to be taken into account.
48 See Arnold et al, op cit, pp 64-123.
49 Net investment cannot be shown here as the government finance statistics do not provide any data on consumption of fixed public capital. A comparison of the state-specific developments in fixed asset formation over an extended period of time, too, is distorted in the context of the financial statistics as a result of large-scale outsourcing.

that municipalities with higher cash advances and expenditure on accommodation tend to have lower investment expenditure.[50]

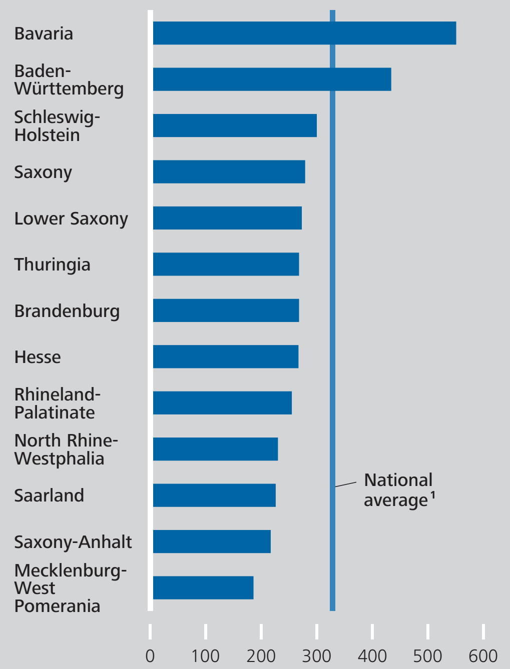
Tax revenue capacity

A direct indicator of financial performance is tax revenue capacity per capita.[51] Special focus lies on real estate and local business tax as the individual municipalities determine the local multipliers, leaving them with significant leeway. The top position in terms of the average local business tax revenue capacity among the non-city states in 2015 was occupied by the local authorities in Hesse, Bavaria and Baden-Württemberg. By contrast, the values were particularly low in the east German non-city states and Saarland, falling at least three-tenths below the nation-wide result. The differences in tax revenue capacity in 2015 were much smaller with regard to real estate tax, which is not as important. The dispersion of tax revenue capacity has remained more or less unchanged over time, at least within the individual states, and tends to be higher in the financially stronger states.[52]

However, indicators of tax revenue capacity, too, are to be interpreted with caution as state constitutions ultimately guarantee the municipalities a minimum amount of funds. In order to ensure that municipal tasks are carried out, all non-city states have financial equalisation systems in place which[53] aim at increasing municipal financial capacity in general when redistributing funds among a state's municipalities by allocating tax revenue from the state government level.

Fixed asset formation* of local government by federal state in 2015

€ per capita



Sources: Federal Statistical Office and Bundesbank calculations. * Data in accordance with cash statistics, core budgets and off-budget entities. **1** Aggregate of non-city states.
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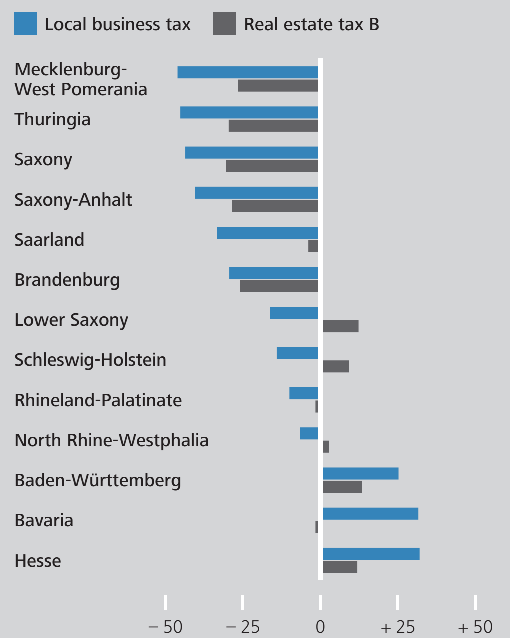
Deviation in the tax revenue capacity of local governments from the national average* by federal state in 2015

%



Sources: Federal Statistical Office and Bundesbank calculations. * State-wide revenue figures divided by state average multipliers. National average based on aggregate of non-city states.
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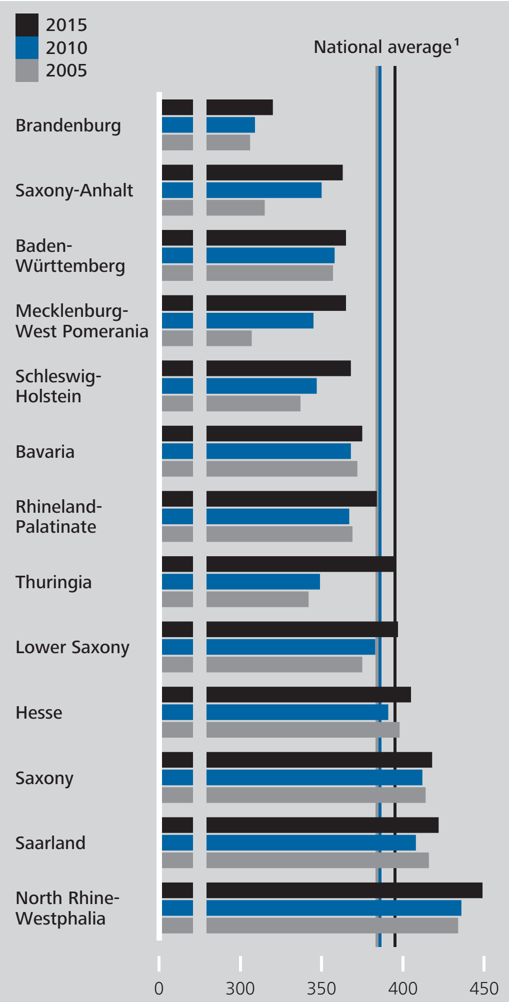
50 See also Arnold et al (2015), DIW, pp 1035 et seq.
51 When calculating tax revenue capacity, the revenue is adjusted for local differences in multipliers in the year under review.
52 See also R Geißler and F Boettcher (2016), Disparitäten in der Entwicklung der Gemeindesteuern, Wirtschaftsdienst 96(3), pp 212-219.
53 The differences in tax revenue capacity, supplemented by needs-related aspects, within a state are considerably reduced using state government funds and, in some cases, also with allocations from municipalities with particularly high tax revenues. However, given that not least the assessment of needs varies greatly across states and that the payments are unable to keep up with the actual differences in the fiscal year, it is virtually impossible to evaluate the equalisation effect within any one state.

Average multipliers for
local business tax by federal state

%



Sources: Federal Statistical Office and Bundesbank calculations. **1** Aggregate of non-city states.
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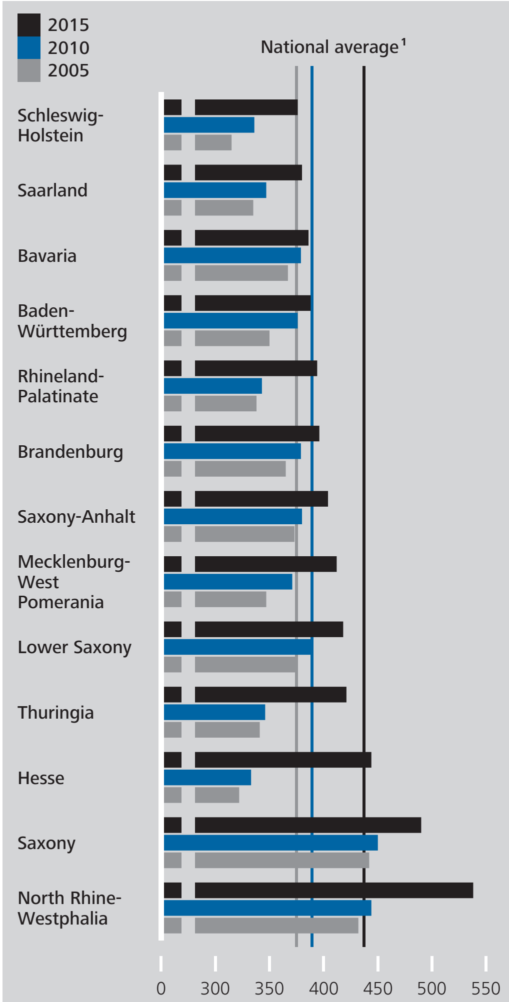
Average multipliers for
real estate tax B by federal state

%



Sources: Federal Statistical Office and Bundesbank calculations. **1** Aggregate of non-city states.
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Non-personal tax multipliers

Last, with regard to tax data, the average effective state multipliers for non-personal taxes also serve as an indicator of the strain on the fiscal position. Municipalities with higher outstanding cash advances tend to also apply higher multipliers to their real estate and local business taxes. Fiscal imbalances can be redressed by increasing rates unless a strong diversion of the tax base is to be expected, which is a risk that can be assumed with regard to local business tax, in particular. Thus, if the local government budgetary rules are strictly implemented, the focus in this context lies on real estate tax B, which is mostly levied on residential buildings.

The increase in local business tax has, in fact, been limited to 3% (11 multiplier points) across Germany over the last ten years. Larger increases were reported by Mecklenburg West-Pomerania, Thuringia and Saxony-Anhalt, where the, at first, lower statewide multiplier values essentially closed in on the average for the non-city states. Overall, the increase has somewhat accelerated over the past five years,

Differences in the budgetary positions of districts and independently administered cities in 2014*

Federal state[1]	Number of units	Total debt € per capita			Cash advances € per capita			Multiplier for real estate tax B %			Multiplier for local business tax %		
		MV	CV	Range	MV	CV	Range	MV	CV	Range	MV	CV	Range
SH	15	1,449	0.55	3,323	303	1.20	1,127	377	0.17	179	367	0.09	107
LS	46	1,573	0.59	4,054	529	1.26	2,953	393	0.12	232	384	0.08	136
NW	53	2,832	0.68	8,268	1,625	1.03	7,484	505	0.16	393	454	0.07	174
HE	26	3,153	0.43	6,844	1,181	0.70	3,649	390	0.16	208	379	0.10	151
RP	36	3,589	0.59	8,293	2,090	0.86	7,406	384	0.07	113	383	0.06	99
BW	44	603	0.46	1,578	19	1.45	116	385	0.15	290	361	0.08	135
BV	96	1,077	0.59	3,555	22	1.96	246	357	0.15	295	351	0.10	198
SL	6	3,039	0.31	2,774	1,755	0.45	2,232	340	0.13	124	408	0.05	64
BB	18	975	0.79	2,604	493	1.68	2,464	400	0.12	137	342	0.14	227
MW	8	1,540	0.27	1,374	513	0.93	1,430	420	0.21	288	364	0.14	162
SN	13	774	0.41	1,304	29	1.23	119	463	0.19	248	408	0.07	78
SA	14	1,391	0.39	1,593	567	0.69	1,173	395	0.13	158	372	0.13	139
TH	23	995	0.37	1,432	134	1.82	1,127	413	0.13	239	386	0.10	142
MV	31	1,768	0.49	3,615	712	1.17	2,425	402	0.15	223	381	0.09	139
Total	398	1,723	0.88	9,130	650	1.78	7,531	400	0.19	490	380	0.12	297

Sources: Federal Statistical Office (regional statistics) and Bundesbank calculations. * Core budgets (debt of municipalities belonging to a district is allocated to the district). Debt owed to the non-public sector and other government sectors and specific public entities. Mean value (MV) and coefficient of variation (CV) not population-weighted for the individual aggregates. **1** SH = Schleswig-Holstein, LS = Lower Saxony, NW = North Rhine-Westphalia, HE = Hesse, RP = Rhineland-Palatinate, BW = Baden-Württemberg, BV = Bavaria, SL = Saarland, BB = Brandenburg, MW = Mecklenburg-West Pomerania, SN = Saxony, SA = Saxony-Anhalt, TH = Thuringia.

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Differences in the budgetary positions of individual municipalities in 2012*

Federal state	Number of municipalities	Total debt € per capita			Multiplier for real estate tax B %			Multiplier for local business tax %		
		MV	CV	Range	MV	CV	Range	MV	CV	Range
Schleswig-Holstein	1,116	895	2.03	38,428	295	0.16	500	329	0.09	215
Lower Saxony	288	1,628	0.70	8,866	365	0.13	340	365	0.09	160
North Rhine-Westphalia	396	1,750	0.79	8,364	431	0.12	560	428	0.06	220
Hesse	426	3,030	0.52	11,360	288	0.15	350	339	0.09	210
Rhineland-Palatinate	2,306	1,965	0.67	14,739	351	0.10	820	358	0.06	600
Baden-Württemberg	1,101	.	.	.	344	0.15	800	347	0.05	165
Bavaria	2,056	1,036	0.77	7,061	338	0.15	500	335	0.09	260
Saarland	52	2,558	0.46	5,693	312	0.12	210	401	0.05	100
Brandenburg	419	791	1.06	7,888	359	0.10	243	318	0.10	250
Mecklenburg-West Pomerania	783	1,119	0.99	15,241	334	0.10	350	309	0.12	250
Saxony	454	829	0.69	4,136	401	0.09	350	388	0.05	215
Saxony-Anhalt	219	1,423	0.54	3,461	357	0.12	395	335	0.11	234
Thuringia	878	926	0.82	7,413	371	0.10	290	355	0.09	300
Mean value	807	1,496	0.84	11,054	350	0.12	439	354	0.08	245
Total	10,494	1,379	0.96	38,488	345	0.15	900	347	0.11	700

Sources: Federal Statistical Office, Integrated debt of municipalities and associations of municipalities, as at 31 December 2012, 2014; regional statistics. * Core budgets and off-budget entities (debt at the district level allocated to municipalities belonging to a district). Non-public sector debt. No data provided on cash advances or debt in the individual municipalities in Baden-Württemberg. Mean value (MV) and coefficient of variation (CV) not population-weighted for the individual aggregates.

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probably against the backdrop of at times pronounced budgetary strain, amongst other things.[54]

By contrast, real estate tax B grew by 16½% (62 multiplier points) throughout Germany. Due also to the typically far more extensive per capita expenditure in large cities, the highest rates[55] in terms of real estate tax B were recorded by the densely populated state of North Rhine-Westphalia, where a noticeably accelerated increase (105 points in total) was recorded of late, apparently in the form – in particular – of a consolidation contribution under the programme to strengthen city finances *(Stärkungspakt Stadtfinanzen)*. Although a high tax level was recorded in Saxony, the increase of 49 points was below average. Developments in Hesse, too, were striking in that a marked rise occurred of late (122 points in total) from a relatively low level in 2005.[56] The dispersion within the individual states increased perceptibly for the most part in this regard.[57]

All in all, notably the data regarding cash advances suggest that there are specific problems in the municipalities belonging to the states of Saarland, Rhineland-Palatinate, North Rhine-Westphalia and Hesse. The distinct increase in multipliers over the past years and the present levels not only of real estate tax B but also of local business tax, eg in Hesse and North Rhine-Westphalia, are consistent with this finding. However, the multipliers in the other states with high cash advances are below average in some cases. Higher levels of real estate tax B in both Saarland[58] and Rhineland-Palatinate, in particular, seem appropriate if budgetary rules are to be strictly enforced.

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54 Interpreting the local business tax multipliers is made more difficult inasmuch as the tax base is often subject to sizeable fluctuations which are related to macroeconomic developments as well as to relocations. This may require considerably higher rates to be applied in crisis years to ensure a certain revenue level. However, there are also instances of small to medium-sized municipalities such as Monheim in North Rhine-Westphalia, which attracted a large number of businesses by switching to a decidedly low-tax-rate policy, which boosted not only its tax revenue capacity but also its actual revenue. The growing importance of such locations slows down the development of the average multiplier.
55 Given that Berlin is a city state, its multiplier of 810% was not taken into account in this calculation.
56 The most extreme example of this is the municipality of Nauheim (around 10,000 inhabitants; near Rüsselsheim in Hesse) – a participant in the state programme for partial debt-relief – where the multiplier tripled to 960% between 2013 and 2014. In terms of local business tax, the multiplier was increased by not nearly as much in that same year, ie by 20 percentage points to around 400%.
57 In North Rhine-Westphalia, for example, multipliers in 2005 ranged from as low as 240% in the town of Schloss Holte-Stukenbrock to 530% in the cities of Bottrop and Gelsenkirchen. In 2015, the lowest value of 260% (Harsewinkel) stood only just above the minimum value recorded in 2005. By contrast, at 876% (Bergneustadt), the highest value represented a considerably more marked increase and as much as one-quarter of all municipalities (population share of just over two-fifths) had raised the multiplier above the highest state-wide value of 2005.
58 In the case of Saarland, the deficit would have been lower by one-fifth if an average multiplier such as that in North Rhine-Westphalia had been applied and three-fifths lower if the Berlin multiplier had been applied.