Local government finances in Belgium

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Introduction

The purpose of this article is to offer a picture of the budget situation of local authorities in Belgium and the main financial challenges they face, as the October 2018 local elections loom.

Section 1 presents the local authority budget balance and debt situation. Section 2 describes the budgetary framework applicable to local authorities. Section 3 analyses the revenues and looks at the determinants of the municipal tax burden. Section 4 examines expenditure and the budgetary challenges that local authorities have to address. The article ends with a number of conclusions.

1. The local authority budget situation

This section examines the budget situation of local authorities in terms of the budget balance and the debt level. From a macroeconomic viewpoint, that situation is currently sound.

1.1 Budget balance

In the late 1970s and early 1980s, local authorities recorded substantial budget deficits. During that period, some cities faced serious financial problems.

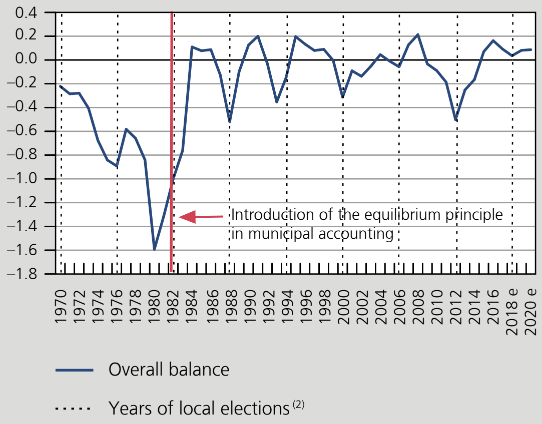
Following the introduction of a strict budget framework for the municipalities in 1982, described in more detail in section 2, the budget balance showed a marked improvement. Since the mid-1980s it has hovered around equilibrium.

Fluctuations in the budget balance depend partly on the government's electoral investment cycle. That cycle implies that investment expenditure generally increases in the year preceding the local elections, peaking during the election year and causing public finances to deteriorate. In the two years following those elections, investment expenditure usually declines so that local finances improve once again.

(*) The authors are grateful to Patrick Bisciari for his contribution to this article.

CHART 1 SINCE THE CONSOLIDATION OF THE EARLY 1980S, THE LOCAL AUTHORITY BUDGET BALANCE HAS HOVERED AROUND EQUILIBRIUM

(in % of GDP)[1]



Sources: NAI, NBB.

(1) In the chart, all data predating 1995 – for which the NAI does not publish statistics according to the ESA 2010 methodology – have been retropolated based on series obtained from the accounts of government compiled according to the ESA 1995.

(2) This applies to all charts in the article.

During 2012, which was a local election year, the deficit reached its highest level in a long time. The ensuing years saw a systematic improvement in local authority finances, restoring a balanced budget in 2015 and creating small surpluses in 2016 and 2017.

According to the Bank’s most recent estimates, the local authority budget balance will slightly deteriorate in 2018 owing to the local elections. It should then pick up again and show a surplus – though only a small one – in 2019 and 2020.

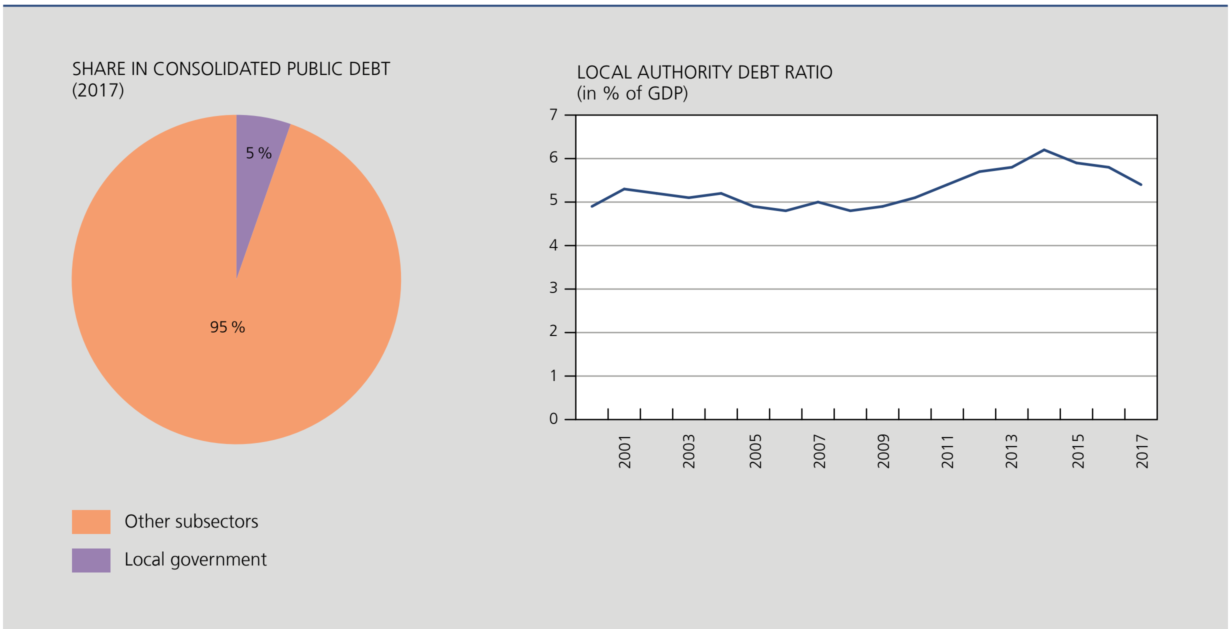
1.2 Debt ratio

After having fluctuated around 5 % of GDP in the first decade of this century, local authority debt reached 6.2 % of GDP in 2014; since then it has fallen slightly. In 2017, the debt ratio stood at 5.4 % of GDP. The local authorities’ share in the general government debt – which still exceeds GDP – is therefore small.

With a view to sustainability, it is advisable to keep the local authorities’ debt low, as their own revenues – namely those that they can increase autonomously – are relatively limited.

CHART 2 THE LOCAL AUTHORITY DEBT LEVEL IS LOW AND STABLE

(contribution to consolidated gross debt; in % of GDP, unless otherwise stated)



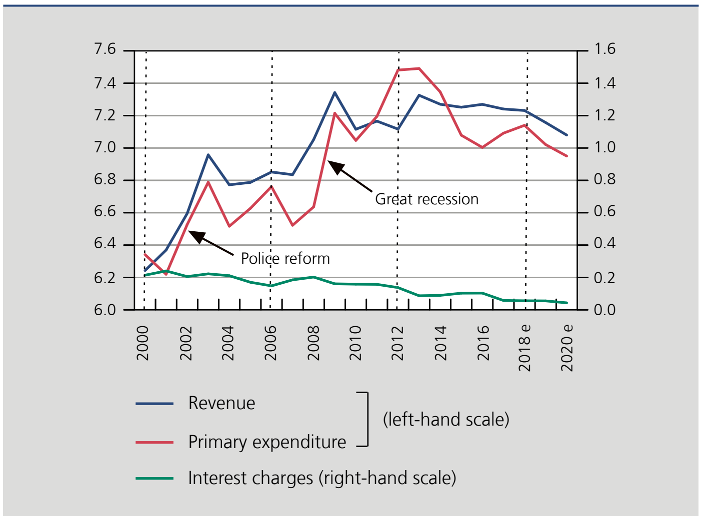
Source: NAI.

1.3 Revenue, primary expenditure and interest charges

From the turn of the century and up to 2013, revenue and primary expenditure have maintained a relatively similar upward trend.

CHART 3 PRIMARY EXPENDITURE HAS FALLEN DURING THE CURRENT LEGISLATURE, WHEREAS IT HAD PREVIOUSLY INCREASED

(in % of GDP)



Sources: NAI, NBB.

The sharp rise in revenue and primary expenditure in 2002 was due largely to the police service reform which led to the incorporation of a large number of former gendarmes in the local police. In 2009, the increase in revenue and primary expenditure in relation to GDP was attributable mainly to a numerator effect, as GDP had fallen during that recession year.

After the 2012 local elections, the increase in revenue and primary expenditure ceased. Primary expenditure peaked at 7.5 % of GDP in 2012 and 2013, but subsided significantly from 2014. This slowdown, combined with stabilisation of the revenue ratio, was the factor behind the recovery of the local authority budget balance and the creation of small surpluses in recent years.

The primary expenditure ratio ceased falling in 2017 and is not expected to decline further in 2018, on account of the local elections being held this year. It is predicted to resume its downward trend from 2019 onwards. After having stabilised in recent years, the revenue ratio is set to fall in the years ahead. One reason for that decline is the tax shift approved by the federal government, which also affects local authority revenues via the additional percentages on personal income tax.

Interest charges came to 0.1 % of GDP in 2017. Compared to their 2000 level they have more than halved in relation to GDP.

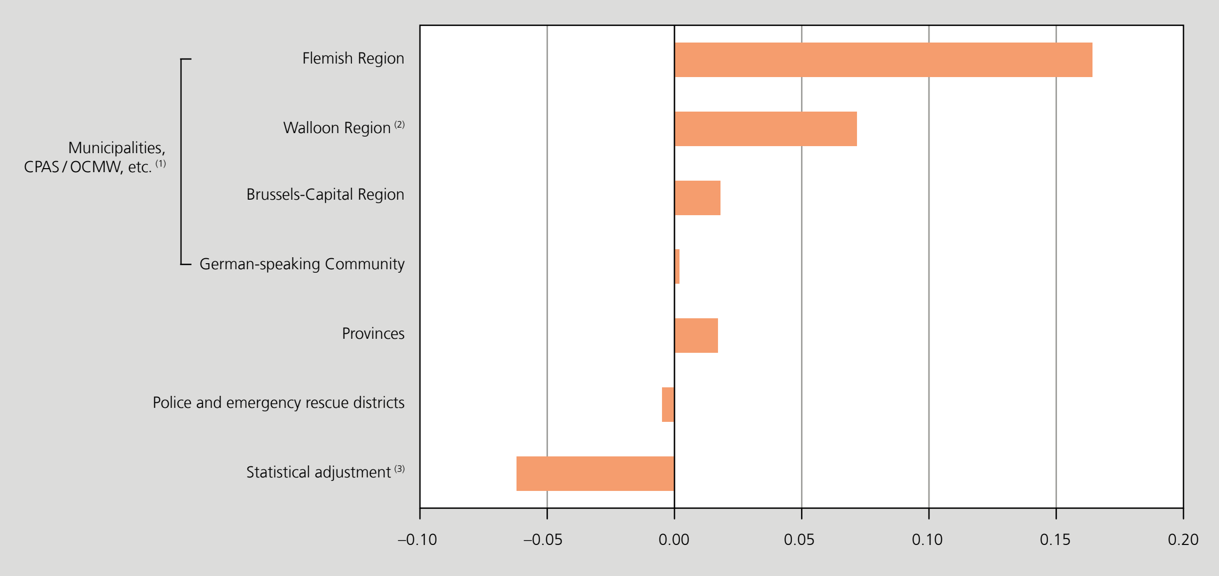
1.4 Budget balance of local government components

The local authority budget balance can be broken down by Region (separate figures are also available for the German-speaking Community, which forms a part of the Walloon Region) and by type of local authority. Local government comprises the municipalities, the CPAS/OCMW (Public Social Welfare Centres), provinces, police and emergency rescue districts, and other entities (such as the autonomous municipal undertakings which are classified in the general government sector).

Almost all components of local government recorded a balanced budget or a small surplus in 2016; only the police and emergency rescue districts had a very small deficit. The budget surplus in 2016 was attributable mainly to the

CHART 4 ALMOST ALL THE LOCAL GOVERNMENT COMPONENTS WERE IN BALANCE IN 2016

(2016 overall balance by region and by type of local authority, in % of GDP)



Sources: NAI, NBB.

(1) Mainly the autonomous municipal undertakings and local authority associations which are part of the general government sector.

(2) Except for the German-speaking Community.

(3) The statistical adjustment is due mainly to the timing of the imputation of taxes and the alignment of the transfers with the amounts stated in the federal government accounts and the accounts of the Communities and Regions.

substantial surplus recorded by the municipalities. In the case of local government by Region (and the German‑speaking Community), the balance was also positive for all supervisory authorities.

The 2016 figures are a clear improvement compared to preceding years, as almost every local government component was still in deficit between 2011 and 2013.

2. The budgetary framework applicable to local government

2.1 The equilibrium principle

In 1982, a strict budgetary framework was imposed on local government in order to put an end to the high deficits of those days.

The equilibrium principle for the municipalities was introduced by a special decree which was subsequently incorporated in the Municipal Law (Article 252). That principle, which was to apply from 1988, obliges the municipalities to produce a balanced budget. In practice, this rule means that the overall total of both the ordinary budget and the extraordinary budget must be in balance.

The municipal accounts are in fact divided into two budgets: one for ordinary transactions and one for extraordinary transactions. Each budget comprises two balances, namely the balance for the actual year, which consists of the current year's revenue and expenditure, and an overall total which also takes account of the result for preceding years and any transfers. The balance of the overall total implies that the figures for the actual year do not necessarily have to balance every year, as any surpluses from preceding years can offset a deficit in the current year.

The ordinary budget comprises the municipality's recurrent revenue and expenditure, including capital repayment and interest charges on borrowings, while capital transactions such as investment projects and management of the municipality's assets are recorded in the extraordinary budget. The municipalities can only contract loans for extraordinary budget transactions; expenditure under the ordinary budget – i.e. including capital repayment and interest charges – must always be covered by their own revenue.

The law stipulates that the budget of other local authorities such as the police districts, emergency rescue districts and CPAS/OCMW, must likewise always balance. If their budget nevertheless goes into deficit, the municipality concerned has to correct that by means of grants so that the equilibrium principle is always respected.

2.2 Exercise of budgetary control by the Regions

Since the regionalisation of the Municipal Law and the Provincial Law [1] in 2002, the Regions have the power to exercise control over local government finances. As a result of that regionalisation, other rules and standards apply to the municipal accounts in the three Regions, and other criteria govern the equilibrium principle. Overall, the Regions have strengthened the local government budgetary framework in recent years.

2.2.1 Flemish Region

In the Flemish Region, it was decided to introduce a totally new system for the local budget, known as the "policy and management cycle" (*beleids- en beheerscyclus* – BBC). It has applied since 2014 to all local authorities in the Flemish Region, except for the police and emergency rescue districts, and replaces the familiar concepts of the ordinary and extraordinary budgets.

The aim of this new policy and management cycle is that local authorities should produce multiannual plans in which the policy objectives are linked to the financial resources. From now on, during the first year of the legislature,

(1) The regionalisation of the Municipal Law and the Provincial Law was approved in the Saint-Michel agreement (1993) and implemented in the Lambermont agreement (2001).

the municipalities, CPAS/OCMW and provinces draw up a multiannual plan covering a period from the second year of the current legislature to the first year of the next legislature. The first cycle therefore runs from 2014 to 2019 inclusive.

The state of financial equilibrium is an important element of the policy and management cycle and comprises two equilibrium criteria which must be respected: the annual equilibrium situation and the long-term structural equilibrium.

The annual equilibrium situation implies that the cash result (or available budgetary outcome) must be positive each year. The annual cash result is equal to the difference between the budgeted revenue and expenditure plus the results for preceding years but minus the unavailable funds.

The long-term structural equilibrium implies that the self-financing margin must be at least zero during the final year of the financial statement of the multiannual plan. This margin is calculated as the difference between the operating revenue and expenditure including the capital repayments and interest charges. If the margin is positive, the local authority can meet all its financial commitments out of its operating revenue and can therefore fund new investments without resorting to borrowing. As the margin takes no account of reserves created in the past, it is stricter than the equilibrium principle that previously applied. If the margin is negative during the final year of the planning period, the governor of the province may suspend the multiannual plan. An additional obligation applies to the CPAS/OCMW, for which the aggregate margins must be positive in each year of the planning period.

When drawing up the next policy and management cycle, which will begin in 2020, the result of an initial appraisal of the first cycle will be taken into account. Among other things, the financial equilibrium criteria were revised in the adjusted policy and management cycle decree. For instance, the check on the financial equilibrium situation (i.e. both the annual cash balance and the structural balance) will no longer be confined solely to the local government but must also be effected on a consolidated basis which will include, for example, entities connected with the municipalities such as the CPAS/OCMW, autonomous municipal undertakings and districts. In addition, the self-financing margin will be supplemented by an adjusted margin. Among other things, this adjusted version takes account of alternative forms of borrowing, such as "bullet" loans, which are repaid in full on the due date and therefore do not appear in the self-financing margin in intermediate years, which may distort the picture.

2.2.2 Walloon Region [1]

In the Walloon Region, the key principle to be respected is still the equilibrium of the overall total, as Article 252 of the Municipal Law was incorporated in the Local Democracy and Devolution Code. Since the drafting of the municipal budgets in 2014, the Walloon Region has introduced – via budget circulars – two new elements to promote sound public finances in the municipalities, namely the principle that the ordinary budget for the actual financial year must be in balance, and a limit on investment expenditure financed by borrowing.

The ordinary budget for the actual financial year, i.e. minus the result for preceding years or any reserves, had to balance in 2014. For 2014 a balanced budget was recommended but it became mandatory from the 2015 budget onwards. Municipalities which fail to respect that principle have to submit a convergence plan, specifying among other things when that balance is to be restored. Municipalities facing structural financial problems may also claim supplementary funding from the Region. In exchange for a management plan, they can obtain a long-term special loan from the Regional Municipal Aid Centre (CRAC). That management plan imposes a number of additional restrictions on the municipalities, e.g. regarding expenditure.

At the same time, an investment ceiling was introduced for investments funded by borrowing. This therefore does not apply to investments financed out of own funds or specific grants, and certain forms of investment are also exempt. This concerns in particular investments which generate savings at least equal to the financial costs, profitable investments which generate sufficient revenue to cover the cost of borrowing, or investments which are necessary to comply with health or safety standards. The investment ceiling is set at € 180 per capita per annum, or no more than the average cost of loan repayments over the past five years for municipalities whose ordinary budget for the actual financial year is in balance. Municipalities subject to a convergence plan must limit their investment expenditure based on borrowing to

(1) The budgetary framework explained below does not apply to the nine German-speaking municipalities, for which the German-speaking Community is the supervisory authority.

€ 165 per capita per annum. For municipalities subject to a management plan, the investment ceiling is set at € 100 or € 150 per capita per annum. That investment ceiling is calculated on a consolidated basis for the municipalities and for all their associated entities, such as the CPAS / OCMW. If that investment ceiling is not respected, the supervisory authority cannot approve the extraordinary budget unless exceptional circumstances apply.

With effect from 2018, the investment ceiling is now checked over a three-year period instead of on an annual basis. As the level of the ceiling remains unchanged, the effect of that flexibility is rather limited. Investments funded by borrowing during those three years must not exceed three times € 180 per capita, but the municipality is no longer tied to € 180 per capita in any one year.

The January 2018 investment plan of the Walloon Region's government also specifies that the investment ceiling system will be subject to review. The options include increased flexibility via calculation over six years, or abolition of the system.

2.2.3 Brussels-Capital Region

For municipalities in the Brussels-Capital Region, the equilibrium principle still applies in the form initially included in Article 252 of the Municipal Law. However, the annual circulars that the Region sends out when the municipal budgets are being drawn up set out a number of guidelines on certain revenues and expenditure. For instance, the circulars specify a maximum permitted growth rate for operating expenditure. For the extraordinary budget, according to the current guideline, new borrowing must be restricted to the expected capital repayments for the year, so that the overall municipal debt does not increase.

2.3 Result of the application of the budgetary framework for local government

The budgetary framework applicable to local government can be called strict. It has attributed to the positive budget balance that local authorities in general have recorded in recent years in the general government accounts drawn up according to the ESA 2010, even though the local authority accounting framework does not correspond exactly to that for the general government accounts. The fact that the strict budgetary framework in force for local authorities applies from the moment that their budget is drawn up has contributed to that outcome. If some of the expenditure included in the budget is more difficult to implement than expected, such as investments affected by delays, the actual expenditure is ultimately lower than expected. Finally, it is likely that some municipalities have already limited the expenditure in their budget so as to meet the new equilibrium criteria, such as the investment ceiling in the Walloon Region or the self-financing margin in the Flemish Region.

3. Local government revenues

3.1 Composition and trend

Local government revenues will come to 7.2 % of GDP in 2018. The transfers that local authorities receive from other levels of government form their main income stream and represent almost half of their total revenues. Tax revenues, consisting mainly of the additional percentages on personal income tax and property tax are another important source of income. The same is true of revenues from assets and other non-tax revenues, such as income from the sale of goods and services. These revenue categories are discussed in more detail below.

TABLE 1 LOCAL GOVERNMENT REVENUES
(in % of GDP, local election years)

	2000	2006	2012	2018 e
Total revenues	**6.2**	**6.9**	**7.1**	**7.2**
Tax revenues	1.8	2.2	2.1	2.2
Additional taxes (additional percentages)	1.6 (1)	1.9	1.9	1.9
Local taxes	0.2	0.3	0.2	0.2
Transfers from other public authorities	2.9	3.2	3.3	3.5
Federal government (2)	0.7	0.8	0.9	0.9
Communities and Regions	2.2	2.3	2.4	2.5
Non-tax revenues	1.6	1.5	1.7	1.6
Revenues from assets	0.5	0.4	0.3	0.2
Other, including sales of goods and services	1.1	1.2	1.4	1.4

Sources: NAI, NBB.
(1) In 2000, the additional personal income tax revenues were exceptionally low, mainly owing to a delay in the rate of assessments.
(2) Including social security.

3.2 Transfers from other general government subsectors

The transfers that local authorities receive from other general government subsectors depend largely on the decisions of those subsectors. It should be noted that these transfers have risen somewhat since the turn of the century. That rise is due partly to the growth rate of the Municipal Funds. In recent years there have also been some initiatives at both regional and federal level whereby transfers are used to offset the (budgetary) impact of certain decisions on local government finances.

3.2.1 Transfers from the Regions

Most of the transfers that local authorities receive come from the Regions, since the Municipal Fund was fully regionalised in 1989. Each Region (and – since 2005 – the German-speaking Community) applies its own growth rate to its Municipal Fund and allocates its resources among the municipalities according to its own rules.

In recent years, the Regions have adhered to the growth rates of their Municipal Funds which are set by decree or by order, and have not cut these allocations. In the Flemish Region, a growth rate of 3.5 % has applied since 2005, whereas in the Walloon Region (except for the German-speaking municipalities) the rate has been adjusted each year since 2010 on the basis of the estimated inflation in the budget year concerned plus 1 %, and in the Brussels-Capital Region, the growth rate has been set at a minimum of 2 % since 1999.

Only the German-speaking Community, which became the supervisory authority for the nine German-speaking municipalities in 2005 and which takes charge of their general financing, has cut back its Municipal Fund in recent years. Thus, the increase of 1 % above inflation laid down by decree was not applied in 2013 and in 2014.

The resources derived from the Municipal Funds are allocated to the municipalities according to some of their specific characteristics. Points taken into account include centrality, demographic variables and socioeconomic factors. In each region the funds are thus allocated in inverse proportion to the fiscal capacity of the municipality's residents in terms of the additional percentages on personal income tax and property tax. The municipalities can make free use of the resources that they receive from the Municipal Fund.

Conversely, in recent years the Flemish and Walloon Regions have both trimmed their Provincial Funds. In the Flemish Region, the 3.5 % growth rate laid down by decree was no longer applied from 2013. The basic amount was cut in 2014, and the Fund was abolished in 2015. The Walloon Region cut down its Provincial Fund resources in 2015. These reductions were associated with the transfer of responsibilities to the Region, and economies are also planned in 2018.

Apart from the Municipal and Provincial Funds, local authorities also receive a whole range of allocations and specific grants from the Communities and Regions. In the Flemish Region, various grants have been transferred to the general funding in recent years, under a decree regulating periodic planning and reporting obligations (Planlastendecreet). These grants now come under the Municipal Fund, but are not adjusted in line with the growth rate laid down in the decree and are awarded automatically to the local authorities. The Cities Fund was also incorporated in the Municipal Fund in order to limit the administrative expense for cities. In addition, in the Brussels-Capital Region it was decided to incorporate a number of specific allocations in the general allocation as part of the recent Municipal Fund reform.

3.2.2 Federal funding for legally compulsory expenditure

The main transfers from the federal government concern statutory tasks performed by certain local government components, in this case the CPAS/OCMW and the police and emergency rescue districts. These allocations generally only cover part of the true cost. Consequently, the municipalities often have to use their own funding to enable those entities to execute their tasks while presenting a balanced budget.

The CPAS/OCMW centres receive a federal grant to fund the payments that they make in connection with the right to social inclusion, in the form of an integration allowance and subsidised jobs[(1)]. In principle, the federal government refunds to the CPAS/OCMW 55 % of the amount paid out in integration allowances. That percentage may be increased if the municipality has a large number of claimants. A range of specific factors are taken into account in calculating the grant. For instance, the grant corresponding to the integration allowance comprises a compensation for the unemployment benefit reform. In recent years, account has also been taken of the increasing number of recognised refugees resulting from the asylum crisis. The CPAS/OCMW centres likewise receive total or partial reimbursement from the federal government for the support that they provide in connection with the right to social assistance, which consists essentially in providing (financial and material) support for asylum seekers and residence permit holders who are not on the population register.

The local police districts are funded by federal grants and municipal allocations. The federal grant actually comprises miscellaneous federal allocations. The largest is the basic allocation, which is distributed according to the "KUL" rule, a formula based on scientific research to define the police capacity that a police district needs. There are also various other social grants whereby the federal government bears certain costs relating to the salaries of former gendarmes. However, in recent years the federal government has not disbursed all the funds allocated to the police districts. For instance, there has been considerable delay in paying out part of the resources derived from the Road Safety Fund.

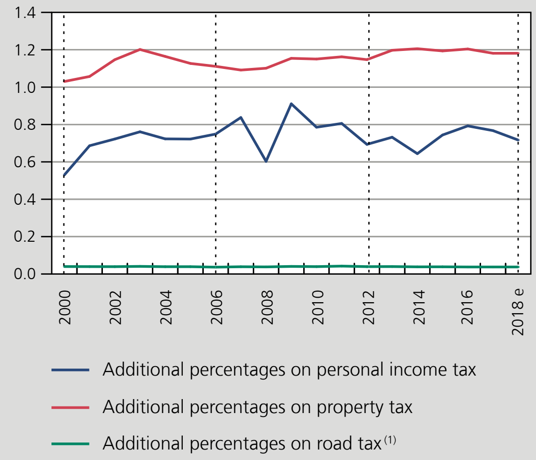
The emergency rescue districts which have been in operation since 2015 are also funded partly by the federal government. At the time of the reform which converted the fire services into emergency rescue districts, it was agreed that the districts should eventually be funded in equal shares out of federal government resources and municipal resources. In 2017, the municipalities provided 79 % of the finance, and the federal government 21 %. Although the breakdown is not yet 50:50, it represents an improvement compared to the situation prevailing before the fire service reform. At that time it is estimated that the municipalities provided 90 % of the finance and the federal government 10 %.

3.3 Additional taxes

Just over a quarter of local authority finance comes from tax revenues levied in the form of additional percentages. The municipalities, and the Brussels conurbation up to the 2017 tax year, thus levy additional percentages on personal income tax. Percentages added to the property tax are levied by the municipalities, the provinces and the Brussels conurbation. Finally, the municipalities also receive an additional 10 % on the road tax.

(1) Instead of paying an integration allowance, the CPAS/OCWM may also offer a job (granting a subsidy in the event of employment outside the CPAS/OCMW).

CHART 5 ADDITIONAL TAXES
(in % of GDP)



Sources: NAI, NBB.
(1) The percentage added to road tax is the same for all municipalities, which have no powers of decision on the subject.

The revenues from the additional percentages on personal income tax and property tax are affected by the tax rates and changes in the tax bases, but also by the speed of assessment.

3.3.1 Tax rates

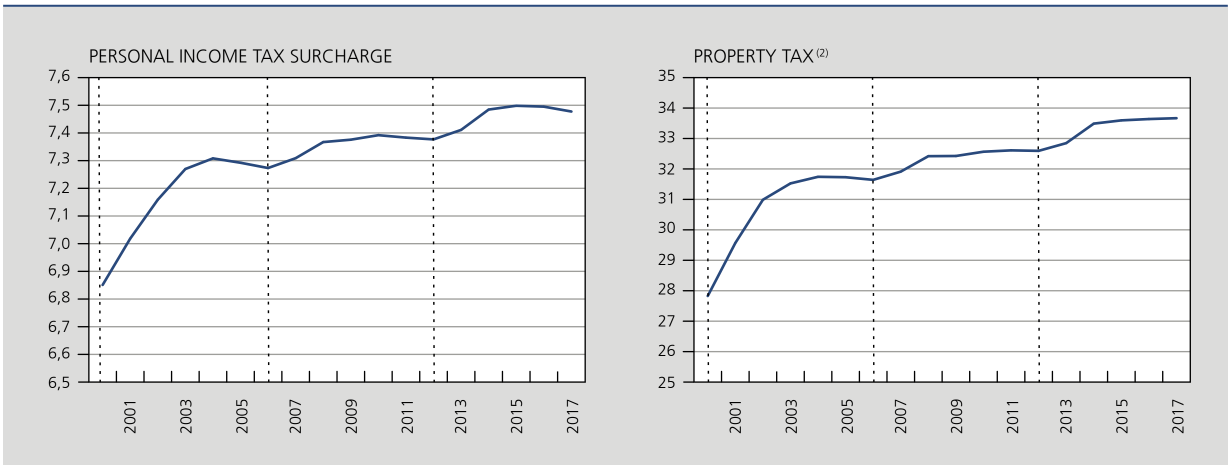
On average, the rate of the additional tax levied on personal income by the municipalities has tended to rise in recent years. It has increased, in particular, in the years following the local elections. In the early 2000s, there was a marked rise in the average rate, probably owing to the personal income tax reform adopted by the federal government at that time, which reduced the tax base of the municipalities. However, there has been no significant reduction in the average rate prior to the local elections, so that the rate has risen steadily.

Under the recent tax reform by the Brussels-Capital Region, the additional percentages levied by the Brussels conurbation on personal income tax were cut to zero with effect from the 2017 tax year.

Overall, the rate of municipal surcharges on property tax has also tended to rise. Under the said tax reform, the additional percentages levied by the Brussels conurbation on property tax were increased with effect from the 2016 tax year. Under the provincial reform, the additional percentages on property tax levied by the Flemish provinces will be limited with effect from the 2018 tax year.

CHART 6 THE AVERAGE RATE OF ADDITIONAL MUNICIPAL TAXES HAS RISEN IN RECENT YEARS

(average rate charged by municipalities (1))



Source: FPS Finance.
(1) Unweighted average.
(2) Percentage rate calculated as the product of the regional property tax rate and the municipal surcharges.

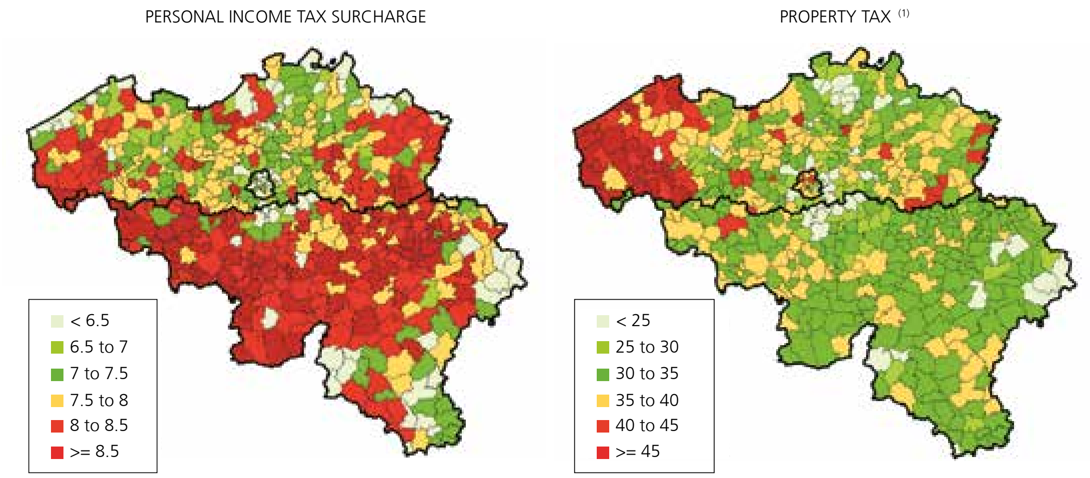
Box – Determinants of the rates of municipal additional percentages on personal income tax and property tax

The Belgian municipalities have full autonomy to decide on the rate of the additional percentages on personal income tax (income tax surcharge) and on property tax (property tax surcharge). The personal income tax surcharges are levied on the tax collected at federal level and – since 2015 – at regional level. The progressive character of the municipal surcharge on personal income tax is therefore the same as for higher levels of government. The municipal surcharges on property tax are levied on the regional tax which has the cadastral income as a tax base.

The municipalities' fiscal autonomy has led to very different decisions on the rates of income tax surcharge and property tax surcharge, as is evident from the distribution of those rates. In 2017, the income tax surcharge rates ranged between 0 % (in Knokke-Heist, De Panne and Koksijde) and 9 % (Mesen), the median being 7.7 %. The average rate per region was lowest in the Brussels-Capital Region and highest in the Walloon Region. The rates of property tax surcharge varied between 15 % (in Amblève) and 56.25 % (in Alveringem), the median being 32.5 %. The Walloon Region charged the lowest rates and the Brussels-Capital Region charged the highest. In regard to these two taxes, the Flemish Region is in an intermediate position. Where the income tax and property tax surcharge rates are concerned, there is some geographical correlation, with neighbouring municipalities often adopting similar rates.

What are the factors that determine whether municipalities adopt a higher or lower surcharge on income tax or property tax? First, we can examine the financial capacity of the population in relation to the respective taxes. In principle, we might expect that municipalities obtaining a lower per capita yield from each percentage point of the rate would adopt higher rates in order to maintain the level of revenues. However, empirical research on the Flemish Region shows that this correlation is of little or no significance in the case of the income tax surcharge, whereas there is a small but significant correlation in the case of the property tax surcharge (Merlevede et al, 2011).

MUNICIPAL RATES OF SURCHARGE ON PERSONAL INCOME TAX AND PROPERTY TAX
(tax year 2017)



Source: FPS Finance.
(1) This is the rate expressed as a percentage and calculated as the product of the regional rate of property tax and the municipal surcharges on that tax.

Thus, an extra per capita yield of one euro per percentage point of property tax rate – for an average yield of € 13 – results in a property tax rate which is around 0.3 percentage point lower. In that connection it should be noted that the allocations from the Municipal Funds already level out the tax capacity of the municipalities to some degree.

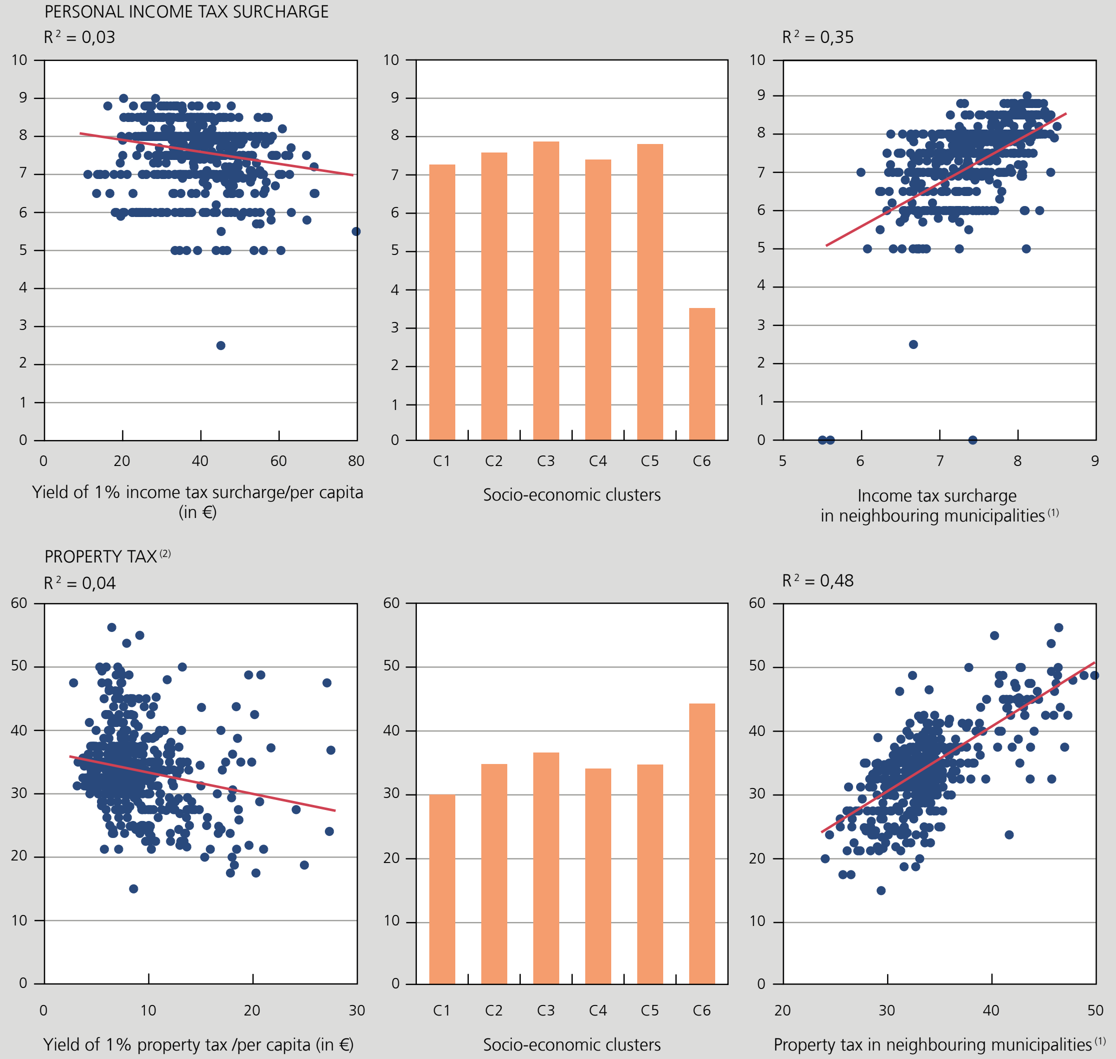
Next, other socio-economic factors influencing financial capacity or expenditure needs may determine the rates charged by each municipality. Thus, apart from the level of income, factors such as the composition of the population by age and nationality, population density, the level and nature of economic activity, and the residential, rural or urban character of the municipality or its central location may also play a role. On the basis of a range of socio-economic variables, Dessoy (2007) produced a typology of Belgian municipalities, grouping together municipalities with a similar socio-economic environment in categories which are as homogenous as possible. The result was six main clusters, the dominant characteristics of which are shown in the table below.

MAIN CLUSTERS DERIVED FROM THE SOCIO-ECONOMIC TYPOLOGY OF BELGIAN MUNICIPALITIES ACCORDING TO DESSOY (2007)

Clusters	Dominant characteristics
C1. Residential municipalities	High standard of living and low centrality
C2. Rural (or semi-rural) municipalities	Low degree of urbanisation and low centrality
C3. Semi-urban or conurbation municipalities	Low standard of living, high degree of urbanisation
C4. Municipalities with concentrated economic activities	Substantial industrial activity
C5. "Central" municipalities	High centrality
C6. Coastal municipalities	Substantial tourist activity

The cluster that differs most from the others is the coastal municipality cluster. These municipalities feature significant tourist activity and a high degree of external attractiveness. Their unique situation enables them to set an above-average rate of property tax surcharge and a below-average rate of personal income tax surcharge. In the case of the other clusters, the differences are generally small. On average, the residential municipalities adopt slightly lower rates, particularly for the property tax, because they combine a relatively high financial capacity with low centrality or a low level of facilities. Similarly, in municipalities with a high concentration of economic activities,

DETERMINANTS OF MUNICIPAL RATES OF SURCHARGE ON PERSONAL INCOME TAX AND PROPERTY TAX



C1: Residential municipalities
C2: Rural (or semi-rural) municipalities
C3: Semi-urban or conurbation municipalities
C4: Municipalities with a concentration of economic activity
C5: Central municipalities
C6: Coastal municipalities

Sources: Dessoy (2007), FPS Finance, municipalities, NAI.
(1) These are average rates for first and second order neighbouring municipalities.
(2) This is the rate expressed as a percentage and calculated as the proceeds from the regional property tax and the municipal surcharges on that tax.

the rates are somewhat lower than in other non-coastal municipalities. They can rely on income from industrial activity which is highly developed. Semi-urban or conurbation municipalities and "central" municipalities charge slightly above-average rates. Semi-urban municipalities combine a relatively low standard of living with a high degree of urbanisation, reflected in a concentration of population, built-up areas and traffic flows. The latter two groups have highly centralised facilities and a high level of external attractiveness.

Even taking account of the said socio-economic factors, there is still a considerable geographical correlation in rates of income tax and property tax surcharges. Empirical studies in various countries have shown that municipalities in close proximity to one another tend to mimic each other in regard to revenue and expenditure. There is convincing evidence that local authorities take account of one another. According to the "yardstick competition" model, some local authorities mimic the policy of others because, in the absence of additional or better information, local voters take the results achieved in neighbouring municipalities as the basis for assessing their authority's policy. This may lead to some municipalities copying the fiscal policy of others. For Belgium and for the Flemish Region, too, (see in particular Heyndels and Vuchelen, 1998, and Merlevede et al, 2011), a long-term significant positive causal link has been demonstrated between, respectively, income tax surcharge and property tax surcharge rates in neighbouring municipalities, whether or not second order neighbours are included. The existence of "yardstick competition" generally implies a more effective policy since voters also use information on neighbouring municipalities to assess their politicians, thus increasing the politicians' accountability.

3.3.2 Tax base developments

The tax base for additional taxes consists of the tax revenues on which the additional percentages are levied. The local authority tax base is therefore determined partly by the decisions of the authorities levying the basic tax. In the 1990s, the federal government's decision not to index the personal income tax scales thus had a positive influence on the additional personal income tax revenues, while the federal government's decision in 2015 to reduce the burden on labour via the tax shift had a negative impact.

According to calculations by FPS Finance, on a cumulative, ex ante basis, the decline in local authority revenues due to the tax shift will gradually increase to reach € 331 million in 2021. However, the tax shift will also have some positive effects, such as boosting employment, which will attenuate its negative ex ante impact.

It should be noted that the statutory and contract officials of local authorities do not qualify for the reduction in social security contributions under the tax shift, as that reduction was reserved for the private sector.

TABLE 2 THE TAX SHIFT WILL DEPRESS LOCAL AUTHORITY REVENUES

(cumulative ex ante impact on primary balance (1), in € million)

	2015	2016	2017	2018	2019	2020	2021
Federal government	59	–799	–178	–1 420	–2 940	–3 492	–3 317
Regions	0	–65	–323	–458	–680	–1 015	–1 138
Local authorities	**0**	**–14**	**–76**	**–131**	**–178**	**–279**	**–331**
General government	59	–878	–577	–2 009	–3 798	–4 786	–4 786

Sources: FPS Finance, NBB.
(1) This is a simulation by FPS Finance dating from December 2016, based on the SIRe microsimulation model.

In some cases, the authority levying the basic tax took account of the impact of its decisions on the local authority tax base. The municipalities thus receive an "endowment" to make up for the fact that many buildings in their territory are exempt from the property tax. In the Walloon Region, compensation was provided for the municipalities at the time of the property tax reform and the reduction in the taxation burden of businesses under the Marshall Plan. The Brussels-Capital Region also provided compensation for the abolition of the property tax on machinery and equipment.

3.3.3 Speed of assessment

The speed of assessment mainly influences variations in the revenue from the surcharges on personal income tax. If the assessments are much slower or faster in certain years, the revenue from the additional personal income tax will be considerably lower or higher respectively.

In the past, the speed of assessment and the composition of the assessments determined the transfers from the federal government to the municipalities. It was therefore hard for the municipalities to predict how much they would receive by way of surcharges on personal income tax, and the amounts fluctuated widely from one month to the next. However, a system of personal income tax advances for the municipalities was introduced in September 2017, so that they receive a certain sum each month. This system of advances gives the municipalities some financial security on a cash basis, but it has no impact on the government budget balance according to the ESA 2010. In the government accounts, the amounts actually assessed still determine the surcharge on personal income tax taken into account, and advances are regarded as purely financial transactions.

3.4 Local taxes

The Belgian Constitution grants fiscal autonomy to the municipalities and provinces. Local authorities exercise that right by raising various taxes, but these only represent a small part of their revenue.

Familiar examples of local taxes include the tax on motive force, the tax on second homes, various forms of advertising tax (taxes on billboards, distribution of advertising material, illuminated signs), the tax on derelict buildings and slums, and the tourist tax. The municipalities (and provinces) also levy numerous other taxes which do not generally yield very much. For instance, there are taxes on dogs, financial institutions, and cash dispensers, private swimming pools, film screenings, sporting events, boat hire, etc.

As the supervisory authorities, the Regions have tried to limit the burden of local taxes in recent years.

In the Flemish Region the Flemish government and the Flemish municipalities and provinces concluded a "Local Pact". In exchange for a number of tax commitments on the part of the municipalities, including the abolition of the tax on office space and on staff, and the promise not to levy new, flat-rate taxes on households until 2012, the Flemish government took over part of the municipal debt in 2008. The debt transfer was limited to € 100 per capita and totalled € 626 million.

The Walloon Region initially tried to ease the local tax burden by means of the circular entitled "Tax truce for Wallonia". That circular, which among other things specified a maximum rate for a number of taxes and abolition of certain local taxes, was cancelled by the Council of State in 2002 because it restricted the fiscal autonomy of the municipalities. In recent years, the Walloon Region's circulars on the preparation of the municipal budget have included guidelines on local taxes which can be interpreted as strong recommendations by the Region. They thus list the local taxes which may be charged, and recommend a maximum rate for each of them, including the additional taxes.

In 2007 the Brussels-Capital Region created a tax compensation fund which aimed to involve the municipalities in the region's economic development via municipal taxation. In order to qualify for an indemnity from the tax compensation fund, Brussels municipalities have to conclude a three-year contract with the Region in which, among other things, they undertake not to increase the existing taxes and not to introduce any new ones without consultation. The first thing that the tax compensation fund achieved was abolition of the taxes on motive force and on computer screens. It was recently decided to regionalise the "hotel tax" in order to replace various local taxes levied on tourist accomodation; the tax compensation fund indemnified the municipalities for the abolition of that tax in 2016, while they have agreed to limit the additional percentages that they may impose on that levy.

3.5 Non-tax revenues

The past two decades have seen a steady decline in local authorities' income from assets. On the one hand, local authorities have sold off a number of substantial shareholdings, notably in the energy sector, leading to the disappearance of the dividend flows that the shares generated. As well as that, the low interest rate environment has also depressed income from assets.

Other non-tax revenues consist mainly of the proceeds from sales of goods and services. These include an indemnity to cover various services provided by the CPAS/OCMW, e.g. in the form of meals, child care or home care. However, the indemnity meant to fund those services is often set from a social point of view and therefore does not necessarily cover the costs involved. The proceeds from various "charges" or payments intended to fund a service provided by the local authorities, such as the levies on parking fees, refuse collections bags or container parks, are also considered to be revenue derived from the sale of goods or services in the general government accounts.

4. Primary expenditure of local government

This section examines the main expenditure categories and a range of challenges that local authorities must address in order to keep their expenditure under control.

4.1 Composition and trend

The primary expenditure of local government is estimated at 7.1 % of GDP in 2018. The wage bill, which comprises the gross pay and social security contributions of statutory and contract officials, represents more than half of that figure. Other significant expenditure items are purchases of goods and services, investment and social benefits. Half of the social benefits come from the CPAS/OCMW, whether they are benefits in cash (mainly integration allowances) or in kind. The other half consists of pension expenditure. Business subsidies, other current transfers and other capital expenditure make up a small part of the expenditure.

TABLE 3 PRIMARY EXPENDITURE OF LOCAL GOVERNMENT
(in % of GDP, local election years)

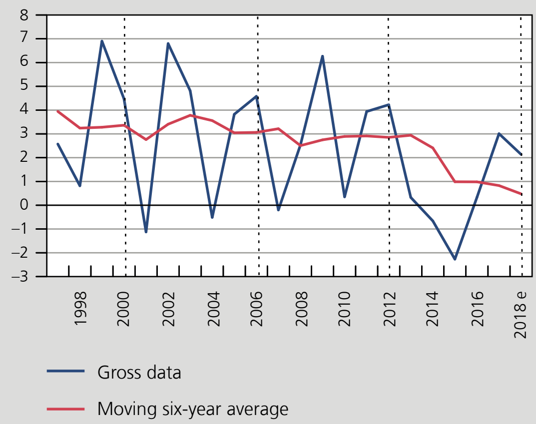
	2000	2006	2012	2018 e
Remuneration	3.4	3.7	4.1	3.9
Wages	2.4	2.6	2.8	2.6
Social security contributions	1.0	1.1	1.3	1.3
Current purchases of goods and services	1.0	1.0	1.1	1.2
Social benefits	0.6	0.7	0.8	0.8
Cash benefits	0.5	0.6	0.7	0.6
Benefits in kind	0.1	0.1	0.1	0.1
Business subsidies	0.0	0.2	0.1	0.2
Other current transfers	0.2	0.2	0.3	0.3
Gross fixed capital formation	1.0	0.9	1.0	0.8
Other capital expenditure	0.1	0.1	0.1	0.1
Total	**6.3**	**6.8**	**7.5**	**7.1**

Sources: NAI, NBB.

The pattern of primary expenditure of local authorities is very erratic. First, it features a six-year cycle – corresponding to the period of time between two municipal elections – generated by investment expenditure. In addition there is the effect of exceptional factors such as the police reform, which transferred numerous public sector jobs to the local authorities in 2002. However, it is possible to perceive the trend in local government expenditure with the aid of a moving average of primary expenditure growth calculated over six years. That moving average, which hovered around 3 % up to 2014, has now fallen. The decline seems to affect most expenditure categories, but is particularly marked in the case of public investment.

CHART 7 THE GROWTH OF PRIMARY EXPENDITURE HAS SLOWED

(percentage annual change in primary expenditure, data deflated by the GDP deflator)



Sources: NAI, NBB.

4.2 Investment expenditure

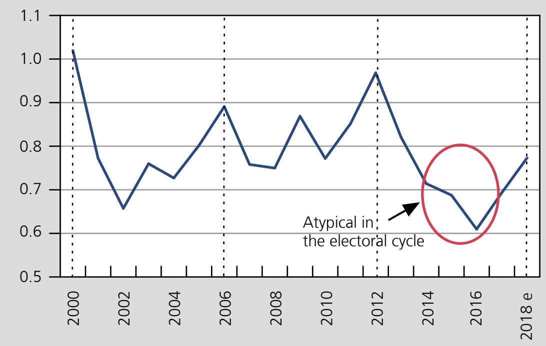
Local authority investment merits special attention. On average, it represents one-third of public investment in Belgium. This investment is relatively low at present, and therefore needs to be stimulated in view of the positive effect of this type of expenditure on potential growth.

Comparison of the profile during the current electoral cycle with that seen previously shows that public investment has been growing more slowly than usual for some years now. Local authority investment slackened pace as expected during the two years following the 2012 elections. After that, however, instead of regaining momentum as typically happens mid-term, it declined further in 2015 before dropping in 2016 to its lowest level in 30 years. In 2017, in the run-up to the autumn 2018 local elections, investment began to rise again. That growth is set to continue in 2018, but investment will be lower than in previous election years.

It already seems clear that local authority investment will have contracted during the electoral cycle that ends this year. The stricter budgetary rules introduced since 2014 by the regional supervisory authorities have probably played a part in that. While the reduction in investment favours the short-term consolidation of public finances, it is counter-productive in the longer term in view of the said impact on potential growth, because investment expands the capital stock, strengthening the economy’s productive capacity.

CHART 8 LOCAL AUTHORITY INVESTMENT IS CURRENTLY RATHER LOW

(gross fixed capital formation, in % of GDP)



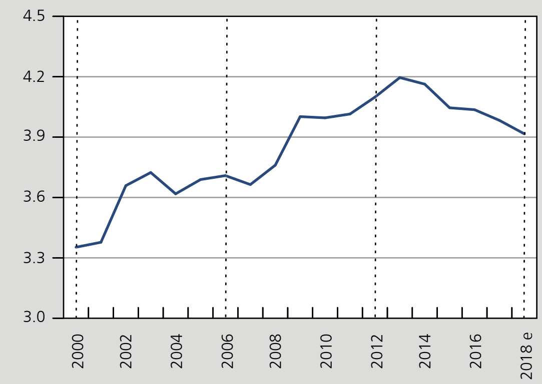
Sources: NAI, NBB.

4.3 Employment and pay

Local authority labour costs as a ratio of GDP increased almost continuously from 2000 to 2013, but since 2014 they have fallen slightly. The trend in labour costs is a result of such factors as employment trends and the reform concerning the funding of the pension scheme for statutory officials of local authorities. These two points will be examined in more detail below. In addition, the labour cost ratio was driven up by the drop in GDP in 2009, while the virtually zero growth of real GDP recorded in 2012 and 2013 also exerted upward pressure. Conversely, the index jump moderated labour costs in 2015 and 2016.

CHART 9 LABOUR COSTS INCREASED ALMOST CONTINUOUSLY UP TO THE START OF THE CURRENT LEGISLATURE

(compensation of employees, in % of GDP)



Sources: NAI, NBB.

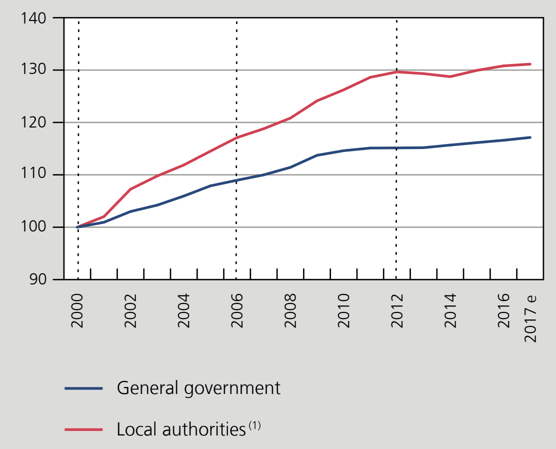
4.3.1 Trend in employment

In 2016, local authorities employed 317 000 persons, representing just over one‑third of total employment in public authorities.

Local authority employment expanded strongly between the turn of the century, when employees numbered 243 000 persons, and the 2012 local elections. That expansion was a major factor in the increased labour costs. Since the start of the current legislature in 2013, however, the level of employment has stopped rising and appears to have stabilised.

CHART 10 AFTER RISING STEEPLY DURING THE PRECEDING PERIOD, EMPLOYMENT HAS REMAINED VIRTUALLY STABLE DURING THE CURRENT LEGISLATURE

(annual averages, 2000 = 100)



Sources: NAI, NBB.

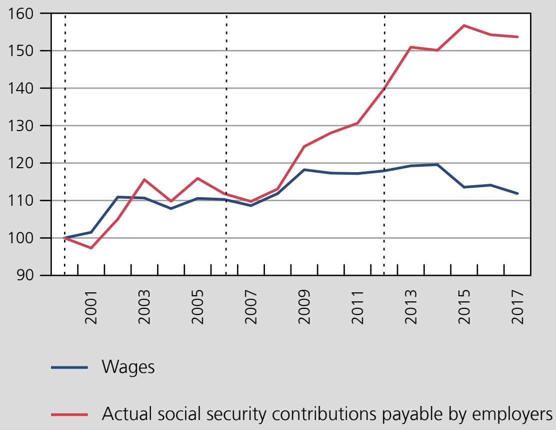
(1) Including persons brought into the labour market under Article 60 of the Organic Law on Public Social Welfare Centres of 8 July 1976.

4.3.2 Reform of the funding of the pension scheme of statutory officials of local authorities

If the components of labour costs, namely wages and employers' social security contributions, are examined separately, it is evident that it is mainly the social security contributions which have risen steeply in recent years. That is a direct consequence of the 2012 reform of the funding of the pension scheme for statutory officials of local authorities.

CHART 11 LABOUR COSTS WERE DRIVEN UP BY THE REFORM OF THE FUNDING OF THE PENSION SCHEME FOR STATUTORY OFFICIALS

(in % of GDP, 2000 = 100)



Sources: NAI, NBB.

Local authorities themselves finance the pensions for their statutory officials, until 2012 various schemes existed for this. The principal schemes were managed by the former National Social Security Office of the provincial and local authorities, and were financed on the basis of an apportionment system whereby a contribution levied on the wages of active statutory officials was used to finance the pensions of retired statutory officials. The contribution rates under these systems were no longer tenable, because the funding base was steadily shrinking while the number of pensioners was constantly increasing, partly as a result of population ageing.

There was also a shift from statutory posts to contract jobs in the local authorities, leading to a decrease in the funding base. Delayed statutory appointments – common practice in local authorities – were also a burden on the system, as the staff concerned were entitled to a pension as statutory officials, even though they had contributed hardly anything towards financing the statutory pension scheme during their career.

The funding of the pension scheme was radically reformed by the law of 24 October 2011, providing sustainable finance for the pensions of permanent staff of the provincial and local authorities and local police districts. A previous adjustment aimed at ensuring that the system was fiscally sustainable, notably by means of an initial increase in the contribution rates payable by local authorities – the basic contribution rate for the principal pension scheme (including the 7.5 % employee's contribution) was raised from 27.5 % in 2009 to 30 % in 2010 and 32 % in 2011 – had in fact proved insufficient. On 1 January 2012, the various pension schemes were merged in the Combined Pension Fund, financed on the basis of two principles: solidarity and accountability.

According to the principle of solidarity, at the end of a transitional period all the affiliated authorities pay the same basic rate of contribution to the Combined Pension Fund. Between 2012 and 2016, the basic contribution rates were gradually converted to a uniform basic contribution of 41.5 % (including the worker's 7.5 % contribution). However, the increase in the basic contribution rate was not the same for all local authorities, as some of them still had existing reserves, which tempered the rise in social contributions in their case. Since 2016, while some local authorities are still enjoying the benefit of reserves created previously, all the others are subject to a basic contribution rate of 41.5 %.

The steady rise in this basic contribution rate, starting before the 2012 reform, has increased the labour cost burden for local authorities in recent years. Moreover, since 2012 a number of local authorities, which used to provide pensions themselves, are affiliated to the Combined Pension Fund and also pay social security contributions which contributed to the rise of labour costs in the general government accounts.

The accountability principle implies that local authorities whose pensions paid out by the Combined Pension Fund exceed the contribution that they pay into the fund must pay an accountability contribution. The purpose of that contribution is to ensure that the new funding system remains in balance. The contribution is calculated by taking the difference between the individual pension costs and the basic statutory contribution and multiplying that figure by an accountability coefficient which must be at least 50 %. In practice, the accountability coefficient for the years 2012 to 2015 inclusive was lower on account of recourse to the reserves of the former National Social Security Office of the provincial and local authorities, but since 2016 no further use has been made of any reserves. Local authorities which no longer have any statutory staff are fully accountable. They have to bear their pension costs themselves since they no longer contribute to the Combined Pension Fund. The first accountability contribution – relating to 2012 – was paid in 2013, triggering a rise in labour costs that year.

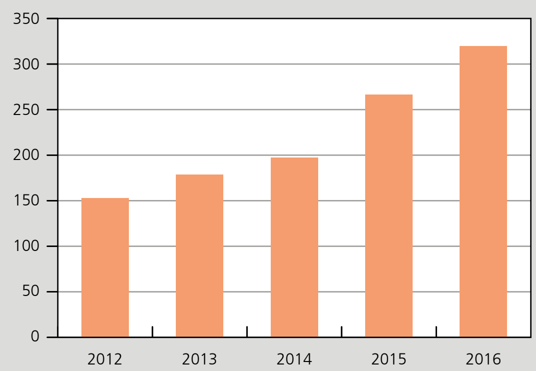
Via a knock-on effect, the pension reform has also contributed to the increase in the municipal allocation to the CPAS/OCMW and the police and emergency rescue districts in recent years. The pension reform is therefore exerting both direct and indirect pressure on municipal finances.

4.3.3 Pensions costs are set to increase further

In the years ahead, social contributions are expected to increase further, and that will also drive up the labour costs of local authorities. The uniform basic contribution rate that local authorities must pay into the Combined Pension Fund is set at 41.5 % up to and including 2020, but could subsequently rise again if the costs of population ageing increase.

In recent years the accountability contribution has increased steadily, and that rise is likely to continue in the coming years. Various factors play a role here. Some local authorities which do not as of yet pay any accountability contribution will have to do so in the future. Furthermore, local authorities already paying a contribution may have to pay a higher contribution as the gap widens between pension costs and the basic contribution paid. Finally, the accountability coefficient itself may also increase. For 2016 it still stood at 50 %, but is expected to rise in the future.

CHART 12 THE ACCOUNTABILITY CONTRIBUTION
(in € millions)



Source: Federal Pensions Service.

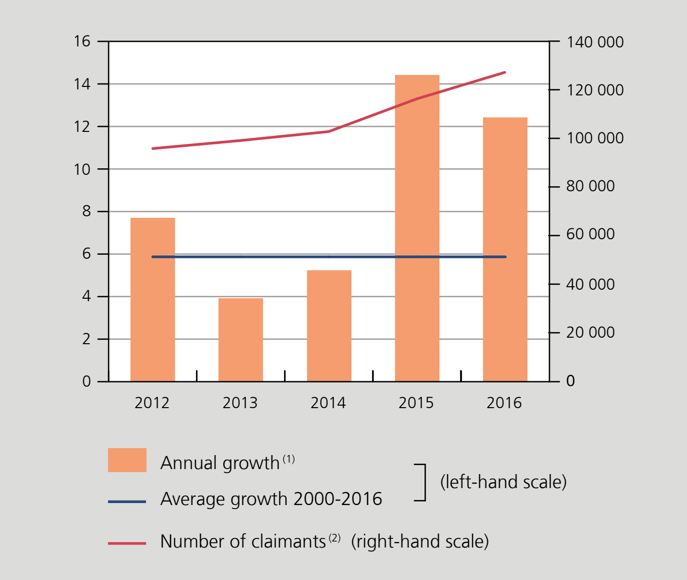
The federal parliament recently approved a law[1] which will also have repercussions on the financing of the Combined Pension Fund. Among other things, the law introduces hybrid careers for determining officials' pensions. This means that an official's pension will be paid only for the years in which the person worked as a statutory official; for years worked as a contract official, an employee's pension will be paid. For the local authorities, this adjustment will mean that statutory appointments of contract workers occurring at a late stage in a person's career will no longer place a burden on pension fund expenditure. The law also makes provision for a federal contribution to the Combined Pension Fund. Part of the proceeds from the wage moderation contribution that local authorities pay to social security will be refunded to them in the form of an allocation to the Combined Pension Fund. That allocation will amount to € 121 million per annum for the years 2018 to 2020. These factors should attenuate the rise in the accountability contribution expected in the coming years. Other elements of the law form an incentive to establish a supplementary pension for contract workers via a reduction in the accountability contribution (to be offset by authorities not eligible for that reduction, in order to ensure that the Combined Pension Fund remains in balance) and a change in the timing of the payment of the accountability contribution via a system of monthly advances during the current year.

4.4 Expenditure relating to the integration allowance

Integration allowances paid out by the CPAS/OCMW are an important local authority social benefit. In 2000, expenditure on the integration allowance represented 0.1 % of GDP, but it has gradually increased to 0.3 %. It has also risen in real terms during the current legislature. That rise is largely due to the constant increase in the numbers claiming the integration allowance.

CHART 13 EXPENDITURE ON THE INTEGRATION ALLOWANCE HAS SOARED RECENTLY

(percentage changes compared to the previous year, unless otherwise stated)



Sources: Federal Social Integration Planning Service, NAI, NBB.

(1) Expenditure adjusted for the actual indexation of social benefits (or theoretical indexation for 2015 and 2016, owing to the index jump).

(2) The average monthly number of integration allowance claimants.

(1) Law of 30 March 2018 disqualifying the services of non permanently appointed personnel from counting towards a public sector pension, amending the individual accountability of the provincial and local authorities within the Combined Pension Fund, adapting the rules on supplementary pensions, amending the arrangements for financing the Combined Pension Fund of the provincial and local authorities, and providing supplementary finance for the Combined Pension Fund of the provincial and local authorities.

In 2015 and 2016, the real growth of expenditure on the integration allowance was considerably higher than in preceding years, as a combination of several factors caused the numbers claiming the integration allowance to rise more sharply than before during those two years. Following the reform of the unemployment benefit system and the time limit on the employment support allowance with effect from 1 January 2015, many people who previously received other benefits now get an integration allowance. The 2015 asylum crisis also contributed to the increase in those two years via a rise in the number of recognised refugees who can claim an integration allowance. Also, since 1 December 2016, persons granted temporary residence under subsidiary protection have been entitled to an integration allowance, whereas they previously received the equivalent of an integration allowance under the right of social assistance.

Recent years have seen not only a rise in the number of recognised refugees receiving an integration allowance, but also a sharp increase in the number of student claimants.

4.5 Local authority efficiency gains

All levels of government have to aim at efficiency. Local authorities, too, must ensure that they perform their tasks as well as possible using the fewest possible resources. There are certainly still efficiency gains to be made at local government level. To achieve those gains, local authorities can improve their community services, cut their expenditure, or pursue those two aims combined.

Efficiency gains entail the adoption of a structural approach whereby local government tasks are analysed and choices are made. It is necessary to ascertain which levels of government can best perform which tasks, in order to avoid overlapping and exploit economies of scale. The operation of local public services must also be organised in the best possible way, in particular by making optimum use of IT applications and by simplifying procedures.

In recent years a number of measures have been taken at local level to boost efficiency via structural reform and the exploitation of economies of scale. The aim of these measures is to reform the operation of the provinces, to merge municipalities, and step up the collaboration between the CPAS/OCMW and the municipalities.

4.5.1 Reform of the provinces

The Flemish Region has for some years now been reforming the structure of its local authorities, the aim being to create a simple and efficient administrative system divided into a limited number of levels. In this connection, the list of tasks to be performed by the provinces has been shortened in recent years. Since 2014, the provinces have only been able to exercise person-related powers when those powers have been granted to them by decree. On 1 January 2018, the list of their tasks was shortened further and confined to territory-related powers. Except for provincial education, all person-related powers which were still exercised by the provinces were transferred to the Flemish Community or to the municipalities.

Since the list of their responsibilities has been reduced, the provinces also need fewer resources. The provincial fund was abolished in 2015, and since the 2018 tax year the provincial surcharges on the property tax have been subject to a maximum rate. In fact, the provincial surcharges were partially incorporated in the basic regional levy in order to fund the transferred powers: with effect from the 2018 tax year, the regional property tax rate will rise from 2.5 % to 3.97 % (1).

The Walloon Region has also revised the powers of the provinces. Provincial roads were transferred to the Region in 2015, and since then the provinces have also ceased to be responsible for housing policy and energy policy. This produced savings for the provincial fund. The new Walloon government, which took office in the summer of 2017, announced its intention to conduct a radical reform of the provinces. In that connection it will examine the best level of government for exercising the powers of the provinces. Provincial structures such as the provincial college or the provincial council are set to disappear or take on a different form.

(1) The increase in the basic rate of the surcharges also has repercussions on the municipalities. If they leave their surcharges unchanged, the revenue from the property tax increases in proportion to the rise in the basic levy. As at the time of the previous increase in the basic levy in the Flemish Region (from 1.25 % to 2.5 % in 1991), the municipalities should reduce their surcharges by a certain factor (1.588) so that the revenue that they derive from the property tax remains constant.

4.5.2 Merger of the municipalities

During the current legislature, the Flemish Region encouraged voluntary mergers between municipalities, as such mergers can help to achieve the aim of efficient management via economies of scale. The municipalities which will merge on 1 January 2019 and which took the formal decision before 1 January 2018 were given the incentive of a financial bonus in the form of assumption of their debt up to € 500 per capita, subject to a maximum of € 20 million per merger. The merged municipalities also received a guarantee that their share in the Municipal Fund would not be less than the sum of their shares in the year preceding the merger. In addition, they will be able to appoint a greater than normal number of representatives for two legislatures. Fifteen Flemish municipalities accepted this offer and decided to merge on 1 January 2019. Although mergers are still possible, the financial bonus in the form of debt assumption will no longer be granted.

In its July 2017 agreement, the Walloon government also announced that it would encourage voluntary mergers between municipalities. The Walloon Region is to introduce a financial incentive and provide regulatory, administrative and technical support.

Finally, in regard to efficiency gains and economies of scale, some (Flemish) police districts have also merged and the municipalities have also established more intermunicipal partnerships in recent years. For instance, they have created care institutions covering multiple municipalities.

4.5.3 Increasing collaboration between the CPAS/OCMW and the municipalities

The Flemish Region wants to unify social policy at local level. For that purpose the CPAS/OCMW centres will be integrated into the municipalities wherever possible from 1 January 2019 onwards, taking account of their separate legal personalities. It has emerged that full integration in which the CPAS/OCMW centres cease to be separate legal entities was not legally feasible, as some tasks – such as the payment of integration allowances – are specifically devolved to the CPAS/OCMW in federal legislation and cannot currently be taken over by the municipalities.

The two entities will be integrated in a number of spheres. At political level, members of the municipal council will automatically become members of the CPAS/OCMW council at the start of the new legislature, so that the same people will devise the local social policy. The CPAS/OCMW permanent bureau will correspond to the municipal executive. In administrative terms, the staff of the municipality and the CPAS/OCMW will be managed in the same way and will come under the same general and financial directors. In addition, the CPAS/OCMW and the municipalities will form a single unit in the next policy and management cycle, and will therefore have to work together to draft their multiannual plan. Compliance with the equilibrium criteria will now be checked at overall level, rather than separately at CPAS/OCMW and municipality level.

In the Walloon Region, the government stated its intention of facilitating closer collaboration between the municipalities and the CPAS/OCMW on a voluntary basis. Better use could be made of a number of synergies, e.g. by sharing certain support services concerning IT, for example. The circular on the drafting of the 2018 municipal budgets called on the municipalities to make maximum use of existing synergies.

In the Brussels-Capital Region, a merger between the CPAS/OCMW and the municipalities does not appear to be on the agenda at present. In its July 2014 policy statement, the United College of the Joint Community Commission planned to make the CPAS/OCMW the spearhead of local social policy. For that purpose, additional staff and resources were to be made available. However, the aim is to make use of synergies between the CPAS/OCMW centres, notably in regard to computerisation.

Conclusion

Belgian local authorities' finances are sound. Their budgets are practically in balance, or recorded small surpluses and this for nearly all components of the local government. Moreover, the debts of this subsector of general government are relatively small.

The budgetary supervision exercised over local authorities has contributed to this favourable financial position, In the 1980s, the equilibrium principle was introduced for municipal finances, and that eliminated the deficits. Since then, the Regions have taken over responsibility for budgetary supervision and have made a number of additions and revisions which have strengthened the budgetary framework a little more. That may account for the relatively low level of local authority investment expenditure, in comparison with previous electoral cycles.

However, local authorities face a number of financial challenges. Those challenges include the increased cost of financing their statutory officials' pensions and the growing use of integration allowances and social services. Numerous other factors will also exert upward pressure on expenditure or downward pressure on revenues.

In order to address these challenges, the central concern must be to increase local government efficiency. Steps were taken recently in that direction, but in the years ahead it is vital to maintain the efforts to improve the quality of community services and to maintain strict control over expenditure.

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