Helaba

REGIONAL FOCUS *UPDATE*

3 May 2018

Municipal budgets in North Rhine-Westphalia

AUTHOR
Barbara Bahadori
phone: ++49 69/91 32-24 46
research@helaba.de

EDITOR
Patrick Franke

PUBLISHER
Dr. Gertrud R. Traud
Chief Economist/
Head of Research

Landesbank
Hessen-Thüringen
MAIN TOWER
Neue Mainzer Str. 52-58
60311 Frankfurt am Main
phone: ++49 69/91 32-20 24
fax: ++49 69/91 32-22 44

1 Land North Rhine-Westphalia as a partner to the municipalities 1
1.1 Legal framework 1
1.2 What condition is the NRW economy in? 1
1.3 NRW strengthened by Federal Financial Equalization System 2
1.4 NRW state rating: Fitch AAA, S & P AA-, Moody's Aa1 4
2 NRW Municipal Code governs municipal finances 5
2.1 No bankruptcy for municipalities – who is liable? 5
2.2 Local authorities as statutory guarantors for institutions governed by public law 6
2.3 High degree of transparency: double-entry budget and annual financial statement 6
2.4 Borrowing for investment and to secure liquidity 7
2.5 Municipal Code provides multi-level control system 7
2.6 Pact for Strengthening City Finances and Municipal Financial Equalization 8
2.7 Survey: Budget status of the county-independent cities 9

1 Land North Rhine-Westphalia as a partner to the municipalities

1.1 Legal framework

Constitutionally, cities and municipalities are fundamentally part of the federal states (*Länder*), even if they are in part mentioned as autonomous in the Basic Law (*Grundgesetz*, GG). They are subject to the legal oversight of their respective federal states and therefore have a particularly close relationship with them, which extends also to the financing of the municipal budgets.[1] Article 79 of the state constitution of North Rhine-Westphalia (NRW) addresses the aspect of financial "duty of care": "The Land is obliged, within its financial capacity, to ... guarantee financial equality across municipalities." With that, the economic and financial potential of the Land moves front and centre as a guarantee for municipal financing in NRW.

1.2 What condition is the NRW economy in?

In recent decades, North Rhine-Westphalia has had to undergo a structural change. Coal and ordinary steel had been the pillars of the economy in the Ruhr region, creating prosperity in broad segments of the Land. The inability of domestic production to compete internationally gave rise to several coal and steel crises beginning in the late 1950s, which brought job losses and cutbacks in capacity. That a reorientation takes time has been evident from the trend in per capita gross domestic product (GDP), which has trended downward in NRW in the last twenty years. In 2017 the

[1]This is affirmed in Art. 106 (7) GG: "An overall percentage of the *Land* share of total revenue from joint taxes, to be determined by *Land* legislation, shall accrue to the municipalities or associations of municipalities. In all other respects *Land* legislation shall determine whether and to what extent revenue from *Land* taxes shall accrue to municipalities (associations of municipalities)."

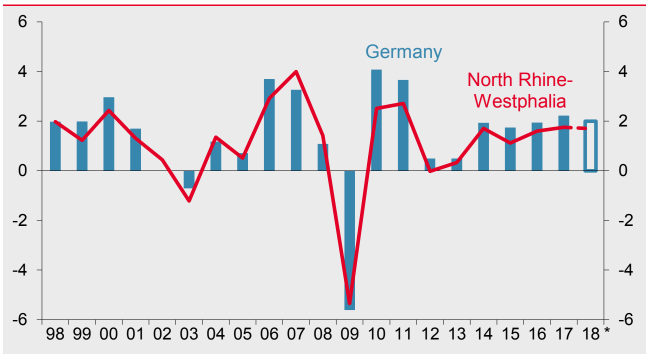
GDP per capita was slightly below the national average at 97.6 %. If one uses the *Länder* of the former West Germany as the basis of comparison, NRW was at 92.4 % of the average per capita output.

Improvement at the labor market

The decline of the mining industry did not leave the labour market in North Rhine-Westphalia unaffected. For a long time, the unemployment rate has been noticeably higher than the average for West Germany, and since 2005 also higher than the level for Germany as a whole. Still, the manufacturing-driven economic upswing between 2006 and 2008 was felt on the NRW labour market, as unemployment dropped from 12.0 % to 8.5 %. However, the economic and financial crisis, as well as the following recovery, widened the gap to the national average, with the result that average unemployment rate of 7.4 % in 2017 was above the nationwide average of 5.7 % and the West German average of 5.3 %. Nevertheless, the NRW rate joined the general downward trend and in the first four month of 2018 the unemployment rate was 0.4 percentage point lower than in 2017.

North Rhine-Westphalia: growth near average

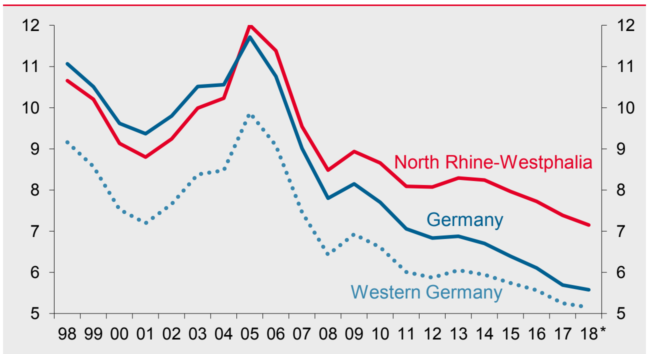
Real GDP: % y/y



*2018: forecast
Sources: Arbeitskreis VGR der Länder, Helaba Research

Unemployment rate in NRW: Improvement continues

Unemployment rate in % of labour force, annual average



*Average: January to April 2018
Sources: Bundesagentur für Arbeit, Helaba Research

German GDP growth rate 2017: 2.2 % (not working day adjusted)

The recovery in 2014 made for a remarkable increase of the growth rates to 1.7 % and 1.9 % in NRW and in Germany respectively. The economic recovery continued in Germany in 2015 and in 2016, growth rates of 1.7 % and 1.9 % were achieved. In 2015 North Rhine-Westphalia couldn't keep up (+1.1 %). In the last years the development in Germany was mainly driven by domestic consumption, which was growing dynamically in particular due to higher real wage increases. The investment in equipment and buildings also increased. Both should count for NRW, too. So in 2016 and 2017 the economic growth in North Rhine-Westphalia (1.6 % and 1.7 %) was approaching the average.

1.3 NRW strengthened by Federal Financial Equalization System

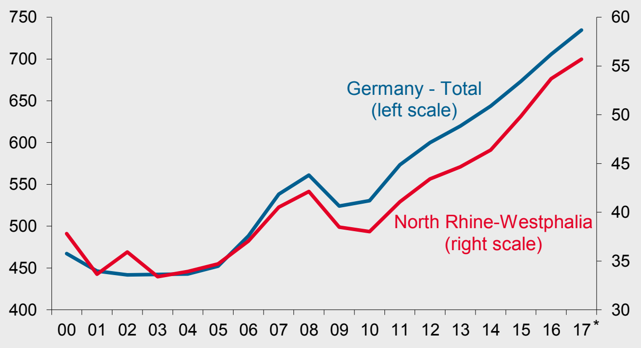
In principle, tax revenues are supposed to finance the state's functions. However, the size of these revenues can fluctuate considerably with the economic cycle, which makes budget planning more difficult.

Expanding tax revenues

Between 2006 and 2008, revenues from tax sources in Germany were gushing, with growth rates of up to 10 %. And while tax revenues did not dry up in the crisis year 2009, their volume shrank by 6.6 % over the previous year. The tax reservoir was refilled a little in 2010, and in 2011 the tax revenues even rose with a growth rate of 8 %. With the weaker economic impulses in 2012 and 2013, tax revenues also expanded more moderately. Since 2014 tax growth rates accelerated up to 3.9 %, 4.6 %, 4.8 % and 4.1 %, respectively.

Tax receipts rising since 2011

Tax receipts in billion €

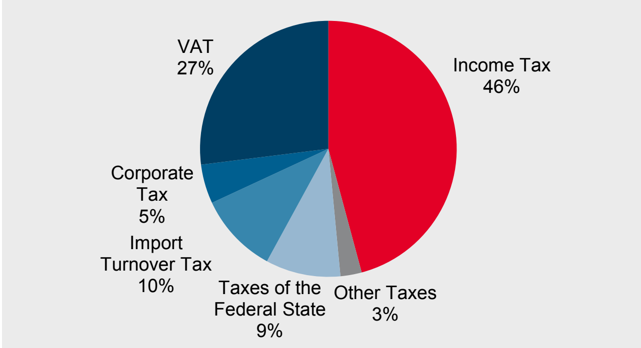


2017: estimate for Germany

Sources: Bundesfinanzministerium, Finanzministerium NRW, Helaba Research

Income tax – most important tax for the Land NRW

Share of tax receipts of NRW, 2017



Sources: Finanzministerium NRW, Helaba Research

Since 2011 the federal state of NRW has recorded a rise in tax revenues, like the rest of Germany. They are North Rhine-Westphalia's main source of financing: 79 % of the state's revenue is taxes, among which the income tax is the most important. In Germany, the apportionment of taxes between the federal government and the *Länder* is an integral part of federalism in action. This is why the *Länder* have adequate financial resources at their disposal, over the use of which they are able to decide largely on their own. The actual apportionment of tax receipts takes place in five steps, the goal of which – alongside the idea of federalism – is also a certain balancing of receipts between the *Länder*.

Vertical tax distribution

In a first step, the types of taxes are divided up between the levels of regional bodies. The *Länder* as a whole receive 42.5 % of income tax receipts, 50 % of the corporate tax take, and 44 % of the VAT. The federal states and the municipalities are allowed to keep those taxes that are identified as purely state or municipal taxes.

The second step involves the distribution of the income tax and corporate tax shares among the *Länder* according to the place of residence and the location of the business premises, respectively. The receipts from income, corporate, and state taxes per capita in NRW are now 4 % below the national average.

Horizontal distribution of VAT revenues

The third step concerns the VAT. At least 75 % of the state's share of the VAT is distributed according to population size. The rest is given as the so-called supplemental share to those *Länder* whose per capita receipts from the income tax, the corporate tax, and the state taxes are below the average of the federal states. The distribution of the VAT thus already has the effect of financial equalization, because it brings about a convergence of the tax receipts of the *Länder*. Through it the tax receipts of *Länder* with low revenues are massively boosted, which is especially beneficial to the new federal states. Their financial strength per capita (including municipal fiscal capacity) is lifted from 60 % to 87 % of the national average.

NRW hardly profits from this, because its revenue situation after the first two steps in the distribution. Given a share of population of 22 %, the inhabitants of NRW contribute a significant amount to German VAT revenue. As part of the VAT distribution system, NRW accounted for € 2 billion which is 24 % of the total volume of VAT distribution. In the meantime, however, it also receives supplementary shares of € 1.3 billion. So the financial strength per capita of NRW amounts to 94 % of the national average which is only a small difference compared with its situation before the distribution of the VAT.

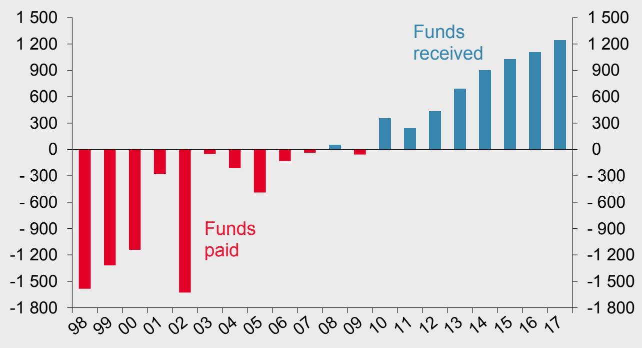
Länder financial equalization system

The fourth step is the *Länder* financial equalization between the federal states in that financially strong states have to surrender their above-average tax receipts up to a certain percentage to "poorer" states. The exact level of the equalization allocation to a financially weak state depends on the degree to which its financial strength per (notional) inhabitant[2] falls below the average financial strength per inhabitant. The gap to the average is partially, but not completely, closed.

Since 2010, NRW, because of its financial situation, has not been among the payer states in the Federal Financial Equalization System. It now receives assistance, which creates some kind of compensation for the weaker financial strength arising from the distribution of the VAT. In 2016 and 2017 NRW received payments from the Federal Financial Equalization System, reaching € 1,107 million and € 1,243 million, respectively. Per capita this is still a quite low amount. With it, financial strength per capita rose slightly to 95.8 % of the national average, comparable to the neighbouring state of Lower Saxony.

NRW: From a payer state to a recipient state

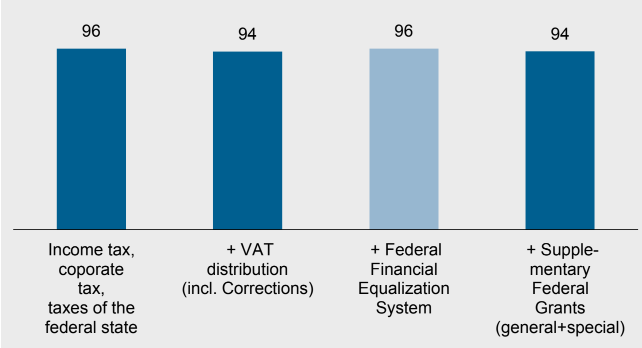
Federal Financial equalization System: funds paid and received in million €



Sources: Bundesfinanzministerium, Helaba Research

NRW: financial strength slightly below average

Financial strength per inhabitant in % of national average, 2017



Sources: Bundesfinanzministerium, Helaba Research

Supplementary federal grants

Since 2010 NRW benefits from the fifth step, the supplementary federal grants. In almost every year the amount was higher. In 2017 the federal government payed about € 670 million to NRW, but per capita this was still below the average. It shares that fate with most of the West German federal states. That is the intent of the Federal Financial Equalization System: The federal supplemental grants, especially those for special needs in the new federal states, are supposed to put the “poor” states into a position – for example, through investment – to catch up with the “rich” states.

However, the system as a whole secures the funding of all federal states, so that they can make ends meet with careful budget management. In the past, even budget emergencies – as in the case of Saarland and Bremen – could be cushioned through federal supplemental grants.

From 2020, the fourth step, that is, the Länder financial equalization between the federal states, will be omitted. However, in order to ensure that no state has financial losses, the federal government provides additional resources and the VAT distribution is modified. Model calculations lead to the conclusion that NRW should benefit from the adjustments.

1.4 NRW state rating: Fitch AAA, S & P AA-, Moody’s Aa1

Different Ratings

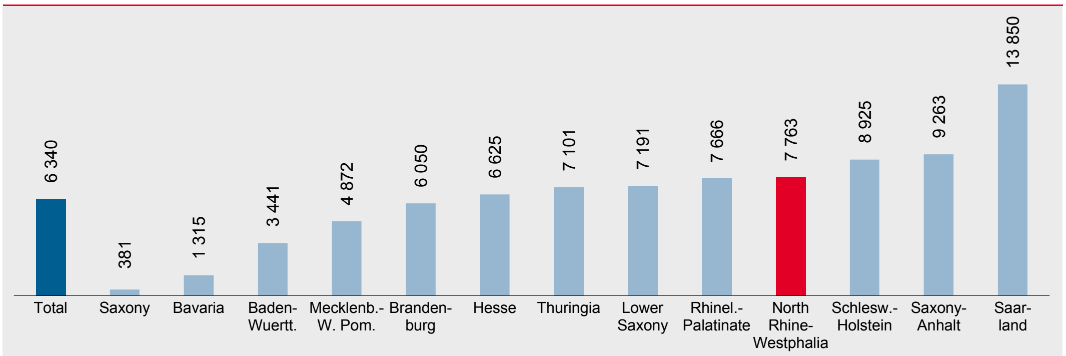
The close financial bond between the *Länder* as well as the guarantee of their existence in the Basic Law have prompted the rating agency Fitch to link the ratings of the federal states to that of the Federal Republic. North Rhine-Westphalia thus will receive a basic “AAA” rating (outlook: stable), if the state has a rating contract with Fitch. Other rating agencies in addition take the economic performance and debt situation of the individual federal states into account and differentiate: NRW receives an “AA–” rating from Standard & Poor’s and an “Aa1” rating from Moody’s. On the

[2] The Federal Financial Equalization System fundamentally presupposes an equal financial need per capita in all states. This assumption is not appropriate for the city states of Berlin, Bremen, and Hamburg, since they represent simultaneously a federal state and a municipality. As a result, they have a much high financing need per capita than the territorial states. A slightly higher financing need exists also in the three thinly settled states of Brandenburg, Mecklenburg- West- Pomerania, and Saxony-Anhalt. That is why their population figures are slightly increased in the Federal Financial Equalization System.

one hand the state has almost average economic strength and has financial resources available through the various equalization mechanisms. On the other hand, for example, the per capita debt level in NRW is above the state average. In the current legislative period the new state government of NRW strives to balance the budget without additional debt. This has recently been reflected in an improvement in the outlook of Standard & Poor's from stable to positive.

Debt burden of states varies: NRW in the upper mid-range

Per capita debt (federal state budgets) in €, December 2017



Sources: Bundesfinanzministerium, Helaba Research

2 NRW Municipal Code governs municipal finances

2.1 No bankruptcy for municipalities – who is liable?

Inadmissibility of bankruptcy proceedings over municipalities

Before we take a look at the rules governing the settlement of budgets of the NRW municipalities, the first question that arises concerns the issue of liability in case a municipality runs into financial difficulties. Initially, the community itself is liable with all of its assets and revenues. Thus, under certain circumstances a distraint is possible against a NRW municipality for a monetary claim (§ 128 (1) Municipal Code NRW). However, bankruptcy proceedings over the assets of a municipality are not permissible under the law. This exclusion in the NRW Municipal Code § 128 (2) is derived from § 12 of the Bankruptcy Code. The latter law also establishes the inadmissibility of bankruptcy proceedings over the assets of the federal government and of a federal state.

Implicit assumption of liability

An explicit assumption of liability of municipal loans by other regional authorities is not found in German legislation. Instead, the Basic Law lays down the following stipulations, which implicitly secure the existence of the municipalities: “Municipalities must be guaranteed the right to regulate all local affairs on their own responsibility, within the limits prescribed by the laws. Within the limits of their functions designated by a law, associations of municipalities shall also have the right of self-government according to the laws. The guarantee of self-government shall extend to the bases of financial autonomy …” (GG Art. 28 (2)).

Municipalities have access to major tax sources

The financial side of municipal self-government is also regulated in the Basic Law. Thus, Art. 106 (5) and (5a) GG guarantees the municipalities the right to a share of the major sources of tax receipts, the income tax and the VAT. In the last few years they received 15 % of the income tax and about 2 % of the VAT. Article 107 (2) GG guarantees the “reasonable equalization of the disparate financial capacities of the *Länder*, with due regard for the financial capacities and needs of municipalities (associations of municipalities).” Moreover, “[T]he respective shares of the Federation and the *Länder* in the revenue from the VAT shall be determined by a federal law requiring the consent of the Bundesrat” (Art. 105 (3) GG), which means they cannot be altered unilaterally by the federal government. What emerges from these various regulations is that municipalities and their financing needs are recognized by the law so that they are able to fulfil their tasks within the framework of self-government.

Apart from the articles in the Basic Law with their rather general character, the NRW Municipal Code and decrees by the NRW Ministry of the Interior and since mid of 2017 the NRW Ministry of Regional Identity, Communities and Local Government, Building and Gender Equality lay down the legal framework for the municipalities. The Municipal Code provides, among other things, prescriptions about accounting, borrowing, and budgeting. A multi-level control system is also part of the Municipal Code. The inadmissibility of bankruptcy for municipalities postulated in the law is also to be de facto manifested in this way.

2.2 Local authorities as statutory guarantors for institutions governed by public law

In order to fulfil their tasks, local authorities can also found municipal companies in the form of incorporated institutions governed by public law (*Anstalt öffentlichen Rechts*), such as is described in § 114a of the Municipal Code for the state of North Rhine-Westphalia. In this way, the municipality regulates the legal relationships in a statute that contains "provisions pertaining to the name and tasks of the institution, the number of members of the board of directors and supervisory board, the level of share capital, the economic management, the administration of assets and the financial reporting obligations" (NRW Municipal Code § 114a (2)).

For the purpose of transparency, "the annual financial statements and the management report of the institution (...) are prepared and audited according to the provisions of the German Commercial Code (*Handelsgesetzbuch*, *HGB*) for large corporations, provided no further-reaching statutory provisions apply or to the extent that they do not conflict with any other statutory provisions" (NRW Municipal Code § 114a (10)).

The municipality assumes the statutory guarantee for their incorporated institutions governed by public law. It is thus "liable to an unlimited extent for the liabilities of the institution, insofar as any claims cannot be satisfied from its assets" (NRW Municipal Code § 114a (5)). The institution, for its part, is not permitted to accept any securities or guarantees for third parties, which is intended to ensure that the municipality maintains an overview of its risks.

2.3 High degree of transparency: double-entry budget and annual financial statement

For decades, the basis for assessing the financial situation of a municipality was the budget drawn up according to cameralistic accounting. In 2005, the state of NRW carried out a comprehensive reform of the municipal budget system: by 2009, at the latest, municipalities were required to introduce an accounting system based on double-entry bookkeeping. This high transparency was maintained: ever since, the annual accounting is carried out according to the double-entry system, and many NRW municipalities publish, alongside the balance sheet, also the entire annual account with a review of the economic situation on their homepage.

Equity is determined as a residual value

The assets listed on the balance sheet consist primarily of tangible and financial assets. The latter include shares in subsidiaries. The liabilities and equity side lists debt, provisions, and special items, as well as "equity". Municipalities do not have subscribed capital like corporations do. That is why the level of "equity" is determined as the residual value in the opening balance sheet by subtracting the liabilities, provisions, and extraordinary liability items from the total assets. The remaining value was the equity.

2.4 Borrowing for investment and to secure liquidity

Borrowing tied to financial capacity

As for debt as the now often largest item on the liabilities side, the following holds true according to § 86 (1) of the NRW Municipal Code: “Loans can be taken out only for investment under the conditions of § 77 Sect. 3[3] and for debt rescheduling. The obligations thereby assumed must be in accord with the continuing capacity of the municipality.” However, § 89 (2) of the NRW Municipal Code formulates another reason: “To ensure timely payments, the municipality may take out loans to secure liquidity up to the maximum amount set down in the budgetary by-laws (…)” A decree from the Ministry of the Interior spells out in detail the maturity structure of the liquidity loans. According to this issue, municipalities are allowed to make interest rate agreements with a maturity of up to ten years for half of the total amount of liquidity credit. For another quarter a maturity of five years can be agreed upon. The rest are limited to the fiscal year.

Municipalities decide on their own

Municipal self-government in NRW states (NRW Municipal Code § 86 (2-4)) that the municipalities can decide largely autonomously about concrete borrowing and must procure approval only in exceptional cases. However, the supervisory authorities can check the uses to which investment loans are being put by looking at the balance sheet. Payment obligations that are the same as loans in economic terms must be disclosed prior to their legal effectiveness. With pure liquidity loans there is no obligation of disclosure. However, if interest rate arrangements are made with a term of more than five years, the municipality must coordinate this with the relevant local government supervisory authority.

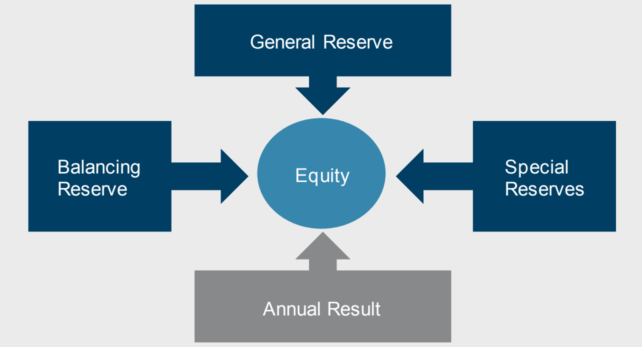
2.5 Municipal Code provides multi-level control system

In addition to borrowing, the Municipal Code also regulates budget oversight through a multi-level system. Thus, the local government supervisory authority can impose conditions and be given rights of intervention if there are deviations from key numbers defined by the law. The “Pact for Strengthening City Finances” is another instrument for budget consolidation. The goal of this catalogue of measures is to ensure that NRW’s municipalities remain solvent and are able to meet their borrowing obligations.

De facto balanced budget

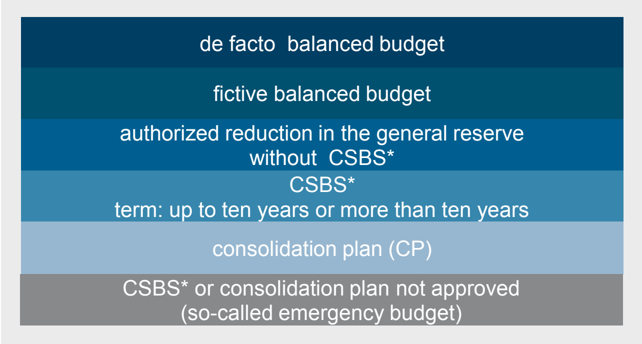
The annual financial report is at the centre of the evaluation of the financial situation of the municipalities. This is where the multi-level system to secure the solvency of NRW’s municipalities kicks in: § 75 (2) Sentence 1 of the NRW Municipal Code stipulates: “The budget must be balanced every year in its planning and accounting” (de facto balanced budget).

Composition of equity capital



Sources: NRW Gemeindeordnung, Helaba Research

Paths to a budget that complies with the law



CSBS: Concept for securing financial sustainability
Sources: NRW Gemeindeordnung, Helaba Research

[3] NRW Municipal Code § 77 Principles of funds procurement:
(1) The municipality imposes public charges according to legal provisions. (2) It must procure the funds needed to fulfill its tasks 1. to the extent that it is justifiable and advisable from special fees for services it provides, 2. otherwise out of taxes, to the extent that the other financial means are not adequate. (3) The municipality may take out loans only if other financing is not possible or would be economically not advantageous.

However, the municipalities have other possibilities for drawing up a budget that complies with the law, though these possibilities come with increasing conditions on the part of the local government supervisory authority. Equity plays a central role in this. In the balance sheet, equity is made up of four items: general reserve, balancing reserve, special reserves, and the annual result.

Fictive balanced budget

The requirement of a balanced budget is considered to have also been met (§ 75 (2) Sentence 2 NRW Municipal Code) “if the deficit in the plan and the deficit in the account can be covered by resorting to the balancing reserves” (fictive balanced budget).

Authorized reduction in equity

However, in many municipalities the balancing reserve has been depleted by losses, which means that it can no longer be used to cover the deficit in the balance sheet. Here is where the third way of drawing up a budget in compliance with the law according to § 75 (4) NRW Municipal Code comes into play: “If a reduction in the general reserve is envisaged in drawing up the budget, this requires the approval of the supervisory authority” (authorized reduction in equity without a concept for securing budget sustainability).

Concept for securing budget sustainability

The relationship between the deficit and the general reserve is important for the initiation of additional measures intended to contribute to the financial solvency of the municipalities. In this regard, § 76 (1) NRW Municipal Code lays down conditions which, if they are not met, compels a municipality to draw up a concept for securing budget sustainability (CSBS) in order to have its budget approved by the local oversight authority:

- Reduction in the general reserve by more than 5 % in each of two successive years
- 25 % reduction of the general reserve in one year
- Depletion of the general reserve in the medium term planning

Drawing up a CSBS obligates the municipalities to engage in long term budget planning, which, although it substantially constrains their manoeuvring room, is fundamentally intended to lead to a balanced budget within ten years, at the latest. In exceptional cases it is possible to deviate from this time frame. (CSBS: term up to ten years or term of more than ten years).

Emergency budget

As long as municipalities that have to draw up a CSBS or CP have not yet had their concept approved, they are subject to the strict directives of the supervisory authority, which can go so far that no decision-making authority remains with the municipality (so-called emergency budget).

2.6 Pact for Strengthening City Finances and Municipal Financial Equalization

Consolidation aid

In addition to the efforts by the municipalities to achieve balanced budgets, the state of North Rhine-Westphalia provides financial assistance. At the end of 2011 the state government put in place a program for municipalities in financial trouble, the “Pact for Strengthening City Finances.” For municipalities that have or are threatened by excessive debt, it provides consolidation aid totalling € 5.85 billion, which they receive directly or via the municipal financial equalization scheme. In return, the cities and municipalities affected have to embark on a consolidation course and generally have to present a budget balanced by their own efforts by 2022, at the latest.

County-independent cities in NRW participating
in the Pact for Strengthening City Finances

1st Step (compulsory)	2nd Step (voluntary)	3rd Step (voluntary)
Duisburg	Bottrop	Mülheim an der Ruhr
Hagen	Essen	
Hamm	Gelsenkirchen	
Oberhausen	Herne	
Remscheid	Leverkusen	
Wuppertal	Mönchengladbach	
	Solingen	

Sources: NRW Ministry of Regional Identity, Communities and Local Government, Building and Gender Equality, Helaba Research

14 of 23 Cites participating in the Pact for Strengthening Municipality Finances

For 34 municipalities, participation in the Pact for Strengthening City Finances was mandatory because of their difficult budget situation. In a second step, an additional 27 municipalities were included on a voluntary basis. At the end of 2016 the law was amended, so that further municipalities, which had ran in excess debt, could apply for the program. Mülheim a. d. Ruhr, Alsdorf and Laer took the opportunity in 2017. Now 14 of 23 county-independent cities in NRW participate in the consolidation program.

More regular funds apportioned for the municipalities

Additionally, in recent years the state government has substantially expanded the regular funds that are apportioned within the framework of the municipal financial equalization scheme. For 2018 a volume of € 11.7 billion was granted, which was up 10 % over the previous year.

2.7 Survey: Budget status of the county-independent cities

The Ministry of the Interior of North Rhine-Westphalia publishes a list that provides information about the equity situation and the budget status of the municipalities. As of 31 December 2017, only 51 of 430 municipalities or associations of municipalities mentioned in this list were able to present a de facto balanced budget, which was fifteen more than the year before.

County-independent cities (*kreisfreie Städte*) in NRW: budget status 31 December 2017

	Inhabitants 31 Dec 2015	**Negative Equity/ Excess Debt**	**Budget Status**
Dortmund	586.181	not expected	approved reduction in equity without CSBS*
Düsseldorf	612.178	not expected	approved reduction in equity without CSBS*
Köln	1.060.582	not expected	approved reduction in equity without CSBS*
Münster	310.039	not expected	approved reduction in equity without CSBS*
Bielefeld	333.090	not expected	CSBS* approved
Bochum	364.742	not expected	CSBS* approved
Bonn	318.809	not expected	CSBS* approved
Krefeld	225.144	not expected	CSBS* approved
Bottrop	117.143	not expected	consolidation plan approved
Gelsenkirchen	260.368	not expected	consolidation plan approved
Hamm	179.397	not expected	consolidation plan approved
Leverkusen	163.487	not expected	consolidation plan approved
Mönchengladbach	259.996	not expected	consolidation plan approved
Aachen	245.885	occurrence after financial planning period**	approved reduction in equity without CSBS*
Duisburg	491.231	has occurred	consolidation plan approved
Essen	582.624	has occurred	consolidation plan approved
Hagen	189.044	has occurred	consolidation plan approved
Herne	155.851	has occurred	consolidation plan approved
Mülheim a. d. R.	169.278	has occurred	consolidation plan approved
Oberhausen	210.934	has occurred	consolidation plan approved
Remscheid	109.499	has occurred	consolidation plan approved
Solingen	158.726	has occurred	consolidation plan approved
Wuppertal	350.046	has occurred	consolidation plan approved

*CSBS: Concept for Securing Budget Sustainability **Financial planning period: 2017 and the three following planning years
Sources: NRW Ministry of Regional Identity, Communities and Local Government, Building and Gender Equality, Helaba Research

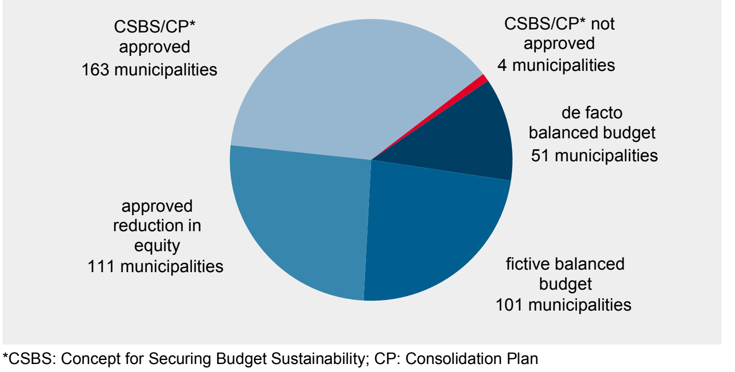
No county-independent city in NRW achieved a de facto balanced budget or could balance the budget at least fictively. Aachen, Dortmund, Düsseldorf, Köln and Münster needed an authorized reduction in equity without having to draw up a CSBS. Due to their fiscal position, Bielefeld, Bochum, Bonn and Krefeld had to come up with a CSBS. These were all approved.

The other 14 county-independent cities are participating compulsorily or voluntarily in the Pact for Strengthening City Finances. Their consolidation plans were approved in 2017. Out of a total of 64 municipalities participating in the Pact, most of them had an approved consolidation plan last year, except the municipalitiy Monschau.

Overall, the number of municipalities that are obliged to pass a CSBS and that have an approved concept has increased significantly. In 2010 and 2011, only around 30 out of a total of 180 municipalities possessed this status. Then the ratio reversed: in 2012 only 29 municipalities failed to obtain approval of their CSBS. Since 2013, almost all municipalities were able to submit a CSBS successfully. In 2017, there were only three smaller municipalities under the emergency budget law. [4]

High number of approved consolidation plans

Budget status of the NRW municipalities, 31 Dec. 2017



*CSBS: Concept for Securing Budget Sustainability; CP: Consolidation Plan
Sources: NRW Ministry of Regional Identity, Communities and Local Government, Building and Gender Equality, Helaba Research

Consolidation via individual initiative, oversight and support

All in all, the multi-level regulatory system of budget management ensures the performance and thus also the solvency of NRW's municipalities. Additionally, numerous municipalities from the Ruhr region have by now joined into an interest group to counter the structural underfunding of the municipalities and to demand better financing of the municipalities on the state and federal levels. Furthermore the new state government is considering options for reducing municipal debts directly. The total package of individual initiative, oversight, and support of the municipalities is an important contribution to the stabilization of municipal finances in NRW. ■

[4] Alfter, Inden, Herzogenrath