Impacts of the decrease in revenue on the activities of municipalities and cities through 2009–2010. Overview

Which changes has the economic crisis of recent years brought along for local governments?

Overview of the National Audit Office to the Riigikogu, Tallinn, 29 April 2011

Summary of overview results

The National Audit Office analysed financial indicators of municipalities and cities and collected opinions of heads of local governments about how the decrease in revenue accompanying the cooling of the economic climate in 2009 and 2010 has affected the organisation of work, provision of public services and management in local government authorities. As a result of the questioning, data were obtained from 213 local governments.

When analysing financial indicators, data presented in the balance records information system and monthly reports of local governments on the execution of the budget were used. When finding out the connection between the amount of tax revenue and the change in the number of taxpayers in local governments, the data obtained from the Tax and Customs Board have been used. As the data were available in kroons, the main text of the overview has stuck to the same currency.
The overview has not evaluated the choices made by municipality and city authorities during the crisis period, but instead it has described the content, extent and consequences of the changes in revenue and expenditure in general.

The economic crisis in recent years has made important corrections to local governments' opportunities for financing their activities and has, in many places, faced heads of municipalities and cities with difficult choices. The number expressing the decrease in revenue through 2009–2010 as a whole is significant, reaching, compared to 2008, to approximately 2.9 billion kroons (185 million euros), i.e. to 13%. In the conditions where income decreased fast there was also an inescapable need to review critically expenditure and make decisions in good time to bring it into conformity with the tightened conditions. The data presented by local governments reveal that when comparing the years 2010 and 2008 the expenditure has been reduced by approximately 4.2 billion kroons (268 million euros) and such a change has largely been caused by the decrease in revenue.

Tax revenue forms mostly the largest part of the budgetary revenue of local governments and it is important for a taxpayer to know what the preferences of the heads of local governments have been while searching for places of cutback and reducing expenditure and how the choices have affected services financed out of the local budget.
In spring 2010 the National Audit Office drew up an overview of changes in the revenue, expenditure and financial position of local governments as a comparison between 2009 and 2008 and admitted that the reaction of local governments to the economic crisis, which should have expressed itself in reducing budgetary expenditure, was slow. However, while adding the data of 2010 to the aforesaid it can be noticed that in recent years several local governments have made additional cutbacks of expenditure and the budgetary position has been improved considerably.

When comparing the change in revenue of local governments and that of the state budget, it appears that unlike local governments the revenue of the state has increased by 3%[1] and this is thanks to the assistance that was received in 2010 by approximately 2.5 times more than two years before (approximately 90% of the assistance in 2010 accounted for foreign funds). As similarly to local governments the state budget revenue from other sources mostly decreased, the change involved an approximately 11% larger share of assistance in state budget revenue. At the same time in budgets of

1 Cash-based revenue and expenditure of state budget through 2006–2011 (28.02.2011)
http://www.fin.ee/doc.php?107117

local governments the share of the assistance received increased by 2%, but in terms of money the amount of assistance decreased, i.e. to a significant extent especially the amount received from or mediated by state authorities. One of the consequences thereof is also significantly smaller investments in local governments. Thus, compared to 2008 in 2010 local governments invested in improving the local living environment and services almost a half less (–51%) while the amount of money spent on investments by the state decreased by 9%. The data collected for the overview by the National Audit Office reveal that although through 2009–2010 approximately 90% of local governments have experienced the decrease in revenue, according to the heads of local governments this has in most cases not brought along any major changes for local people or enterprises and the possibilities for consuming services are mostly the same as in the pre-crisis period. The conclusion must still be supplemented with the fact that a lot of local governments performed major cutbacks of expenditure and reorganisations in their activities in 2010 and the impacts thereof need not have become apparent yet. With high probability the changes will not become apparent at all this time as starting from the end of the previous year the receipt of revenue and financial position of local governments has indicated signs of recovery from the crisis.

While summing up the information collected during the overview, the National Audit Office states the following:

■ **In the case of decrease in revenue each fourth local government has terminated the performance of some voluntary assignments.** The list of voluntary services has been shortened by 24% of local governments and mostly the payment of assistance in the field of culture, sports and youth work has been excluded from the list.

■ **Due to the reduction in management costs and investments the condition of roads and streets and street lighting has suffered the most.** The deterioration in the condition of roads and streets due to the lack of investments and maintenance work in the crisis period has been noticed by 82% of local governments and 66% of local governments have saved expenditure on street lighting by shortening the working time thereof. 33% of local governments are of the opinion that as a result of the decrease in the aforesaid expenditure the possibilities of use of public buildings have also deteriorated.

■ Of the fields of activity of local governments in the two most recent years expenditure has decreased in absolute amounts mostly in the field of **education and economy**.

■ **Problems in performing financial obligations have been experienced by a third of local governments.** During the period of decrease in revenue several local governments (31%) have had to admit difficulties in performing financial obligations. Most of the problems involved timely payment of debts to suppliers of goods and services – experienced by 27% of local governments.

■ **The decrease in revenue has not had a significant impact on the number of local government authority.** In the crisis period the number of authorities has not changed considerably, instead the decrease in the number of the authorities has slowed down. However, in the case of the decrease in the number of authorities the reason in 66% of the cases has been the decrease in revenue.

■ **In the two most recent years the number of employees in local governments has been reduced in a half of the municipalities and cities.** The number of employees had been reduced in 50% of the questioned local governments and according to 37% of the local governments the reduction was due to the decrease in revenue. The total reduction of employees in the 213 local governments who had provided their answers was 4%.

■ **Due to the decrease in revenue the salary of employees has been cut down in more than a half of the local governments.** In addition to the number of employees a major part of local governments (58%) has also been forced to reduce the salary of employees, which compared to 2008 has decreased in local governments, on average, by 10%.

■ **Decrease in staff costs has deteriorated the availability of services in almost a third of local governments.** Due to the decrease in the budgetary funds spent on the staff the time of administrative operations has become by approximately 24% longer and the working and opening times of authorities have been shortened in 14% of local governments. The cutback of staff costs has contributed to the decrease in the availability of services in 30% of local governments.

As like before the state has not determined the minimum level or quality requirements of services even in the most general terms, the National Audit Office cannot confirm or refute the assessment of local governments.

Airi Mikli
Local Governments' Audit Department