

INSTITUTE OF LOCAL GOVERNMENT STUDIES



LOCAL GOVERNMENT

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6 MUNICIPAL FINANCE IN BAVARIA

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The nature and the tasks of a municipality as well as its right to self-government are laid down in the Bavarian Municipality Order. The following criteria describe a municipality:

- it is a corporate body with a prescribed membership
- it is a natural corporate body
- it covers a specific territory, within which it fulfills its tasks
- the municipality is responsible for taking care of local affairs, that is the tasks of the local community
- the municipality is autonomous.

The term "natural" regional corporate body means that the autonomy of a municipality is not derived from the power of the state but has its roots directly in the sovereignty of the people. In other words the autonomy of municipality is not derived from the state; the state only respects it. In this connection, it is interesting that the right to local self-government is protected like a fundamental constitutional right. This means that a municipality which considers that its autonomy has been encroached upon - for example by a supervising authority - is allowed to claim legal protection and even to appeal to the constitutional court.

Therefore in a legal sense autonomy means that the municipality is, to a large extent, independent of the state, and administers its own affairs on its own behalf, at its own discretion and within its own administrative, financial and economic means. The autonomy of the Bavarian municipality has the following characteristics:

- the freedom to make decisions concerning the administration of its own affairs (self-administration)
- the right of self-organisation, that is the right to determine its internal organisation - for example how the council and the committees should conduct their business
- the protection against intervention by the state (the circumstances under which the state can intervene have to

- be reduced to a minimum and must be distinctly defined by law)
- the guarantee of financial independence.

This last point needs explanation, since the management of local finance is an essential part of local autonomy. Balancing the annual budget and responsible long range planning are only possible if the necessary income is at the disposal of a municipality to enable it to fulfil its tasks and to cover its expenditures. Self-administration therefore implies far-reaching financial independence. The financial independence is expressed for example in the relatively free power to structure revenues, exercised in the communal budget.

The budget of a Bavarian municipality is divided into an administrative and a capital budget. While the administrative budget lists the expenditures of the administration, investments and measures to promote investments are listed in the capital budget.

The administrative budget includes regular and continuous revenues like fees, taxes, allocations from revenue sharing and capital returns, as well as continuously occurring expenditures which are defrayed by these receipts. On the other hand the capital budget shows the expenses for investments and measures to promote investments as well as debt redemption and other expenses connected with investments or debts.

The budget has to be consistent with the actual financial situation of the municipality without arbitrarily adding or omitting items. Beyond that, the receipts and expenditures in the budget must be balanced. Basically the following sources of income are at the disposal of the municipalities to finance their budgets:

- taxes
- fees and charges
- receipts from revenue sharing
- loans

The municipalities have no natural right of taxation; the right derives solely from the state. They are allowed to levy taxes only when empowered to do so by the state. Municipal taxes include real estate taxes A and B, local

business tax and a certain share of income tax. The assessing and levying of the local business tax takes place in a two-step procedure:

1. As a basis for taxation the tax offices determine a uniform business tax base, which is laid down in a statement of assessment.
2. The municipality decides the multiplier to be applied to this assessment. Trading income as well as the trade capital is taken into account in these calculations.

At present there is an exemption of DM 15,000 for the trade returns and of DM 6,000 for the trade capital. The municipality is allowed to fix the rate. As a rule, this rate ranges from 300 to 400 per cent. The municipality uses a similar procedure to tax real estate within its area. However, a distinction is made between land used for agricultural and forestry purposes (real estate tax A) and other types of land (land tax B). The municipality applies its tax rates to the statement of assessed evaluation provided by the tax office and issues the tax assessments which have to be paid by the property owners.

Both the amusement tax and the beverage tax have been abolished in Bavaria while the dog tax continues to be a source of revenue for the municipalities, although not a very good one. A unique source of revenue is the so-called fire protection fee which has to be paid by every male inhabitant between the ages 18 and 60. Municipalities can levy a fee of up to DM 40.

Contributions and fees differ from local taxes in that they represent financial compensation for a public service. Fees are charged for the use of public facilities, authorities or public offices. In contrast to this, contributions do not imply the actual use of public services: they arise from the availability of certain public institutions.

Fees include administration fees and fees for use of communal institutions. As a rule these fees cover actual costs, for example for water supply, removal of waste water, cleaning of the streets and removal of waste.

Contributions are as a rule raised singly for particular investments. They are levied for example for the construction of streets, pavements and waste water canals.

Within the framework of communal finance equalisation municipalities with low revenue resources receive the means from the state to fulfil their tasks. Communal finance equalisation meets three important needs:

1. Existing differences in tax power between the municipalities are compensated for by allocations according to a standard formula
2. Financial contributions for current costs like the upkeep of streets, school transport etc are granted to the municipalities by special allocations
3. Allocations are made to enable investment projects to be carried out (for new school buildings, kindergartens, hospitals etc).

On the one hand the financial equalisation payments are raised by shared taxes and on the other hand there are provisions from the public budget of the Land. In Bavaria there are three forms of shared taxation.

The general shared taxation provision gives to municipalities a share in the receipts of income and wage taxes, corporation tax, sales tax, a special fee trade tax and the receipts from the mutual compensation payments between the German Länder. In 1983 the payments from the general tax-sharing provision amounted to DM 2,250 million.

At present the municipalities receive a 65 per cent share of the motor vehicle tax. This money is used mainly for the extension and maintenance of local and regional roads as well as for federal roads crossing through municipalities.

Finally there is the shared tax income from real estate. The Freistaat of Bavaria grants 80 per cent of the total receipts from the real estate tax to the municipalities. In 1983 the local share amounted to DM 428 million.

In addition to shares in taxes which cover 60 per cent of the communal financial equalisation payments, the Bavarian Freistaat provides for the balance of 40 per cent (DM 2,650m out of DM 6,630m) of the total payments to municipalities direct from the public budget. A distinction between legally required and voluntary payments can be made here. The obligatory payments include the so-called "Schlüsselzuweisungen", which comprise the public shares of the real estate tax, financial allocations as well as

allocations such as subsidies for school transport, hospitals etc. Allocations for school-buildings and public administrative buildings etc are made on a voluntary basis. The "Schlüsselzuweisungen" are the most important sources of income for the financially weak municipalities. They are meant to compensate for missing taxation power. The quota basis for granting public payments is the difference between the local taxation power and 75 per cent of the average Bavarian taxation power.

The Case of Zirndorf

Zirndorf is situated east of Fürth near the cities of Nuremberg and Fürth. Today the Gemeinde (municipality) consists of 12 communities. In 1976 the villages of Leichendorf and Bronnamberg were integrated in a programme of district reorganisation. By December 1981 Zirndorf embraced 21,192 inhabitants in an area of 28.75 square kilometres.

The origins of Zirndorf are not definitely established. Nevertheless we know that Zirndorf was a property of the chapterhouse of Eichstätt from 742 until 1057. In 1057 Zirndorf is mentioned in documents as a parochial village with an extended parish. In the year 1306 the castle and the palace passed over to the ownership of the counts of the castle of Nuremberg.

In 1580 there followed the final drafting and attestation of Zirndorf's charter of autonomy by the count of Brandenburg and the Reichsstadt Nuremberg. Up to this time Zirndorf had been relatively independent.

In 1632 there were battles between Wallenstein and Gustav Adolf in Zirndorf. In 1806 the Prussian area in South Germany was joined to Bavaria on the demand of Napoleon in the treaty of Schönbrunn. In the second half of the 19th century Zirndorf developed industrially, producing especially toys and mirrors. In 1912 Zirndorf officially acquired borough status.

Data

The water supply of Zirndorf is provided by municipal works from its own sources.

The removal of waste water is task of the municipality; the waste water is channelled to the canal system of the town of Fürth.

The electricity supply is managed partly by the local works department and partly by the Franconian regional works department.

The gas supply is provided by the works department of the town of Nuremberg.

Refuse disposal is a task of the regional council of Fürth.

Regional traffic is concentrated on the axis Nuremberg-Fürth-Erlangen in a west-east or east-west direction. Similarly there are three railway lines linking Zirndorf to the urban centres; there is the line Nuremberg-Stuttgart, the line Nuremberg-Grosshabersdorf and the line Fürth-Cadolzburg.

The population of Zirndorf has increased since 1970 by 4,625 inhabitants (28 per cent) - an increase above the average for comparable municipalities. The annual average increase amounts to 2.3 per cent compared with an average increase in the region of 0.4 per cent. The main reason for this development is the immigration of many inhabitants of Nuremberg and Fürth into Zirndorf. Because of its historical development and its situation the town grew to be an industrial trade centre with important places of employment. In Zirndorf manufacturing dominates, providing 80 per cent of all non-agrarian jobs. The most important industries are metal-working and plastics, electrical building and printing.

The great challenges to Zirndorf in the future are to carry out the modernisation of the old town and to overcome the problems of traffic. It is also important to transfer enterprises which are presently located in the centre of Zirndorf to a newly planned industrial area. In view of these tasks an adequate supply of finance is indispensable. There are however considerable bottlenecks in the system of commercial finance as will be shown.

The Financial Problems

Zirndorf's total budget for 1984 amounts to DM 41,393,231. This is a great decline in comparison with the 1983 budget which amounted to DM 46,321,305. This decline does not result primarily from a decrease in incomes but from a remarkable decrease in investments. In this connection an interesting fact is the ascertainment of the free financial margin, that is the amount of the capital budget where the current income and expenditure are reconciled. The free financial margin of Zirndorf will be DM 1,234,000 in 1984. In 1983 it was at DM 2,895,000. Consequently the possibility of voluntary expenditures has been considerably reduced.

The volume of the administrative budget amounted to DM 27,691,171 in 1984. It is now at DM 1,042,796; that is 3.91 per cent more than in the year before. The share of the administrative budget in the whole budget is 66.9 per cent in the year before it was 57.53 per cent. That means that investments, mainly included in the capital budget, have fallen dramatically.

The trade tax of the town was estimated at DM 6 million in 1984. But one has to consider that the town receives 46 per cent of the whole trade tax from two enterprises only. That is a great risk for the municipality if the economic recession hits both these enterprises or even only one of them.

The share in the income tax of the municipalities has been fixed at DM 10 million in 1984. If one compares these facts with the development of the trade tax in the last 6 years, it is apparent that the financing of the other municipalities is dependent above all on their share in the income tax, while the receipts from the trade tax have increased proportionally. There is also the consideration that the legislature aims to reduce the trade tax more and more and finally to displace it by a communal value tax.

Compared with 1983 the town has to accept a decrease in quota allocations of about DM 235,000 because its taxation power has increased slightly since the last year.

On the expenditure side of the administrative budget the costs of personnel become more and more important. As there are subsidies for staffing costs to a great extent, only the

net costs are of interest. In 1984 their share of the administrative budget will be 25 per cent and of the total budget 17.05 per cent.

As a part of the further expenses the maintenance of real estate and buildings will cost DM 1,435,000 and the running expenses of vehicles will amount to DM 238,000. The trade tax which goes to the government of Bavaria will fall by DM 1,006,000. DM 6,024,000 will have to be paid to the Landkreis Fürth.

The capital budget of Zirndorf will amount to DM 13,702,060 in 1984. This is DM 5,970,870 below the volume of the year before, a reduction of 30.35 per cent. DM 1,597,450 of the capital budget relates to the payment of debts, which means that 11.66 per cent of the capital budget is absorbed by debt payments compared with only 6.67 per cent in the year before. These figures demonstrate the reduction in the financial strength of Zirndorf, in addition to the facts mentioned previously.

The development of the financial reserves of the town should be taken into consideration also. Amounting to DM 7,042,494 on 1st January 1982, the financial reserves were reduced to DM 5,258,640 at the beginning of 1983 and presumably will be only DM 1,954,866 on 1st January 1985. So the financial reserves of the town at the start of 1985 will be less than a third of the sum at the start of 1982. However they are still higher than the legally required smallest sum for general reserves, which is fixed at DM 266,000 for Zirndorf.

Regarding the receipts, for example under the heading "Receipts out of the Sale of Property", they will be 90 per cent lower than in the year before, and the "Assignments and Subsidies for Investments" will be reduced by 34.72 per cent caused by the reduced amount of investments. A great problem is the fact that for the financing of the capital budget again - as in the year before - credits to the amount of DM 2.5 million are necessary, although the total budget will be reduced by 30.35 per cent. Therefore the burden of debt seems worth consideration.

Concerning the expenditure in the capital budget, for example for the acquisition of real estates, there is a significant reduction. At DM 750,000 it is 68 per cent

lower than the sum of the year before. The financial problems of the town can be clearly seen here as Zirndorf can acquire new real estates for its future development only with great difficulty. We have a similar situation concerning the building projects rated at DM 9,205,000 in the budget of 1984. That is in this budgeting year DM 5,839,000 or 38.81 per cent less than in the year before.

Finally the economic situation of the town's own works department should be discussed. The urban works department supplying the town with electricity and water have made great investments in the last years, at a cost of DM 1,400,000. At the same time only 54.69 per cent of the total expenses of DM 3,090,000 could be covered by depreciations, returns and subsidies to buildings. These expenditures are for investments and therefore will be paid back by returns in due course.

Possible Financial Solutions

The general fact that cyclical fluctuations concern the municipalities after a time-lag of about 2-3 years is also true for Zirndorf. Even if an economic national growth of about 2.5 per cent is predicted, it is not transferable to the local area. Here it is necessary to overcome a financial bottleneck by restricting the expenditure and finding all possibilities for savings. In the field of fees and earnings no significant increases will be possible because no more financial burdens can be imposed on the citizens of Zirndorf. However, it is possible to accept a higher rate of debt as Zirndorf has a capital debt much lower than the Bavarian average. But this would be a contradiction to the present attempt to consolidate the public budget - both of the nation and of the Länder.

Another solution of the problem might result from the battle of municipalities for a bigger share in the wage and income tax. An increase on the communal share would enable the municipalities to use their right of self-administration more extensively. Simultaneously the so-called "golden curbs" should be cut; that is, purpose oriented subsidies should be replaced by independently disposable subsidies.