Top level decision – Local consequences

The European Semester explained

CCRE CEMR
Local & Regional Europe

Contents

The European Semester is the process for coordination of the economic and social policies of European Member States. Over the years its scope and influence have been increasing and it is becoming the main overarching policy framework of the EU, guiding investment and reforms priorities for each Member State. In this publication, we explore how the recommendations from the European Semester affect local and regional governments (LRGs) and, even though the Country Specific Recommendations often touch on the competences of subnational governments, we observe that it remains a centralised process, with little involvement of subnational governments.

Recommendations

1. EU Institutions must acknowledge in future regulations the important **role of local and regional governments for the successful implementation of reforms** and structural investments in Member States.

2. The European Semester process should be reformed to **better align with the multi-level governance** and include a consultation process of representatives of local and regional governments in the validation of Country Specific Recommendations and in the elaboration of National Reforms Programmes.

3. In addition to regional governments (as mentioned in Regulation 2023/0168(COD)), Member States should also meaningfully consult representatives of local and intermediary governments in the **elaboration of the National Reform Programmes** / National medium-term fiscal structural plans.

4. Member States should establish **regular exchange fora on the impact of investments and reforms** that arose from the European Semester process on local and regional governments, and report to the Commission and the European Parliament.

5. Country Reports should now include thorough **Territorial *and Governance* Impact Assessment**, studying both the differentiated territorial impacts of investments and reform recommendations but also analysing the different government levels in charge of implementation (i.e. federal/national, regional, intermediate, and/or local level).

6. When considering **linking investments and reforms**, the European Commission should carefully assess the territorial and governance impact of investment and reforms and **differentiate those investments and reforms that should benefit subnational levels** and depend on subnational governments actions, from the national level investments and reforms. Local and regional governments cannot be held responsible if the national level is not delivering on reforms.

7. Equally, subnational governments may not be held accountable in case the central government commit on reforms whose implementation rely on the subnational level without proper consultation of local and regional governments, **ensuring the reform proposed is feasible and realistic**, considering subnational governments' competences and resources.

8. The reform agenda could still be an opportunity to advance decentralisation in Europe, in particular by **promoting fiscal decentralisation** and a greater autonomy of local and regional governments in raising local taxes.

9. To avoid contradictions between the different policy objectives of the Union, in particular the objectives of the green and digital transition, and the path towards net zero emission that require massive public investments, and on the other hand the requirements of the EU economic governance, the EU should reconsider the introduction of a **golden rule to preserve and encourage local and regional public investments** for long term and sustainable development.

Abbreviations

CEMR	Council of European Municipalities and Regions
CSR	Country Specific Recommendation
EU	European Union
ICT	Information and Communication Technologies
LRG	Local and Regional Governments
MFF	Multi-annual Financial Framework
PIT	Personal Income Taxes
RRF	Recovery and Resilient Facility

Introduction

The European Semester is the framework designed to coordinate Member States' economic, fiscal, employment and social policies. Its scope has enlarged over the years and its impact is expected to further grow in the next years. Yet the process remains relatively unknown to the public and to stakeholders such as subnational governments despite the important impact the Semester has on Member States policies, investment and reforms priorities.

In this report the Council of European Municipalities and Regions (CEMR) looks at the direct and indirect impacts of the European Semester on subnational governments. After a brief overview of the EU Semester's process and potential evolutions, the report highlights specific areas and competences of local and regional governments that may be directly or indirectly impacted by the Semester, such as local finances or the orientations of Cohesion Policy investments in each Member States.

Finally selected country case studies analyse the 2024 Country Specific Recommendations (CSR). The case studies are completed with insights from a survey conducted with CEMR members about their views on the EU Semester's impact on local and regional governments and about their involvement in the process at national level. 6 CEMR members, representing local and regional governments from 5 different countries (Austria, Belgium, Germany, Latvia and Spain) provided input for this study.

Origins and evolutions of the European Semester

The global economic crisis of 2008-2010 had a tremendous impact on the European Union. It revealed the economic interdependencies of Member States and institutions and prompted the introduction of new regulations to control national debt and public expenses. The EU Semester was therefore created in 2010 as the mechanism to coordinate Member States budgetary and economic Policies.

Article 121 Treaty on the Functioning of the EU

"The Council shall, on a recommendation from the Commission, formulate a draft for the broad guidelines of the economic policies of the Member States and of the Union, and shall report its findings to the European Council. The European Council shall, acting on the basis of the report from the Council, discuss a conclusion on the broad guidelines of the economic policies of the Member States and of the Union. On the basis of this conclusion, the Council shall adopt a recommendation setting out these broad guidelines. The Council shall inform the European Parliament of its recommendation".

An ever-expanding scope

Although it was initially a purely economic tool, the European Semester has been evolving over the years to encompass other policy fields and become a socio-economic policy coordination mechanism. Today it covers[1]:

- Fiscal policies (sustainability of public finances, preventing excessive debts and budgetary deficits);
- Prevention of macroeconomic imbalances;
- Economic convergence and stability across the Union;
- Structural reforms focusing on growth and employment;
- Monitoring the implementation of the **Structural reforms set out in the national recovery and resilience plans**;
- Coordination and monitoring of employment and social policies (in line with European Pillar of Social Rights);
- Performance of Member States in implementing the Sustainable Development Goals (SDGs)

As its scope has expanded, the EU Semester's impact at all levels of governance, including subnational governments have increased considerably.

2024: the year of transition

Starting in 2020, the COVID-19 pandemic was another global shock with lasting consequences on the Union. The Recovery and Resilience Facility (RRF), created as a response to the crisis, marked an important paradigm shift in the EU, breaking the taboo of common borrowing to finance a large-scale countercyclical investment facility. The RRF's unique approach, which is influencing the current debate on the future of Cohesion Policy is the combination of investments with reforms: **Member States receive RRF grants payments following the completion of reforms milestones drawn from the EU Semester process**. Therefore, the Semester process was adapted to integrate the coordination of the Recovery and Resilience Facility.

During this period of crisis, the rules of the EU economic governance limiting general government deficit to 3% of GDP and the general government debt to 60% of GDP were temporarily put on hold and a comprehensive reform of the economic governance framework was undertaken[2]. The monitoring, prevention and correction mechanisms of the EU economic governance were already embedded in the EU Semester, therefore the new reform also impacts the Semester process: Since April 2024, Member States now must submit **a national medium-term fiscal structural plan** that includes their projected net investment for a 4/5- or 7-years period. Moreover, these plans must also include priority public investments and reforms plans aligned with the EU Semester Country Specific Recommendations.

Looking ahead, additional adjustments are also expected in the coming years to strengthen the EU Semester, positioning it as the overarching policy framework for the EU. The EU budget is usually agreed upon a 7–year Multi-Annual Financial Framework (MFF), the current period being 2021-2027, and the next one 2028-2034. The proposal of the next MFF by the European Commission, expected mid-2025, gives an opportunity to re-evaluate the Union's financial instruments, particularly, **Cohesion Policy** and its different funds, representing one third of the EU budget. In light of the RFF experience, the Commission is likely to suggest a major revision of EU's biggest investment policy to further link it with reforms, and therefore with the EU Semester.

The European Semester has become over the years the main process not only for coordination of Member States' economic, budgetary, employment and social policies, but also a solid framework for increased consistency and complementarity between EU policies and instruments.

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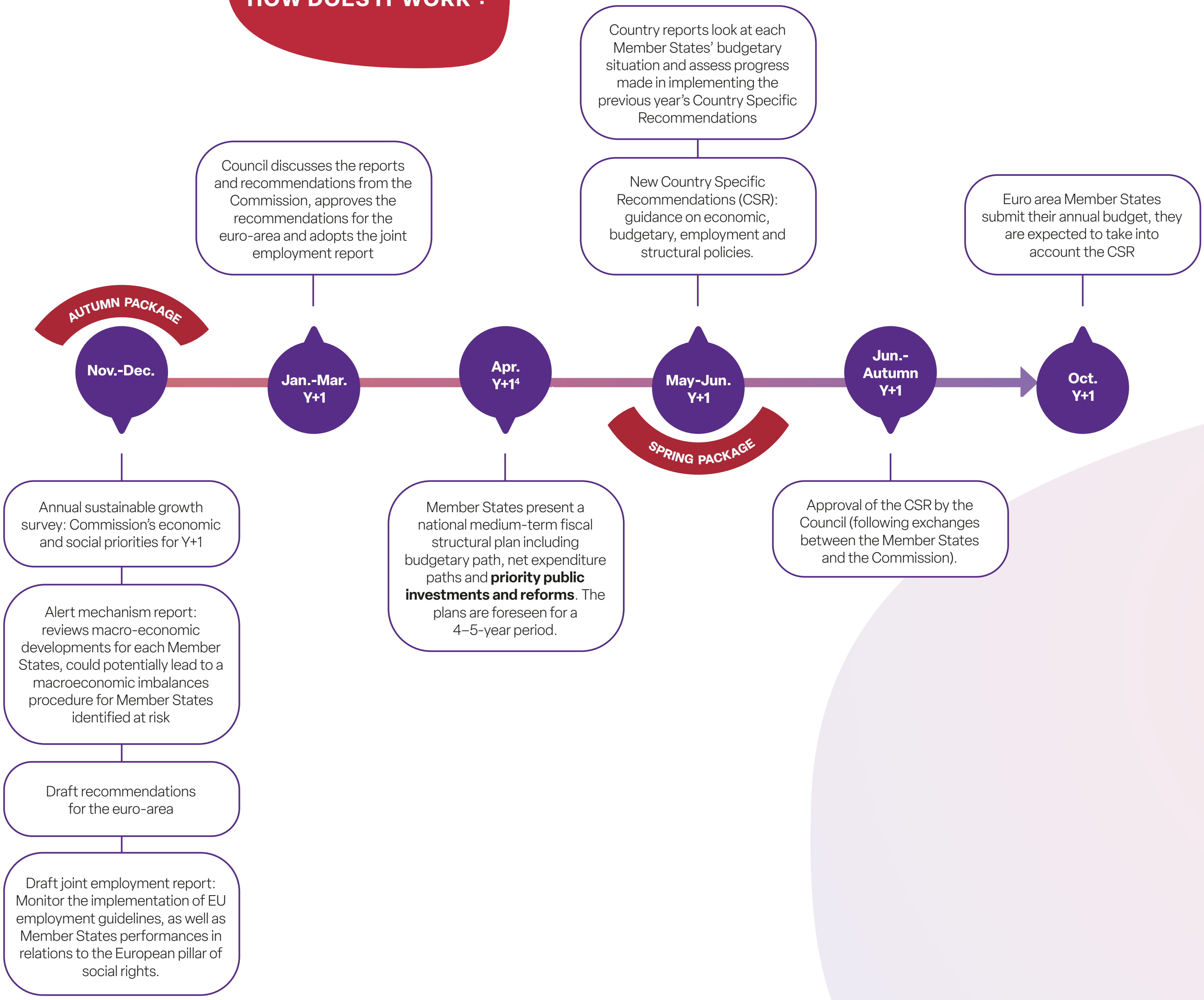
[1] *https://www.consilium.europa.eu/en/policies/european-semester/*
[2] *For the purpose of this report, it is important to recall that "General government" comprises central government, State governments (eg. provinces, Länder, cantons, republics, or administrative regions), local governments (e.g. counties, municipalities, cities, towns, townships, boroughs, districts) and social security funds.*

HOW DOES IT WORK[3]:



The reform of EU economic governance has also expanded the scope of the medium-term fiscal structural plans to include broader reforms and investments aligned with EU priorities including the green transition under the European Green Deal, the digital transition under the Digital Decade Policy Programme 2030, the implementation of the European Pillar and Social Rights and the buildup of defence capacities including the Strategic Compass for Security and Defence.

This shows the willingness of the European Commission to align all policies and instruments under the renewed economic governance framework, as part of the European Semester process.

[3] https://www.consilium.europa.eu/en/policies/european-semester/how-european-semester-works/
[4] *In 2024 given the year of transition Member States have to submit their plans in Autumn*

Impact on Local and Regional Governments

This section further explores how the EU Semester can directly and indirectly impact local and regional governments.

Approximately 70% of EU regulations require an action at the local or regional level to be effectively implemented[5]. Consequently, a significant share of EU policies impact on local and regional governments. The Country-Specific Recommendations (CSR), as part of the European Semester, may address areas such as the state of public finances, reforms of pension systems, education and innovation challenges, measures to create jobs and reduce unemployment – a wide range of areas involving local and regional competencies[6].

In the survey conducted by CEMR, members were asked if they were aware of any EU Semester CSR that had led to a reform having a direct impact on subnational governments in their country in recent years. While the Spanish, Austrian and German associations answered positively; Latvian and Belgian associations did not observe such effects.

The sectors most likely to be affected by the European Semester process according to the answers collected include territorial organisation reforms (Spain), competencies of subnational governments (Austria), subnational budget and finance (Austria) and Cohesion Policy (Germany).

Local finances

The new Regulation on the effective coordination of economic policies and on multilateral budgetary surveillance (2023/0138(COD))[7], which structures the new EU economic governance framework states in the Recital (4) *"The involvement of national parliaments, social partners, civil society organisations and other relevant stakeholders in the European Semester in key to ensuring national ownership of economic and fiscal policies as well as transparent and inclusive policymaking".* This statement shockingly overlooks local and regional governments which, as a distinct tier of government with clearly defined institutional mandates and democratic accountability, should not simply be included among "other relevant stakeholders".

As economic and budgetary policies are monitored as part of the European Semester, the recommendations on the national medium term fiscal structural plans and on general government expenditure, debt and investments, can impact directly subnational levels of governments. Local authorities alone account for one third of public spending and two thirds of public investment across the EU[8]. In the case studies, we use OECD data to demonstrate the share of subnational government as part of general government public debt, expenditure, investment or tax revenues. In most EU Member States, subnational governments are submitted to very strict budgetary rules. In several countries, debt is forbidden or allowed only for virtuous debt, i.e. debt financing investments. Often, local governments are confronted to a contradictory narrative, between the European injunctions for reduction of public expenditures and debt on the one hand, and encouragements to engage in long term investments for the green and digital transitions on the other hand, even encouraged in the framework of the Cohesion Policy funds and from the European Investment Bank.

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[5] *Supporting public administrations in EU Member States to deliver reforms and prepare for the future, European Commission Structural Reform Support, 2021, https://reform-support.ec.europa.eu/document/download/04a7ce73-c582-4afb-8c68-e4eaebeecfcc_en?filename=supporting_public_administrations_in_eu_ms_to_deliver_reforms.pdf*

[6] *CEMR TERRI report, Territorial Governance, Powers and Reforms in Europe, 2021 edition, https://terri.cemr.eu/en/*

[7] *https://data.consilium.europa.eu/doc/document/PE-51-2024-INIT/en/pdf*

[8] *Supporting public administrations in EU Member States to deliver reforms and prepare for the future, https://commission.europa.eu/system/files/2022-12/supporting_public_administrations_in_eu_ms_to_deliver_reforms_0.pdf, European Commission Structural Reform Support, 2021*

It is illustrated by a specific example from the Spanish Federation of Municipalities and Provinces (FEMP): in 2024 the Spanish senate vetoed a government proposal on budget stability objectives. To counter the veto, the Spanish Government used EU Semester recommendations of 2023 where the Commission identified a budgetary surplus of the local governments (entitades locales – EEL), eventually, that surplus was included in the Budget Plan of the Kingdom of Spain 2024.

Cohesion Policy

Cohesion Policy is the policy instrument to foster convergence between EU Member States and regions, as well as the main investment policy of the EU to date. Unsurprisingly, it has been increasingly integrated into the European Semester.

The new regulation on the effective coordination of economic policies and on multilateral budgetary surveillance (2023/0138(COD)) highlights: *“**Cohesion Policy funds are also synchronised with the European Semester process**. As the long-term investment policy of the Union budget, reforms and investments under those funds should also be duly taken into account when national medium-term fiscal-structural plans are drawn up, in order to ensure consistency and, where appropriate, complementarity”.*

Cohesion funds have been increasingly integrated in the European Semester, with Country Specific Recommendations (CSR) including guidelines on the use of Cohesion Policy funds. For example, in 2019, Annex D of the CSR provided Member States with recommendations on programming Cohesion Policy funds. Similarly, the 2020 Commission’s country reports offered guidance on Just Transition Fund[9] for each Member States in view of the preparation of their “territorial just transition plans”. Notably, the Just Transition Fund is the most “territorialised” instrument among EU’s structural and investment funds, targeting specific territories and implemented through tailored territorial plans.

The Deutscher Landkreistag (DLT) provides a concrete example: in 2019, the European Commission’s investment guidelines, the Commission advised Germany against using Cohesion funds to finance broadband infrastructure. As a result, broadband projects were excluded from cohesion projects across the country.

Country Specific Recommendations are also used to assess the implementation of Cohesion Policy funds every year. In the 2024 CSR, the Commission reminded Member States that they had to review their Cohesion Policy funds programmes as part of the mid-term review, and that they must do so “taking into account, among other things, the challenges identified in the 2024 Country-Specific Recommendations”.

[9] https://commission.europa.eu/publications/2020-european-semester-overview-investment-guidance-just-transition-fund-2021-2027-member-state_en


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Case study – Country Specific Recommendations 2024[10]

The case study section focuses on Country Specific Recommendations that could have a direct or indirect impact on local and regional governments, taking into account the competences of each subnational government level.[11]

In 2024 each Country Specific Recommendations focus on[12]:

- **CSR 1:** Recommendations on fiscal policies, in line with the new EU economic governance framework.
- **CSR 2:** The implementation Cohesion Policy in view of the mid-term revision of programmes, and of the investments and reforms foreseen as part of the Recovery and Resilience Facility (including the REPowerEU chapters when relevant).
- **CSR 3 (and CSR 4):** Possible additional sectoral recommendations on outstanding or new challenges

Local and regional governments are particularly concerned by CSR 2 on the implementation of the Recovery and Resilience Facility and of the Cohesion Policy programmes: either as the competent authorities in charge of investments or as beneficiaries. This is particularly true for the REPowerEU chapters which often include measures of energy efficiency and building decarbonisation that have to be conducted by local and regional governments.

All Country Specific Recommendations recall *"The systematic involvement of **local and regional authorities**, social partners, civil society and other relevant stakeholders remains essential to ensure broad ownership for the successful implementation of the recovery and resilience plan."*

But they are also directly or indirectly concerned by CSR 1 on fiscal policies since subnational governments' budgets, investments, expenditures and debt are accounted for as part of general governments' budgets.

CSR 3 and CSR 4 may be related to areas of competences of local and regional governments such as provision of public services.

In addition to the Country Specific Recommendations 2024, this section relies on two main sources:

- OECD (2023), Subnational governments in OECD countries: Key data (brochure), OECD, Paris www.oecd.org/regional/regional-policy for all data related to subnational finance. In complementarity of the OECD databases on Aggregated regional government finance and on Aggregated municipal government finance
- CEMR TERRI report, Territorial Governance, Powers and Reforms in Europe, 2021 Edition, https://terri.cemr.eu/en/ for all information related to subnational government competences.

[10] *2024 European Semester: Country Specific Recommendations / Commission Recommendations*
https://commission.europa.eu/publications/2024-european-semester-country-specific-recommendations-commission-recommendations_en
[11] *https://terri.cemr.eu/en/*
[12] *https://www.europarl.europa.eu/RegData/etudes/IDAN/2024/760233/IPOL_IDA(2024)760233_EN.pdf*

Austria (Federal country)

Competences of subnational governments (from CEMR TERRI report, 2021)

Local governments
Municipalities (Gemeinden)

- Fire protection and rescue services
- Road construction and maintenance of municipal roads
- Maintaining elementary schools and secondary schools
- Civil status books and registry office
- Local construction police
- Public water pipelines
- Sewerage
- Municipal housing
- Waste management
- Social welfare (partly)
- Health (partly)

3 mentions of "**local**" 3 mentions of "**municipal**" 6 mentions of "**region**"

In the 2024 Country Specific Recommendations, the Council noted the progresses made in the implementation of **Cohesion Policy**, and that regional disparities in Austria are among the smallest in the EU. But warns that the existing disparities could be reinforced in the future, notably because of the demographic transition and the challenge of depopulation in remote rural territories. The Council highlighted the importance of integrated territorial development approaches in accelerating the implementation of Cohesion Policy.

Regarding **public investment** and following a previous recommendation from the Council to preserve nationally financed public investments, it observes that public investments have been exceptionally high in 2023, partly driven by the municipal investment law; and therefore, assesses public investment in Austria as respecting the Council's recommendations.

On the **fiscal framework**, the Council notes that it *"relies on a complex system of intergovernmental transfers between federal and regional authorities, providing limited incentives for efficient public spending"*, and points at the lack of tax autonomy, while the financing of essential services such as healthcare, childcare and public transport depends partly on expenditure by the federal states and municipalities. The CSR document highlights that demographic change, and the green transition further exacerbate the cost pressure on the federal states and municipalities, while own source revenues are not linked to expenditure dynamics. Council therefore recommends to better aligning own source revenues with subnational government spending and strengthening transparency and coordination for improving the overall quality of public spending. It also suggests reforming the property tax system to improve fiscal federalism and the overall tax system.

Out of the 4 Recommendations in the Austrian 2024 CSR, 4 impact directly or indirectly LRGs:

- **CSR 1:** Recommendation of limiting the growth in net expenditure is expected to impact local government in Austria as subnational governments public expenditure represent 33.8% of total public expenditure (16.2% for local governments alone). This is confirmed by the Austrian Association of Cities and Towns (AACT) who evaluates that this recommendation would put pressure on local budgets.

  Additionally, the recommendation to "Improve the fiscal sustainability of the healthcare system and the long-term care system" could help local governments, as they share the healthcare burden with the Bundesländer (federal states), however the association does identify a risk related to the ageing of the Austrian population.

  Furthermore, the recommendation to "simplify and rationalise fiscal relationships and responsibilities across layers of government and align financing and spending responsibilities" is seen by the AACT as too unrealistic, while it would have a positive impact on the subnational level. The call to "further improve the tax mix to reduce the tax wedge and support inclusive and sustainable growth" could be interpreted as an attack on some local government tax.
- **CSR 2:** Recommendation on acceleration of the implementation of Cohesion Policy and the continuation of implementation of the recovery and resilience plan concerns directly subnational governments, municipalities and regions, especially with regards RePowerEU and their role towards energy transition and energy efficiency of public buildings.
- **CSR 3:** Recommendation to boost the labour market participation of women, including by improving quality childcare services, and of older workers and to improve labour market outcomes for disadvantaged groups, could be relevant for local governments in Austria as they are partly responsible for social welfare. AACT underlines that this recommendation entails additional costs to cover more and improve the quality of childcare services (smaller groups), but signals that the additional funds provided by the states and the federal level are not adequate, which would lead to even more pressure on local budgets.
- **CSR 4:** Recommendation to reduce emission in the transport sector would also impact municipalities which are responsible for building up their public transport systems while being required to change their buses to cleaner vehicles through the Clean Vehicle Directive, signals AACT. Meanwhile, municipalities are also constrained to step up the refurbishment of up to 55,000 public buildings (schools, kindergartens, town halls, etc.) through the Energy Efficiency Directive (EED II). The association highlights that without a "golden rule" to allow the necessary investments for the green and digital transformation, these initiatives are in direct conflict with the CSR 1 and the requirements of the New Economic Governance.

Key data on subnational governments (source: OECD, 2023)

	Subnational government **expenditure**	Subnational government **investment**	**Taxes** as share of subnational government revenue	Subnational government **debt**
Subnational government	• 19.0% of GDP • 33.8% of general public expenditure	• 1.4 % of GDP • 40.9 % of general public investment	• 11.0%	• 13.3% of GDP • 13.2% of general public debt
Local government alone	• 9.1% of GDP • 16.2% of general public expenditure	• 0.9% of GDP • 25.7% of general public investment	• 14.2%	• 5.6% of GDP • 5.5% of general public debt

Belgium (Federal country)

Competences of subnational governments (from CEMR TERRI report, 2021)

Local governments Municipalities	**Intermediary governments** Provinces	**Regional governments** Regions
• Public order • Registry office • Spatial and urban planning • Housing • Water and sanitation • Environment • Waste management • Road management and mobility • Culture, sports and youth • Social policy • Local economy • Employment • Education • Local finance and taxation	• Cultural infrastructures • Social infrastructures and policies • Environment • Economy • Transport • Housing	• Spatial and urban planning • Housing • Agriculture • Employment • Environment • International relations • External trade • Scientific research • Energy • Transport • Local authorities

1 mention of “**local**”

0 mention of “**municipal**”

3 mentions of “**region**”

Belgium 2024 CSR note the progresses made in implementing **Cohesion Policy** and the European Pillar of Social Rights, but also that intra-regional disparities in terms of economic and social development continue to be high in Belgium.

It also points at Belgium’s challenges related to **labour shortages and skills** mismatches, the integration of disadvantaged groups into the labour market, the performance and equity of the education system, the teaching profession and also challenges related to the business environment, the regulatory burden and complexity, as well as restrictions in the service sector. Here we note that employment is a competence of both local and regional governments in Belgium. The CSR report also recommends improving the efficiency of public employment services.

The report highlights that the continuous increase of **public expenditure** is mainly driven by permanent increases in public sector wages and social benefits resulting from the automatic indexation, as well as rising budgetary costs related to ageing. Compensation of employees by subnational governments represent 79.8 % (32.3% for local government alone) of general government expenditure in the same sector.

Regarding **taxation**, the Council noted that labour taxes (personal income taxes and social contributions) are the highest in the EU for low wage and average wage earners, while revenues from consumption taxes, including energy taxes, are below the EU average, and therefore recommends shifting the tax burden away from labour to other tax bases and improving the efficiency of the tax and benefit system in order to help increase employment.

Out of the 4 Recommendations in the Belgium 2024 CSR, 4 impact directly or indirectly LRGs:

- **CSR 1:** Recommendation of reducing general government debt and the general government deficit below 3% of GDP could have relatively low impact on subnational level: in Belgium, local government deficit is close to 0% of GDP, subnational government debt (including regional levels) is also limited to 25.6% of GDP. But the recommendation to reform the tax and benefits system in particular by shifting the tax burden away from labour and by reviewing the design of benefits, and the recommendation to finance the labour tax reduction, including by reducing tax expenditure, could have a direct impact on local governments. Local governments collect part of the personal income taxes (PIT) in Belgium, their revenues from these taxes represent more than 6% of general government revenues from PIT and labour taxes account for about 25. In relation to this recommendation, the Association of Flemish Cities and Municipalities (VVSG) pointed that local governments in Belgium rely heavily on the federal and regional governments for their funding. The association therefore identifies a great risk that savings at federal and regional levels could be made on grants to local governments, combined with more severe rules for local government fiscal balances and/or spending.
- **CSR 2:** Recommendation on acceleration of the implementation of Cohesion Policy and the recovery and resilience plan concerns directly subnational governments, municipalities and regions, especially with regards RePowerEU and their role towards energy transition and energy efficiency of public buildings.
- **CSR 3:** Recommendation to address labour shortages and skills mismatches, including for the green transition, as well as to improve the performance and equity of the education and training systems and continue reforms to strengthen the teaching profession, concern local and regional governments in Belgium, given their competences on employment and education.
- **CSR 4:** Recommendation to improve the business environment and business dynamics by reducing regulatory burden and complexity, and by easing the restrictions in the service sector, may impact local and intermediate governments as they are competent on local economic development.

Key data on subnational governments (source: OECD, 2023)

	Subnational government **expenditure**	Subnational government **investment**	**Taxes** as share of subnational government revenue	Subnational government **debt**
Subnational government	• 27.6% of GDP • 49.9% of general public expenditure	• 2.1 % of GDP • 75.9 % of general public investment	• 25.6%	• 25.6% of GDP • 19.8% of general public debt
Local government alone	• 7% of GDP • 12.6% of general public expenditure	• 0.7% of GDP • 24.2% of general public investment	• 27.5%	• 5.1% of GDP • 4.0% of general public debt

Czech Republic

Competences of subnational governments (from CEMR TERRI report, 2021)

Local governments Municipalities (obec)	**Regional governments** Regions (kraje)
• Municipal budget and municipal property management • Issuing municipal decrees • Local development • Agriculture and forest management owned by the municipality • Municipal police • Water supply and sewage • Household refuse • Primary education – elementary schools, kindergartens • Housing • Social services • Spatial planning • Cooperation with other municipalities and regions • Public transport	• Secondary education • Road network • Social services • Environment • Transport • Regional development • Health

5 mentions of "**local**" 4 mentions of "**municipal**" 8 mentions of "**region**"

Czech CSR includes several elements that may have direct or indirect impact on local and regional governments. One example is around the recommendation to increase Czechia's overall **tax revenue**, especially through reform of the property taxes. The CSR mentions that the recurrent property taxation system of buildings and units is based on the area of the property but is not aligned on market value. The Commission argues that aligning property taxes on market value would allow to increase the efficacy of the tax to mitigate the increases in property prices and lead to a better use of existing housing stock. This may affect local governments as the property tax on land and buildings is the main tax levied by municipalities, based on the size of the property rather than its value[13]. It is however a minor source of revenue (3.6% of subnational government tax revenue, one of the lowest in the OECD).

Regarding **Cohesion Policy**, the report highlight that significant regional disparities remain in Czech Republic, pointing at two regions (Severozápad and Moravskolezko) that are caught in a development trap. The report confirms that the priorities agreed for Czech Republic Cohesion Policy programmes are still relevant, in particular developing the administrative capacities of regions, improving partnership between them, and enhancing their ownership to increase the absorption of funds by small municipalities, SMEs and local NGOs. A number of investments still need to be implemented, in particular for sustainable urban and regional transport, energy efficiency and circular economy. The CSR

[13] *OECD-UCLG – World Observatory on Subnational Government Finance and Investment, Country profiles, Czech Republic (2022)*

report indicates that Czech Republic "fragmented local administrative capacity' is preventing small beneficiaries from drawing on EU funds efficiently. And it makes suggestions to improve absorption of EU funds by small municipalities in particular, and mentions *"The good example provided by the Just Transition Fund shows that the regions would be activated* ***if they had a stronger role in determining their specific needs."***

The report points at the challenge for Czech Republic **public administration as an employer** and the ability of civil services to retain talents. It highlights that the size of Czech public administration is below the EU average in both expenditure and numbers of employees, while salaries are lower than in the private sector. Compensation of employees weight 52.9% in the subnational government public expenditures in Czech Republic.

Out of 4 Recommendations of the Czech Republic 2024 CSR, 3 impact directly or indirectly LRGs:

- **CSR 1:** Recommendation on limiting the growth in net expenditure impacts subnational governments whose expenditures represent 27.7% of public expenditure in Czech Republic. The subnational debt represents 7.2% of general government public debt (3.5% of GDP). The recommendation to take steps to increase revenue from recurrent property taxes would also impact local governments, given this is the main tax levied by municipalities.
- **CSR 2:** Recommendation to address delays in the implementation of the Recovery and Resilience plan and to accelerate implementation of Cohesion Policy concerns directly subnational governments, municipalities and regions, especially with regards RePowerEU and their role towards energy transition and energy efficiency of public buildings.
- **CSR 3:** Recommendation to strengthen the capacity of public administration to attract, retain and develop talent could be relevant also for local public administrations. The recommendation to support cooperation among municipal administrations, including by providing support for administrative capacity building to specific regions, directly concerns local and regional governments.
- **CSR 4:** Recommendation on economic competitiveness does not seem to impact directly local and regional governments in Czech Republic.

Key data on subnational governments (source: OECD, 2023)

Subnational government **expenditure**	Subnational government **investment**	**Taxes** as share of subnational government revenue	Subnational government **debt**
• 12.9% of GDP • 27.7% of general public expenditure	• 2.0 % of GDP • 43.7 % of general public investment	• 42.5%	• 3.5% of GDP • 7.2% of general public debt

France

Competences of subnational governments (from CEMR TERRI report, 2021)

Local governments Municipalities	**Intermediary governments** Départements	**Regional governments** Regions
Traditional competences • Registry office functions • Organisation of elections on behalf of the State • Protecting local public order • Maintenance of municipal roads • Land development and planning **Core decentralised competences** • Urban planning • Education: kindergartens and elementary schools' buildings construction and maintenance • Social action • Environment: water supply and sanitation, waste management • Local roads • Transport • Culture • Sports	• Social and health action: childhood, people with disabilities, senior inhabitants, social care • Education: junior secondary schools building and maintenance • Culture and tourism • Safety: fire departments and emergency services, risk-prevention	• Economic development • Territorial development and planning • Transport • Education: senior secondary schools • Vocational education and adult permanent education. planning and environment • Culture • Tourism

3 mentions of "**local**"

3 mentions of "**municipal**"

8 mentions of "**region**"

France CSR assesses France's performances in **Cohesion Policy** funds acknowledging progresses made but also pointing at remaining "considerable development disparities between outermost and metropolitan regions, as well as between urban and non-urban areas". The Commission insists that France should continue supporting research, development and innovation activities "at regional level, in particular by boosting regional innovation ecosystems, strategic skills and attracting talent". And adds: "In the outermost regions, the supply of drinking water, wastewater treatment and municipal waste collection and management remain fundamental".

On **education** the Commission also recommends "Adapting resources and methods to local circumstances and students' needs could further help improve the performance and equity of the education system".

Out of the 3 Recommendations of the France 2024 CSR, 3 impact directly or indirectly LRGs:

- **CSR 1:** Recommendation on limiting the growth in net expenditure and putting the general government debt on downward trajectory may imply efforts to be made also at subnational level, in France local governments represent almost 19% of general government expenditure.
- **CSR 2:** Recommendation on swift and effective implementation of the recovery and resilience plan concerns directly subnational governments, municipalities and regions in their role towards energy transition, energy efficiency of public buildings and identification of “renewables acceleration areas”.
- **CSR 3:** Recommendation on skills shortages and encourage the participation of low-skilled in training could be relevant for French regions who are competent for vocational education and adult permanent education.

Key data on subnational governments (source: OECD, 2023)

Subnational government **expenditure**	Subnational government **investment**	**Taxes** as share of subnational government revenue	Subnational government **debt**
• 11.2% of GDP • 19.0% of general public expenditure	• 2.2% of GDP • 58.9% general public investment	• 55.4%	• 11.5% of GDP • 8.4% general public debt

Germany (Federal country)

Competences of subnational governments (from CEMR TERRI report, 2021)

Local governments Municipalities and cities (Gemeinden and Städte)	**Intermediary government** Counties (Kreise)	**Regional governments** Regions (Länder)
• Urban planning • Municipal taxation • Public security and order • Municipal roads • Public transport • Water supply and waste water management • Flood control and management • Fire fighting • Social aid and youth • Child care • Housing • Building and maintenance of schools • Cemeteries	• Construction and maintenance of intermediary roads • Social services and youth • Care for elderly • Maintenance of schools • Child care facilities • Collection and disposal of household waste • Rescue service • Food safety • Protection of nature and environment • Foreign affairs (twinning and cross border partnerships) • Disaster management • Public transport • Maintenance of cultural facilities, e.g. museums, music schools • Health care: The health authorities are located in the counties. The traditional tasks of the public health service at the county office include epidemic surveillance, youth dental care, school examinations, social counselling and the issuing of medical certificates. New additions are environmental medicine, health promotion and prevention, epidemiology and health reporting.	• Legislation • Public administration • Police • Homeland security • Taxation • Justice • Culture • University education • Education • Environment • Legal supervision of local self-government

2 mentions of "**local**"

2 mentions of "**municipal**"

9 mentions of "**region**"

Germany CSR highlight remaining significant regional disparities, especially in employment and labour productivity, although the less developed regions have gradually been catching up as regards labour productivity. The Commission added that as part of the objective of enhancing administrative capacity, *"it is important to allocate sufficient resources to the implementation of the **Cohesion Policy** programmes, and to promote the modernisation and digitalisation of the public authorities in charge of their implementation."* For the Commission a main focus should be on increasing research, development and innovation in all regions, but especially eastern regions, in order to further reduce regional disparities in competitiveness and employment.

Looking at the **financial and investment** situation the CSR note that investment needs (both public investment at regional level and private investment) have been increasing over the years but have not been met, signalling an investment gap situation. Declining housing investment in particular presents the risk of a re-emergence of price pressures and overvaluation in the near future. The report further warns that *"public investment has not kept pace with the investment needs in infrastructure, education, training, and the green and digital transitions."* and note that municipal level investment has been negative for the last two decades, leading to an overall decline in the capital stock.

The CSR also point at the complex and "opaque" tax mix in Germany, highlighting that Germany has one of the highest corporate income tax rates, including the **local trade tax** (Gewerbesteuer) in the EU, and suggest there is potential for simplifying the corporate taxation system by reducing the scope for exemptions.

On public administration, the CSR note that **digitalisation of public services** remains slow "particularly in rolling out uniform, fully digital services across municipalities and federal states (Länder)." Germany did not reach its goal of digitalising all administrative services for the public and businesses by its national legal deadline (end-2022), also identifying that spending for digital public administration measures has been reduced.

Out of the 4 Recommendations of the Germany 2024 CSR, 4 impact directly or indirectly LRGs:

- **CSR 1:** The recommendation to limit the growth in net expenditure in 2025 may imply efforts to be made also at subnational level: in Germany subnational governments expenditure represent 48.2% of general government expenditure (16.9 % for local governments alone). The recommendation to strengthen public investment is also relevant for subnational governments whose investment represented 67.9% of total public investment (36.2% for local governments alone), as highlighted by the German County Association (DLT). DLT also point at the essential role of local and regional governments' provision and maintenance of infrastructure and public services to foster also private investments. Finally, the recommendation to improve the tax mix in Germany could also affect subnational governments. Taxes represent 53.9% of subnational government revenues (37.8% for local governments alone).
- **CSR 2:** Recommendation to significantly accelerate the implementation of the recovery and resilience plan, including the REPowerEU chapter once adopted, and to speed up the implementation of Cohesion Policy programmes including by allocating sufficient resources to the management of the recovery and resilience plan. In relation to this, the German Cities Association (DST) signals that subnational governments will require adequate personnel resources to handle the bureaucratic aspects of these programs. In relation with the objectives of REPowerEU, DST mentions: to bolster energy independence and enhance the security and diversification of energy supplies, subnational governments must invest in new infrastructure. Public investments at the regional level need to be redirected to emphasize green and digital transformation. The current high regulatory standards and different regional procedures create barriers to innovation and building capacity. To overcome these obstacles, a reform program focusing on regional standards is needed.

- **CSR 3:** Recommendation to speed up the digitalisation of public administration, including by increasing the geographic coverage of digital public services, which also implies modernising registers and implementing uniform standards, according to the German Cities Association (DST), concerns directly subnational public administrations. DST warns this would require sufficient funds from the federal and in some cases also regional governments. Regarding the recommendation to address shortage of skilled workers by strengthening basic and digital skills and improving education outcomes, DST concludes that education facilities in cities will need to be adequately equipped to educate pupils and strengthen their digital skills.
- **CSR 4:** Recommendation to accelerate the decarbonisation of the transport sector, including by upgrading the rail network, may be relevant for German counties as they are competent for public transport. The association of German Cities also signals this would encompass urban public transportation system, meaning cities will need to secure sufficient fundings to decarbonise their systems, while maintaining accessibility for all.

Key data on subnational governments (source: OECD, 2023)

	Subnational government **expenditure**	Subnational government **investment**	**Taxes** as share of subnational government revenue	Subnational government **debt**
Subnational government	• 24.7% of GDP • 48.2% of general public expenditure	• 1.7 % of GDP • 67.9% of general public investment	• 53.9%	• 23.6% of GDP • 30.5% of general public debt
Local government alone	• 8.7% of GDP • 16.9% of general public expenditure	• 0.9% of GDP • 36.2% of general public investment	• 37.8%	• 4.6% of GDP • 6.0% of general public debt

Latvia

Competences of subnational governments (from CEMR TERRI report, 2021)

Local governments Municipalities and cities (novads and alstspilsēta)	**Regional governments** Regions
• Water and heating supply • Waste management • Public services and infrastructure • Public management of forests and water • Primary and secondary education • Culture • Public health • Social services • Child welfare • Social housing • Licencing for commercial activities • Public order and civil protection • Urban development • Collection of statistical information • Public transport • On-going training for teachers	Planning regions have autonomous competences determined by law (development planning and spatial planning, including legislative elements; organisation of public transport, in cooperation with central government) and delegated competences (mainly coordination of the replacement of deinstitutionalization of social care and coordination of the regional scale public investment policy).

1 mention of "**local**"

2 mentions of "**municipal**"

7 mentions of "**region**"

In Latvia CSR 2024, the Commission noted that significant **regional disparities** persist between the capital city Riga and the rest of Latvia, in addition to poverty and income inequality. The CSR points at the disparities in social support at municipal level, the poor quality and limited availability of existing social housing as well as significant socio-economic differences across regions as a challenge for social inclusion and the labour market. Also, public spending on healthcare in Latvia is among the lowest in the EU, leading to unmet healthcare needs and weak health outcomes, the CSR also identifies labour and skills shortages in the healthcare and social care, both competences of municipalities in Latvia.

As regards **fiscal policies**, the CSR notes that Latvia's tax revenue as a share of GDP remains significantly below the EU average, limiting the funding for public services, in particular healthcare and social protection. The commission notes that the cadastral reform for property taxation to reflect current market values has not yet been adopted, although work is underway to improve cadastral valuation methodology.

On **waste management**, also a competence of local governments the CSR note that despite progress being made, more than half of municipal waste still ends up in landfills.

Out of the 4 Recommendations of the Latvia 2024 CSR, 4 impact directly and indirectly LRGs:

- **CSR 1:** Recommendation to limit the growth in net expenditure in 2025 could impact directly local governments as their expenditure account for 24.5% of general government public expenditure. Even more so, the recommendation to broaden taxation, including of capital and property concerns local governments in Latvia for whom taxation represent 49.9 % of their revenues. The recommendation to strengthen the adequacy of healthcare and social protection could be interpreted as directly concerning local governments since they are competent for public health and social services.
- **CSR 2:** Recommendations to continue the swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, accelerate the implementation of Cohesion Policy programmes and taking action to address persistent regional disparities and inequalities concern directly local and regional governments in Latvia, given their role as beneficiaries and to ensure implementation of EU funds at the local level.
- **CSR 3:** Recommendation to improve the business environment by reducing administrative and regulatory burden for companies may impact local governments as they are responsible for licencing for commercial activities, in addition the recommendation to address the labour and skill shortage in social and healthcare sector is also relevant to local authorities given their competences, in these sectors.
- **CSR 4:** Recommendation to foster the transition to a circular economy may also be relevant for local governments in Latvia as they are competent on waste management.

Key data on subnational governments (source: OECD, 2023)

Subnational government **expenditure**	Subnational government **investment**	**Taxes** as share of subnational government revenue	Subnational government **debt**
• 10.8% of GDP • 24.5% of general public expenditure	• 2.1 % of GDP • 42.5% of general public investment	• 49.9%	• 7.7% of GDP • 13.9% of general public debt

Lithuania

Competences of subnational governments (from CEMR TERRI report, 2021)

Local governments
Municipalities (savivaldybė)

- Municipal budget, local charges
- Pre-school, primary and basic education
- Civil protection
- Culture
- Environment
- Sanitation
- Housing
- Transport, local roads
- Labour market measures and promotion of entrepreneurship
- Primary health care
- Public services and municipal property management
- Spatial planning
- Local development, participation in drafting regional development programmes
- Sports
- Tourism and promotion of entrepreneurship
- Social care
- Information society

1 mention of "**local**"

3 mentions of "**municipal**"

8 mentions of "**region**"

Assessing Lithuania's performances in implementation of the **Cohesion Policy** funds, the Commission indicates that while progress had been made, "significant regional disparities persist between the capital region and the rest of Lithuania in terms of economic activity, investments and social indicators". The Commission recommends in particular to focus on counties lagging behind and continue addressing regional disparities.

Local authorities are directly mentioned in recital 24 "For smaller and more remote municipalities, it is becoming increasingly difficult to provide access to quality healthcare, education, social services, transport, energy, water supplies and other **public services** in an efficient manner, and to speed up economic development". It recommends that municipalities should pool expertise and investments to improve efficiency and effectiveness in public services delivery.

Recital 22 mentions the challenges faced by Lithuania at primary level of **care services**: lack of staff competences, weaknesses in prevention, treatment delivery and behavioural risks. It also points out that health spending in Lithuania is among the lowers in the EU. Primary health care is actually a competence exercised by local governments in Lithuania.

Out of the 4 Recommendations of the Lithuania 2024 CSR, 4 impact directly or indirectly LRGs:

- **CSR 1:** Recommendation to limit the growth in net expenditure of the general government includes by definition the local government. In Lithuania local government represents more than 24% of general government expenditure. The recommendation also includes ”Provide adequate financing for healthcare, social protection and general public services”. As mentioned above, primary health care but also social care are competences of local governments so they could be directly concerned with this recommendation.
- **CSR 2:** Local governments are necessary for the swift and effective implementation of the Recovery and Resilience plans, in particular the REPowerEU chapter, as well as for the implementation of Cohesion Policy.
- **CSR 3:** Most explicitly focus on strengthening primary care and on municipalities: “Address regional disparities by promoting cooperation among municipalities in improving access to public services, including public transport”.
- **CSR 4:** Calls on Lithuania to “Adress skills mismatches by improving the labour market relevance of higher education”. While local governments are not responsible for higher education, one of their competences is labour market measures and promotion of entrepreneurship.

Key data on subnational governments (source: OECD, 2023)

Subnational government **expenditure**	Subnational government **investment**	**Taxes** as share of subnational government revenue	Subnational government **debt**
• 9.1% of GDP • 24.2% of general public expenditure	• 1.1 % of GDP • 34.1% of general public investment	• 3.6%	• 1.6% of GDP • 3.2% of general public debt

Spain: (Federal country)

Competences of subnational governments (from CEMR TERRI report, 2021)

Local governments Municipalities (municipios, diputaciones, consejos and cabildos)	**Regional governments** Regions (comunidades autonómas and ciudades autónomas)
In every local authority • Water supply • Street lighting • Urban traffic • Food security • Road maintenance • Sewage and waste management **In local authorities of over 5,000 inhabitants (in addition to the aforementioned)** • Public libraries • Green areas • Local police **In local authorities of over 20,000 inhabitants (in addition to the aforementioned)** • Social services • Fire prevention • Sporting facilities **In local authorities of over 50,000 inhabitants (in addition to the aforementioned)** • Public transport • Protection of the environment	• Territorial development • Civil engineering • Economy • Agriculture • Culture • Social policies • Environmental management • Development of economic activities • Health • Education

1 mention of "**local**"

0 mention of "**municipal**"

8 mentions of "**region**"

The Spain 2024 CSR highlights that more efforts are needed to reduce the high government debt and that within the new **economic governance** rule, Spain will need to develop a medium-term fiscal-structural plan to reduce the deficit and lower government debt. We note that Spain subnational government debt represents 32.6% of GDP or 22.9% of general government debt, but only 3.5% of GDP or 2.5% of general government debt when looking only at local governments (excluding regions). The Commission even suggest that the national decentralised fiscal framework should be updated. It argues that tax reforms (included in the recovery and resilience plan) should be a central part of the fiscal consolidation strategy.

The CSR also note that demographic developments are expected to lead to a significant increase in **public expenditure** related to healthcare, long-term care and pensions. Health is one of the competences of regional governments in Spain.

Regarding the implementation of the **recovery and resilience plan**, the Commission recommends addressing the emerging delays while ensuring strong administrative capacities necessary for the implementation of the plan and mentions *"there is also scope to strengthen the coordination among different levels of the administration, while streamlined procedures would accelerate the reception of funds by final beneficiaries".*

Regarding regional development the CSR note that GDP per capita remains below 75% of EU average in eight Spanish regions.

On the major challenge of water scarcity and anticipating and managing the adverse effects of **climate change** (floods, coastal and soil erosion, desertification, droughts, heat waves and forest fires), particularly impacting Spain, the Commission suggests that efforts are needed in sustainable water management, recommending further investment in infrastructure to help improve water management. According to the Commission, "measures that have the potential to be scaled up include investments in collecting and treating wastewater, water reuse, reducing leaks in networks and the general water supply, increasing the use of climate resilient crops, improving monitoring, and promoting nature-based solutions, flood prevention and river restoration." We note that water supply is a competence of local governments in Spain, fire prevention and protection of the environment can also be competences for municipalities of respectively more than 20,000 inhabitants and more than 50,000 inhabitants. CSR also note that mechanisms for better coordination among the different levels of government would help addressing these challenges.

Out of the 3 Recommendations of the Spain 2024 CSR, 3 impact directly or indirectly LRGs:

- **CSR 1:** The recommendation to limit the growth in net expenditure in 2025 concerns subnational governments in spain as subnational expenditures represent 49.6% of general government public expenditures (12.7 % for local governments alone), the reduction of the general government deficit below 3% of GDP however should have little impact on subnational government since their deficit represent 0.2% of GDP (0.3% for local governments alone). On the other hand, the recommendation to review and simplify the tax system could impact directly on subnational governments: taxes represent 36.8% of their revenues in Spain, 49% for local governments alone (excluding regions).
- **CSR 2:** Recommendation to strengthen administrative capacity to manage EU funds, to address the emerging delays in the implementation of the recovery and resilience plan, including the REPowerEU chapter, and to accelerate the implementation of Cohesion Policy programmes concerns local and regional governments in their role to implement the funds at the local level.
- **CSR 3:** Recommendation to improve water management directly concerns local government given their competence on water supply. The recommendation also includes improving coordination among all levels of government and administration.

Key data on subnational governments (source: OECD, 2023)

	Subnational government **expenditure**	Subnational government **investment**	**Taxes** as share of subnational government revenue	Subnational government **debt**
Subnational government	• 25.1% of GDP • 49.6% of general public expenditure	• 1.8% of GDP • 64.8% of general public investment	• 36.8%	• 32.6% of GDP • 22.9% of general public debt
Local government alone	• 6.4% of GDP • 12.7% of public expenditure	• 0.7% of GDP • 23.5% of general public investment	• 49.0%	• 3.5% of GDP • 2.5% of general public debt

The Netherlands

Competences of subnational governments (from CEMR TERRI report, 2021)

Local governments Municipalities (gemeenten)	**Regional governments** Provinces (provincies)
• Urban planning* • (Social) Housing* • Civil engineering* • Environmental policies • Waste collection • Transport: local roads, city transport and public transport* • Public health and youth care: prevention and education* • Public safety and order • Disaster management* • Primary and secondary education: school buildings* • Employment • Local and regional economy • Childcare • Social services and welfare* • Culture and sports • Leisure, Recreation and Tourism • Local media and broadcasting **shared with the national or provincial government*	• Spatial planning • Environment • Culture • Leisure and tourism • Public transport, provincial road maintenance and traffic • Energy • Regional media and broadcasting

1 mention of "**local**"

1 mention of "**municipal**"

5 mentions of "**region**"

In terms of **regional disparities**, the Netherlands CSR 2024 point at the challenge of specific regions with clusters of emission intensive industry to transition to a carbon-neutral economy, as well as the challenge of deprived urban areas in large cities.

One of the main issues identified by the Commission is the **housing crisis** with an overvalued housing market, which also contribute to households' vulnerability to economic shocks. The CSR recommends "higher housing investments and removing obstacles to the construction of new dwellings, while further addressing tax incentives for debt-finances homeownership." We note that (social) housing is a shared competence between local, provincial and national governments.

The CSR also point at the **congestion of the electricity grid** and recommends the Netherlands to increase the capacity and flexibility of the transmission and distribution grid and speed up the deployment of renewable energy infrastructure, as well as for additional investments in grid and storage capacity. Another suggestion from the Commission is to address this congestion of the energy grid via regulation such as tariff incentives or peak hours limitations. Here we note that energy is a competence of provinces in the Netherlands.

The CSR also note the challenges related to **labour market** segmentation, labour and skill shortages and basic education. Employment is one of the competences of local governments in the Netherlands. Shortages are particularly acute in sectors such as ICT, healthcare, education and jobs related to the green transition. Some solutions proposed by the Commission are incentives for longer work hours, and measures promoting quality of work and work-life balance.

Out of the 4 Recommendations of the Netherlands 2024 CSR, 4 impact directly or indirectly LRGs:

- **CSR 1:** Recommendation to limit the growth in net expenditure in 2025 may impact subnational governments in the Netherlands as their expenditure represent 29% of general government expenditure, the subnational level debt also accounts for 14,6% of general government debt (or 9,7% of GDP). The recommendation to remove obstacles to the construction of new dwellings and ensure the affordability and availability of housing in the private rental market, could be relevant for local government as they share competences on urban planning and (social) housing with the provincial and national levels.
- **CSR 2:** Recommendation to significantly accelerate the implementation of the recovery and resilience plan, including the REPowerEU chapter, and to accelerate the implementation of Cohesion Policy programmes, concerns directly local and provincial governments in the Netherlands given their role in the management of Cohesion Policy funds, and essential role in the implementation of REPowerEU in particular.
- **CSR 3:** Recommendation to reduce incentives to use flexible or temporary contracts, and to address structural and sector-specific labour and skills shortages, can concern local governments given their competence on employment.
- **CSR 4:** Recommendation to boost investment in the electricity transmission and distribution grids, and to accelerate the deployment of renewables and improve competitiveness, may concern subnational governments, in particular provinces given their competence on energy.

Key data on subnational governments (source: OECD, 2023)

Subnational government **expenditure**	Subnational government **investment**	**Taxes** as share of subnational government revenue	Subnational government **debt**
• 13.5% of GDP • 29.0% of general public expenditure	• 1.4 % of GDP • 42.7% of general public investment	• 9.8%	• 9.7% of GDP • 14.6% of general public debt

Involvement of local and regional governments

From the case studies it appears clearly that the Country-Specific Recommendations drafted by the European Commission and approved by the Council can touch upon a variety of areas and policies: education, health, employment, social policies, inclusion, water and waste treatment, energy efficiency of buildings, transport and mobility, etc. All these areas are often the responsibility of local and regional governments. Therefore, CSR often can imply a direct impact on local and regional governments.

In this regard, CEMR also asked its members, the national associations representatives of local and regional governments how they are involved in this process and what are their opportunity to influence.

While the drafting of the CSR remains a "bureaucratic" process, driven by technicians within European Commission, there can be room for consultation of the associations by the national governments around the **National Reforms Programme**, however it does not seem to systematically happen in all Member States, and the depth of the consultation also varies in each country.

Asked about their involvement in the EU Semester process, the **Austrian Association of Cities and Towns (AACT)** answered that, as an association representative of subnational governments, they are indeed consulted by their national government in the framework of the European Semester. The association is one of many stakeholders to comment on the National Reform Programmes. A dedicated forum also exists to align budget policies across federal, regional, and local levels, ensuring Austria meets its obligations under the Stability and Growth Pact and the New Economic Governance.

Two German associations: the **association of German counties (DLT)** and the **association of German cities (DST)** also confirmed that they are consulted by the federal government in the European semester process. They explain: the responsible ministry is inviting the three national associations of local communities (DLT, DST and the **German associations of towns and municipalities – DStGB**) to comment jointly on the draft national reform program. The associations are usually given 2 to 3 working days to comment on the National Reform Programme (NRP). However, both associations deplore that the impact of their feedback is very limited, as no follow up is provided by the federal government, nor is there an exchange between the Commission and the representatives of the local and regional governments on feasibility and/or impact of the recommendations.

The **Latvian Association of Local and Regional Governments (LPS)** also considers being consulted by their national government in the framework of the European Semester. The association engages in meetings with EU consultants and its opinions are considered alongside those of social partners and sectoral ministries. Additionally, the association contributes to the drafting of national policy documents, EU positions, and proposed legislation. However, the association did not identify any direct impact of the 2024 recommendations on the Latvian subnational governments but considers that the current trend of concentration and centralization is in contradiction to the European Semester's recommendations.

On the other hand, the **Association of Flemish Cities and Municipalities (VVSG)** does not consider that they are consulted by their national government in the framework of the European Semester. But in the views of the association, the recommendations mainly concern competences of the federal and of the regional governments, and that it may take years to translate into measures impacting the local level.

In Spain, the **Spanish Federation of Provinces and Municipalities (FEMP)** does not consider either that, as association representative of subnational governments they are consulted by their national government in the framework of the European Semester, noting that as the participation of the Public Administrations in this process is not legally established, there is no official communication or warning on the European semester recommendations and potential impact on local governments. According to the association, the systematic participation of the Local Autorithies should be institutionalized by means of a legal norm. The Law in which this protocol should be included would be the Organic Law on Budgetary Stability and Financial Sustainability (LOEPSF), or through a European directive.

Several associations noted that CSR 2024 all include the following sentence: *"The systematic involvement of regional and local governments, social partners and other relevant stakeholders remains important for the successful implementation of the Recovery and Resilience Plan."*

Most worryingly, some associations flagged potential contradictory injunctions between the different priorities and recommendations deriving from the European Semester. There is therefore still room to improve the process in better aligning the different EU priorities in a more realistic way when looking at concrete implementation at local and regional governments.

A centralised process with direct impacts on local and regional governments

To summarise, **the European Semester** process is mostly driven by the European Commission, drafting the Country analysis as well as the Country Specific Recommendations which are then approved by the Council. As demonstrated in the case studies, several recommendations touch on competences of local and regional governments, and yet they are not at all involved in the elaboration of these recommendations. So far, the recommendations are also lacking a serious territorial and governance impact assessment: it is critical to understand what different levels of governments are involved in the implementation of the recommendations. This is also to have a more realistic assessment of the main challenges and ensure the feasibility of the recommendations.

The only possibility for local and regional government to be involved in the current framework is at national level, during the drafting of the National Reform Programs (see Involvement of local and regional governments) but it then depends on each Member States how to organise these consultations.

Since the European Semester could even further gain importance as the overarching policy framework, guiding the investment and reforms priorities of Member States in the next programming period, a reform of the semester to ensure multi-level governance, and to adapt the Partnership Principle at this level is needed.

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Publisher: **Council of European Municipalities and Regions (CEMR)**

Lead author: **Marine Gaudron**, Advisor on Economic, Social and Territorial Cohesion & Local Finances

With the support of **Lise Jerlin**, Trainee for CEMR Policy team and valuable advice from **Ivana Skazlic**, Research analyst.

Managing editors: **Fabrizio Rossi**, CEMR Secretary General, **Federica Bordelot**, CEMR Director of Policy and Impact

Communications and liaison with graphic design team: **André Fernandes**, Digital communication officer

Design: Acapella

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www.cemr.eu | info@ccre-cemr.org

CEMR, the first and broadest European association of local and regional governments, has been representing local, intermediate and regional government tiers through its 60 national associations from 41 European countries since 1951. This report was initiated by CEMR Secretariat and members to gain insights into the European Semester and its impact on subnational governments. With this study, CEMR aims at formulating recommendations for a reformed EU Semester more in line with the partnership, multi-level governance and subsidiarity principles.

CCRE CEMR

Local & Regional Europe

CCRE-CEMR
1 Square de Meeus
B-1000 Bruxelles
Tel. +32 2 511 74 77

Email: **info@ccre-cemr.org**
www.ccre-cemr.org

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