

CYPRUS

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 9 250 / 5 695 km²**Population:** 1.180 / 0.855 million inhabitants (2017), an increase of 0.9% / 0.7% per year (2010-2015)**Density:** 128 / 150 inhabitants / km²**Urban population:** 66.8% of national population**Urban population growth:** 0.7% (2017 vs 2016)**Capital city:** Nicosia / Lefkosia (22.8% / 31.5% of national population)

ECONOMIC DATA

GDP: 31.0.6 billion (current PPP international dollars)**Real GDP growth:** 4.2% (2017 vs 2016)**Unemployment rate:** 11.0% (2017)**Foreign direct investment, net inflows (FDI):** 11 019 (BoP, current USD millions, 2017)**Gross Fixed Capital Formation (GFCF):** 21.1% of GDP (2017)**HDI:** 0.869 (very high), rank 32 (2017)

Technical note: Throughout this document, where only one figure or statistic is presented this does not include the northern part of the island unless otherwise provided. Where two figures appear (e.g. 'XX / YY'), the first figure refers to the whole island, while the second does not include the northern part thereof.

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Local governments are recognised by the 1960 Constitution but only indirectly. They are mentioned in Part 12 of the Constitution relating to "Miscellaneous provisions" from article 173 to Article 178. Article 173 stipulates that separate municipalities shall be created in the five largest cities of the island, namely Nicosia, Limassol, Famagusta, Larnaca and Paphos and that their councils are elected by the population. The other articles are dedicated to local tax and fees and responsibilities for issuing licences or permits relating to premises, places or building operations, or establishing town planning. The main laws framing local government are the Municipalities Law of 1985 and The Communities Law of 1999. The Municipalities law, which regulates the legal and administrative status of municipalities, has been amended more than 50 times since 1985. The Communities law regulates the legal status, organisational matters and the major tasks and functions of the communities and has been also amended several times.

Municipalities are mainly towns over 5 000 inhabitants, while communities are located in rural areas. Municipalities and communities have different legal and administrative status and different range of powers and responsibilities.

Municipal and Community councils are each composed of local councillors, whose number varies from eight to 26 for municipal councils, and four to eight for community councils. They are elected through a proportional voting system for five-year terms. Local elections are compulsory, similar to parliamentary elections. Residents of municipalities also elect a mayor by direct universal suffrage, also for a five-year term. Local councillors then elect a deputy mayor through secret ballot.

Cyprus belongs to the group of EU members that have a centralised governance. Municipalities and communities have few powers and responsibilities. There is strong government supervision over the exercise of the regulatory powers of local authorities, over their human, administrative and budgetary resources, and in particular over small communities.

Since 2010, the Municipalities and Communities Laws have been revised. However, as of 2018, the local government reform is still under discussion at the House of Representatives. This reform intends to make the local government sector more efficient through inter-municipal co-operation and clustering, to streamline local public services, to promote the forms of direct citizen participation as well as to establish a common accounting and reporting framework. In particular, the bill plans to establish six "clusters" which would be compulsory local government consortia taking over the most costly tasks and functions from municipalities and communities. For example, they would run water management boards and would carry out tasks related to sewerage and waste disposal, town planning and building permits. Other options are also mentioned such as municipal mergers.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	39/30 municipalities (<i>demos</i>) 487/350 communities (<i>koinnotites</i>)			
	Average municipal size: 2 242/2 249 inhabitants			
	526/380			526/380

OVERALL DESCRIPTION. Cyprus has a single-tier local government system, comprising two categories of local government: urban municipalities and rural communities.

In the Northern part of the island there are nine municipalities and 137 communities. In the rest of the island there are 30 municipalities and 350 communities. Communities can become a municipality by local referendum and approval of the Council of Ministers if they reach the threshold of 5 000 inhabitants, or if they have sufficient economic resources to carry out municipal functions. In 2016, 83% of local governments in Cyprus had less than 2 000 inhabitants and only 7% had more than 5 000 inhabitants.

Nicosia is the most important political, economic and cultural centre but it does not have a special administrative status. It has, like the three other regional centres (Limassol, Larnaca and Paphos), some additional functions delegated by the central government. The four cities are planning authorities.

The Municipalities Law allows municipalities to merge into a larger local government unit. Mergers can be initiated by local governments themselves (then the approval of the Minister of Interior is necessary), or it can be a top-down process, if the Ministry considers that a merger would be “desirable”. Additionally, a local plebiscite must also take place in order to approve the merger.

The Municipalities Law also authorises inter-municipal co-operation in the form of a contract for the joint performance of certain public services, like public utilities. Municipalities may also establish associations for waste collection and disposal, the construction and maintenance of streets, the issue of planning and building permits and other services.

Cyprus is also divided into six districts (*eparchies*) for administrative purposes, as a deconcentrated level of the central government. They are headed by District Officers (senior civil servants) that are appointed by the government and are responsible for the co-ordination of the activities between local and central ministries in their area of jurisdiction, under the direct control of the Ministry of the Interior. Since 2016, the members of each district councils are elected directly from the district’s constituency.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 1960 Constitution does not provide indications regarding local competences. However, the Municipalities Law and the Communities Law define administrative responsibilities.

Municipalities have a general clause of competence, meaning that they may administer all local affairs and may exert all powers vested in them by law. Despite this clause, the law enumerates a list of compulsory tasks and functions of municipalities, stating that tasks and powers which are not enumerated are carried out by administrative agencies of the central government. Communities have relatively similar powers to those of the municipalities but they are more limited.

Planning responsibilities are shared between municipalities and the Department of Town Planning and Housing. While municipalities are responsible for waste disposal, water supply and public health, municipalities are also responsible for social services and building permits. Larger municipalities (namely Nicosia, Limassol, Paphos and Lamaca) are also responsible for the provision of planning permits. In major urban areas, water supply, sewerage and drainage are built and managed through specialised bodies (Water and Sewerage Boards) – established by separate laws – which are administered by a Council/Board comprised of elected officials (mayors and councillors) representing all participating municipalities.

The districts are responsible for the implementation of the central government policy at the district level, and supervision of the functioning of the communities. Due to communities’ limited capacities, a large share of services in rural areas are carried out by district offices, on behalf of communities. The Ministry of the Interior is responsible for overseeing local government in issues such as urban development.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

MUNICIPAL LEVEL	
1. General public services	Internal administration; Permits issuance for the construction and renovation of buildings
2. Public order and safety	
3. Economic affairs/transport	Road and bridges maintenance and construction; Regulation of local markets
4. Environmental protection	Waste disposal; Sewerage management and treatment
5. Housing and community amenities	Street lighting; Water supply; Local planning; Land development; Public areas, including parks and cemeteries
6. Health	Public health
7. Recreation, culture & religion	Theatre regulation and control; Art; Sport
8. Education	
9. Social protection	

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities and village authorities.	SNA 2008	Availability of fiscal data: High	Quality/reliability of fiscal data : High
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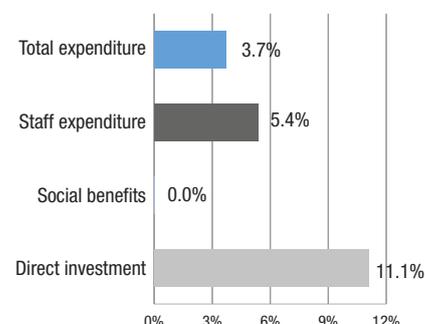
GENERAL INTRODUCTION. The Constitution and the Municipalities and Communities Laws contain provisions relevant to local finance. In accordance with the law, each local authority must keep proper books of accounts, and prepare financial statements by the end of the fiscal year. Local councils may have their own local budgets. Every year, municipalities have to prepare two budgets: the annual budget that includes all revenues, current expenditure and development projects, and a secondary budget for all revenues and current expenditure. Both budgets are subject to central government approval before they can go into effect. On the other hand, the budgets of community councils are to be approved by the district officer and by the Minister of Finance. A reform of public financial management is underway, to improve budget-data reporting from local authorities.

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SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	348	1.4%	100%	
Incl. current expenditure	272	1.1%	78.1%	
Staff expenditure	162	0.7%	46.4%	
Intermediate consumption	97	0.4%	27.7%	
Social expenditure	0	0.0%	0.0%	
Subsidies and current transfers	8	0.0%	2.4%	
Financial charges	5	0.0%	1.5%	
Others	0	0.0%	0.0%	
Incl. capital expenditure	76	0.3%	21.9%	
Capital transfers	5	0.0%	1.4%	
Direct investment (or GFCF)	71	0.3%	20.4%	

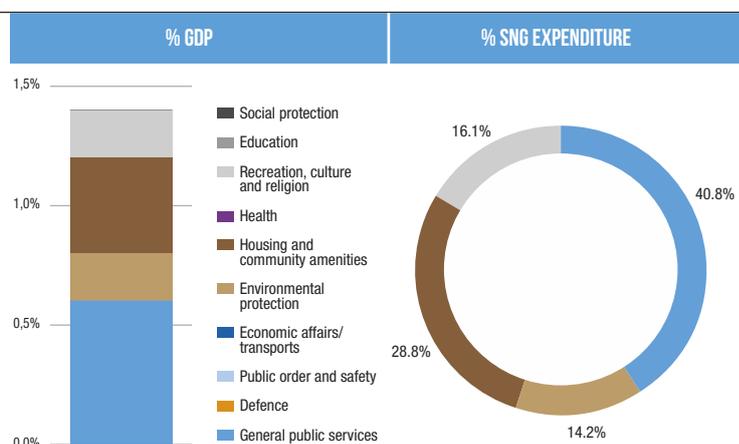


EXPENDITURE. Cyprus ranks among the EU members where the weight of SNG expenditure in GDP and public expenditure is the lowest (second to Malta), and well below the EU28 average (15.5% of GDP and 33.4% of public expenditure). SNGs have very few spending responsibilities. The share of staff expenditure in SNG expenditure is particularly high, representing almost half of SNG expenditure, well above the EU average of 36%. However, their staff spending accounts for a small share of total public staff spending, well below the EU28 average (50.9%).

DIRECT INVESTMENT. One of the main functions of SNGs is investment. Investment accounts for a relatively large share of SNG spending (above the EU28 average of 8.7%). However, it remains very limited as a percentage of GDP and public investment (below the EU28 average of 1.4% and 50.9% respectively in 2016). The share of capital expenditure has decreased in recent years, by 6.7% per year in real terms between 2007 and 2017. In 2013, SNG investment accounted for one-third of public investment. In 2016, 40% of investment went to general public services, 28% to housing and community amenities, 17% to culture and recreation and 15% to environmental protection.

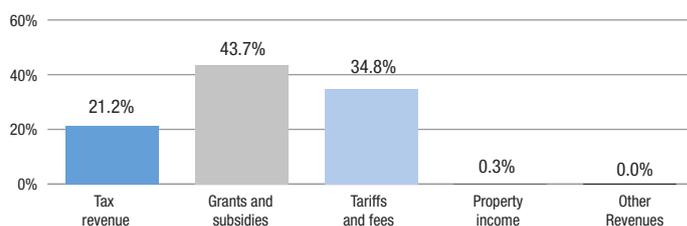
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

In line with the limited scope of responsibilities of municipalities and communities, SNG spending is split between only four categories. General public services was by far the biggest category of SNG expenditure in 2016, with a share well above the EU28 average (16.5%). The second most important item is housing and community amenities (mainly urban lighting, water supply), recreation and culture, and environmental protection. At the national level, SNGs play a particularly crucial role in the area of environmental protection (accounting for 81% of total public expenditure in this area) especially since they are responsible for waste disposal and sewerage management and treatment. Responsibility for water can fall to water boards and sewerage boards, especially in large cities. SNGs do not have responsibilities related to education, health, social protection or economic affairs/transport.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	351	1.5%	3.7%	
Tax revenue	75	0.3%	1.3%	
Grants and subsidies	153	0.6%		
Tariffs and fees	122	0.5%		
Property income	1	0.0%		
Other revenues	0	0.0%		



OVERALL DESCRIPTION. Grants and subsidies represent a large share of SNG revenue, at the same level of the EU28 average (44.1% of SNG revenue in 2016). The share of tariffs and fees in SNG revenue is particularly high, compared to the EU28 average (11.6% of subnational government revenue in 2016). On the other hand, tax revenue accounts for 21% of the SNG revenue, a small percentage compared to the average in EU countries (41.1% in 2016). Nevertheless, own-source revenues (tariffs, fees and local taxes) account for more than half of SNG revenues.

TAX REVENUE. All tax revenue is generated by own-source taxes, which include three main taxes: the property tax, the municipal professional tax, and the hotel accommodation and entertainment tax. The property tax was abolished on 1 January 2017. Until fiscal year 2016, the owner of immovable property situated in Cyprus would potentially pay an annual tax on the market value of the property as of 1 January 1980. The tax rate, as determined by law, was a percentage of 1.5 per thousand for municipalities, and 10 per thousand for communities, on the value of the property based on the land register estimate. This tax represented 52.5% of local tax revenue and 11% of local revenue in 2016. It amounted to 0.2% of GDP, which is low by international comparison (1.1% of GDP in the OECD countries).

The professional tax, introduced in 1985, applies to legal persons operating any business, industry, artisanship, work, trade or profession within the municipal boundaries. It is levied based on revenue generated, share capital and number of employees. The maximum tax rate is set by the central government.

GRANTS AND SUBSIDIES. Rules for calculating or allocating grants are not set out by law. In addition, Cyprus does not have a financial equalisation mechanism. A general grant is transferred annually to local councils, the amount of which is set by the Council of Ministers (through the Government Budget, and by an agreement with the Unions of Municipalities and Communities) and approved by the House of Representatives. One-third of the overall grant is divided equally among the 30 municipalities and the remaining two-thirds are distributed according to the number of voters in each jurisdiction. Community councils receive an additional subsidy for street lighting.

In addition, local councils may receive specific earmarked grants for local development projects, approved on a project-by-project basis. These grants play a major role in the financing of local development projects, as they usually cover from 70% to 100% of the total project cost. The total amount of transfers to SNGs has significantly decreased over the last decade following the economic crisis that hit Cyprus. Overall, current grants accounted for 85% of total local grants in 2016 and capital grants 15%.

OTHER REVENUES. User charges and fees account for a significant share of SNG revenue, well above the EU28 average (11.6%). They include communal service fees for refuse collection, street lighting, fees for water supply services, charges for the provision of various municipal services, rents, etc. Additionally, according to the Municipalities Law and the Communities Law, municipal councils can impose “fees” on tourists for hotel nights, as well as impose duties on horse-racing games.

Property income accounts for 0.3% of total local government revenue, a low level compared to the EU28 average (1.2%). Municipalities are entitled to sell or exchange properties in their possession, if the Council of Ministers approves the transaction. Municipality-owned properties must remain registered by the state-controlled District Land Offices.

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	461	1.9%	1.7%	100%
Financial debt*	461	1.9%	1.7%	100%

* Currency and deposits, loans and bonds

FISCAL RULES. Although there are no legal limitations on local spending, local authorities must - according to government circulars - have a balanced budget for their current expenditure and they must reimburse their loans. An umbrella law, known as the Fiscal Responsibility and Budget System Law (FRBSL) and the Public Financial Management system, enacted in February 2014, requires local governments to send financial data to the central government on a monthly basis. The Auditor General is an independent officer appointed by the President and is responsible for auditing various entities, including the central government, public organisations, local authorities and other public bodies and funds.

DEBT. According to the Municipal Act, municipalities can borrow to fund capital expenditure (golden rule) including carrying out work of public utility and purchasing mechanical equipment and vehicles. They are also permitted to refinance debt. However, there are several additional borrowing constraints: municipal loans have to be approved by the Council of Ministers and community loans must be approved by the district officer. Municipalities can borrow amounts that do not exceed 20% of their total revenues. Moreover, the total amount of loans of each municipality should not exceed 250% of their total revenues including government grants.

Also, as part of a five-year strategy to strengthen public debt management, Cyprus is using the Commonwealth Secretariat's Debt Recording and Management System (CS-DRMS) that aims to improve public debt accounting and management. The main creditors in the domestic market are the Central Bank of Cyprus and the Cyprus Cooperative Bank (in order to finance school committees) and private domestic banks.

In 2016, the local debt was very low, well below the EU28 average (14.3% of GDP and 14.4% of public debt). It is composed entirely of loans.



Lead responsible: OECD
Last update: 02/2019

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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO.

Fiscal data: Eurostat // OECD (2018) Key Data on Local and Regional Governments in the European Union // Statistical Service of Cyprus.

Other sources of information: Commonwealth Local Government Forum (2017) The Local Government System in Cyprus // Council of Europe (2016) Local Democracy in Cyprus, Congress of local and regional authorities // European Committee of Regions (2016) Division of Powers // Federal Ministry of Finance. (2015) Federal Ministry of Finance's monthly report. Retrieved from The Current State of the Reform Process in Cyprus // Koprić I., Klarić M. (2015) New Developments in Local Democracy in Croatia, Croatian and Comparative Public Administration.