LUXEMBOURG

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 2 586 km^2
Population: 0.597 million inhabitants (2017), an increase of 2.2% per year (2010-2015)
Density: 231 inhabitants / km^2
Urban population: 90.7% of national population
Urban population growth: 3.2% (2017 vs 2016)
Capital city: Luxembourg (20.1% of national population)

ECONOMIC DATA

GDP: 62.2 billion (current PPP international dollars), i.e. 104 175 dollars per inhabitant (2017)
Real GDP growth: 2.3% (2017 vs 2016)
Unemployment rate: 5.5% (2017)
Foreign direct investment, net inflows (FDI): 6 623 (BoP, current USD millions, 2016)
Gross Fixed Capital Formation (GFCF): 17.0% of GDP (2017)
HDI: 0.904 (very high), rank 21

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Grand Duchy of Luxembourg is a representative democracy, in the form of a constitutional monarchy. Under the Constitution of 1868, it has a unicameral Parliament (*Chambre des députés*) made up of 60 seats, with deputies elected by proportional representation for five-year terms. Voting is compulsory for parliamentary and municipal elections. The executive branch of the government is composed of the Grand Duke, as Head of State, whose powers are conferred by dynastic succession, and by the Government, led by the Prime Minister (*formateur*), appointed by the Grand Duke with the support of the Chamber of Deputies.

Luxembourg is a unitary State with a single-tier of local government, called municipalities (communes). The 1868 Constitution (Chapter IX on municipalities) and the 1988 Municipal Organisation Act (*Loi communale*, amended in 2013) constitute the fundamental laws of the division of powers between the State and the Municipalities. They define municipalities as autonomous authorities with a territorial basis, and a legal personality with the responsibility of managing their own assets and interests under central government supervision.
Given the country's small territorial size, decentralisation of spending responsibilities and fiscal resources remains limited in Luxembourg.

Each municipality is governed by a municipal council, with councillors elected directly by the inhabitants of the municipality for a six-year term of office. The municipal council is headed by a mayor (*bourgmestre*) or a college of mayors, appointed by the Grand Duke. As such, mayors represent both the state and the municipalities.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	102 municipalities *(communes)*			
	Average municipal size: 5 850 inhabitants			
	102			102

OVERALL DESCRIPTION. The Grand Duchy of Luxembourg has a single tier of subnational government composed of 102 municipalities (*communes*). According to the 1988 Municipal Law, 12 communes have the legal status of towns (*Stied*).

Municipalities have existed in Luxembourg since 1789. A first wave of mergers reduced the number of municipalities from 130 to 118 during the 1970s. In 2009 the government adopted a plan for promoting voluntary municipal mergers and local referenda within the framework of the "Integrative Blueprint for Territorial and Administrative Reform in Luxembourg". This was followed by another one in 2015 and the entry into force of the last three amalgamation laws, which has resulted in a decrease to 102 municipalities as of 1 January 2018. Criteria for mergers included the size of communes (the minimum population was set at 3 000 inhabitants and the minimum surface area at 100 km²), the geomorphologic characteristics, the road/rail links and existing co-operation (intercommunal associations). The central government provides financial support to the process. In 2016-2017, the average size of municipalities remains quite small, smaller than the OECD average (9 700 inhabitants) but on par with the EU average (5 900 inhabitants). Around three-quarters of municipalities have fewer than 5 000 inhabitants (vs 47% in the OECD and the EU28), and 37% have fewer than 2 000 inhabitants.

Municipalities can gather in municipal associations (*syndicats de communes*) in order to streamline the provision of services within their jurisdiction (Law of 23 February 2001). There are around 75 intercommunal associations, active in sectors related to water, wastewater, waste management, sport, education and natural areas. In addition, national policies are implemented at the local level through contracts between municipalities and the state through the Ministry of Spatial Planning, as stated in the conventions for territorial cooperation. This legally non-binding instrument aims to promote inter-municipal and multilevel cooperation and to foster sustainable regional development, primarily regarding infrastructures.

Luxembourg also has three Districts (Luxembourg, Diekirch and Grevenmacher) and 12 Cantons, which were established for territorial and administrative purposes only. Cantons are a level of State administration without own competences, whereas districts are deconcentrated units of State administration. The Grand Duke appoints a District Commissioner (*commissaire de district*) in each District, as a contact point between the central Government and local administrations and a coordinating point between Municipalities. Most of the decisions taken by the Municipalities (except for the Municipality of Luxembourg) are under the District's direct supervision, and most of their decisions are subject to the Government or Grand Duke's approval.

The 2003 Master Programme for Territorial Planning (PDAT) is the key instrument of national spatial planning. A public consultation was launched in 2018, to contribute to the update of the PDAT in 2019. The Integrated Transport and Spatial Planning Concept (IVL), developed in 2004, defines more precisely the polycentric urban spatial model of Luxembourg.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 1988 Municipal Government Act (*loi communale*, as amended in 2013) provides a reference framework for the distribution of responsibilities across levels of government, making a distinction between mandatory responsibilities (including some which are shared with the central government or delegated) and optional responsibilities. The main mandatory tasks for municipalities include pre-school and primary education, spatial planning and urban development, utilities, local roads and traffic regulation, environmental protection, police and security zones and the management of registry offices. Moreover, optional responsibilities may cover several areas such as culture, sports, housing, tourism, etc. District commissioners are responsible for ensuring the compliance of municipal regulation with national laws, and for the maintenance of public order and safety.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	MUNICIPAL LEVEL
1. General public services	Internal administration; Management of registry office.
2. Public order and safety	Emergency services; Police (shared with the State); Fire and rescue services
3. Economic affairs/transports	Local roads; Traffic regulation; Public transport (optional); Local economic development and tourism (optional)
4. Environmental protection	Waste management and sanitation
5. Housing and community amenities	Spatial planning; Urban and land development; Water supply; Gas and electricity supplies (optional); Housing (optional); Cemeteries
6. Health	Public hygiene and health; Management of clinics and hospitals; Care homes (optional)
7. Recreation, culture & religion	Sport and music education (optional); Cultural affairs (optional)
8. Education	Pre-school and primary education (infrastructure and operating costs); Buildings and school organisation
9. Social protection	Social welfare; Kindergartens; Child reception facilities; Welfare activities; Care of the elderly (optional)

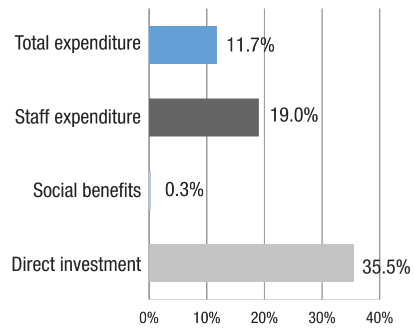
SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities, social offices and inter-communal associations.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. Provisions concerning municipal finance are specified in the constitution (article 99) and the Municipal Organisation Act. SNGs are entitled to adequate financial resources of their own, that shall be comparable with the responsibilities that are entrusted to them by law. They may dispose freely of those resources. In 2017, the local fiscal system was reformed through the Law of 14 December 2016 which introduced a new equalisation grant. The Global Subsidy Fund for Municipalities (Fonds de Dotation Globale des Communes - FDGC), which replaced the Communal Fund for Financial Grants (Fonds Communal de Dotation Financière, FCDF). The objective of the reform was to improve the stability of local finances and to reduce the disparities between municipalities by re-adjusting the equalisation criteria.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	**5 055**	**4,9%**	**100%**	
Inc. current expenditure	3 489	3.4%	69.0%	
Staff expenditure	1 700	1.7%	33.6%	
Intermediate consumption	1 105	1.1%	21,9%	
Social expenditure	66	0.1%	1.3%	
Subsidies and current transfers	615	0.6%	12.2%	
Financial charges	2	0.0%	0.0%	
Others	1	0.0%	0.0%	
Incl. capital expenditure	1 566	1.5%	31.0%	
Capital transfers	71	0.1%	1.4%	
Direct investment (or GFCF)	1 495	1.5%	29.6%	



EXPENDITURE. As a small country, Luxembourg belongs to the OECD countries with a centralised governance. Spending decentralisation is limited: the share of SNGs in GDP and total public spending is low, compared to the OECD average for unitary countries (9.2% of GDP and 28.7% of public expenditure) and the EU28 average (15.3% of GDP and 33.5% of public expenditure). Local spending varies greatly across municipalities due to differences in sizes and economic activity. Staff expenditure accounts for one-third of SNGs expenditure and only 19% of public staff expenditure (vs 43% in OECD unitary countries and 50.9% in the EU28). Overall, current expenditure accounted for only 69% of expenditure, reflecting the fact that municipalities have a limited scope of responsibilities, and focus therefore on capital expenditure, financing public infrastructure and utilities.

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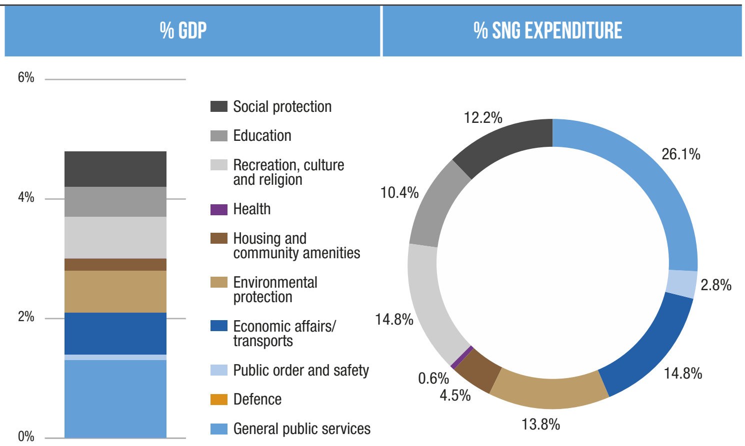
UNITARY COUNTRY

DIRECT INVESTMENT. A significant part of total SNG expenditure (almost one-third of SNG expenditure) is dedicated to direct investment, which is significantly above the OECD and EU28 average (13.8% of OECD unitary countries and 8.7% in the EU28).

Municipalities are key public investors: SNG investment stood at 1.5% of GDP in 2016 (1.7% on average in the OECD unitary countries and 1.4% in the EU28 in 2016). SNGs accounted for 35.5% of public investment, which is below the OECD average for unitary countries (50.7%) and the EU28 average (51.6%). However, the level of total public expenditure in GDP is among the highest of the OECD (4.0%) and the highest per capita (EUR 4 100 vs EUR 1 280 in the OECD). Economic affairs and transport consume the bulk of SNG expenditure and particularly road infrastructure, followed by culture, recreation and religion and, increasingly, environmental protection.

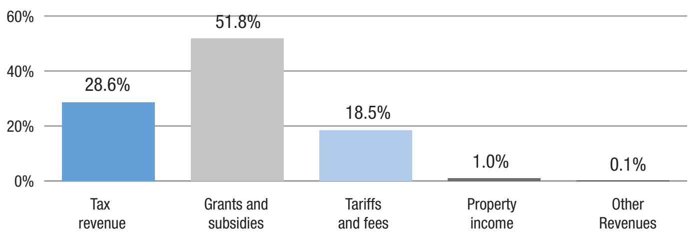
SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

In addition to general public services expenditure, which accounts for one-quarter of SNG expenditure, other areas of SNG spending are quite balanced: economic affairs/transports, recreation and culture and environmental protection accounted for around 15% while education and social protection accounted around 10-12%. In general, except for general services, SNGs in Luxembourg have fewer responsibilities in other sectors than the average of OECD countries. The share of education in municipal expenditure has decreased since 2009 from 24% in 2008 to 10% in 2016 following a law that removed the responsibility for teachers' wages from municipalities to the central government, in exchange for the devolution of infrastructure and operating costs.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**5 311**	**5.2%**	**11.9%**
Tax revenue	1 517	1.5%	5.4%
Grants and subsidies	2 750	2.7%	
Tariffs and fees	985	1.0%	
Property income	51	0.1%	
Other revenues	8	0.0%	



OVERALL DESCRIPTION. As for expenditure, SNG revenue accounts for a relatively low share of total public revenue and of GDP, as compared to other OECD and EU countries. Municipalities rely mainly on grants and subsidies, which account for around half of their revenue, a level slightly above the average of OECD unitary countries (48.8%) and around 10 percentage points above the EU28 average (41.1%). Taxes, tariffs, fees, and property income accounted for another half of revenue with a significant weight of tariffs and fees by international standards.

TAX REVENUE. The share of tax revenue in total local revenue, in GDP and in public tax revenue in Luxembourg is relatively low, below the OECD average for unitary countries (38.7% of SNG revenue, 4.7% of GDP and 19.8% of public tax and) as well as the EU28 average (respectively 41.1%, 6.4% and 24.0%) in 2016.

All municipal taxes are own-source. The most important tax by far is the municipal trade tax (*impôt commercial communal* – ICC). Established in 1936, the ICC represented 91.5% of municipal tax revenue in 2016, 26.1% of municipal revenue and 1.4% of GDP. This tax is levied on the profits of commercial companies only. Each municipality determines a rate - approved by the central government - which is applied to the tax base. This rate can range from 225% to 350% of the applicable tax base. In order to be competitive and attractive, larger municipalities tend to apply the lowest rate, 225%. Tax collection is made by the central government and receipts are not redistributed in full directly: a horizontal equalisation mechanism redistributes ICC receipts among municipalities according to different criteria. The contribution of a municipality to this "Participation fund" used to range between 42% and 67% of ICC revenue located on its territory, with various intermediate differences. Since the reform of local finances in 2017, and the creation of the FDGC, the municipalities are only able to keep up to 35% of the ICC receipts, within the limit that this should not exceed more than 35% of the national average per capita. The rest goes to the equalisation fund.

In addition to the ICC, municipalities also receive a property tax (*impôt foncier*) levied on land and buildings. It accounted for 4.7% of local tax revenue, 1.4% of municipal revenue and 0.1% of GDP, well below the OECD average (1.1% of GDP in 2016). As for the ICC, the property tax rate is set by the municipal council but submitted for the approval of the Ministry of Interior. Other minor taxes include a gambling tax, a tourist tax, an entertainment tax, a dog tax, and a recently introduced local tax on undeveloped urban land has been rarely used.

GRANTS AND SUBSIDIES. Until 2016, the main intergovernmental transfer was the Communal Fund for Financial Grants (Fonds Communal de Dotation Financière, FCDF). Established in 1987, it represented 70% of all transfers from the central government to municipalities. The FCDF was not earmarked. Annual funding of the FCDF was made up of 18% of PIT receipts, 10% of VAT receipts, 20% of the vehicle tax, as well as an additional lump sum set annually by legislation. In 2016, it represented around 52% of local revenue. The Law of 14 December 2016 created the Global Subsidy Fund that is dedicated to Municipalities (Fonds de Dotation Globale des Communes-FDGC), which replaced the FCDF.
The allocation of the new FDGC to municipalities is done primarily accordingly to calculations based on criteria such as the population (82%), number of salaried jobs (3%), socio-economical indicators (9-10%), concentration of social housing (0-1%) and surface area (5%), and to a lump sum amount. The ICC contribution to this Fund was also increased, because ICC receipts are a source of inequality across municipalities. Other current and investments grants are all earmarked, such as state contributions for the operating of childcare facilities, subsidies for public transport provided by the communes and groupings of communes, subsidies for cultural events, music teaching, etc. In 2016, capital grants represented 15% of total grants, and 7.5% of SNG revenue. The Master Programme for Territorial Planning includes subsidies for infrastructure investments of municipalities (although at least two municipalities must participate), and subsidies for regional economic activity zones.

OTHER REVENUES. The share of tariffs and fees in local governments' revenue is very high, well above the OECD average for unitary countries (10.1% in 2016) and the EU28 average (11.6%). Municipalities receive user charges for services such as water distribution, provision of gas and electricity, disposal of household waste, etc. Changes in tariffs must be approved by the Ministry of Interior.
Property revenue (interests, dividend, assets sales, etc.) stands for a small percentage of local revenues (1% versus 2% OECD average).

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**2 200**	**2.3%**	**8.4%**	**100%**
Financial debt*	1 859	1.9%	8.6%	84.5%

* Currency and deposits, loans and bonds

FISCAL RULES. Accounting rules are laid down in the Art. 107 of the Constitution and in the communal law (as amended in 2013). Municipal budgets are drafted by the municipal councils, before being approved by the Minister of Interior. Municipalities are not prohibited from running an operating deficit according to the Communal Law. A supervision body of the Ministry of Interior (*Service de contrôle de la comptabilité communale*) is in charge of legal and financial audits for local governments.

DEBT. Municipal borrowing is under the supervision of the Ministry of Interior and is only allowed if there is no other financing option, and if regular reimbursement of annual accruals is guaranteed. Loans are only permitted to fund capital expenditure (golden rule). Any loans above EUR 50 000 must be approved by the Ministry of the Interior. Issuing bonds is allowed, but rarely used.
The share of local debt in GDP and public debt are much lower than the averages of OECD unitary countries (respectively 14.5% of GDP and 11.8% of public debt in 2016) as well as the EU28 average (14.3% of GDP and 14.4% of public debt). Outstanding debt is made up of financial debt ("Maastricht debt" for 85% and other accounts payable (15%). Financial debt is composed exclusively of loans. The Municipality of Luxembourg is the only municipality to have issued debt securities in the past (2014).

SNGWOFI
World Observatory on Subnational Government Finance and Investment

Lead responsible: OECD
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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // National Institute of Statistics and Economic Studies of the Grand Duchy of Luxembourg.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat.
Other sources of information: Ministère de l'Intérieur (2018) Bilan de la réforme des finances communales // Banque Centrale du Luxembourg (2017) La réforme des finances communales de 2017 // OECD (2016), "Luxembourg", in OECD Regional Outlook 2016: Productive Regions for Inclusive Societies // European Committee of Regions (2016) Division of Powers // Chamber of Local Authorities (2015) Local democracy in Luxembourg, Strasbourg // Banque Centrale du Luxembourg (2016) Bulletin BCL 2016 // Syndicat des Villes et Communes Luxembourgeoises (2014) Coordination et gouvernance des finances publiques.