

# **The Financial Consequences of the Covid-19 Health Crisis on Walloon Municipalities in the short term, and the Resulting Changes in the longer term**

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## **Abstract**

The Belgian municipalities of the Walloon Region were under strain during the Covid-19 pandemic. This article studies how their budgetary exercise was affected during the year 2020 through a survey that was sent to each of the 262 municipalities in Wallonia. This questionnaire, in this article will determine whether or not the budgetary and financial impacts have been significant, taking into account the demographic size of the municipalities as well as their location. We will also have the opportunity to describe the challenges they have had to meet and will have to meet from a financial, federal and organizational perspective.

**Keywords:** Municipalities, Covid crisis, Budgetary impact, Financial impact, Demography.

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## 1. Introduction

Belgium is a federal country divided into three regions, namely: Wallonia, Flanders, and Brussels.

Each of the regions is divided into five provinces with the exception of Brussels. In Wallonia we find the following provinces: Namur, Hainaut, Luxembourg, Liege and Walloon Brabant (which account for the 262 municipalities out of the 581 located in Belgium).

Wallonia has the total capacity to organize its own local authorities, which have to follow a set of rules recorded in a legal document named “the Code of local democracy and decentralization”.

This legal document was adopted on 27 May 2004. It is made up of five parts that set out how the subnational authorities are to be organized and coordinate their activities which was particularly relevant during the Covid-19 crisis. This document makes it possible for municipalities to have their own set-up, this means that each municipality does not necessarily have the same remit and organization. (Code de la démocratie locale et de la décentralisation, 2004).

Each municipality is managed by a mayor, a municipal college and a municipal council. They will have to exercise their duties in order to better respond to their local interest and each of the municipalities is controlled by the regional authority. Thus, the Provinces and municipalities therefore have their own local autonomy in accordance with federalism; they are accountable to a supervisory power, i.e. the regional authority.

These elements will underline how important coordination is between different authorities, especially in a time of crisis.

The Covid-19 health crisis has caused problems at all national government levels. It is interesting as a result to clarify the effects and consequences of the restrictive measures on the finances of the federated entities at the time of the events as well as in the longer term.

The methodology used was carried out on the basis of a survey sent both by email and post to all the municipalities of the Walloon Region. Out of all the municipalities, 42 responded to us. This accounts for a participation rate of 16%.

The survey is divided into five distinct parts:

- The first concerns general data;
- The second part deals with the Covid-19 impacts on resources and modes of financing;
- The third part concerns the impacts of the Covid-19 crisis on municipal expenditure;
- The penultimate part investigates the multiannual programme and the general policy of the municipalities in order to note or not any modifications;
- Finally, the fifth part studies the impacts on short- and long-term budget balances.

The objective of this research is to determine how the budget exercise of municipalities has been influenced by the crisis both in the short and long term. The first part of our research studies the results of the survey by making a comparison between municipalities in different provinces, and the second part will examine the results in different municipalities by contrasting them from a demographic standpoint.

## **2. The financial consequences and organizational changes**

### **2.1 General data**

The first part of the survey, in which general information was collected, allowed us not only to define the provinces but also the profile of the financial directors of the municipalities concerned. This is how we were able to determine that 62% were men against 38% of women, and half of the female counterparts had been in their role for less than five years compared to 15% of men with a seniority higher than 20 years.

This part of the survey also made it possible to structure the municipalities and their demographics. We therefore found variants between municipalities of less than 1,000 inhabitants and those of up to 149,000 inhabitants.

The majority of the municipalities that make up our research are divided between two demographic brackets: 29% concerning a population ranging from 5,000 to 9,999, followed by the second majority at 29% concerning the demographic bracket ranging from 10,000 to 19,999 inhabitants.

### **2.2 Impacts of the crisis on resources and methods of financing**

The municipalities located in the provinces of Liege and Hainaut experienced a greater impact on their 2020 budget years, while the provinces of Namur and Luxembourg were less affected.

The first two provinces saw their income from additional PIT and their economic activities strongly influenced - this was also the case for Namur municipalities.

On the other hand, Luxembourg municipalities noted no influence not even on their budget forecasts for 2021, unlike Liege and Hainaut municipalities which both had negative forecasts. However, according to the statistics drawn from the survey, 43% of municipalities say they experienced a neutral economic impact in 2020, while 25% experiencing greater difficulties came from the two provinces which have so far shown themselves to be "more fragile" than municipalities in other regions, i.e. Liege and Hainaut.

To ensure the representativeness of the study, we will also subsequently analyse the data collected not by province but by demographic group. It is also interesting to observe that the magnitude of the budgetary impact can vary between municipalities depending on the budgetary health that existed before the health crisis. In addition, the pandemic had a considerable influence on PIT, corporate income tax and VAT, which should increase as decisions were taken to avoid bankruptcies. Some municipalities also sustained an impact on royalty rights, caused by the closure of

public establishments such as canteens, sports halls, swimming pools, etc. Which further reduces municipal revenue, the municipalities then had to face a more stringent management of their finances as part of their recovery (Pirlot and al, 2020). Some of the financial directors also underlined how challenging municipal finances had become, we will come back to this later.

### 2.3 Impacts of the crisis on municipal expenditure

We were able to observe that three categories of expenditure took precedence in all the communes (municipalities in Belgium). We therefore noted that spending on operating expenses in all municipalities had slowed down while spending to support the local economy had increased through aid and means of encouraging the population to buy from local businesses. Liege communes were the only exception as they did not have the resources at the time of the investigation. However, it should be noted that municipalities subsequently also used this category of expenditure in December 2021.

Should we summarize the information collected, this is what it looks like.

**Table 1: Expenditure in December 2021**

	<b>Liege</b>	<b>Hainaut</b>	<b>Luxembourg</b>	<b>Namur</b>
General operating expenses	Decreased	Decreased	Decreased	Decreased
Expenditure on sanitary supplies	Increased	Increased	Increased	Unchanged
Local aid expenses/trade check	Unchanged	Increased	Increased	Increased

More generally, expenditure was higher in Liege municipalities. With a decrease in municipal revenues and an increase in expenditure following the recovery plan, all Walloon municipalities now need funding.

This situation could lead to more borrowing in the future and an increase in debts. This has also been the case in many other countries facing lack of liquidity, such as Germany for example.<sup>3</sup> (Jopp & Böttger, 2021).

In the Walloon Region, municipalities were authorized to increase their budget deficit and use municipalities relieve the local economy (Luyten & Schokkaert, 2022).

49% of municipalities benefited from special funds in order to make up for the incurred deficits against 19% which could only rely on their own funds. Additionally, 32% were direct beneficiaries of federal power. These funds were made available in order to cap budget deficits but also to support social spending which remained unchanged at 59%; as a result, there was no upward revision of

<sup>3</sup> <https://www.oecd.org/coronavirus/policy-responses/l-impact-territorial-du-covid-19-gerer-la-crise-entre-niveaux-de-gouvernement-2596466b/>

social aid for more than half of the municipalities surveyed. More specifically in Liege province of we found that more social aid was required than in the other provinces.

22% of municipalities decided to curtail their expenses for the following reasons:

- The overall debt framework
- Staffing of the CPAS
- The cultural sector
- Operating costs

Lengthening the duration of the debt.

#### **2.4 Impact of the crisis on multiannual programming**

A health crisis can have various effects on political mandate programs depending on its nature and how it's managed. It can lead to shifts in priorities, changes in public policies, fostering innovation. Overall, health crisis can significantly focus of political programs (Demirel, et al. 2021). A total of 30% of municipalities had to revise their multi-annual programs as well as their general policies mainly by postponing the deadlines of certain projects.

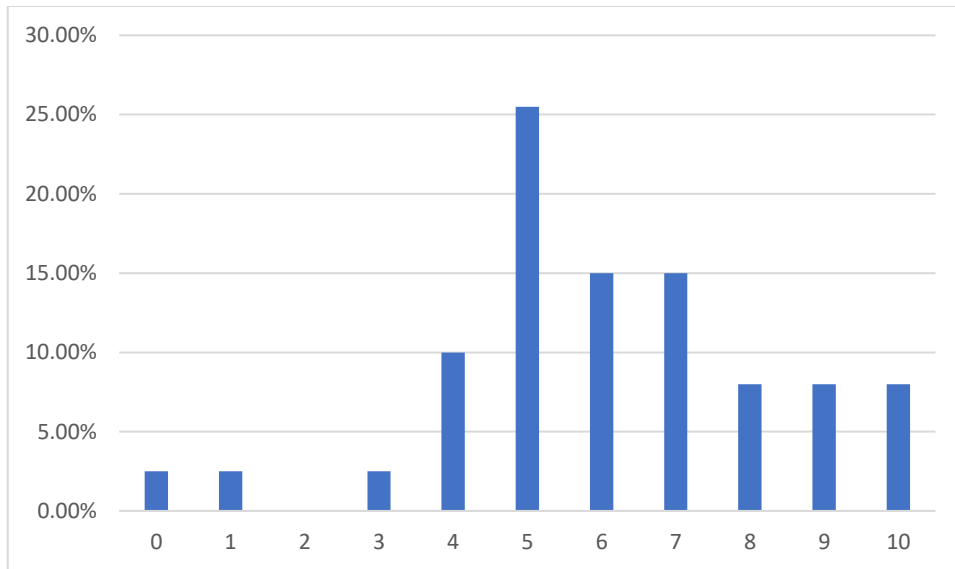
On the other hand, 83% of municipalities consider that their mandate remains achievable, particularly in Liege and Luxembourg. Although Hainaut and Namur have not carried out a review so far, these municipalities do not think they will be able to meet the political mandate objective due to delays or project cancellations following inactivity and reduced revenue.

Regarding municipal investments, the responses show that 37% of municipalities had to reduce their investments.

#### **2.5 Impacts of the crisis on budget balances in the short, medium, and long term**

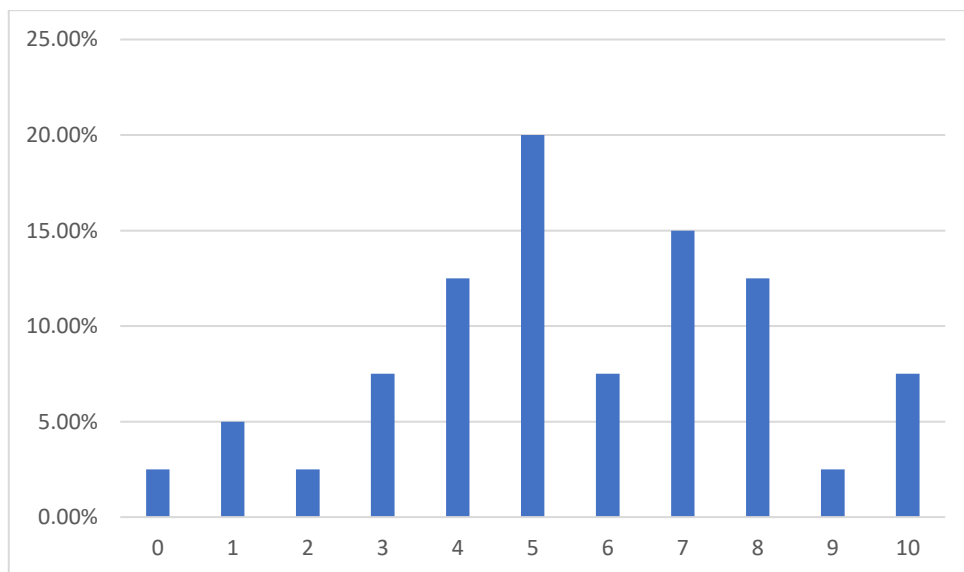
In the short term, for the 2020-2021 financial years, Liege municipalities were the most affected financially, while the municipalities in other provinces declared having felt little or no influence on their budgetary exercise.

But from a broader perspective, a quarter of municipalities believed that their ability to maintain a balanced budget was mixed, while 54% had a rather positive opinion.



**Figure 1: Influence on long-term fiscal balance**

Moreover, regarding the ability of municipalities to accomplish their missions in the long term, we found greater optimism within Liege and Luxembourg municipalities of, while Hainaut and Namur municipalities were a little more mixed. We can see on the following graph that 50% of municipalities expressed an opinion lower than or equal to 5 on a scale of 10, and the second half higher than 5.



**Figure 2: Achieving long term missions**

In general, we can say that half of the Walloon municipalities which responded to the survey were indecisive about how well they would perform their mission. Here is a summary table for the fifth section of our questionnaire:

**Table 2: Municipal impacts**

	<b>Liege</b>	<b>Hainaut</b>	<b>Luxembourg</b>	<b>Namur</b>
Fiscal year 2020-2021 short term	High influence	Weak influence	Neutral influence	Neutral influence
Long-term budget balance	High	Weak	High	Neutral
Achievement of long-term missions	Yes	Neutral	Yes	Neutral

We can see that Liege municipalities were the hardest hit on average while those of Luxembourg were the least affected. Liege municipalities also benefited the most from special funds from both at regional and federal levels, while other municipalities in the Walloon Region only generally received aid from the Region. All of the municipalities that responded to the survey anticipated a negative or neutral budget for the 2021 financial year.

As we can see, Liege province was the hardest hit; however, only 50% of municipalities increased their expenditure on social assistance and carried out a review of social assistance. As for Hainaut, 8 out of 11 municipalities did not carry out a social review and faced an operating expenditure change which was either mainly neutral or contracting, while Liege and Namur experienced growth in expenditure, whereas Luxembourg showed neutral results.

The economic impact on the year 2020 as well as on the additional PPI were relatively neutral, even weak, overall. However, note that the impact on the 2020 budget year was higher in Liege, followed by Hainaut. Whereas in Luxembourg and Namur, only cities with the highest population growth were significantly impacted. Lockdown restrictions and reduced economic activity have an impact on the budget, and at the same time, increased demands for social assistance and social services have raised expenditures (Heyer and Timbeau, 2020). To address these challenges, each municipality has its own method because of their demographic differences. Let's enter the second part of the analysis, where we will directly link demographic growth and its impacts between different municipalities.

### 3. Interpretation of results according to demographics

Since we have interpreted the results by looking into municipalities based on the province location in order to observe various trends in responses between the different provinces, we will now leave the framework of the provinces and directly delve into interpreting the data according to municipal demography.

The demographics which responded the most to the survey were:

- 1,000 - 4,999 inhabitants
- 5,000 - 9,999 inhabitants
- 10,000 - 19,999 inhabitants

And as for those who only completed the survey once or twice:

- Less than 1,000 inhabitants
- 20,000 – 29,999 inhabitants
- 30,000 – 39,999 inhabitants
- 50,000 – 74,999 inhabitants

Municipalities with a population equal to or greater than 30,000 inhabitants were strongly impacted compared to those with a lower population.

We can see that there are two distinctions, one is the demographic difference but also the different approaches used by the municipalities. It analyses the differential impact on local and federal on the disparities in their financial resilience (Dougherty & Biase, 2021). And there is also patterns of shared strategies because it's not every municipality who received federal aid. By adopting of view, this comparative analysis offers invaluable insights for future pandemic preparedness and response efforts (Gay and Guillas-Cavan, 2020).

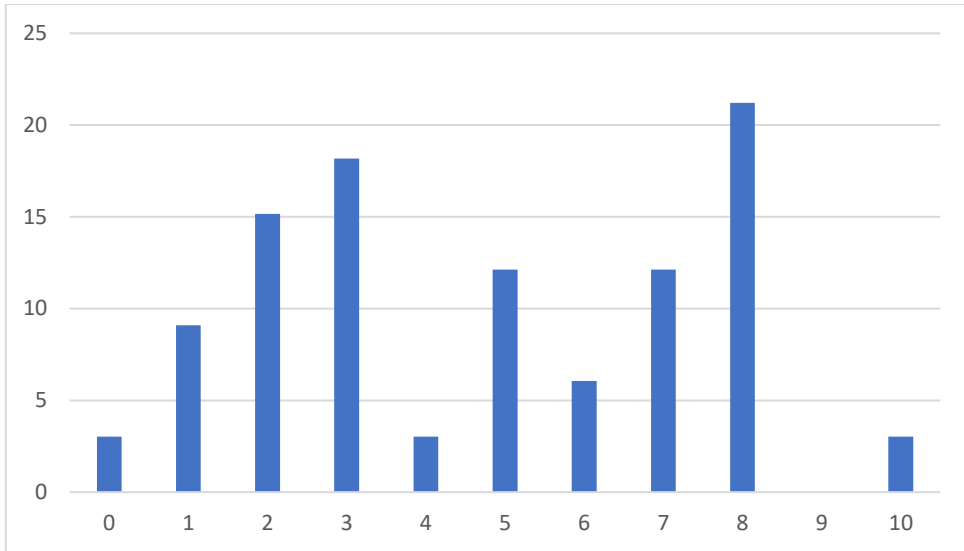
The impact is represented on horizontal axes scaled from 0 to 10. The closer to 0, the lesser the impact, and the closer to 10, the greater the impact.

#### **1.000-4.900**

For municipalities between 1,000 – 4,999 inhabitants, the budgetary impact was mainly weak during the 2020 financial year, with additional income to the PPI impacted by a mere 42% (considering impacts from 6 to 10 on figure 3).

As a reminder, being below 50 % means that the majority of the municipalities is not considered, which can lead to bias and unreliable conclusions. We can therefore notice a “mixed” impact, in particular when directly observing the economic impact of Covid in 2020, which also reveals a fifty-percent impact rate.





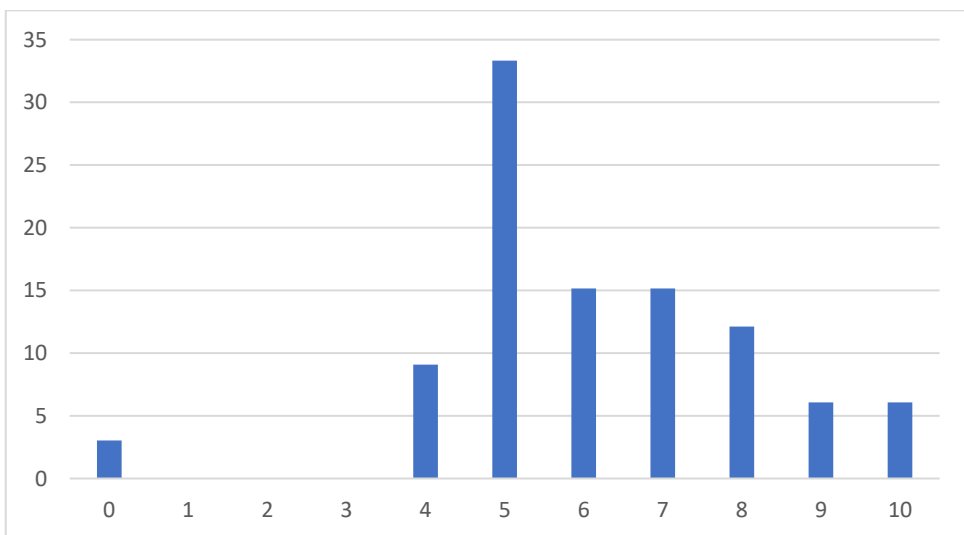
**Figure 3: Covid impact on fiscal year 2020**

However, despite a mixed impact, the budget forecast was negative overall at 67% against 33% of neutral opinions. (Figure 3).

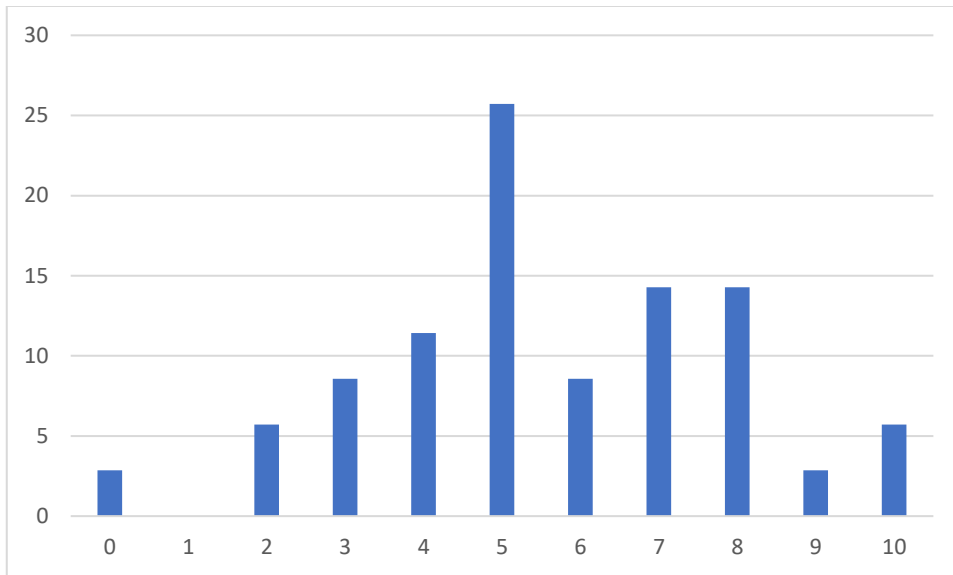
For expenditure, the affected municipalities received special funds provided by the Walloon Region and experienced a globally neutral evolution in expenditure since we obtained an equal distribution in the answers, the growth, contraction, and neutrality of municipal expenditure which each accounted for a third.

In the short term, for the 2020-2021 financial year, the crisis did not affect as many municipalities with a smaller population, 46% of these say they were impacted. As for the influence on the budget balance in the long term, the impact was greater as you can see in the graph below.

But all of them will be able to fulfil their missions in the long term.



**Figure 4: Influence long-term budget balance**

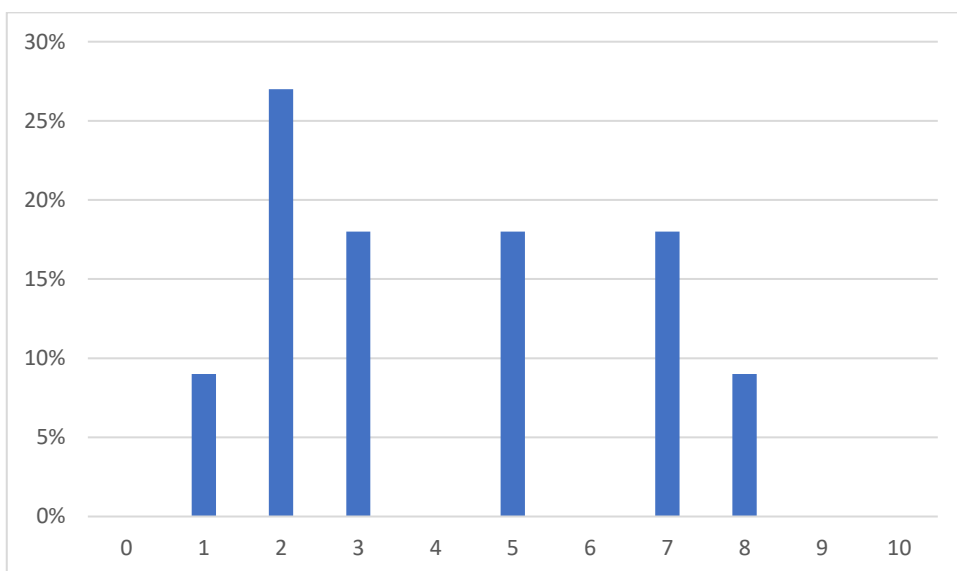


**Figure 5: Accomplishment long-term missions**

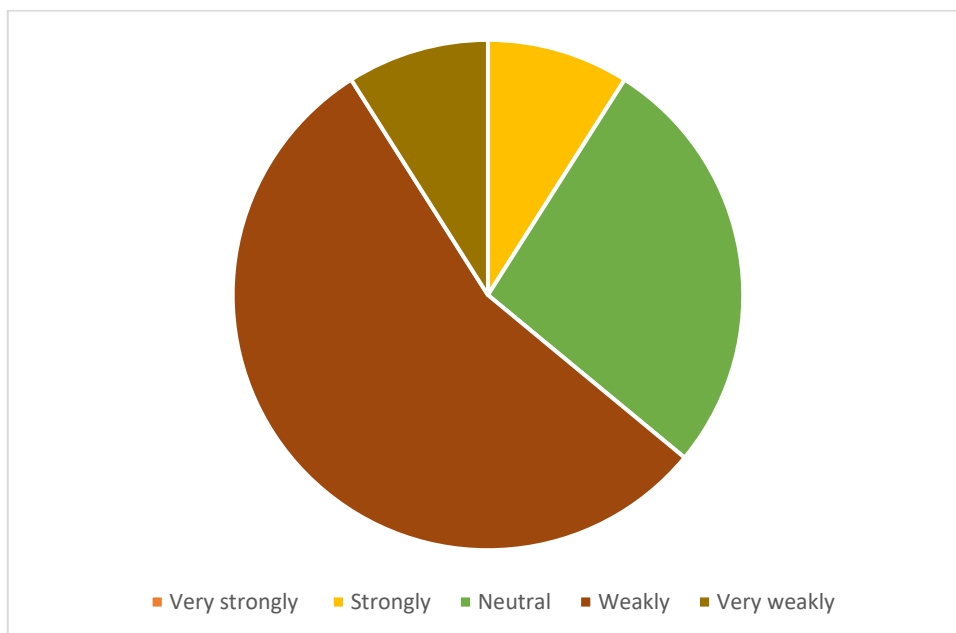
### **5.000-9.999**

For municipalities with 5,000 to 9,999 inhabitants, the budgetary impact was mixed during the 2020 budget year and the impact on the additional PIT (Figures 6 and 7) was only felt slightly for 55% of them. We also noted a low (48%), neutral (impacts 5 and 7) (36%) and very low economic impact (9%).

Their budget forecasts for 2021 were negative (55%), while the evolution in operating expenses contracted for 27% against 55% with neutral opinions.



**Figure 6: Covid impact on fiscal year 2020**



**Figure 7: Impact additional percentage PIT**

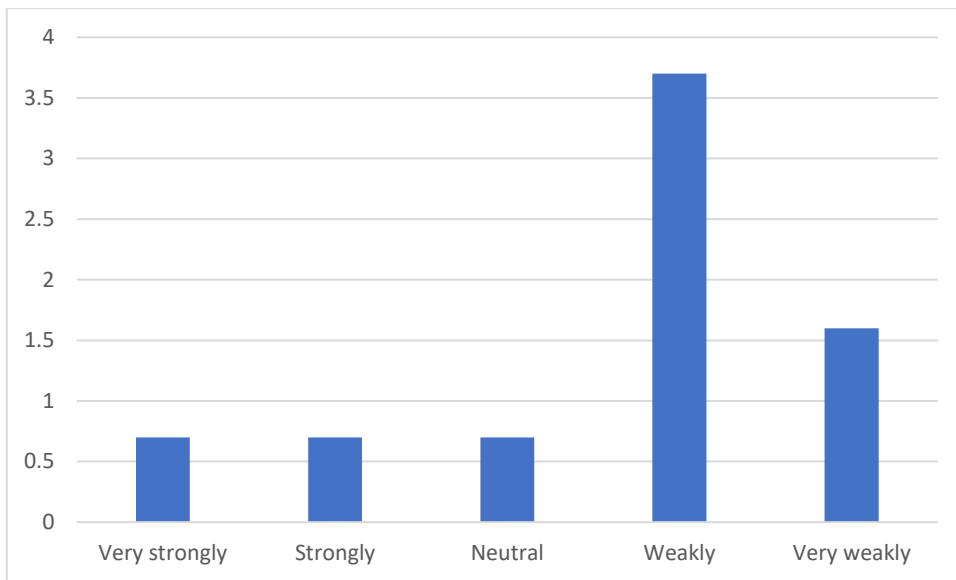
44% received funds both from the Walloon Region and the Federal Authorities, whereas 56% only received aid from the Walloon Region.

As we noted in the previous demographic trend, almost 70% of municipalities did not review their expenditure and social aid, and 55% did not increase their aid at all. Only 20% thought they would be able to achieve their mandate, and 36% had to adjust their multi-annual program/general policy.

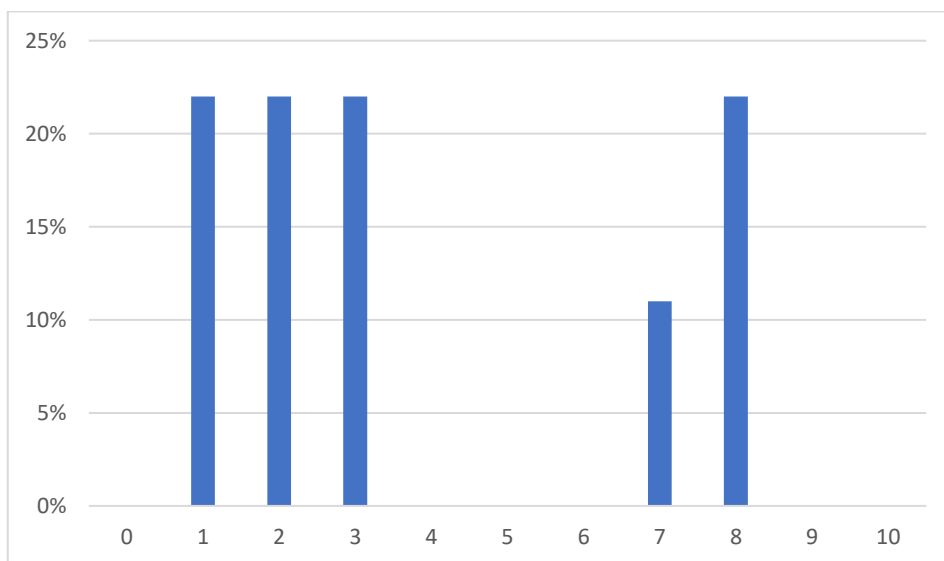
The Covid-19 crisis in 2020-2021 only had a relatively limited financial impact, but it is fair to say that municipalities with a smaller population showed greater confidence in having a balanced budget. On the contrary, municipalities with larger populations doubted more about their ability to meet their long-term missions; 36% were below the threshold of doubt, 18% doubted and 47% thought they would complete their objectives.

**10.000-19.999**

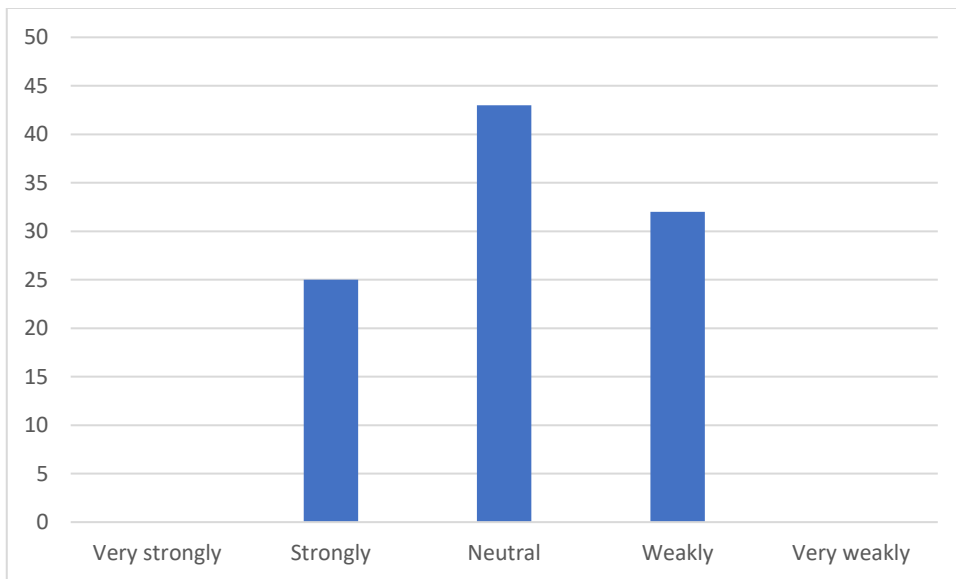
Municipalities with a population of 10,000 to 19,999 inhabitants felt a limited impact, as 33% were significantly impacted. Regarding the 2020 PIT, a large majority of respondents did not notice any difference.



**Figure 8: Additional percentage impact on 2020 PIT**

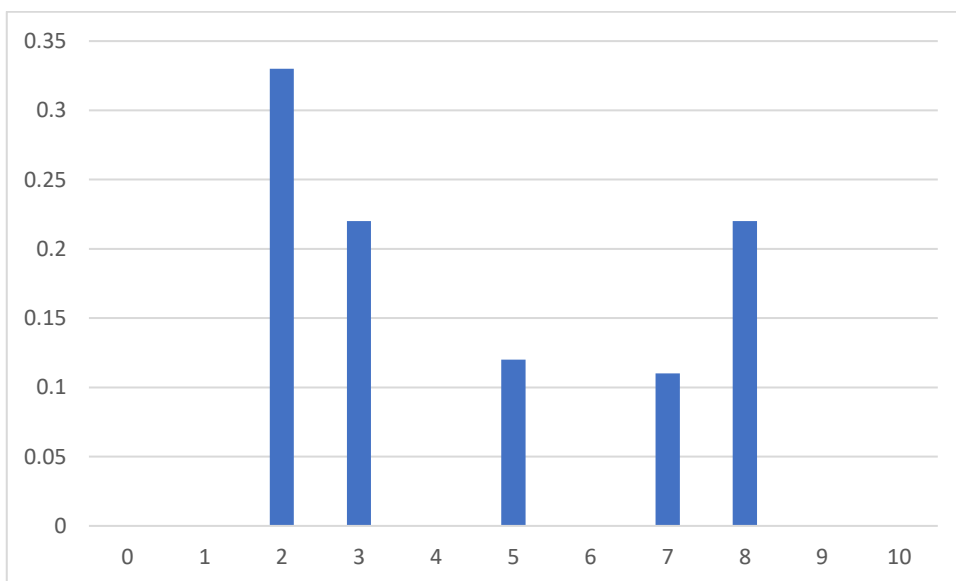


**Figure 9: Impact on Fiscal year 2020**

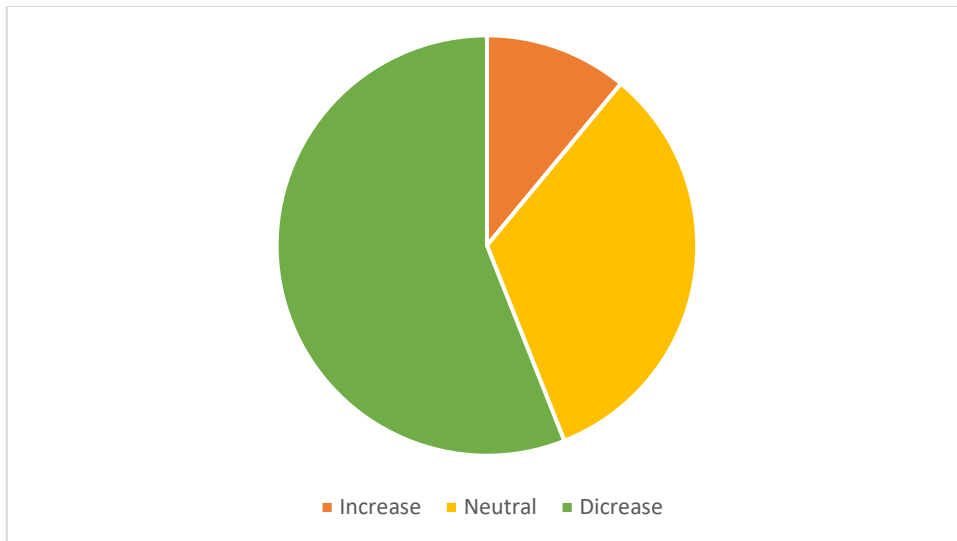


**Figure 10: Impact on economic activity 2020**

The influence on municipal expenditure is rather mixed but concerning operating expenditure in 2020, these largely experienced a contraction.



**Figure 11: Influence on municipal expenditure 2020**

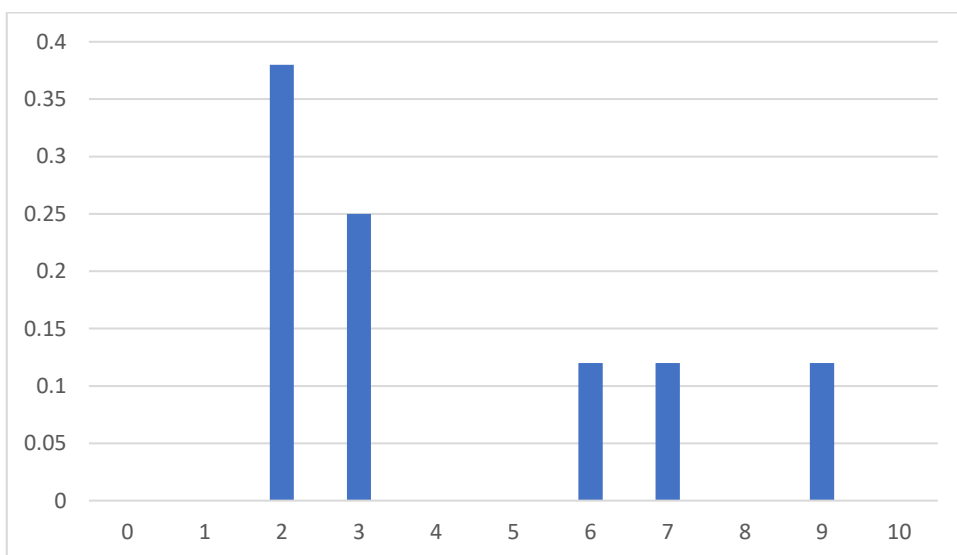


**Figure 12: Evolution in operating expenditure 2020**

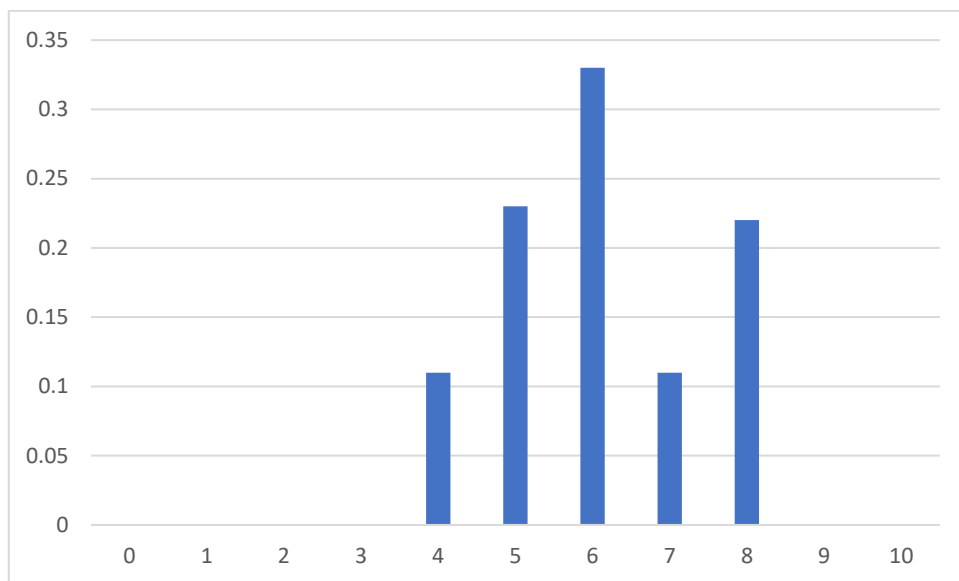
However, despite a relative influence on municipal expenditure, 56% increased social aid in their municipalities but only 33% decided to adjust it.

Regarding the impact on multi-year programs, 67% did not adjust their programming and 78% believed they would be able to meet their mandate, which is a higher figure than experienced previously. The same is true for investments, 88% were spared the repercussions of the crisis.

And as for the impacts on the budget balances in the short, medium and long term, these are approximately concerning the financial influence in 2021 as you will see in the following graph, and the ability to maintain the budget balance is largely high as well as the accomplishment of long-term missions.



**Figure 13: Short-term finance influence 2021**



**Figure 14: Influence on budget balance**

As for the largest demographic groups, none of the participants belonged to this group except for the group with a population of 30,000 but the data did not provide a full picture. We will therefore have a representation for municipalities with a small and medium population.

It is noticeable that the higher the population, the greater the impact. But we also find that among the slices themselves there are mixed results.

#### **4. General interpretation**

As the crisis progressed, budgetary challenges for municipalities considerably increased due to the uncertainty of economic recovery, especially among municipalities with less diversified incomes due to their smaller population.

In Wallonia, municipalities were authorized to increase their budget deficit and were encouraged either to use their own funds or resort to borrowing in order to revive the economy. Our results show very few municipalities used their own funds. Above all, it is important to measure and note the fiscal impacts as well as ensure that Covid-19 aid programs are sufficient to support subnational authorities during recovery.<sup>4</sup>

This is also a means of supporting public investment which can be used as an adjustment variable and makes it possible to improve resilience at a regional level. Many of the financial directors who responded to the survey informed us of their fear of future challenges. It is therefore necessary to put improved coordination

<sup>4</sup> <https://openknowledge.worldbank.org/entities/publication/c5f6bc85-e184-5649-b64b-b1e19b5aa06c>

structures in place in order to minimize the risk of inefficiency, as the majority say they " felt overwhelmed".

Regardless of finances, municipalities need to reorganize tasks in order to be more efficient in fulfilling their mission. However, the sanitary confinement could explain a feeling of inability or overwhelming.

In all cases, federalism and fiscality have had to adapt and reassess their governance systems and instruments.

Despite the many challenges, the federated entities have nevertheless been able to manage shortcomings since in the communes studied, only respondents in Liege experienced some difficulties. Regarding municipalities outside Liege, the impacts and budget balances were effective thanks to flexible measures and decentralization. Moreover, a lack of cooperation and support was revealed between EU Member States, particularly owing to suboptimal communication.<sup>5</sup>

In these difficult circumstances, financial directors raised shortcomings in communication, and more specifically a lack of means in addition to the complexity of the situation. A study on job performance following the Covid pandemic found that computer skills could help you solve many problems and be more efficient across self-efficacy which enhances job performance and the sense of control on activities (Hernu, 2020).

In comparison, the Spanish federal system has experienced many more flaws than our municipalities. Sanitary and financial measures were approximately identical but the relations between the federated entities and the government did not allow for optimal management (Bailly, 2021).

Whereas in Belgium, although municipalities claim they have a lot of tasks to complete and not enough tools to work effectively, but provinces and municipalities enjoy almost total autonomy.

While in Spain the federal government exercised strict authority, leaving only partial autonomy to the 17 autonomous regions, provinces and municipalities whose remits were expanded at a later date.<sup>6</sup>

Globally, for the fiscal year to come, if local governments are able to diversify their revenues and optimize their administrative capacity, then a weight will be lifted off their shoulders in these times of uncertainty. However, the regional authority will have to pay attention as a mass of missions have been delegated but the means might not follow.

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<sup>5</sup> [https://www3.weforum.org/docs/WEF\\_Challenges\\_and\\_Opportunities\\_Post\\_COVID\\_19.pdf](https://www3.weforum.org/docs/WEF_Challenges_and_Opportunities_Post_COVID_19.pdf)

<sup>6</sup> <https://www.semanticscholar.org/paper/The-effectiveness-of-health-care-finance-in-health%3A-Aissaoui-Hamaizia/8c6b6cc1b56c8102317d7248710b4556cb945d4a>



## 5. Conclusion

Let us recall in conclusion that the statistics which were made available to lead to this study came from answers provided by the financial directors themselves. As a reminder, less than % of the municipalities has answered the question.

As was mentioned in the general interpretation, the budgetary impact was relatively neutral in the fiscal year 2020 even if the impact was stronger for the municipalities having less diversified revenues. However, the municipalities have coped quite well with this challenge, thanks in particular to aid and recourse to the budget deficit. Regional resilience has thus improved in this crisis.

However, concerns remain for the future, and many improvements will need to be made to the coordination structures to achieve a higher level of efficiency.

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