Zurich Switzerland

In Zurich, work has been underway for the past 20 years to improve highway bypasses

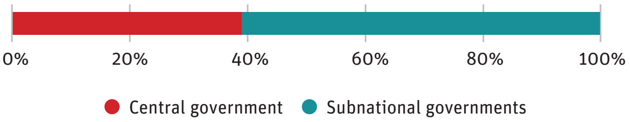
CITY:
0.4 mil. inhabitants

METROPOLITAN AREA
1.3 mil.
(+6.4% pop. change/5 years)

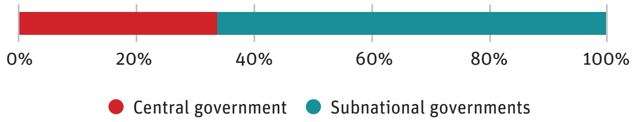
GDP: 185% of the average EU28 GDP
(+0.4% average annual change in GDP/5 years)

How local public finance systems work in Switzerland

PUBLIC REVENUE



CAPITAL EXPENDITURE



Switzerland has a **two-tier system of subnational governments** (SNG). It consists of 26 cantons and 2,212 municipalities.

According to the constitution, Swiss cantons have discretionary power over their revenue and taxes (unless a tax is already collected by the federation). Canton laws determine the financial autonomy and competences of municipalities. The system of fiscal compensation is enshrined in the constitution and enables the federal government to reduce fiscal disparities within the federation. Major constitutional reform took place in 2008; the reform addressed the division of functions between the federal and canton level and also changed the system of fiscal equalisation.

The public finances of cantons are coordinated at a conference of the canton directors of finance. The objective of the conference is for the cantons to come to an agreement and hold negotiations with the federal government. **Switzerland is characterized by the active participation of citizens in questions of public finance.** Citizens make decisions through referenda on the majority of legislative changes.

Subnational governments are responsible for a major portion of public investment, accounting for 70% of the total public investment and 2.8% of the GDP (OECD federations 62% and 1.8%)

Cantons have considerable independence with respect to setting their own investment policy and creating investment incentives; in 2016, 55% of SNG investment and 38% of total public investment took place on the cantonal level. **Over the past 10 years, 16 of 26 cantons have financed investment entirely from internal sources. A major portion of transfers from the central government is then spent on inter-canton investment projects.** Contractual negotiations between the federal government and cantons take place through multi-year programs.
If the contract goals of the programs are not achieved, the cantons may be asked to return the funding they have received. Swiss municipalities are responsible for the remaining 45% of SNG investment (2016). Over the past 10 years, 8 cities have financed investments entirely from internal sources. The main areas of public SNG investment are public services (35%) economic affairs and transportation (24%) and education (24%).

Cantons can determine their revenue and taxes. From a fiscal perspective, Switzerland is one of the most decentralized OECD countries. Direct taxation is a shared power at the municipal, canton and federal level of government. **SNG tax revenues account for 53% of their total revenues (OECD federal states 48%), while revenues from transfers and subsidies (25%) are relatively low with respect to total SNG revenue (32% in OECD federations).** Moreover, SNGs have considerable autonomy in setting both tax bases and tax rates. Differences in revenue arising from this autonomy are corrected through government transfers, which balance out the budgets of many smaller municipalities.

SNG tax revenue represents 11% of the GDP and 54% of the total public tax revenue (compared to OECD federation figures of 9% and 42%). Cantons are responsible for 59% of this and municipalities for 41%.

Cantons and municipalities can set tax rates and tax breaks. The most important taxes at the SNG level are the personal income tax (63%), property tax (approx. 15%) and corporate income tax (also about 15%).

Cantons have the power to collect any tax that is not already collected by the federal government (the constitution prohibits double taxation). Major taxes collected by cantons include the personal income tax (60% of canton tax revenue), corporate income tax (15%), property tax (14%), income tax on foreigners without a residency permit, asset tax, inheritance tax, gambling tax, motor vehicle tax and others. As a consequence of their high autonomy, cantons compete for more income tax revenue by attracting economic activity to their territories. Generally speaking, the Swiss tax system has attractive rates for corporations operating primarily abroad.

Cantons determine to what degree municipalities can collect taxes. Major municipal taxes include personal income tax (67% of the SNG tax revenue), corporate income tax (12%), property tax (15%), tax on assets and more. These taxes are generally collected as a percentage of the basic canton tax. Recurrent property tax (canton and municipal) makes up a negligible part of SNG budgets (0.9%) and represents only 0.2% of GDP (OECD 1.1%); certain cantons do not even collect this tax.

Transfers and grants from the Confederation represent 25% of the SNG revenue (28% of canton revenue and 19% of municipal revenue). In 2016, these transfers were mostly earmarked (65%) for agriculture, health care, social care, senior care, transportation, and research and development. The remaining transfers and grants consist of non-earmarked transfers (20%) and equalisation funds (15%). **Overall, 7% of the transfers are capital, 93% are current.**

The financial equalisation system (founded in 1958, amended in 2008) operates both vertically and horizontally and is intended to reduce the disparities in the financial capacities across cantons. **Following equalisation, each canton must reach revenue per capita corresponding to at least 85% of the federal average.** In 2016, this system represented about 70% of all state transfers. The equalisation system is co-financed by the Confederation and by cantons with higher income potential. In addition to income capacity, the system also takes into account the socio-demographic characteristics of cantons and the topographical costs associated with the mountainous regions of the country (costs for basic services).

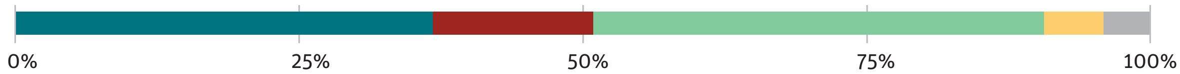
Cantons can also have their own equalisation systems between municipalities (but transfers account for less than 20% of their revenue). In 2008, the share of non-earmarked transfers to municipalities rose from 24% to 40%. Most transfers are used by municipalities to finance social programs (social care, institutions etc.).

Other income (consisting mostly of fees) make up a sizable portion of revenue (approx. 20%) for both cantons and municipalities. The greatest share (18% of the SNG revenue) comes from fees, while property income (rent, sale of assets) comprises a much smaller portion of revenue (3.5%).

Source: http://www.oecd.org/cfe/regional-policy/Observatory-on- Subnational-Government-Finance-and-Investment.htm

Finances of the City of Zurich
REVENUE SOURCES

Economic classification of revenue



Taxes – own · Transfers – current · User charges and fees · Capital and assets · Other

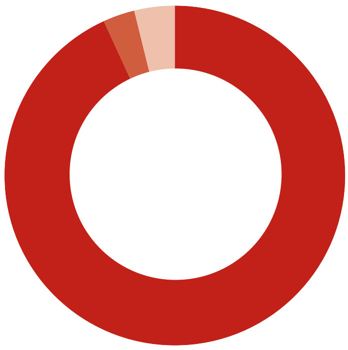
Tax base

Income and wealth · Capital · Other

Transfers conditionality

Non-earmarked

Transfers origin



Other SNGs · Central · Private

Balance sheet and debt

–2%

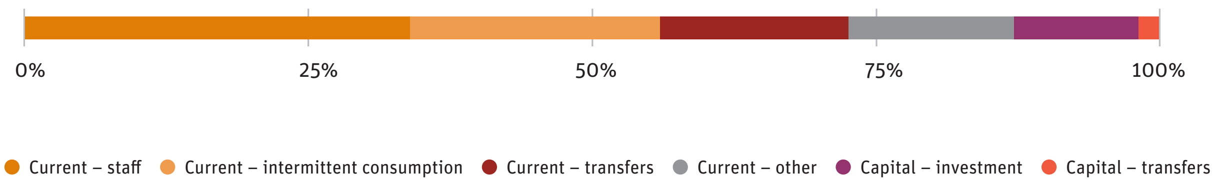
BUDGET BALANCE

148%

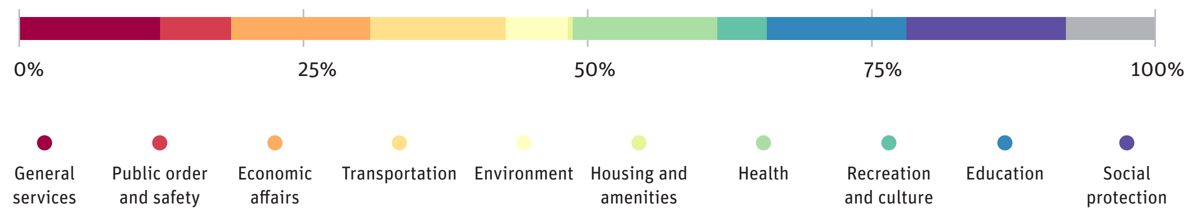
DEBT AS A PERCENTAGE OF ANNUAL REVENUE

Finances of the City of Zurich
EXPENDITURE COMPOSITION

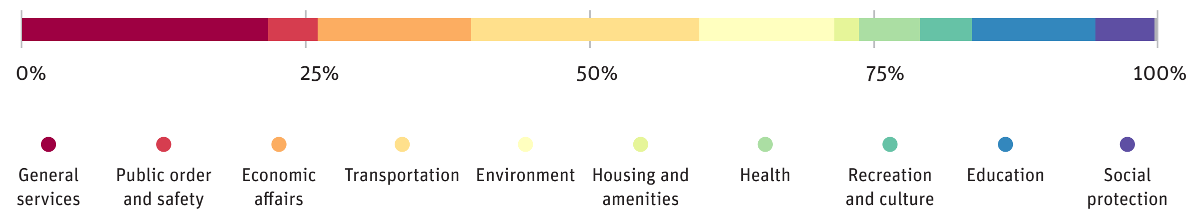
Economic classification of expenditure



Functional classification of expenditure



Functional classification of capital expenditure



Source: Own questionnaire survey (2019)

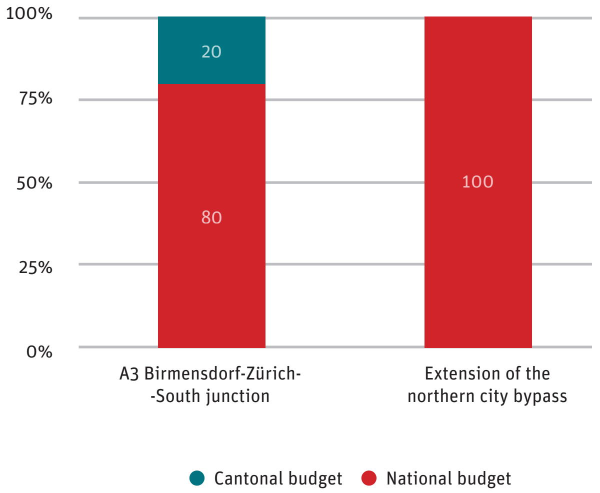
Zurich bypass highways

Extension of Zurich's northern bypass and construction of a western bypass

The highway network around Zurich and Winterthur is the busiest in Switzerland and without improvements will soon be unable to perform its function and handle the high volume of traffic. The extension of the northern Zurich bypass will reduce traffic problems in the area considerably. The project involves expanding an 11 km long section of the highway to 3+3 lanes, rebuilding 3 exits, building a third tunnel for 3.3 km and covering the highway in length of 580 m. Total investment costs are estimated at CZH 940 million and are fully covered by funding within the Swiss Confederation. Construction work to expand the northern Zurich bypass began in 2014 and is expected to be finished completely in 2025 (including repairs of the existing two tunnel tubes and covering 580 m long section of the highway).

Construction of the 10.6 km long western Zurich bypass (from Birmensdorf to the Zurich – South junction) filled a gap in the Swiss highway system and relieved congestion in the southwest of the city and adjacent towns. More then 8 km of this section runs through tunnels. The section was built over 13 years; the 3 km Birmensdorf bypass opened in 2006, the rest of the bypass opened in the spring of 2009. Total investment costs for the western Zurich bypass were CHF 2.9 billion, 80% of which was covered by Confederation sources and 20% from the Canton of Zurich.

Zurich bypass highways



Source: Own questionnaire survey, Bundesamt für Strassen ASTRA, swissinfo.ch