Speech by Flo Clucas, Councillor, Cheltenham (LGA, UK) and CEMR spokesperson on local finances at the conference "Long-term investments: Barriers and opportunities for regions and cities".

European Parliament (Brussels), 8 March 2017

Dear members of the European Parliament, Dear Mayors and elected representatives, Ladies and Gentlemen,

Before I begin, allow me to say a word on a personal basis. As you know, the UK has voted to leave the EU. However, some 48% of those who voted voted to remain in our European family. We are proud to be European citizens, proud to carry an EU passport and proud of the peace that the European Union has brought to our continent. Millions and millions and millions of my compatriots feel as I do. Please do not allow us to be forgotten as Brexit negotiations open.

It is a real pleasure for me to be here today for an exchange of views with members of the European Parliament's Intergroups on long-term investments and urban development,

and with our European partners, POLIS and EUROCITIES.

I previously spent 26 years as a councillor in Liverpool and am currently a Councillor for Cheltenham in the UK, which is a member of the English Local Government Association, and for which I am a spokesperson of the Council of European Municipalities and Regions (CEMR) in the field of local finances and public investment.

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The Council of European Municipalities and Regions (CEMR) is the European umbrella organisation of local and regional governments that brings together 60 national associations from over 40 countries, and represents through them, all levels of territories – local, metropolitan and regional.

We strongly support the EU institutions' recent line of work on tackling barriers to investment because the impact of serious decline in our cities, municipalities and regions is something we experience, and our citizens feel every day. This decline has to be tackled, its impact brought to a halt and preventive measures taken. That cannot happen without investment.

All across Europe, the lack of investment in infrastructure, broadband, schools, education and a range of other areas, not only leads to greater financial costs for the

next generation, but it creates dissatisfaction amongst citizens and even hostility toward the political system or the 'establishment'.

If the European Union is primarily associated with these reductions in public investments, there is the risk that people in other countries will turn their back on the EU and opt to leave. An interesting insight in how disaffection can be tackled occurred in Liverpool. A conscious decision was taken to ensure that everything the EU did through SFs was communicated to those who lived there. They voted in significant numbers to remain.
In light of the political and economic situation in our regions, cities and municipalities, local and regional elected representatives, came together through the CEMR to call on EU institutions to act and boost investments across the EU.

We need to tackle market failure and the crucial social, economic, territorial and environmental challenges that Europe is facing; challenges such as: increasing social fragmentation, migration, demographic change and rural depopulation, continued disparities in levels of economic development and increasing youth unemployment. There also needs to be an understanding of the impact of automation through the development of digital services, the need for energy and transport infrastructure, energy transition and climate change and the consequent pressure on public services.

The list is long, impressive and not exhaustive.

The EU has agreed policies with targets and objectives to meet these challenges, and at the local and regional level CEMR members support these common goals.

However, there is a problem: investments made in order to achieve economic and other objectives are encountering fiscal regulations that oblige the public authority concerned to account for them as debts in their balance sheets and budgets.

This is the case, for example in cohesion policy where co-financing is calculated as part of the national debt. Some central governments and regional authorities refrain from using EU funds for that reason.

Therefore, we need an adequate, appropriate financial and fiscal framework to allow the necessary investments to be carried out.

Money has been in short supply since the crash in 2008. For several years, most subnational governments have been under new and increasing financial pressures, with decreasing own-source tax revenues and decreasing funding from central government.

And they are also affected by many of the EU's new fiscal rules, which have been introduced to handle the economic crisis.

Europe's economic crisis has created the requirement for EU level monitoring and supervision of public finances, particularly in those member states that are struggling to balance the books.

While we understand this motivation, CEMR believes that central governments and national treasuries still have the core responsibility to ensure strong and sustainable public finances and to address mismanagement at the earliest stage possible.

In a time of economic difficulties it is local and regional authorities, empowered with flexibilities to maintain a sufficient level of investment, that keep the wheels of the economy turning and contribute to the creation of jobs and growth.

The current lack of growth and investment is highlighted as being a major problem by both member States and EU institutions.

As emphasised by the European Council in its conclusions on bottlenecks to investment,

"*since the global economic and financial crisis, the level of investment in the EU has fallen substantially. Economic recovery, job creation, long-term growth and competitiveness are being hampered as a result*".

The pressure put on local budgets is enormous. Yet local authorities account for a lower level of public expenditure than the national level, undertake most public investment, and at the same time account for a very small proportion of the share of national public debt.

Let me just illustrate that with some figures:

On investments:

- Local and regional authorities are responsible for 55% of total public investment in Europe: they are the driving force of public investment in common goods;

- Over 40% of EU sub-national governments have seen investment in infrastructure fall since 2010;

On deficit and debt:

- In most countries, local governments' deficit represent a small share of general government's deficit;

- In Belgium, local debt is approximately 5% of GDP, whereas national debt is at 106% of GDP; in Finland, 9% vs 63%; in the Netherlands, 11% vs 70%; in Sweden 9% vs 43%; in France, 8.8% vs 98,4%; or Austria, 10% vs 86%.

The nature of the expenditure is also not the same as that undertaken at the national level:

to a large extent, local and regional authorities' investments are related, to trigger productive investments and for infrastructure, not for functioning or administrative expenses. They mainly invest in sustainable projects that will enhance the future for their citizens.

CEMR believes it is imperative that we find the right balance between the absolute need to ensure public finance sustainability – an objective that we fully back - and the urgency to support investment in order to stimulate recovery.

Public investments play a crucial role in generating private investments. It is a tried and successful way of combatting market failure and encouraging the private sector to invest where it would not otherwise have done.

To this end, local and regional governments need more room for manoeuvre and new freedoms and flexibilities.

Local public investments cannot be treated as a variable of adjustment in national fiscal policy.

CEMR is calling for an EU acknowledgement of the problem created by the lack of public investment at local and regional level.

We have identified together with the other CEMR members, the foremost obstacles to public investment at local level.

They are partly related to EU fiscal rules:

- First of all, there is a clear failure to distinguish in public sector accounting between current expenditure for operational costs and productive investments delivering long-term benefits;

- Considering their contribution, there is no proportionality between the debt limit for the local and the national level:

- Fiscal rules impose an annual budget balance in many countries, which implies that public investment can only be financed by current revenues and accounted in the year of the expenditure (no depreciation over time).

- No real recommendations are provided by the European Commission in their country-specific recommendations to Member States to maintain a minimum level of investments at local level, or at least to have a balance over several years and not annually;

- The assets of local and regional authorities are not included in any way in the debt criteria. Some local authorities have significant assets, e.g. stocks or properties. Obviously local authorities with significant assets can bear a higher amount of debt than those without any assets;

- Finally, some decisions on targets and how to balance the structural budget are not taken in a concerted way with local and regional authorities: EU institutions should encourage dialogue between the different levels of governments which would avoid abrupt reductions of transfers from the national to the local level, suspensions or delays in local public investments.

New forms of funding

To face this issue of investment freezing and postponing, local and regional authorities turn towards new forms of funding, such as PPP's and bonds, even to finance social infrastructures like schools.

Not to mention harnessing the power of crowd funding for smaller scale projects.

In the UK, the Local Government Association has set up a Municipal Bonds Agency which delivers new financing choices for local authorities.

The agency raises finance by issuing municipal bonds to capital markets (in blocks of 300 million pounds).

Drawing on extensive expertise it creates the type of bonds that are attractive to investors and at an interest rate that is appealing to local authorities.

This lowers councils' finance costs, which means more can be invested into local economies, infrastructure and housing projects.

The agency also helps councils borrow from one another, thereby reducing borrowing costs. This is a mechanism that my own council will use both as an investor and as a means to stimulate new investment in facilities.

Around one in five councils have said they will borrow from the agency rather than from traditional national or European sources. Others - including my own local authority - will put resources into the bonds.

Considering the European Commission's intention to examine the barriers to investment, and given the importance of subnational budgets in the EU macro accounting figures, CEMR asks that the European Commission includes a section on local government's finances in its work on the Economic and Monetary Union.

We in particular propose developing at EU level an overview of the situation of public investment at local level: local debt level compared to national debt, level of investment, situation in relation to deficit, and proposals for solutions to reach the maximum of local public investments, as investments are a clear priority for the European Commission in 2017.

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The Council of European Municipalities and Regions is keen to work in close cooperation with the EU institutions and other partners to promote a thorough knowledge, understanding, and interpretation of local government finances in order to mobilise local public investment for EU development and competitiveness.

Thank you for your attention.