Council of European Municipalities and Regions

European Section of United Cities and Local Governments

To Mr Jyrki Katainen
Vice-President for Jobs, Growth,
Investment and Competitiveness
European Commission

Brussels, February 16th 2017

Re: Chapter on local public investment in the White Paper on the Future of Europe and the Economic and Monetary Union

Dear Vice-President,

The Council of European Municipalities and Regions (CEMR) strongly supports the European Commission's line of work on tackling barriers to investment. It is **pressing to now boost investments across the EU** in order to tackle crucial socio-economic, territorial and environmental challenges that Europe is facing.

We live in a time of high demand for services by our citizens, and at the same time key challenges that need to be addressed by our territories and the European Union, such as migration, social cohesion, the fight against unemployment, the fight against climate change, the development of digital and transport infrastructure. To a large extent, **local and regional authorities invest in projects of a qualitative nature** that will enhance our future. Moreover, thanks to the local autonomy achieved in Europe, municipalities already decide on key priority investments to undertake for the well-being of their citizens.

As highlighted by the European Council in its conclusions on bottlenecks to investment[1], "*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*". In this context, the **significant drop in local and regional investment** in recent years is a major concern. Yet **local and regional authorities are responsible for more than half of public investment in the EU**, while accounting for a lower level of public expenditure than the national level, and at the same time making a **relatively small contribution to the share of national public debt** (see the Annex). It is therefore urgent that we find the right balance between the imperative need to ensure public finance sustainability and the urgency to support investment to stimulate recovery. Public investment is a pre-condition for private investments and job creation. To this end, local and regional authorities need more room for manoeuvre.

In the Council Conclusions, Member States acknowledge the need for "*a regulatory environment which encourages investment*". As a consequence, the pressure experienced by local and regional authorities due to the EU's current fiscal rules needs to be released. Likewise,

[1] Council Conclusions on tackling bottlenecks to investment identified under the Third Pillar of the Investment Plan - 6 December 2016

the Committee of the Regions recently adopted an opinion[2] highlighting "*that public investment has also fallen due to constraints introduced by budget regulation mechanisms at EU and national level*", making the link to the economic governance and fiscal framework.

In this context, CEMR calls for an **EU acknowledgement of the problem created by the lack of public investment at local level**: this is not only a national problem. The pressure comes from the EU level to the Member States of the Eurozone, and then is transposed to the local level. The capacity for European local and regional authorities to invest is at stake. It is unarguably a European issue as it affects towns, cities and regions from all across the EU. This issue is not limited to one Member State.

Considering the European Commission's intention to examine the barriers to investments, and given the importance of subnational budgets in the EU macro accounting figures, CEMR demands that the European Commission **includes a section on local government's finances in its White Paper on the Future of Europe and the Economic and Monetary Union**[3]. We suggest to incorporate an overview of the situation of public investment at local level: local debt level compared to the national one, level of investment, of deficit, and proposals for solutions to reach the maximum of local public investments, as it is a clear priority for the European Commission in 2017.

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

For further information on this issue, the CEMR Secretariat, and in particular Mrs Marlène Siméon, Policy Adviser - Economic, Social and Territorial Cohesion (marlene.simeon@ccre-cemr.org, Tel: +32 2 213 86 93), remains at your disposal.

Yours sincerely,

Philippe Laurent
Mayor of Sceaux, France
CEMR spokesperson on local finances
Deputy Chairman of AFCCRE

[2] Bridging the Investment Gap: How to Tackle the Challenges, Rapporteur: Markku Markkula

[3] "*including a stability-oriented review of the Stability and Growth Pact and the follow up to Article 16 of the Treaty on Stability, Coordination and Governance in the EMU (incorporating the substance of this treaty into the EU legal framework)"* - Commission Work Programme 2017 "Delivering a Europe that protects, empowers and defends", COM(2016) 710 final, 25.10.2016

Annexes to CEMR letter

1. Barriers to investments

2. Overview of the situation of local public investment, expenditure, debt, budget balance across the EU

1. Barriers to public investment at local level:

The Council of European Municipalities and Regions, with its member national associations of local and regional governments, has identified the **foremost obstacles to public investment at local level** and they are partly related to EU fiscal rules (Compact):

- In particular, they impose budget balance which implies that public investment can only be financed by current revenues and accounted in the year of the expenditure (no depreciation over time);
- 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;
- There is a clear failure to distinguish current expenditure for operational costs and productive investment;
- There is a high pressure put on the local level whereas the levels of national and the local debt are not the same: the burden to reduce the debt should be proportionate to the contributions to it;
- Furthermore, regional and local governments use debt mainly for financing investments. The Stability and Growth Pact and the Fiscal Compact contain a debt brake of a structural deficit for the medium term objective: to ensure there is enough room to invest while respecting the fiscal rules, a fixed real deficit for public investments for local and regional governments shall be considered;
- No real recommendations are provided by the European Commission 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 (country-specific recommendations);
- Some decisions on 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.

2. Overview – Local public investment, expenditure, debt, budget balance across the EU

- Local and regional authorities are responsible for **55% of total public investment in Europe**: they are a driving force of public investment in common goods[1];
- **Over 40% of EU sub-national governments have seen investment in infrastructure fall since 2010**, with a drop of more than 10% in 38% of regions[2];
- In most countries, **local governments' deficit represent a small share of the general government's deficit** like in Finland (2.7% of GDP vs 0.7%), or in the Netherlands (0.3% of GDP)[3];
- Likewise for the debt: in Belgium, **local debt** is approximately 5% of the GDP, whereas national debt is at 106%; in Finland, 9% vs 63%; in the Netherlands, 11% vs 70%; in Sweden, 9% of GDP vs 43%; in France, 8.8% vs 98,4%; or Austria, 10% vs 86%[4].

The pressure put on the 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 make a relatively small contribution to the share of national public debt. The nature of the expenditure is also not the same as that undertaken at the national level.

Socio-Economic Data				
	Area (km²)	**Population**	**GDP (€ Millions)**	**GDP (€ per capita)**
Federal state				
Austria	83 879	8 576 261	339 896	39 400
Belgium	30 528	11 258 434	410 351	36 600
Germany	357 376	81 197 537	3 032 820	37 100
Spain	505 944	46 449 565	1 075 639	23 200
Unitary state				
Denmark	42 924	5 659 715	271 786	47 800
Finland	338 440	5 471 753	209 149	38 200
France	633 187	66 415 161	2 181 064	32 800
Greece	131 957	10 858 018	175 697	16 200
Netherlands	41 542	16 900 726	676 531	40 199
Sweden	438 574	9 747 355	447 009	45 600
Source Area and Population: European Union (Europa), 2015				

[1] Results of the OECD-CoR Consultation of Sub-national Governments _ Infrastructure planning and investment across levels of government: current challenges and possible solutions.

[2] Idem.

[3] Source : figures from CEMR member associations of local and regional governments

[4] Idem.

Source Gross Domestic Product (GDP) at current market prices: Eurostat and CEMR member associations, 2015				
Number of sub-national governments				
	Local	**Intermediate**	**Regional**	
Federal state				
Austria	2 100		9	
Belgium	589	10	6	
Germany	11 313	295	16	
Spain	8 176		19	
Unitary state				
Denmark	98		5	
Finland	313		19	
France	36 658	99	16	
Greece	325		13	
Netherlands	390		12	
Sweden	290		20	
Source: CEMR, Local and Regional Governments in Europe : Structures and Competences, 2016 (data collection: 2015)				
Public investment				
	National* % GDP	**Local** % GDP**	**Local*** % total public investment**	
Federal state				
Austria	2,9	1,3	44	
Belgium	2,3	2,1	89	
Germany	2,1	1,5	69	
Spain	2,5	1,5	67	
Unitary state				
Denmark	3,8	1,6	44	
Finland	3,9	2,2	54	
France	3,4	2,3	58	
Greece	3,8	0,7	17	
Netherlands	3,5	1,7	52	
Sweden	4,2	2,1	49	
***Source: Eurostat, 2015**				
****Source: OECD, Subnational governments in OECD countries: Key data, Edition 2016 (data collection: 2014)**				
*****Source: Idem, and CEMR member associations, 2015**				
Public Expenditure - % GDP				
	National	**Local**		

Federal state				
Austria	52,8	17,9		
Belgium	55,1	23,5		
Germany	44,3	20,8		
Spain	44,5	21,7		
Unitary state				
Denmark	56	36		
Finland	58,1	23,8		
France	57,5	11,8		
Greece	49,9	3,3		
Netherlands	46,2	14,4		
Sweden	51,8	25,4		
Source: Eurostat, 2014				

Public Indebtedness				
	National % GDP	**Local % GDP**	**Local % public debt**	
Federal state				
Austria	102,2	13,3	13	
Belgium	129,5	19,9	15,4	
Germany	82,2	29,4	35,8	
Spain	117,8	31,5	26,8	
Unitary state				
Denmark	60	11,3	18,9	
Finland	71	12,3	17,3	
France	119,2	11	9,3	
Greece	179,8	1,1	0,6	
Netherlands	81	11,6	14,3	
Sweden	62,5	15,1	24,2	
Source: OECD, Subnational governments in OECD countries: Key data, Edition 2016 (data collection: 2014).				
N.B.: We refer to OECD definition of debt which differs from the one defined in the EU Maastricht protocol which is restricted to the sum of the first three items (i.e. mainly borrowing).				

Budget balance - % GDP				
	National	**Local**		
Federal state				
Austria	-2,7	0		
Belgium	-3,1	-0,5		
Germany	0,3	-0,1		
Spain	-5,9	-1,2		
Unitary state				

Denmark	1,5	0,2		
Finland	-3,3	-0,8		
France	-3,9	-0,2		
Greece	-3,6	0,3		
Netherlands	-2,4	-0,3		
Sweden	-1,7	-0,4		
Source: OECD, Subnational governments in OECD countries: Key data, Edition 2016 (data collection: 2014)				