Council of European Municipalities and Regions
European Section of United Cities and Local Governments

DECLARATION

Adopted at the Policy Committee meeting in Rome on 17 December 2014

On the impact of European regulations on local and regional finances

CEMR and its member associations observe the increasing impact of European regulations on local and regional finances. We understand that local and regional authorities have to contribute to the effort of internal budgetary trajectory of each country; however, it is essential to properly assess their financial sustainability.

We are particularly concerned about the fact that some of these provisions were decided without prior and formal consultation of local and regional governments at European level. In cases, where the decision-making process allowed local and regional government to express its views, we are afraid that they were not sufficiently taken into consideration. We wish to highlight that local debt are rather low; the lion's share of local debt is to finance investment ('golden rule') and is governed by strict prudential rules. In 2011, the average local debt was 5.9% of GDP and 7.1% of the public debt.

We are worried that the application of these provisions will lead to a lack of investments at local and regional level, which will have a negative impact on our economy and employment. There is a huge need to improve our infrastructure, which contributes to our competitiveness and the quality of life in our regions, cities and municipalities. It needs to be emphasised that about two third of public investments are made at these levels; a cutback in investments will have an enormous negative impact on the economy and employment.

CEMR welcomes Commission President Jean-Claude Juncker's priority to focus on jobs, growth and investment, and we are committed to contribute to the implementation of the announced €315 billion investment package. However, the failure of the Lisbon Strategy clearly showed that such an ambitious project can only be successful if local and regional governments are involved from the beginning. Therefore,

CEMR and its member associations call upon the European Parliament, the European Commission and the Council of the European Union to:

1. Co-operate with local and regional government to anticipate the consequences of the regulations, and to look for sustainable, long-term solutions.

2. Agree to modify the relevant regulations in order to achieve the political objectives that were set at European level: fighting unemployment, invest in infrastructure, education and research, energy efficiency and renewable energy, and to increase Europe's competitiveness in general.

3. Follow the European Parliament's suggestion[1] to "exploit all margins of flexibility of the Stability and Growth Pact to balance productive and sustainable public investment needs with fiscal discipline objectives", and to exclude public expenditure related to the implementation of the Structural and Investment Funds programmes from the budgetary surveillance rules.

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[1] Resolution on Budgetary constraints for regional and local authorities regarding the EU's Structural Funds adopted on 8 October 2013

4. Review standard SEC 2010, to treat expenses for investments different than expenses for operational costs, allowing public authorities to invest in the maintenance and improvement of their infrastructure and services to the benefit of the citizens and businesses and a sustainable and competitive future. Since this requirement has a negative impact on orders for public works, business representative organisations in several countries have already mobilised to support such a request to review the standard.
5. Make sure that the regulation of the banking sector and the introduction of a leverage ratio will not lead to more expensive loans for local and regional authorities or even make it difficult for them to get a loan. Furthermore, it should be avoided that the new provisions will lead to a ranking of public authorities.
6. Take into account that VAT recovery is a relevant source of income for local and regional authorities; changes in the current recovery schemes would have a knock on effect on the domestic taxation arrangements in the Member States and would require changes in existing territorial equalisation systems.
7. Exempt public-public cooperation from VAT rules since local authorities are increasingly cooperating in areas of their competences in order to reduce costs. These forms cannot be treated any different than cases where the authorities fulfil their duties on their own.

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