NEW SOLUTIONS FOR SUBNATIONAL GOVERNMENTS TO ACHIEVE THEIR INVESTMENT OBJECTIVES

CoR – OECD Conference
Subnational finance and investment ten years after the crisis: Fiscal decentralisation and innovative public finance instruments as the way ahead?

Monday 12 November 2018
CoR, Room JDE 52 Jacques Delors Building (5th floor) - Rue Belliard 99-101, Brussels
In the EU and across the OECD countries, subnational governments are at the forefront of public investment. Current investment levels are not sufficient to close the public investment gaps. Megatrends represent both opportunities and challenges for infrastructure in regions and cities.
Subnational government investment accounted for 52% of public investment and 1.4% of GDP in the EU in 2017.
Public investment is still below pre-crisis level in the EU

Public investment in the EU28 from 2000 to 2017, index 2000=100

Source: OECD
Traditional sources form the main source of funding, but new tools are being explored.

<table>
<thead>
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<th>Direct</th>
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<th>Indirect</th>
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<td><strong>Gross savings</strong></td>
<td>Depends on subnational government capacities to:</td>
<td><strong>Total or partial outsourcing of investment</strong></td>
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<td>• Generate room for manoeuvre in terms of operating expenses relative to operating revenue (self-financing capacity): make the most of taxes, user charges and income from subnational assets.</td>
<td>SNGs may have access to different solutions:</td>
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<td>• Having an liquid cash position.</td>
<td>• Project’s bearing by another public entity:</td>
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<td><strong>Investment grants and subsidies</strong></td>
<td>Subnational government can apply for grants from central government, other subnational governments and international organisations (e.g. European Union, donors)</td>
<td>o inter-municipal groupings or associations</td>
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<td>o local public companies.</td>
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<td><strong>Borrowing</strong></td>
<td></td>
<td>• Public-private partnerships</td>
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<pre><code>                         |                          | • Private equity |
                         |                          | • Alternative innovative financing mechanisms |
</code></pre>
Subnational government debt: share of loans vs. bonds in 2017 (% of total subnational debt)

Debt: Maastricht definition
Public Private Partnerships

- More than just financing the projects
- Sometimes sub-national know-how is constrained
  - Even with sufficient fund, the private sector may be best positioned to integrate new “technology”
- Gains are expected to result from:
  - Benefits of risk transfer,
  - Private sector incentives and expertise,
  - Innovation
- PPPs are justified if partnership represents greater VFM – not as a way around fiscal constraints
  - Focus on total life-cycle costs instead of one-off investment cost
The main challenges for the implementation of PPPs at the subnational level

- Regulatory coherence and administrative burden
- Financing and funding of subnational PPPs
- Economies of scale and cross-jurisdictional coordination
- Administrative capacity of sub-national governments to engage in PPPs
- Political commitment and accountability
Ensuring a good price-quality ratio with a PPP: the Kastelli community centre, City of Oulu, Finland

**Kastelli community centre**
- Developer: City of Oulu
- Volume: 136,140 m³
- Total floor area: 24,631.5 m²
- Day-care centre, comprehensive school, upper secondary school, upper secondary school for adults, library, youth centre
- Completed in spring 2014
- More than 2,000 users per day
- Developed using the PPP model: Lemminkäinen is liable for maintenance for a service period of 25 years
- Construction cost: EUR 42.5 million
- Lifecycle costs for 25 years, including the cost of construction: EUR 86 million

**Lemminkäinen’s responsibilities during the service period:**
- Property maintenance
- Cleaning services
- Maintenance of outdoor areas
- Security services
- Property equipment maintenance and repairs
- Food services
- Technical caretaker services
- Supervising after-hours use
- Supervision and cleaning services for competition events
- Café service

Source: City of Oulu internet pages: https://bit.ly/2yY9oN8
THANK YOU!