European Committee of the Regions

19 December 2017

Secretariat of the Commission for Economic Policy (ECON), Unit C2

Results of the CoR's online consultation on:

Funding, management and regulatory challenges to infrastructure investment of EU cities and regions

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1. Introduction

Between 22 June and 15 September 2017, the European Committee of the Regions (CoR), in co-operation with the Organisation for Economic Co-operation and Development (OECD), carried out an online consultation on ***Funding, management and regulatory challenges to infrastructure investment of EU cities and regions***. This survey gathered 134 contributions, with many of the respondents having a significant degree of expertise in the matter, and thus the results offer a useful snapshot of the views expressed by experts regarding the challenges to infrastructure investment encountered by local and regional authorities (LRAs).

This initiative is part of the ongoing cooperation between the CoR and OECD on the topic of investment, financing and governance challenges encountered by subnational governments. This cooperation resulted in 2015 in the organisation of a joint consultation on "Infrastructure planning and investment across levels of government: current challenges and possible solutions".[1] In the following year, the CoR undertook a new consultation on "obstacles to investments at local and regional level" in the context of which the OECD provided constructive and useful input.[2] The CoR's work in the field is also informed by, and seeks to support, the OECD's "Principles for Effective Public Investment Across Levels of Government", which were adopted by the OECD Council in 2014,[3] and whose application was encouraged by the CoR.[4]

2. Summary of key findings

To provide background and context for the whole survey, respondents were initially asked a few questions on the general situation with regard to infrastructure investment in their respective LRAs. **A large majority (81%) reported that their region/city had undertaken infrastructure investment in 2015-2016**, with the most common sectors being education, culture, sport and other facilities, followed by energy and environmental infrastructure, and transport and telecommunication. Highlighting that the effects of the crisis are still being felt, **almost half (47%) of respondents reported that the level of investment in infrastructure was still below pre-crisis level**. However, two-thirds of respondents to the survey indicated that their local or regional government plans to increase its level of investment over the coming years.

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[1] http://cor.europa.eu/en/documentation/brochures/Documents/Results%20of%20the%20OECD-CoR%20consultation%20of%20sub-national%20governments/2794-brochureLR.pdf

[2] http://cor.europa.eu/en/events/Documents/ECON/results-survey-obstacles.pdf

[3] OECD, "Recommendation of the Council on Effective Public Investment Across Levels of Government" March 2014. Available online: http://www.oecd.org/regional/regional-policy/Principles-Public-Investment.pdf

[4] In the opinion "Follow-Up to the Five Presidents' Report: Completing Europe's Economic and Monetary Union" (Rapporteur: Lindquist (SE/EPP), adopted 07/04/2016), as well as two resolutions.

Funding infrastructure investment was a challenge for 83% of respondents, who cited as main reason a "cut of transfers from the national government" (for 45% of these respondents); followed by "other short-term priorities" (44%); "attribution of new responsibilities by the national government without corresponding resources" (32%); and "no or limited involvement from private investors" (32%).

Turning to sources of funding and their evolution, **35% of respondents reported a decrease in "grants from international organisations, including EU funds"** over the last couple of years. Such a decrease in reported funding was one of the most notable trends among all categories and sub-categories of sources of funding. Conversely, own revenues such as local taxes and user fees or tariffs were sources of funding which – according to the respondents – were the most stable over the years 2015-2016. Very few respondents indicated that own revenues were likely to decrease in the coming years (3% for local taxes and 5% for user fees and tariffs). Interestingly, about **three-quarters of survey respondents deemed that own resources improve ownership of local investment in infrastructure, and make policy planning more stable** (77% and 75% respectively).

Regarding specific challenges for infrastructure investment, **more than half (56%) of respondents reported that the availability of skilled human resources is a challenge**, with the most often cited reasons being the lack of employees with the right skills, and non-competitive remuneration packages offered. Furthermore, two-thirds of respondents reported that the infrastructure investment of their LRAs was challenged by **the complexity of national laws transposing EU public procurement directives**, and 62% pointed to the potential cost and time involved in judiciary litigation when contract award procedures are challenged in court. The use of **strategic public procurement** received mixed answers, with almost 6 out of 10 respondents making use of green public procurement, yet the same share of respondents not using pre-commercial public procurement.

The survey respondents were also asked their opinion concerning several ideas and proposals that have emerged in the context of the debate surrounding the future of the EU budget and that of the Economic and Monetary Union, in particular with regards to structural reforms and investment. The idea gathering the highest degree of support among respondents was the proposal to set up a dedicated **European fund for providing incentives to Member States to carry out structural reforms suggested in the Country-specific recommendations, with 86% saying they agree or agree under certain conditions**.

3. Background and information on respondents

Between 22 June and 15 September 2017, the European Committee of the Regions (CoR) carried out an online consultation on ***Funding, management and regulatory challenges to infrastructure investment of EU cities and regions***.

The survey was designed to help identify specific challenges to infrastructure investment faced by LRAs across the EU. It was addressed to LRAs as they are key public investors and, through these investments, key contributors to setting the preconditions for long-term sustainable and inclusive growth. It was also a continuation of previous work done by the CoR, which includes a study[5] and a survey[6] of LRAs on "Obstacles to investment at local and regional level", both undertaken in 2016. The results of the latter, however, are not comparable to those of this survey.

The online consultation received 134 contributions from 24 out of the 28 EU Member States.[7] Respondents answered to a vast majority of the questions proposed, thus allowing for a comprehensive snapshot of challenges to infrastructure investment.[8]

As shown in Figure 1 below, the respondents represented a rather diverse and balanced range of local and regional administrations: 23% of respondents answered the questionnaire on behalf of a small municipality under 50 000 inhabitants, 21% on behalf of local and regional bodies such as inter-municipal structures, 21% on behalf of regions, and 18% for medium-sized municipalities (50 000 to 500 000 inhabitants).

Many of the respondents were heads of departments in charge of infrastructure, project managers, and people occupying similar positions with significant expertise in the matter. It should be noted that the distribution of inputs across the countries is not even, with Spain and Greece, for example, being overrepresented (19 and 14 respondents, respectively), and several countries including Denmark and Ireland not represented. Therefore, the survey is not meant to be statistically representative but rather to offer a useful snapshot of the views expressed by experts in the field.

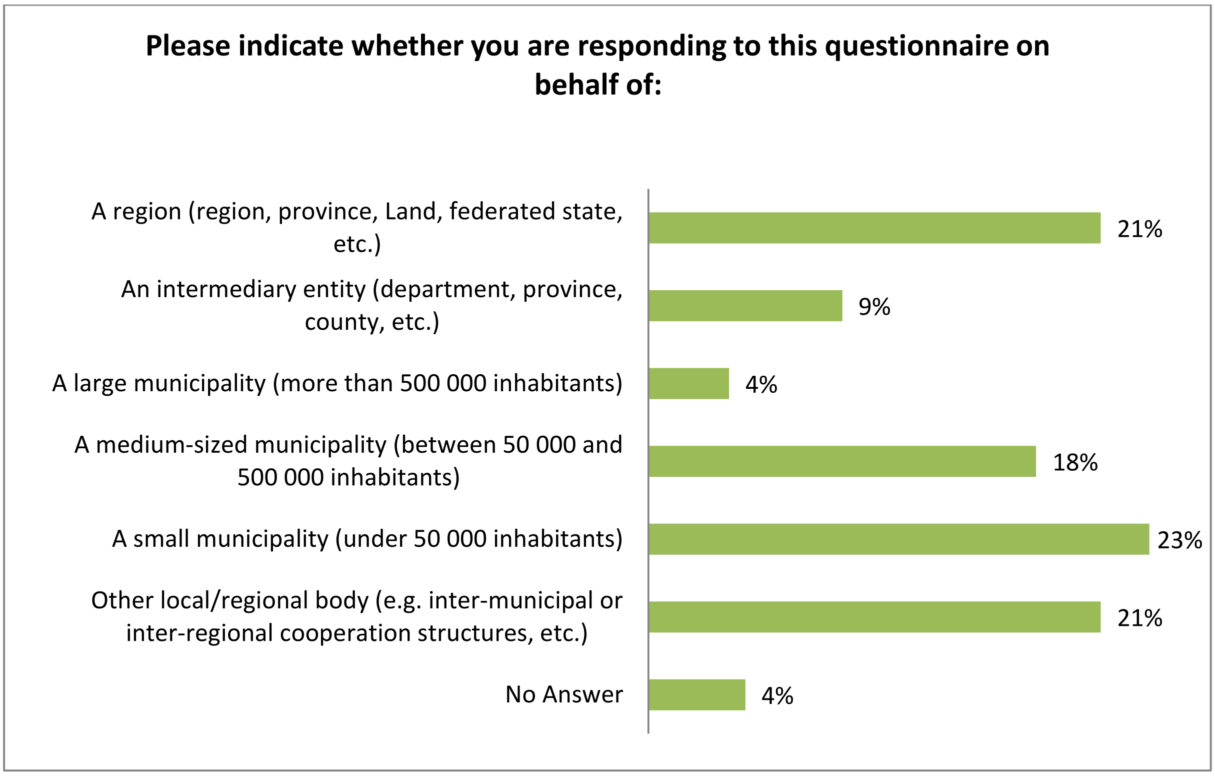
[5] CoR, "Obstacles to investments at local and regional level", CoR Study, 2016. Available online: http://cor.europa.eu/en/documentation/studies/Documents/obstacles-to-investments.pdf

[6] The CoR survey was carried out in May-July 2016. The results are available online: http://cor.europa.eu/en/events/Documents/ECON/results-survey-obstacles.pdf

[7] The number of respondents per Member States is as follows: Austria: 3, Belgium: 4, Bulgaria: 2, Croatia: 6, Cyprus: 2, Czech Republic: 3, Denmark: 0, Estonia: 4, Finland: 4, France: 4, Germany: 10, Greece: 14, Hungary: 7, Ireland: 0, Italy: 8, Latvia: 1, Lithuania: 3, Luxembourg: 0, Malta: 0, Netherlands: 2, Poland: 7, Portugal: 10, Romania: 8, Slovak Republic: 2, Slovenia: 2, Spain: 19, Sweden: 6, United Kingdom: 3.

[8] Most of the blank entries in the survey resulted from follow-up question(s). Figures 2 and 3 represent such a case, where respondents who answered "no" or "don't know" to the question indicated in Figure 2 later were not asked any follow-up questions related to the latter, effectively leaving entries of follow-up questions blank.

Figure 1: Categories of respondents



4. Detailed Findings

The findings presented in this document follow the order of the questions in the online survey that was distributed to all respondents.[9] Following some introductory questions about the respondents themselves, the survey first asked questions concerning the context of infrastructure investment in the LRA concerned and its evolution. The questions then address the presence or absence of a "funding gap" and its reasons, and the potential role of the EU budget in the future. The survey then enquired about the different sources of funding and their evolution, with a particular focus on own resources, ending with thematic questions concerning challenges to infrastructure investment related to skills and to public procurement.

4.1 Infrastructure investment context

To provide background and context for the following questions, survey respondents were initially asked a few questions on the general situation of infrastructure investment in their city or region. A

[9] The results of two questions were however excluded from this report as they showed a high rate of missing or "don't know" answers. The first one was related to infrastructure planning and investment across levels of government; follow-up questions related to it had an incidence of blank entries ranging from 62% to 84%. The second one was a multiple choice question and asked respondents to compare funding over the years 2015-2016 and 2013-2014; and the rate of "don't know" answers varied from 11% to 58%.

very large majority (81%) of respondents reported that their region/city had undertaken infrastructure investment in 2015-2016 (Figure 2).

Figure 2: Infrastructure investment

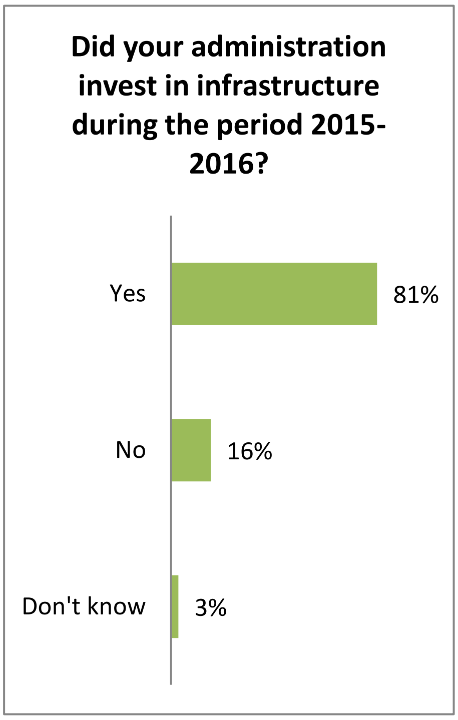
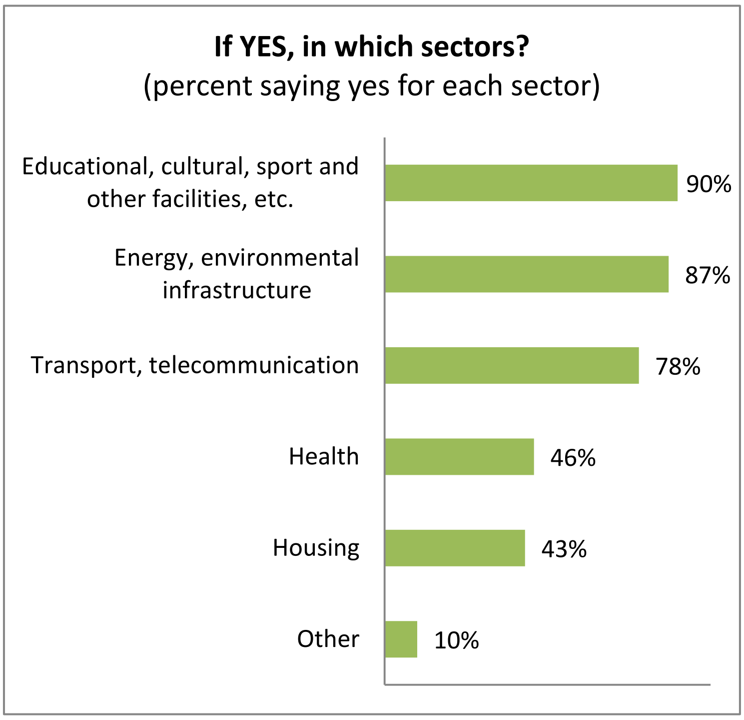


Figure 3: Infrastructure investment by sector



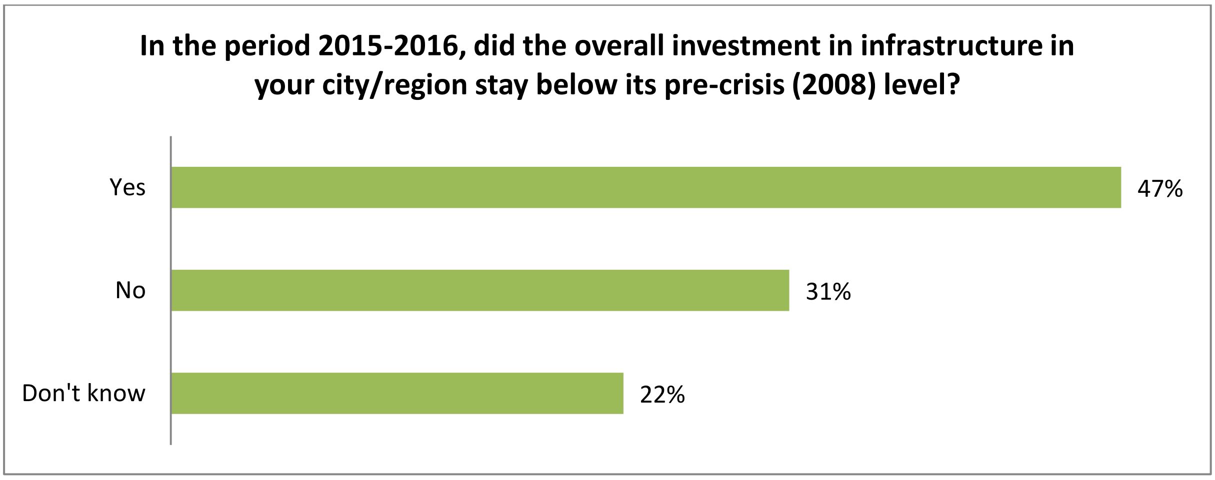
These respondents were then asked a series of follow-up questions related to specific sectors. The share of respondents having chosen "yes" to each sectoral question is shown in Figure 3. Investment in education, culture, sport and other facilities, as well as in energy, environmental infrastructure and transport and telecommunication were the most common answers.

Turning to the evolution of infrastructure investment, it is worth noting that the effects of the economic and financial crisis are still being felt by a significant share of respondents to the survey, with 47% saying that the level of investment in infrastructure was still below pre-crisis level (Figure 4).[10] Answers to this question varied noticeably depending on the country of the respondents. For example, 86% of respondents from Greece and 89% of respondents from Spain said that overall investment stayed below its pre-crisis level. On the other hand, none of the respondents from Austria or Sweden said that investments were still below pre-crisis levels.

Looking at overall results of this question (Figure 4), one should bear in mind that the economic crisis began ten years ago, therefore the share of respondents (47%) reporting lower infrastructure investment compared to the situation prior to the crisis is alarming.

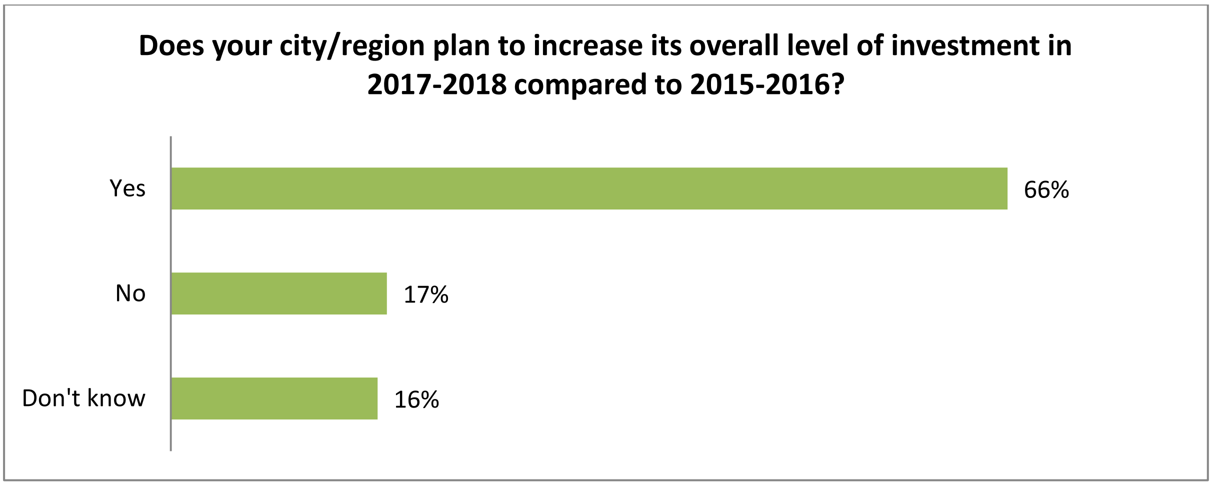
[10] Respondents were not specifically asked to base their answer on concrete data and results to questions such as this one are therefore in part perception-based.

Figure 4: Investment is still below pre-crisis levels for many



Future developments, however, are looking brighter with fully two thirds of respondents to the survey indicating that their LRA plans to increase its level of investment over the coming years, as shown in **Figure 5**.

Figure 5: An increase in investments is generally foreseen in 2017-2018

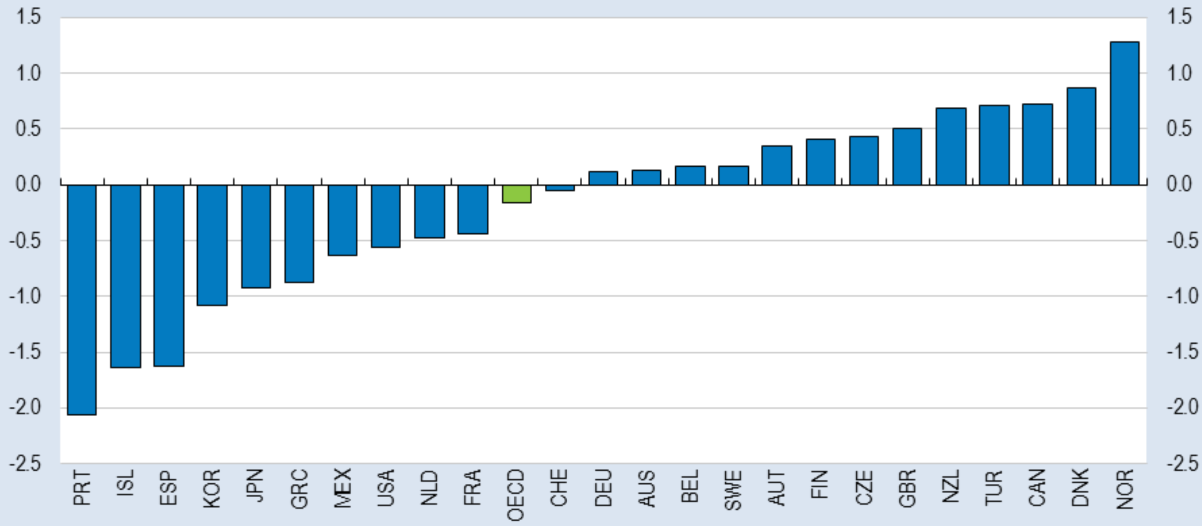


This survey in context: What the OECD data says

As shown by national accounts, the share of public investment to GDP has still not reached its pre-crisis levels. In nearly half of OECD countries, the share of public investment to GDP has fallen relative to pre-crisis levels (Figure 6). In 2015, in OECD countries, public investment represented on average 13.3% of total investment, down from 17.3% in the midst of the crisis in 2009.

European countries are particularly affected by this public investment gap. The level of investment in European countries is estimated at EUR 430 billion less than in 2007 (OECD, 2015) and largely less than during the past two decades.

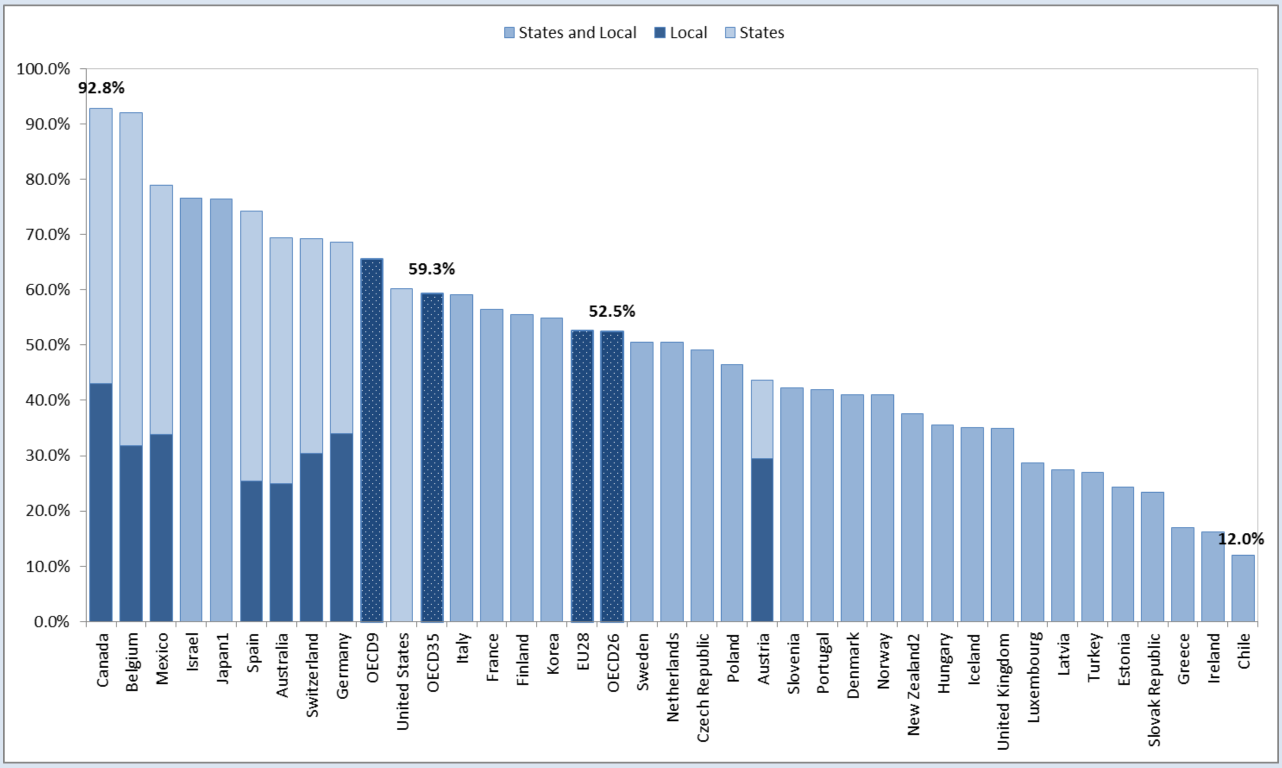
Figure 6: Percentage points difference in public investment between 2015 and the average over 2000-07



Note: for Korea, the last available year is 2014.
Source: OECD, Economic Outlook Database. http://dx.doi.org/10.1787/888933454666

The decline of public investment affects subnational governments who are key actors in public investment. In 2015, they represented on average 59.3 % of total public investment in the OECD (52.6% in the EU) and 1.8% of GDP (1.5% in the EU), see Figure 7.

Figure 7: Subnational government investment as a % of public investment in OECD countries (2015)



Source: OECD Regional Statistics (database)

In line with the survey results, the decline in subnational public investment has been particularly important in the European Union: public investment conducted by subnational governments decreased by almost 18% between 2009 and 2014, i.e. 5% per year in real terms (OECD, National Accounts).

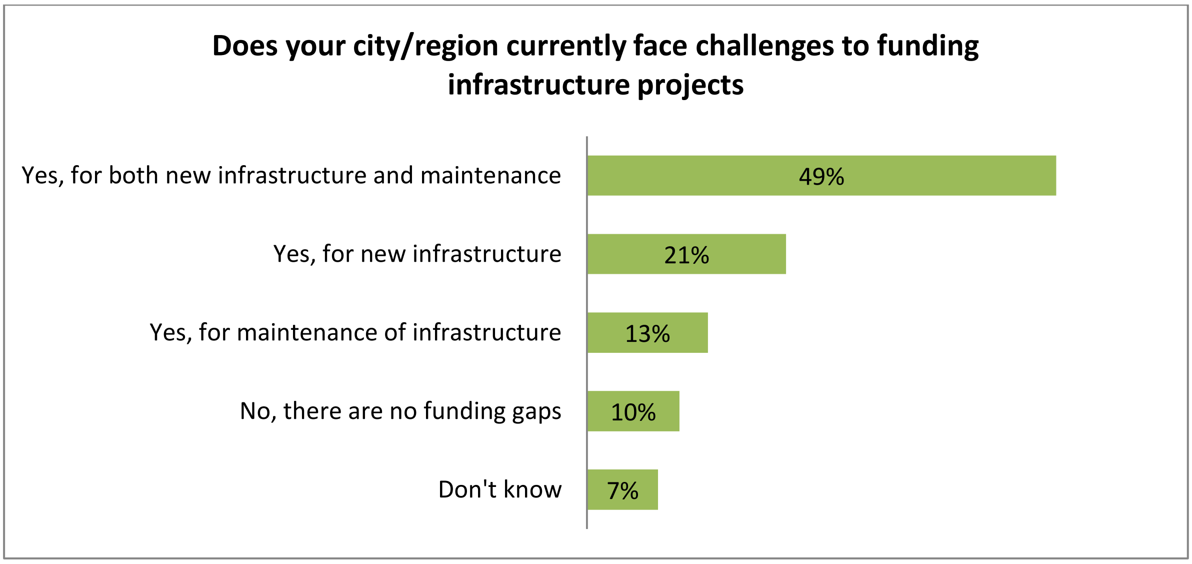
While public investment at the central government level seems to be slightly recovering in the EU since 2014, public investment at the subnational level does not seem to be recovering as quickly as GDP and revenues.

These trends put a strong pressure on the future of regions and cities as they affect their productivity potential. Indeed, strategic investments on productivity drivers and growth can help to unlock the potential of regions and cities.

4.2 Funding gap

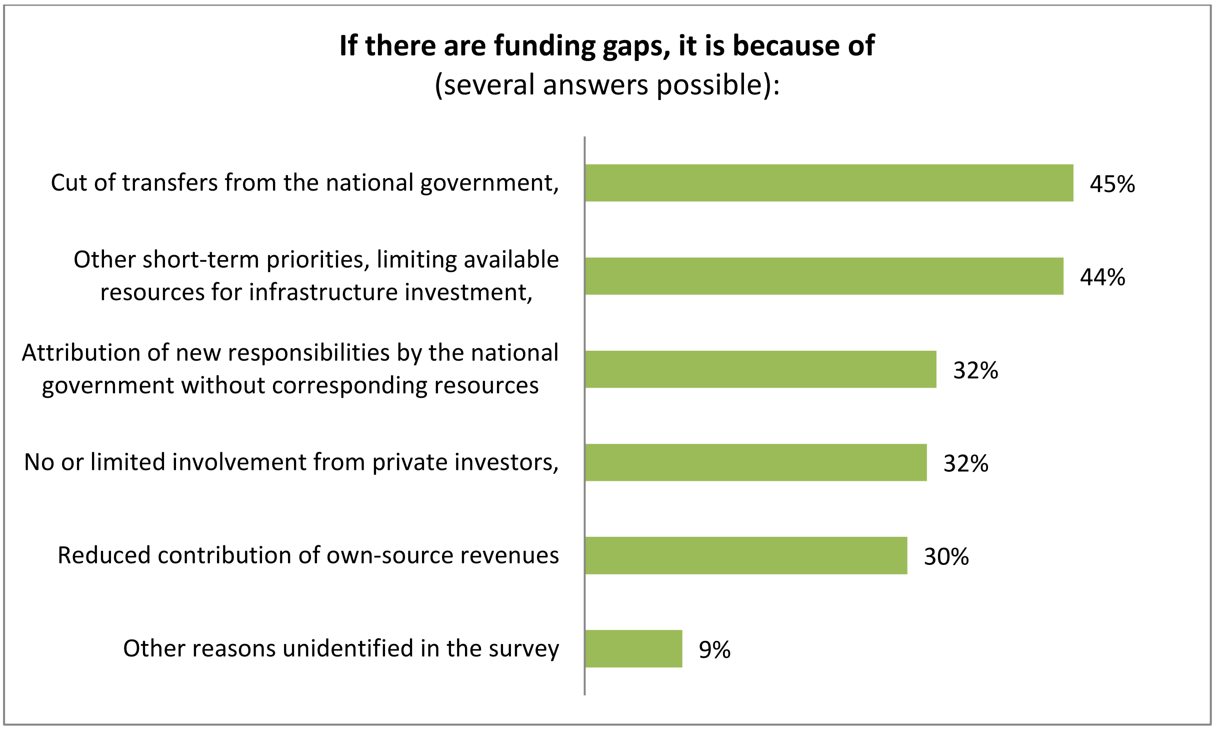
Following this overview of the general situation with regards to infrastructure investment, the first specific topic to be tackled by the survey questions is that of the potential funding gap. Indeed, one of the principal obstacles to investment in infrastructure is logically the lack of available funding. The CoR survey thus found that funding was a challenge for 83% of respondents, divided as follows: 49% reported problems for both building of new infrastructure and maintenance of existing infrastructure, 21% for new infrastructure alone, and 13% for maintenance alone (Figure 8). The share of respondents claiming that there were no funding gaps for infrastructure investment was less than one in ten, thus confirming that this is a very widespread challenge.

Figure 8: Funding of infrastructure investment is a common challenge



The 83% of respondents that said they face challenges in infrastructure funding were asked to identify the reasons they perceive for such a funding gap. Their answers are presented in Figure 9.

Figure 9: A diversity of reasons for the funding gap



As shown, the most often cited reason for there being a funding gap for infrastructure investment is a "cut of transfers from the national government" (45% of the respondents), followed by "other short-term priorities" (44%). Both "attribution of new responsibilities by the national government without corresponding resources" and "no or limited involvement from private investors" were the third most selected reasons (32%) for experiencing funding gaps in infrastructure investment.

Interestingly, answers indicating a cut of transfers from the national government and attribution of new responsibilities by the national government without corresponding resources are directly linked to actions by the national government: both of them are similar phenomena in the sense that they show that, according to the respondents of the survey, LRAs are not given sufficient means by the national government with regards to their responsibilities.

Respondents were able to choose several answers to this question and there is thus some overlap between these two answers, with approximately 14% of respondents reporting funding gaps citing both the attribution of new responsibilities without corresponding resources and cuts of transfers from the national government.

As in the case of Figure 4, answers to this question were strongly dependent on the country of the respondent. For example, 86% of all respondents from Greece reported the attribution of new responsibilities by the national government without corresponding resources, and/or the cut of transfers from the national government to be a reason for the gap in funding infrastructure investment. The same was true for 75% of all respondents to the survey from Italy, 63% of those from Spain, but only 20% of the respondents from Germany.

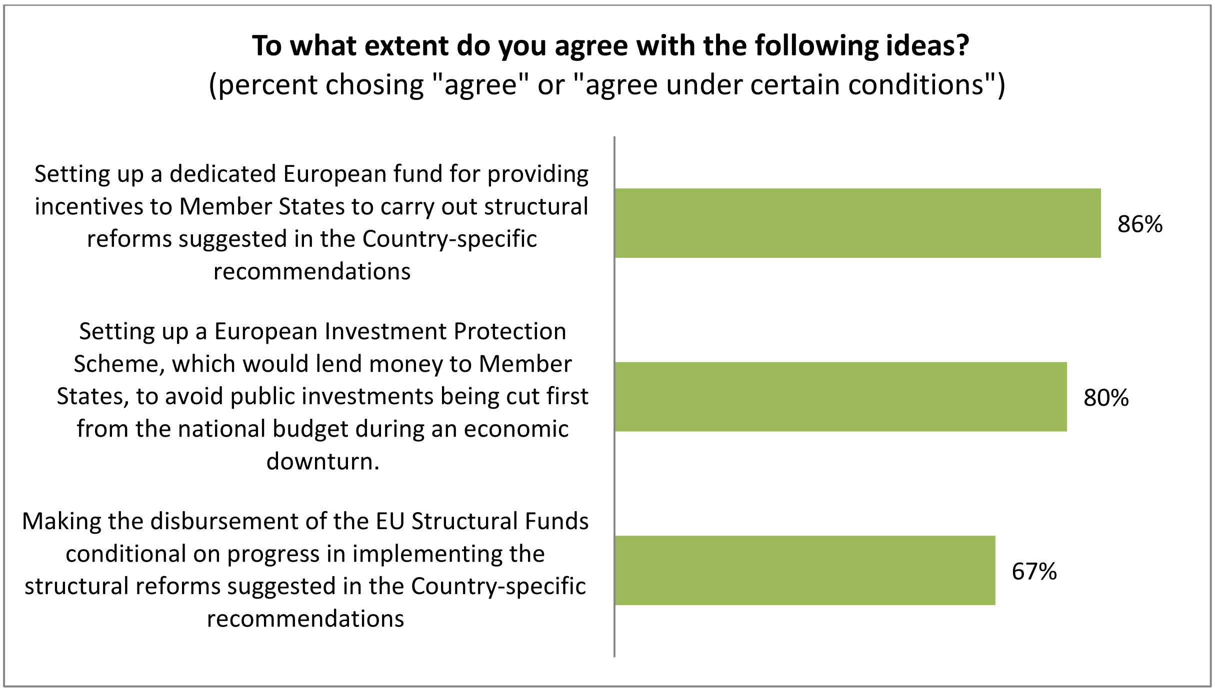
4.3 Future role of the EU budget

Given the current EU-level focus on bridging the investment gap as well as the political debate regarding the future of the EU budget and that of the Economic and Monetary Union, a variety of ideas have been floated by the European Commission and others regarding the future role of the EU budget with regards to structural reforms and investment. The respondents to this survey were asked their opinion concerning several of these ideas and proposals. They were:

- Setting up a European Investment Protection Scheme, which would lend money to Member States, to avoid public investments being cut first from the national budget during an economic downturn.
- Setting up a dedicated European fund for providing incentives to Member States to carry out structural reforms suggested in the Country-Specific Recommendations
- Making the disbursement of the EU Structural Funds conditional on progress in implementing the structural reforms suggested in the Country-Specific Recommendations

For each proposal, respondents were asked whether they "agree", "agree under certain conditions", "disagree", or have "no opinion". Figure 10 below shows the addition of the "agree" and "agree under certain conditions" scores, showing a very strong level of support among respondents, in particular for the proposal regarding incentives for structural reforms (86% of respondents agree or agree under certain conditions). Out of the three, the proposal garnering the least support (but still approximately two-thirds of respondents) was that of making the disbursement of structural funds conditional on the implementation of structural reforms.

Figure 10: Views on proposals for the future role of the EU budget



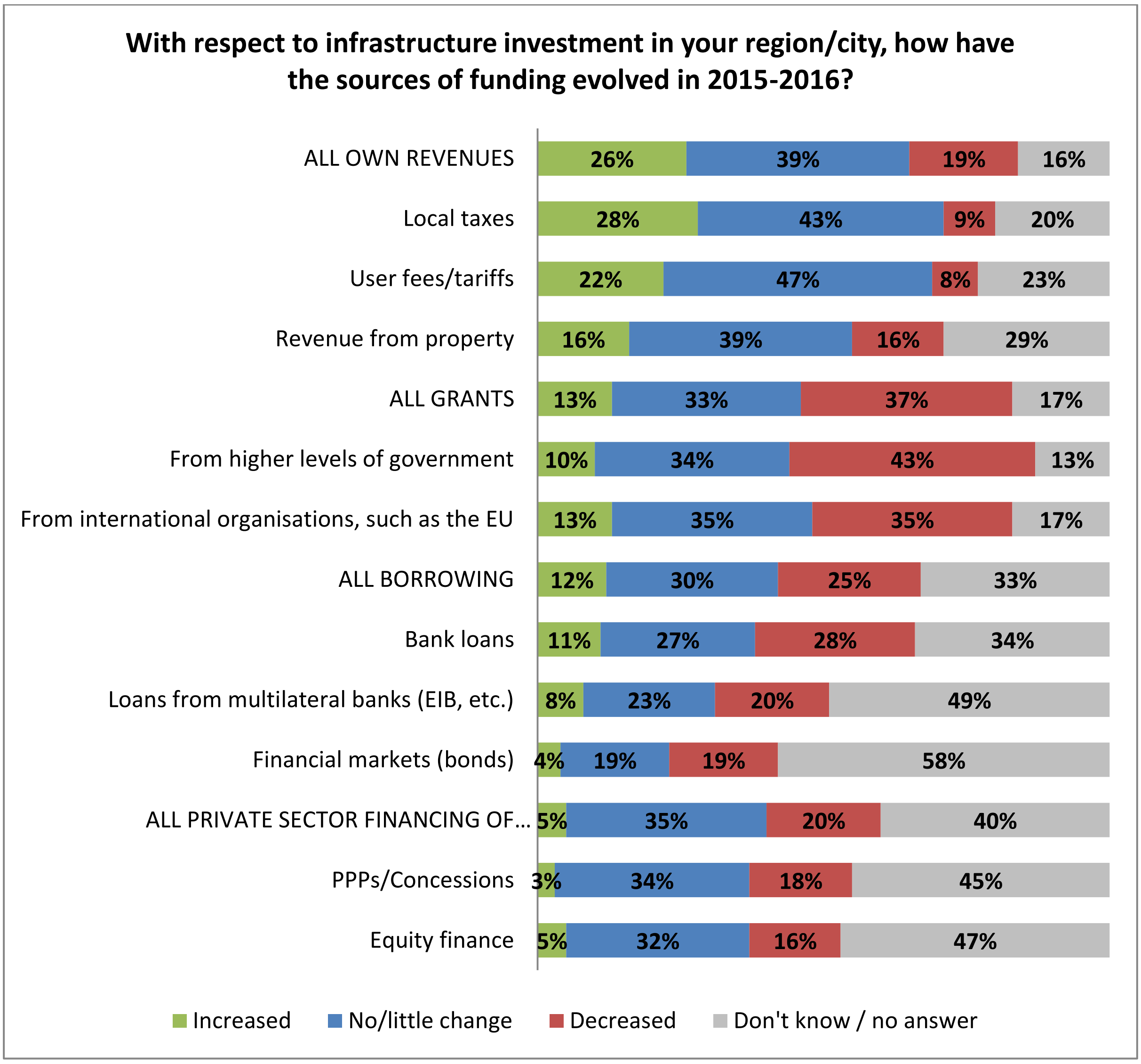
4.4 Sources of funding and their evolution

Now turning to sources of funding, the main sources of funding for LRAs' activities in general and their investments in infrastructure in particular can be divided in different categories and types. They are listed below, with each category containing a subset of specific types of sources of funding:

- OWN REVENUES
  - Local taxes
  - User fees/tariffs
  - Revenue from property assets (*e.g.* land-based financing, sales, rents)
- GRANTS
  - Grants and transfers from higher levels of government
  - Grand-type funding from international organisations (such as the EU funds)
- BORROWING
  - Bank loans
  - Loans from multilateral banks (such as the European Investment Bank, etc.)
  - Financial markets (bonds)
- PRIVATE SECTOR FINANCING OF INFRASTRUCTURE
  - Public Private Partnerships (PPPs) and concessions
  - Equity finance

The survey asked respondents how each of these sources of funding for infrastructure investment had evolved in 2015-2016: whether they had increased, stayed more or less the same, or decreased ("don't know" was also a possible answer, and it was also possible not to answer). An answer was mandatory for the four broad categories (own revenues, grants, borrowing, and private sector financing) but detailed answers regarding each subtype of sources of funding were voluntary.[11] The results of these questions are synthesised in Figure 11 below:

Figure 11: Evolution of the different sources of funding



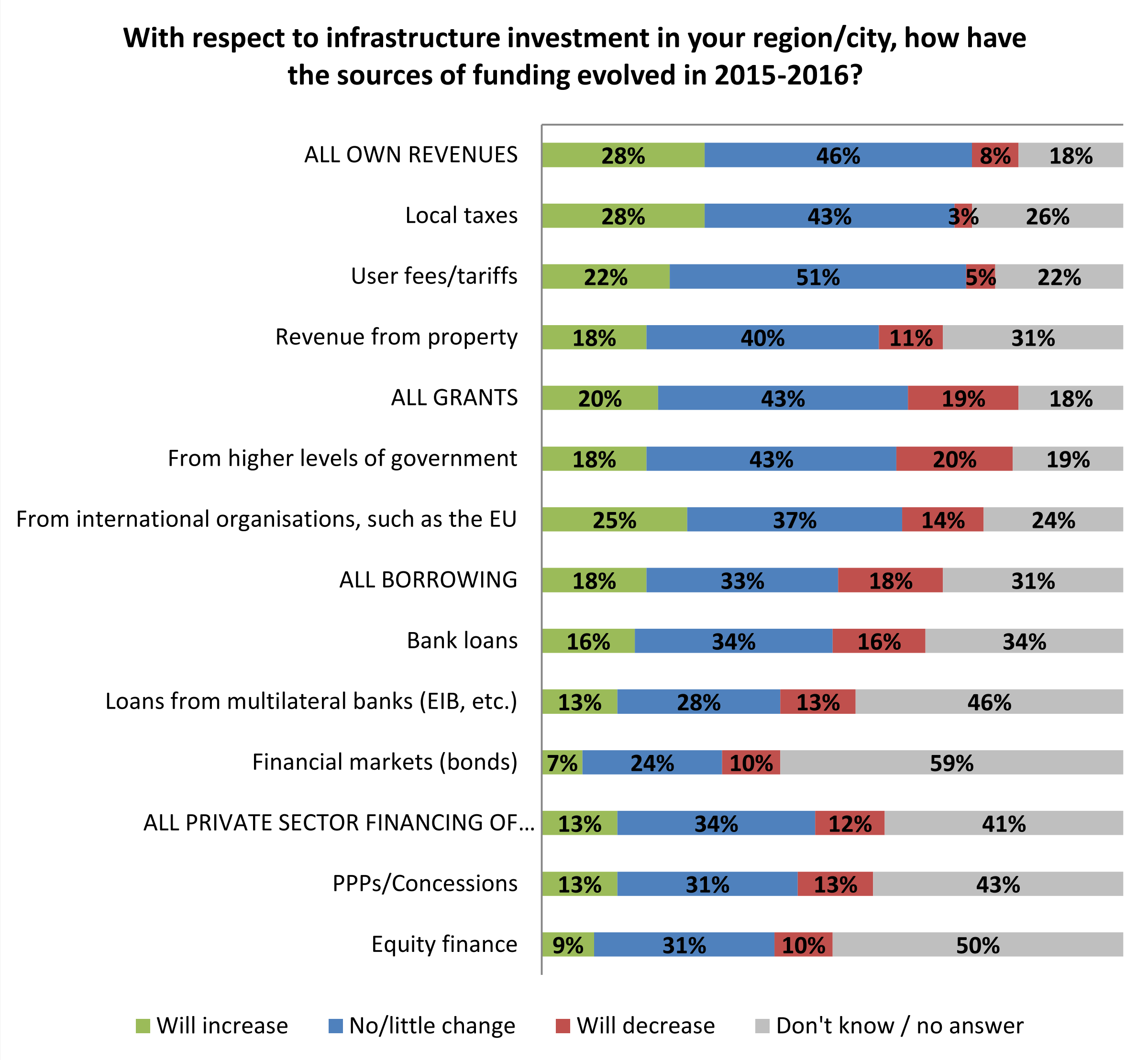
[11] The fact that answers were mandatory for the four broad categories (own revenues, grants, borrowing and private sector financing) but not for each subtype of resource (these were voluntary) explains why the percentages in Figure 11 and Figure 12 may not appear consistent between a category and the subtypes of sources it contains. This is due to the fact that the number of respondents was not necessarily the same.

The most notable trends in the evolution of sources of funding in 2015-2016 come from grant-type funding. Respondents reported significant decreases in grants from higher levels of government (43% of the respondents) and grants from international organisations, such as the EU (35%).This appears to be consistent with the answers shown in Figure 9 where 45% of the respondents reporting challenges in funding infrastructure projects cited as a reason a "cut of transfers from the national government".

Regarding sources of funding in the category "own revenues", decreases were, on the other hand, quite rare with only a small share of respondents reporting decreases in revenues from local taxes (9%) or user fees and tariffs (8%). The very high share (40%) of "don't know" or no answers for the "private sector financing" category is also noteworthy in that it shows that such funding methods are still relatively rarely used and/or unknown to the respondents.

Survey respondents were then also asked a similar question but looking ahead to the near future: "how is each source of funding for infrastructure investment likely to evolve in 2017-2018?". The results are synthesised in Figure 12.

Figure 12: Likely future evolution of the different sources of funding



The results shown in Figure 12 are somewhat parallel to those of Figure 11 in that, for instance, very few respondents indicated that own revenues such as local taxes and user fees or tariffs were likely to decrease in the coming years.

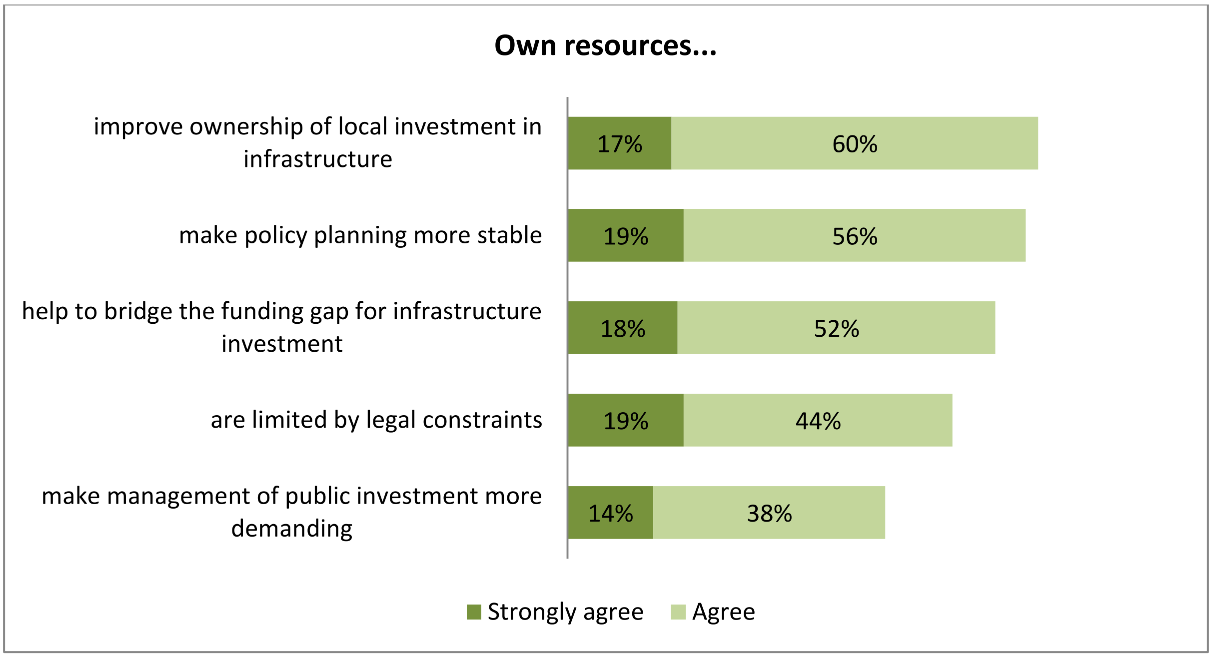
The likely evolution of grants saw much more mixed answers, however, with the share of respondents reporting a likely increase and a likely decrease for the whole category being almost equal: 21% and 19% respectively, with a further 42% of respondents reporting that no or little change is expected in this category.

4.5 Own resources

In the case of both questions presented in Figure 11 and Figure 12 above, own resources (local taxes, user fees and tariffs, and revenue from property assets) is the category of sources of funding that is perceived as the most stable: 39% of respondents reported no change or little change in their own revenues in 2015-2016, and 46% of respondents claimed that their own revenues would likely not change, or not much, in the coming years.

To find out more on this topic, respondents were asked five follow-up questions concerning own resources, their effects and potential constraints related to them. For each of the five statements, respondents were asked whether they "strongly agree", "agree", "disagree" or "don't know" (an answer was mandatory). Figure 13 shows the shares of survey respondents who agreed or strongly agreed with each statement.

Figure 13: Opinion of own resources



It is worth noting that fully three quarters of survey respondents (77% and 75% respectively) deemed that own resources improve ownership of local investment in infrastructure and make policy planning more stable. The second answer in particular is a result that seems consistent with the aforementioned observation that respondents reported own resources as the category of sources of funding that is perceived as the most stable (Figure 11 and Figure 12).

4.6 Skills

The survey then turned to specific challenges for infrastructure investment. A previous CoR-commissioned study on "Obstacles to investments at local and regional level" had argued that the lack of availability of specialised expertise in certain LRAs was an important obstacle to investment.[12] This survey therefore aimed to find out more in this regard. As Figure 14 shows, more than half (56%) of respondents reported that the availability of skilled human resources is indeed a challenge for infrastructure investment.

Figure 14: Skills are significant issue for infrastructure investment

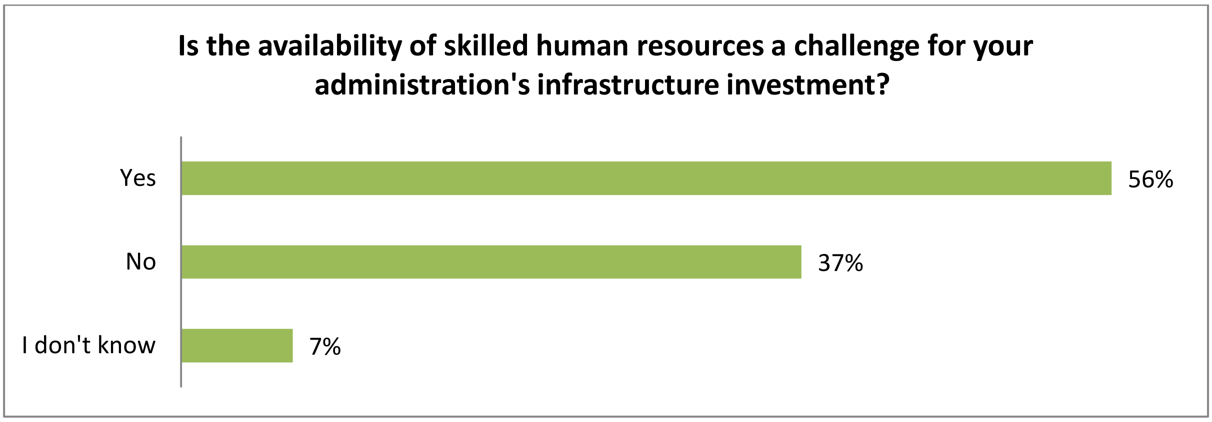
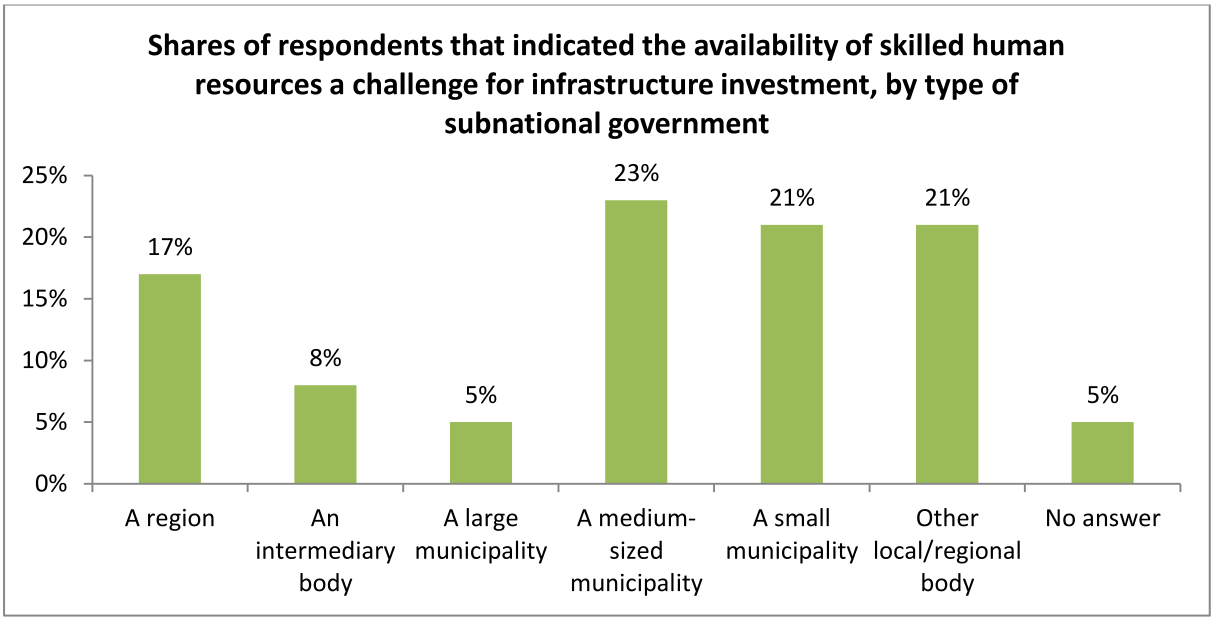


Figure 15: Skilled labour force is a challenge for both big and small subnational governments

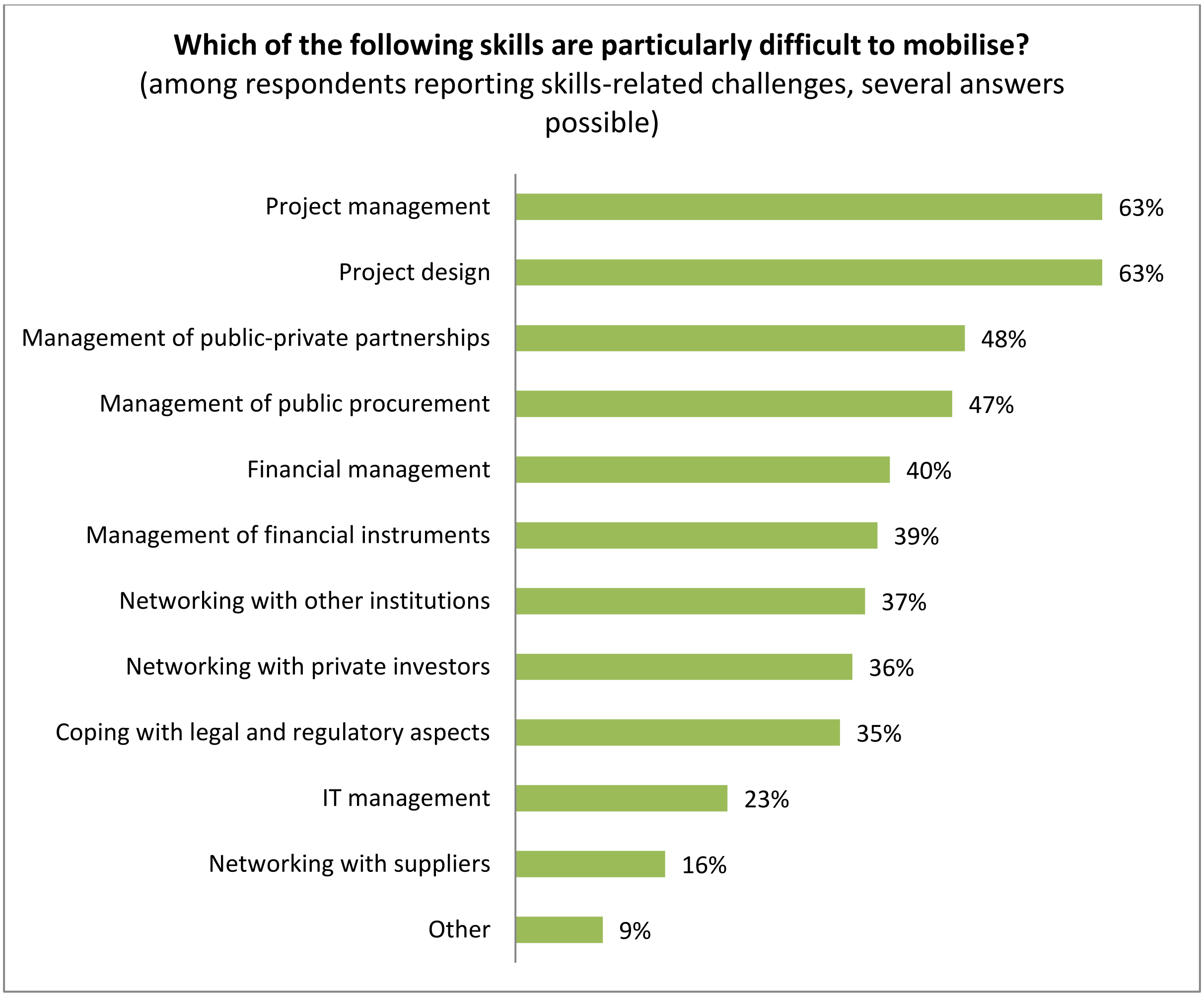


[12] op. cit.

Interestingly, positive answers to this question are quite common from respondents across very different Member States both in Southern and Northern Europe. This suggests that the availability of skilled staff is not an issue that is limited to a handful of specific Member States with lower than average levels of economic development. What is more, it appears that the size of subnational government is not necessarily a predictor for the availability of skilled human resources: the share of respondents reporting skilled human resources as a challenge was fairly similar among regional governments and small municipalities (Figure 15).

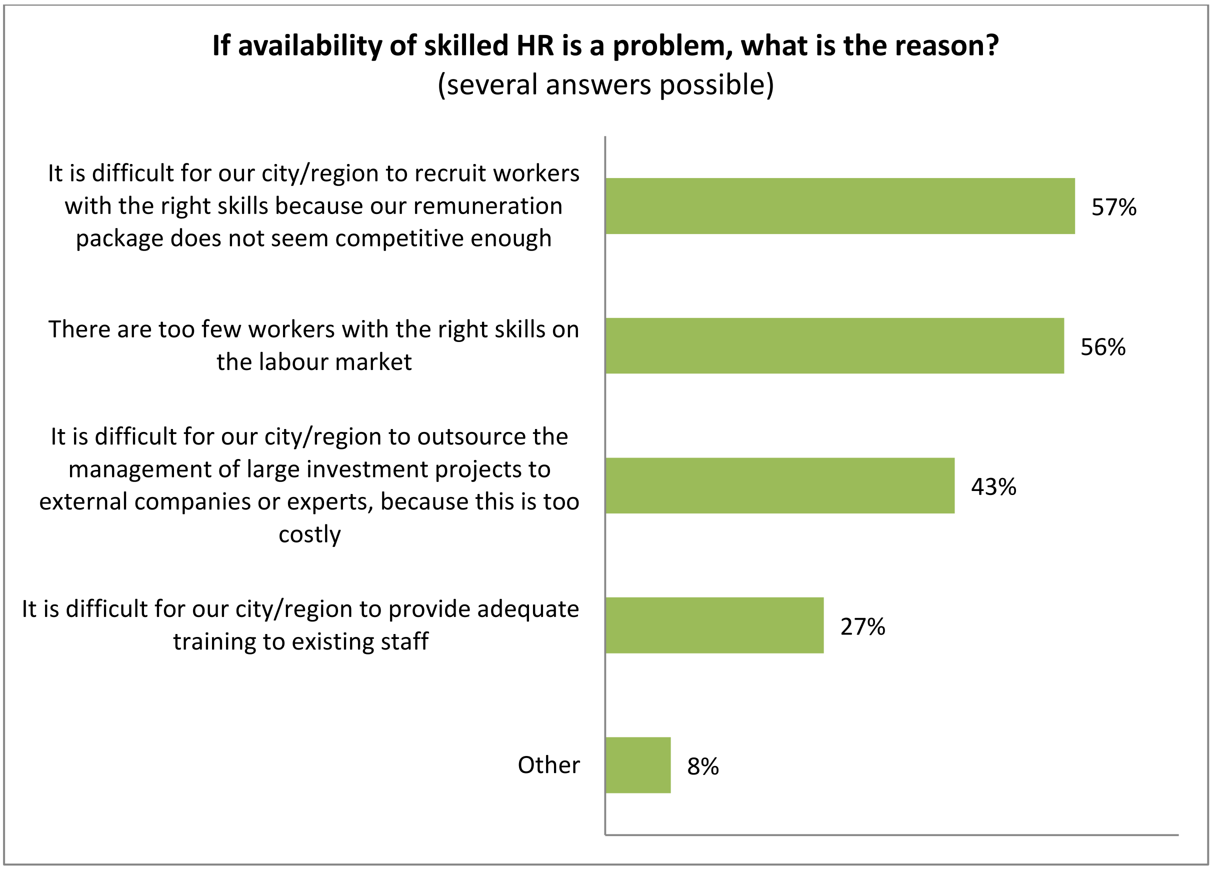
The subset of respondents that indicated skilled human resources a challenge were asked which skills were particularly difficult to mobilise. The four most common types of skills that were selected by respondents were: project management (63% of respondents reporting skills-related challenges), project design (also 63%), management of public-private partnerships (48%) and management of public procurement (47%) (Figure 16).

Figure 16: Project management and project design skills are particularly difficult to mobilise



The respondents reporting skills-related challenges to their infrastructure investments were also asked what they deemed the reason for this problem to be. The results are shown in Figure 17 below, with more than half of respondents explaining that there are too few workers with the right skills (56%) and that the remuneration package is not seen as competitive (57%).

Figure 17: Perceived reasons for skills-related challenges



4.7 Public procurement

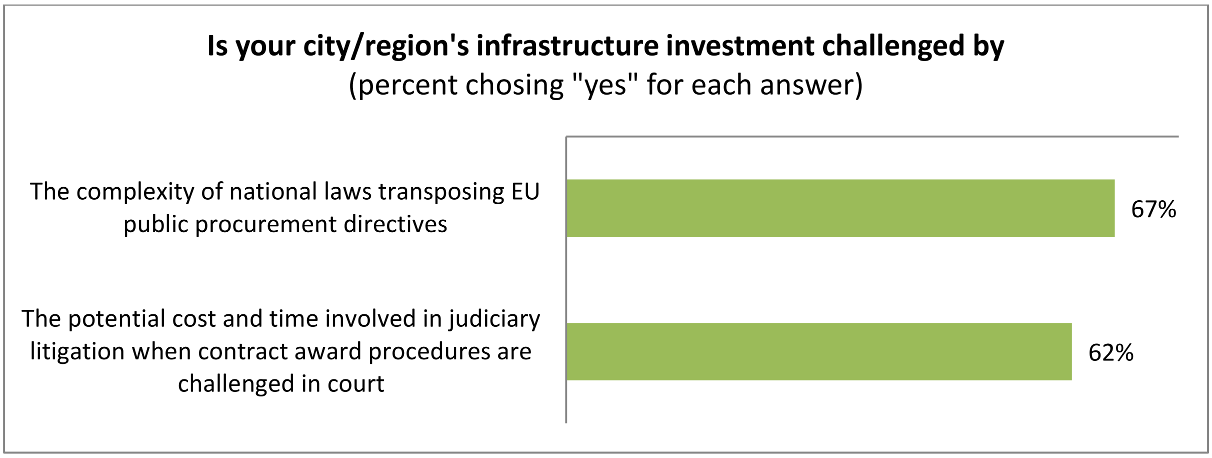
Public procurement is one of the main tools available to LRAs to undertake investment in infrastructure. However, the CoR study on "Obstacles to investments at local and regional level" cited above argued that they also represented a significant challenge to investment for cities and regions, in particular due to complexity or inefficiency in the public procurement framework and to the excessive length and uncertainty regarding legal procedures.[13]

That finding is verified among respondents to this survey, as shown in Figure 18: 67% of respondents to the CoR survey claimed that their LRA's infrastructure investment was challenged by the complexity of national laws transposing EU public procurement directives, and 62% by the potential

[13] Ibid. p.41-42.

cost and time involved in judiciary litigation when contract award procedures are challenged in court.

Figure 18: Public procurement-related challenges to infrastructure investment



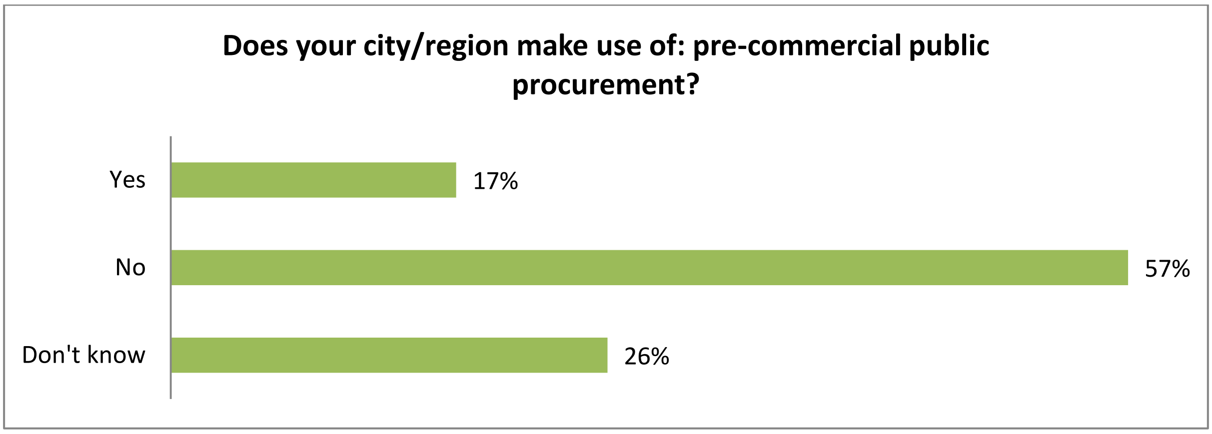
Looking more specifically at certain aspects of public procurement, it should be recalled that in its Recommendation on "Effective Public Investment Across Levels of Government" [14] the OECD puts a significant emphasis on the strategic use of public procurement. More specifically, it argues that public procurement should be used not only to ensure effective public service with good value for money but also wider objectives such as greening public infrastructure, adapting to climate change, supporting innovation or SME development.

One of the key tools in using public procurement strategically is known as "pre-commercial procurement" (PCP). It is a tailored approach to public procurement where the request from the public authority is for a service that is not yet commercially available and enables the public sector to steer the development of new solutions directly towards its needs.

This is an innovative tool but its use is clearly very limited: only 17% among respondents to the survey reported that their city or region uses it (Figure 19).

[14] OECD, "Recommendation of the Council on Effective Public Investment Across Levels of Government" March 2014. Available online: http://www.oecd.org/regional/regional-policy/Principles-Public-Investment.pdf

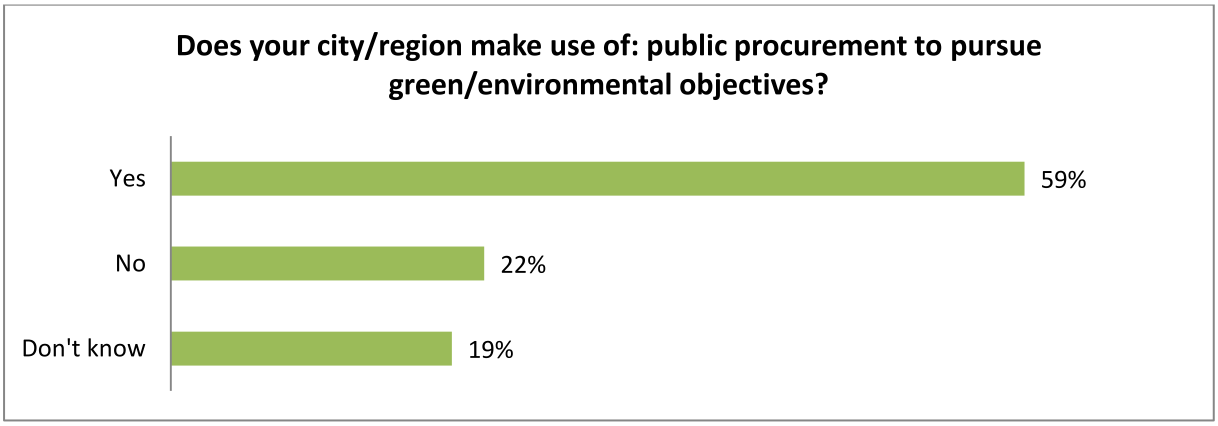
Figure 19: Use of pre-commercial public procurement



Another crucial tool in strategic use of public procurement is so called "green public procurement" (GPP), which is defined by the European Commission as "a process whereby public authorities seek to procure goods, services and works with a reduced environmental impact throughout their life cycle when compared to goods, services and works with the same primary function that would otherwise be procured."[15] In practice, through GPP, public authorities can provide industry with real incentives for developing green technologies and products, in particular in the sectors where public procurement represents a significant share of the market, such as public transport and construction for instance.

Respondents to the survey reported a much higher use of this type of strategic procurement, with almost 6 out of 10 respondents (Figure 20).

Figure 20: Use of "green" public procurement



[15] European Commission, Communication "Public procurement for a better environment", Ref COM(2008) 400 final. Available online: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52008DC0400