



Unlocking long term investment in European cities



Disclaimer

The content of this statement is based on the pre COVID-19 situation. We are aware that the LTI policy context is changing. We are assessing the policy developments and will follow up if and when necessary.

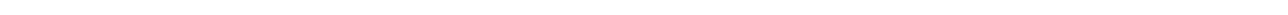
Key messages

1. Ambitious transition to a just, sustainable and climate neutral economy and society cannot be achieved without cities, who need large scale investment in urban infrastructures to cope with current and future challenges.
2. European fiscal policy barriers should be reduced to facilitate cities' long-term investment; more flexibility within the Stability and Growth Pact is needed.
3. Investment in infrastructure should be strengthened with the creation of dedicated investment platforms.
4. EU programmes and advisory tools such as InvestEU, URBIS and innovative financing schemes need to be better targeted at cities to unlock their potential investment capacity in smart cities, climate adaptation, nature and biodiversity, cultural and social infrastructure.
5. The European Semester should include a proper assessment of local level investments trends, gaps and needs.

A new impetus for sustainable investment

The EU needs sustainable investment to achieve the ambitions set out in the European Green Deal as well as in the European Pillar of Social Rights (EPSR), mobilising both the public and private sector. The Commission proposal for a Sustainable Europe Investment Plan is much needed, representing a new approach and instruments for a coordinated stream of funding for innovation and infrastructure.

Urban areas are home to 75% of the European population and differ in cultural heritage, diversity and liveability. Many complex challenges are concentrated in cities such as climate change and social exclusion, and more long-term investment is needed at local level to respond to pressing



public concerns. Cities produce 72% of all global greenhouse gas emissions and are where decarbonisation of energy, transport, buildings and industry coexist¹.

Ambitious transition to a cohesive, sustainable, climate neutral economy and society cannot be achieved without cities. Local authorities are the level of government responsible for the implementation of EU legislation on climate mitigation measures and climate adaptation policies². They are at the forefront of maintaining social cohesion and inclusion while coping with global challenges. Cities are already addressing these issues with long-term investment, for example in energy efficient housing, especially renovation of existing housing stock. Cities need large scale investment in urban infrastructures to cope with climate change and demographic change. In addition, a just transition that leaves no one behind requires adequate investment in affordable housing, education, life-long learning and skills to support people of all ages, as well as health and elderly care, to adapt to the requirements of a cohesive and climate neutral economy.

The European Green Deal together with other European policy frameworks, such as the EPSR, will only be successful if underpinned by investment plans, supporting the economic transition of cities as well as targeted actions developed with cities and implemented at local level. The Just Transition Mechanism (JTM) and Fund (JTF) should also help mitigate the impact of the transition in cities economically interlinked with the most affected and vulnerable areas, investing in skills and in measures to tackle energy poverty.

Action at EU level must focus on unlocking the potential of cities by providing them with technical assistance and involving them in shaping the Sustainable Europe Investment Plan.

Reducing fiscal policy barriers to long-term investment

The financial and economic crisis led to an alarming decline in public investment at local and regional level³. Public investment at subnational level fell dramatically due to fiscal consolidation measures. Certain rules determined at EU level have become obstacles to public investment at local level, including the ‘modification by the Six Pack’, the Stability and Growth Pact (SGP) and the current European system of national and regional accounts 2010 (ESA 2010).

Long-term investment in cities should no longer be limited by European regulations introduced to repair fiscal policy. The implementation of SGP rules can become obstacles to investment in cities when member states include local authorities’ finances in their national debt and deficit calculations, and local governments are forced to reduce expenditure. European wide budget cuts have had a higher impact on local governments than at national level, with investment declining by 12% locally in 2015 compared to a 8.1% reduction for national government.

European institutions have clarified that some flexibility in the application of the SGP is possible. However, the cases under which a derogation from the 3% budget deficit rule is allowed are extremely limited (for example in cases of negative GDP). The guidelines developed by EUROSTAT and European PPP Expertise Centre (EPEC) - the guide to the statistical treatment of PPPs⁴ - and by the European Investment Bank and EUROSTAT - the guide to the statistical treatment of energy performance contracts (EPCs)⁵ - provide advice on increasing investment in energy efficiency.

These guidelines are helpful but remain inadequate for supporting city authorities. 10 years after the financial crisis, cities are still confronted with a growing demand for infrastructure investment while simultaneously having to reduce public deficits.

¹ https://ec.europa.eu/knowledge4policy/foresight/topic/continuing-urbanisation/developments-and-forecasts-on-continuing-urbanisation_en

² Resolution by the Committee of the Regions, The Green Deal in partnership with local and regional authorities RESOL-VI/038

³ In Europe, infrastructure investments in 2016 were 20 % below the level experienced in 2007

https://ec.europa.eu/info/sites/info/files/economy-finance/dp074_en.pdf

⁴ https://www.eib.org/attachments/thematic/epec_eurostat_statistical_guide_en.pdf

⁵ https://www.eib.org/attachments/pi/guide_to_statistical_treatment_of_epcs_en.pdf

To further facilitate investment at local level, we recommend:

- changing the European Stability and Growth Pact to increase flexibility and allow borrowing for public capital expenditure. For example, when investments increase the value of local governments' assets in the long-term period, they should be considered as productive investments.
- facilitating investment in certain sectors such as health and education by excluding public investment from rules on public deficit and debt for a time limited period. This time-limited derogation from European rules need to be introduced as soon as possible as many city authorities are under pressure to provide health care and hospital infrastructure due to an ageing population.
- only taking the annual depreciation rate into account for public deficit and public debt when preparing large investments projects, meaning that the whole investment cost would not immediately be included.
- systematic and ongoing dialogue between European institutions and city authorities to increase knowledge and understanding of investment needs and opportunities.

Facilitating social infrastructure investment

The demand for social infrastructure has increased due to years of under-investment during the economic recession, and significant socio-demographic changes in the population requiring urgent investment to support health care, child-care and affordable housing infrastructure. Social infrastructure investment is crucial for inclusive growth and just transition.

Investing in social infrastructure is attractive for institutional and private investors due to the relatively small capital required and to its possible integration within larger urban regeneration projects. Furthermore, social infrastructure presents a low volatility of return (typically payments from public authorities are agreed beforehand and are not usually linked to other assets), with low exposure to market risk.

Social infrastructure investment is mainly the responsibility of local authorities. Contractual arrangements for social infrastructure projects are typically carried out through public procurement, meaning that local government bears most of the economic and financial risks, which can become a barrier to investments.

We recommend strengthening European support targeting the setting up thematic and geographical investment platforms for social infrastructure investment. These platforms would enable local governments to create financial synergies and increase the use of joint and strategic public procurement solutions.

Unlocking the investment capacity of cities

City authorities have been able to invest in important areas such as climate change, environmental protection, education, housing, culture through the investment plan for Europe promoted by the previous European Commission. All stakeholders must be mobilised to support investment capacity at all levels: starting from lessons learnt and building on the experiences from the period 2014-2020. Making the best use of all the instruments and funds proposed for the new financial framework 2021-2027 is essential:

- The Invest EU Programme 2021-2027 and its four policy windows addresses the needs of local authorities - sustainable infrastructure; research, innovation and digitisation; SMEs; and social investment and skills. However, the focus on supporting local authorities' investment capacity and ensuring better geographical balance should be stronger. We recommend

- strengthening the strategic role of the European Investment Advisory Hub (EIAH) and the technical assistance it provides. It is crucial to create effective capacity building and provide a tailor-made assistance service to local authorities.
 - setting up a structured dialogue between cities, the EIB and National Promotional Banks.
- URBIS⁶ is an effective advisory support for urban authorities in accelerating and unlocking urban investment projects, programmes and platforms. City authorities need support in addressing city-wide investment planning and financing needs for projects, as well as integrated urban development programmes with smaller projects within a strategic framework. URBIS should be continued with a stronger capacity to support city authorities and increase the number of initiatives to provide expertise.
 - Innovative financial schemes such as ‘Project Development Assistance’, the upcoming ‘EU City Facility’ (under Horizon Europe), the technical assistance provided by the European Energy Efficiency Fund and ELENA have a positive impact on local investment. We recommend developing specific tools supporting investment in areas where investment uncertainty is still a barrier, such as smart cities, climate adaptation, nature and biodiversity, culture and social infrastructure investments.

Assessment of long-term investment trends

The European semester process should focus on and properly assess trends, needs and gaps in local investment. For example, there should be better monitoring and analysis of publicly driven investments as well as investment gaps at the local level to better track and assess investment needs in cities. This will help investors and policy makers to evaluate the potential returns on investments and identify areas with large investment gaps and needs. It will also facilitate the implementation of the Invest EU Programme, helping to improve the distribution of funds both at member state and regional level.

A stronger dialogue and cooperation with local authorities is crucial to ensuring better monitoring and assessment of investment at local level.

⁶ Urban Investment Support: <https://eiah.eib.org/about/initiative-urbis.htm>