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FINANCING LOCAL URBAN INFRASTRUCTURE – EUROPEAN CASE

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1 MUNICIPALITIES AND THEIR RESPONSIBILITIES (FINLAND)

- 5.2 MILLION INHABITANTS
- 444 MUNICIPALITIES, 200 – 500,000 INHABITANTS
- SELF-GOVERNING ENTITIES, COUNCIL ELECTED EVERY 4 YEARS
- MUNICIPALITIES HAVE A WIDE RANGE OF RESPONSIBILITIES SUCH AS SOCIAL WELFARE, HEALTHCARE, EDUCATION, CULTURE AND TECHNICAL INFRASTRUCTURE

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2 LOCAL URBAN INFRASTRUCTURE, A DEFINITION

PROVISION OF THE PHYSICAL CONDITIONS FOR ECONOMIC AND SOCIAL DEVELOPMENT

- land use planning
- surveying
- building supervision
- traffic planning
- land subdivision and register
- environmental protection

TECHNICAL SERVICES

- water supply
- waste management
- ports
- sewerage
- energy supply
- fire and rescue services

MUNICIPAL CONSTRUCTION

- streets and public areas
- civil engineering
- public buildings

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3 MUNICIPAL FINANCING OF INFRASTRUCTURE (FINLAND)

TAXES

local income tax 16-20 % (local council decides)
real estate tax, average 0,7 %

The main problem is how to finance municipal construction, which is tax based and competes with other expenditure, such as social or health care, covered by the general budget.

SERVICE FEES

covering investment and maintenance of technical services (except fire and rescue). Also the costs of providing the physical conditions are financed partly by service fees, but still mainly by general taxes.

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4 CURRENT FINANCIAL CHALLENGES

INTERNAL MIGRATION

- proportion of urban population still lower than average in Europe, structural changes in economy

EXTERNAL IMMIGRATION

- external pressure
- age structure
- demand for labour

GROWTH AREAS AND AREAS OF DIMINISHING POPULATION

- need to build new urban areas and maintain the old ones
- challenges for maintaining and building infrastructure

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5 LAND POLICY MEANS OF FINANCING INFRASTRUCTURE

TRADITIONAL LAND POLICY

- municipal planning monopoly
- active land purchase by the municipality
- selling or leasing land after its being developed, the incremental value being thus collected by the municipality
- another question is, how much of the incremental value collected is actually used to cover the costs of infrastructure

CUTTING LAND VALUE INCREMENT

- municipal planning monopoly
- privately owned land
- land use agreement or statutory development compensation, covering the costs of implementing a land use plan

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6 PUBLIC PRIVATE PARTNERSHIPS

A variety of relationships, wherever the public sector and the private sector work closely together.

Typically:

- contracts to supply services to the public sector
- contracts to sell services or assets from the public sector
- joint ventures to do either of these activities

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Potential benefits:

- acceleration of infrastructure provision
- faster implementation
- reduced whole life costs
- better incentives to perform
- better allocation of risk
- improved quality of service
- generation of additional revenues
- better public management

The risks and difficulties:

The contractual basis and then the management and regulation of PPPs during their design, construction and operation by public administration requires high professional skills and effective contract monitoring procedures.

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On the other hand land use agreements or PPPs should under no circumstances be seen as substitutes for strong, accountable and effective public administration.

Nor should they be used just to get to use private sector financing, ending in finally paying too much, but to achieve more value for the taxpayers' money.

At worst there will be no benefits for the taxpayers.

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7 CONCLUSIONS

In changing conditions it is essential to maintain a good standard of infrastructure.

This can financially be achieved in several ways:

A The costs of investment and maintenance of technical services (water, waste etc.) should, and usually can, be covered fully by service fees. Also consumers accept fees when there is a clear connection between service and fee.

B The costs of providing the physical conditions (planning, surveying, building supervision etc.) can partly be financed by user fees, but the main source of finance is still general taxes.

C Municipal construction (streets and public areas, public buildings, civil engineering) must be financed mainly by general taxes (in Finland local income tax and property tax).

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D Sometimes municipal construction can also get financed by other means:

Land policy means:

- traditional land policy (municipality gets the incremental value of land when selling or leasing it after its being developed)
- land use agreements and statutory development compensation (the landowner shares the incremental value of land with municipality)

Public Private Partnership arrangements:

- when the arrangement generates additional revenues
- usually the arrangements aim at getting better value for the tax money, but tax money is needed anyway, sooner or later

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Ensuring that services are provided in a manner that is fair, affordable, safe and environmentally sustainable remains the exclusive responsibility of the public sector.

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