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LRG NEXT 2021

THE FUTURE OF LOCAL PUBLIC SERVICES

Brief #3

PUBLIC FINANCING for Local QUALITY Public Services

PSI

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Contents

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1. BACKGROUND

Local and regional governments (LRGs) are increasingly asked to do more with less. At the forefront of public service delivery and emergency responses, local authorities and their workers are essential to national and local public policy implementation. Cities and territories need to provide a wide range of local public services: transportation, water, sewers garbage collection and disposal, police, fire protection, parks, education, culture and recreation, affordable housing and social assistance. LRGs are ultimately in charge of the implementation of global policy frameworks on the ground ('localisation)', such as the Sustainable Development Goals (SDGs)[1]; the Paris Agreement on Climate Change; the New Urban Agenda (NUA); the Sendai Protocol on Disaster Preparedness, and the Decent Work Agenda.

Raising adequate resources to finance these municipal services holds the key to ensuring economic dynamism and social inclusion.[2] LRGs and their workers also play a critical role for all issues related to social inclusion, decent job creation, and are crucial actors for facilitating the inclusion of informal economy workers into the formal economy.[3] Funding sufficiency, security, distribution, as well as adequate staffing, training and decent conditions for LRG workers go hand in hand with public service equity, quality and access for all. Yet, when it comes to accessing the resources to do so, devolution/ decentralisation with unfunded mandates, budgetary and fiscal power constraints, austerity cuts, tax avoidance, international loan conditionalities, international trade and tax deals, shrinking intergovernmental transfers etc. increasingly take away from LRGs the resources they need to adequately fund, staff and deliver quality local public services (PS) to their communities.

Most poor countries suffer from acute infrastructure and services deficit. While some cities and territories are yet to see the development of the public service infrastructures they need, others once well-developed are witnessing the decay or disappearance of their once well-functioning local PS. Regardless, in many developing countries, governments have been obliged to cut public spending and privatise state functions as a condition of receiving debt relief and development aid from the World Bank (WB) and the International Monetary Fund (IMF). Private finance initiatives have become a regular feature although they have largely failed to reduce poverty, and Public Private Partnerships (PPPs) continue to be ‘promoted as a solution to the shortfall in financing needed to achieve the SDGs’, although there is evidence that they impose a heavier burden on citizens than on private sector partners, inflict high costs on the public purse, have negative impacts on the poor as well as on the natural environment, and lack transparency.[4] Covid has sharpened the LRG funding crisis and made its human cost visible to all.

How to square the circle? How can LRGs and their workers deliver much needed quality local PS under such funding constrains? Much of the discussion that led to 2016 Habitat III’s New Urban Agenda (NUA) - the UN reference conference for urban policies taking place every 20 years - concentrated around inter-municipal tax competition, PPPs, city-based benchmarking for credit rating to private funds in the stock market, user-fee charges, municipal bonds and blended finance.[5] Public services can be a lucrative market for private providers who are willing to raise fees and cut service quality in order to achieve a profit. As access to water, healthcare, energy or transport are a life necessity, their demand is inelastic: anyone would be ready to pay everything they own or become indebted to save one’s life.[6]

PSI does not believe that privately funded services are a viable solution that work for people, nor that they are socially just and environmentally sustainable. PSI has consistently advocated for tax justice for local governments and communities as well as for progressive municipal fiscal systems. The junction of multiple crises – pandemic, climate, social, economic, displacement, etc. – looming ahead calls on LRG workers and unions to review existing options and explore new opportunities available to collectively act to strengthen public funding for enhanced, equitable access to quality local PS for all.

2. LOCAL PUBLIC SERVICES FUNDING AND THE COVID CRISIS

In 2021, LRGs worldwide are expected to have lost on average between 15-25% in revenues. In Africa, their revenue losses could be as high as 60%. The advancing of extraordinary expenses, matched with declining revenues from the economic shutdown, job losses in the formal and informal economy, business bankruptcies and households' moves to different areas by need or by choice, have placed a major strain on many LRG finances. LRG have also lost revenue from rents, utilities service fees, and property tax. Business closures have negatively impacted commercial space rentals of public estate and have curbed local economic growth. Areas overly dependent on specific economic activities, such as tourism, services and hospitality, have been hit particularly hard with a loss of local consumption, parking fees, VAT and residence tax.

Municipalities with small funds, inadequate reserves, and strict budgetary rules, whose deficit flexibility and borrowing powers are limited, have especially been at a disadvantage. They have had to reprioritise expenditure based on available resources and had to cut projects, services and staff. According to a survey of a sample of 33 cities and regions in 22 countries across all continents, LRGs primarily reallocated funding to personal protective equipment for frontline staff, cleaning and public hygiene measures, as well as health and social services; while they de-prioritised culture and sports, public works, infrastructure investments and human resources (figure below).[7]

Source: UCLG-Metropolis-LSE Cities 2021

Although most central governments have provided intergovernmental transfers and emergency grants to a certain degree, if left unaddressed in the mid- and long term, this LRG revenue crisis may undermine urban development goals, jeopardise vital social and physical infrastructure investment, and cause local public service cuts and job losses at a time when they are most needed, exacerbating social and territorial inequalities and compromising recovery.

LRGs are going to play a key role in the recovery and re-building. Almost all countries have adopted recovery packages whose magnitude surpasses those adopted in the aftermath of the 2008 financial crisis. Many have planned historically high public investment in local PS and physical infrastructures – including health, care, water and sanitation, waste management, public housing, public transport, roads, bridges, railways, and clean energy among others, which are pivotal to a good recovery.[8] Recognizing the magnitude of the challenge and the strategic role LRGs they are called to play, in their Joint Statement in the context of the Covid-19 pandemic, PSI and UCLG call on national governments, multilateral and international/regional financial institutions to:

- Provide adequate resources to LRGs to mitigate the aftermath of the crisis and support recovery from the pandemic. Invest on a priority basis in ever stronger, quality PS with universal access to ensure a swift recovery and avoid a post Covid-19 social and environmental catastrophe.

- Set the legislative and policy frameworks to empower LRGs with long-term financial sustainability - including via stronger municipal taxation systems and the access to adequate financing– and the accessibility and affordability of essential services for all to beat Covid-19 and effectively confront future crises.[9]

3. IMPACT OF LRG SERVICE STAFFING AND TRADE UNION ACTION

PSI affiliates are taking action to counter the local public service funding crisis. In Canada, the municipal sector has been facing a revenue crisis for years. In 2020 Canadian municipalities faced a collective budget shortfall of approximately $12 billion CAD, representing a 9.7% - 12.1% loss over the previous year. This margin is very tight for municipalities in Canada, where LRGs can only collect funds through property tax and receive a very limited share of federal taxes from federal government to fund PS and infrastructures. As a result, the impact of the Covid revenue crisis on Canadian LRG service has been harsh: layoff rates in municipal public libraries, for example, have been close to 90 %. State proposals go towards austerity cuts up to 25% in PS including in public health and public education. The Canadian Union of Public Employees (CUPE) is building alliances to launch campaigns to oppose austerity cuts as a policy response and to create an alternative narrative for this issue. In Australia, for the Australian Services Union (ASU) the financial sustainability of local PS is a top priority. The union is seeking to get a future labour government to commit 1% of federal tax revenue to go directly to LRGs to fund PS in communities.[10]

A survey of over 1,100 US municipalities by the National League of Cities (NLC) found that 74% had already started to make budget cuts.[11] One consequence of this was that by October 2020, US states and localities had furloughed or laid off 1.2 million workers and of 42% had already or were planning to institute a hiring freeze.[12] Conversely, the same year 55 large corporations earned combined profits of 40.5 USD billion and their federal income 2020 tax payments were zero.[13] The American Federation of State, County and Municipal Employees (AFSCME) has an ongoing campaign mobilizing members to demand the US Government to "Fund the Front Lines" in support of the Biden Administration's "Build Back Better Agenda" and "American Jobs Plan".[14] In the UK, public service union UNISON has launched the "Save our Services" campaign to alert the public and sensitise UK MPs to the consequences that local council shortages are already having on communities causing the shrinking and disappearance of vital local PS.[15] With the help of an interactive map showing cuts, the campaign encourages and makes it easy for citizens and service users to contact their MPs to demand they approve adequate funding transfers.[16]

4. INTERGOVERNMENTAL TRANSFERS AND GRANTS

A primary, key source of income for LRG service funding and staffing comes from intergovernmental transfers and grants. Often, the more centralised the state, the more dependent LRGs on central governments transfers not only to bear the costs of large infrastructure projects, but also for the daily running of local administration and PS delivery. However, even when these are substantial, they leave little allocation flexibility to LRGs: between 70 and 80% of central government transfers are non-discretionary funds earmarked for targeted spending priorities, usually within one sector, which makes cross-sectoral emergency responses more difficult.[19]

5. DEVOLUTION/DECENTRALISATION AND UNFUNDED MANDATES

Over the past decades, many competences for vital public services have been devolved/ decentralised to LRGs (e.g. typically water, waste and sanitation, firefighters, social services, etc.) or (re)defined as shared responsibilities between central and subnational governments (e.g. health, social services, education, public housing, etc.). However, while there largely is substantial support for devolving more power to local areas and for applying the principle of 'subsidiarity'[17] bringing services closer to where people need them, resources and fiscal powers have not always followed either because of overall lack of funding, poor governance, or power struggles across levels of government. As a result, many LRGs find themselves with unfunded mandates, resulting in poor or non-existent local public services.

In some context devolution has translated into shifting public authorities' responsibility and power away from government to locally based private businesses, charities, 'volunteers' (cheap or unpaid labour, overwhelmingly feminised and racialised), and other non-government organisations, shrinking the state and reducing government funding or withdrawing it altogether.[18] Finally, while many states have turned to philanthropy as a panacea, when it comes to public service funding charity is a de-facto form of public service privatisation and jeopardises the rights-based nature of equitable access to tax-funded quality public service for all, making it conditional, paternalistic and dependent on the goodwill of wealthy, powerful institutions and/or individuals.

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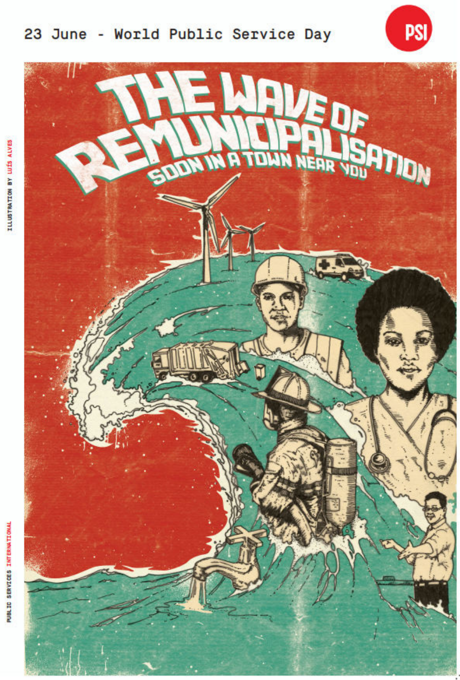
6. SUBNATIONAL FISCAL SYSTEMS

While most PS are delivered locally, at point of use, LRGs only account for 24% of global public spending.[20] A variety of local PS financing systems exist worldwide. Systems widely vary because of the different cost structures of the services, but also reflect resource availability, institutional and governance frameworks, as well as societal norms and expectations around PS. Typically, LRG own revenues comprise a mix of local income, property and/or consumption taxes (e.g. VAT share, tourism tax), and user fees (e.g. parking, transport, water and sewage etc.). A key limitation for LRGs funding is that they cannot recover tax from the mobile tax basis (e.g. multinational enterprises profits and financial transactions), but only from immobile ones, rooted in their territories.

Although there is a generalised agreement that LRG fiscal systems should be strengthened, restrictions often exist that limit their fiscal and regulatory powers and make it hard to fill the revenue-expenditure gap on their own. Key steppingstones towards progressive forms of levying LRG resources include the re-evaluation of property (accrued land value); progressive formalisation of the economy and jobs; and strengthening staffing and skills of local and national fiscal authorities. Subnational fiscal systems must also be transformed to be progressive, so that even when user fee schemes are in place those who cannot afford to pay can maintain services access; and need to be made participatory and gender responsive.

7. REMUNICIPALISATION/INSOURCING



One of the factors that is often evoked to tilt the balance in favour of local public service remunicipalisation/ insourcing is that it can deliver considerable savings for LRGs. [23] When the service is publicly run, surplus revenues can be invested in the service to expand access and reduce the user price for poorer households and improve working conditions instead of being paid out to shareholders.

For example, in 2010, Paris remunicipalised its water facility, creating Eau de Paris. Since then, the company has made substantial reinvestments in network maintenance and enhancement (€71.1m in 2017) and could lower water user fees by 8%, saving water users €76m between 2011 and 2015. Barcelona has moved towards energy remunicipalisation by creating publicly owned Barcelona Energia (BE). In 2019, the public utility started servicing 20,000 households, distributing locally generated renewable energy. Its tariffs are controlled by the local administration, which expects to make significant savings just by using it to power all its public buildings and services.[24]

8. CROSS-SUBSIDIES

When utilities, such as water and energy, are publicly run, cross-subsidies can be used to make the services accessible and affordable for all. This financing mechanism is possible only when PS are public, which enables authorities to shift surplus from one service to another generating no or little income so that even poor communities, scarcely populated areas and unprofitable transport routes are equally serviced. Cross-subsidies can therefore be a powerful tool to address territorial inequalities and to invest in long-term infrastructure to provide service coverage for everyone.[21]

For instance, in Germany, municipal cross-financing of PS provides a common form of PS funding that cannot be covered by user fees alone. For example, Munich's transport system is partly financed through revenues of its electricity sector. Like many other cities in Germany over the last decades, Munich experienced a decrease in national funding for public transport, causing an increasing deficit in the Munich Transport Company (MVG). Its parent company, Munich's public utility (*Stadtwerke Muenchen-SWM*), balanced this debt with the surplus achieved in its electricity sector. The two municipal PS are also connected in another innovative way: Munich's public energy utility, provides renewable energy for all of Munich's metro, trams and electric buses, so that Munich's public transport system is run entirely on green energy.[22]

9. INTERMUNICIPAL CONSORTIUMS AND PUBLIC-PUBLIC PARTNERSHIPS

Similarly, when utilities and PS are publicly owned, they can be brought together to generate economies of scale and build synergies through inter-municipal consortiums and public-public partnerships (PuPs). Inter-municipal consortiums involve contracts or joint production with other local governments as a means to gain economies of scale, improve service quality and promote regional service coordination, within or between countries. These are especially common in utilities as it is easier and more advantageous for municipalities with small budgets to share equipment and mutualise assets and costs. The Sardinia region in Italy set up an inter-municipal public waste management system. Not only did it establish an effective waste sorting system, it also reduced its waste generation by 16 per cent - 143,724 tonnes - between 2006 and 2015.

PuPs involve the collaboration between two or more public authorities or organisations, based on solidarity, to improve the capacity and effectiveness of one partner to provide PS. PuPs can be between countries, between different municipalities or cover different public services in one municipality. Peer relationships are forged around common values, interests and objectives, but which exclude profit-seeking. The absence of commercial considerations allows public partners to reinvest resources into local capacity, to build a mutual trust which translates into long-term capacity gains with low transaction costs.[25]

In practice, PuPs' work can be divided into five broad categories:

- training and developing human resources
- technical support on a wide range of issues
- improving efficiency and building institutional capacity
- financing services
- improving public participation.

For example, a partnership between Finland and Vietnam was developed though the Finnish bilateral development agency (FINNIDA) and led to a more efficient water supply system and workforce training in Vietnam. Between 1990 and 1995, 50 per cent of the investment of the Vietnamese water company, Hai Phong Water Supply Company (HPWSC), came from this PuP.

PuPs can also be a means to protect a public company that is threatened by privatisation. In Cali, Colombia in 2016, Emcali, a municipal public service provider of water, electricity and telecommunications, was required by the municipal government to privatise its telecommunication unit, as it was supposedly not making enough profit. The water utility union, Sintraemcali, resisted the privatisation and was successful in proposing the establishment of a PuP instead. Antel, Uruguay's state-owned telecommunication company, which provides the world's most inclusive and America's fastest national broadband network, set up a PuP with Emcali.[26]

10. TAX AND TRADE JUSTICE FOR LOCAL GOVERNMENT

Concentrating 80% global GDP and 28% of the global workforce,[27] cities and urban areas are the engines of global growth and development, but to fully unleash their economic and social inclusion potential they need sufficient resources to finance and invest in their urban and local PS. Central government has a responsibility to ensure that this happens, and to secure that corporate and private wealth – especially multinational enterprises (MNEs) – do not free ride on local communities and pay their fair share of tax, as LRGs cannot deal with a mobile tax basis.

Taxation is the primary source of public service funding. Long-term public financing for quality local PS necessarily encompasses the payment of a fair share of taxes by the private sector operating or sourcing within the jurisdiction of competent LRGs. Systematic corporate and private wealth tax avoidance, inter-municipal and regional tax competition, excessive tax incentives and tax havens - some of which are city-based - deprive central and local governments of the resources they need to provide essential services to urban dwellers.

For instance, US-based MNEs shift every year between 500-700 billion USD profit to tax heavens or corporate tax-friendly countries to systematically avoid the payment of tax dues to the countries and local communities where they operate from which they source raw materials, labour and whose PS they benefit. This amount of lost tax corresponds to about 200,000 municipal workers employed in services of public utility, to 80,000 nurses for public hospitals, or to 80,000 social workers.[28] During its term in office, the Trump administration slashed the US corporate tax from 35 to 21 percent, creating a huge hole in US public finances.[29]

Similarly, in Ghana alone, tax exemptions provided by the government in just 2017 was 2.6 billion GH (475 million USD). This amount is sufficient to employ 10,000 nurses or teachers for more than ten years. At a unit price of 10.00 USD per dose, this amount could buy Ghana more than 47 millions doses of Covid-19 vaccine.[30] This would be more than enough to cover the population of Ghana (31 millions). In Nigeria alone, between 1992 and 2015, 12 billion USD was lost to tax incentives in the Nigeria Export Processing Zones. This could buy more than 1 billion doses of vaccines. Nigeria's population is currently about 211 millions.[31]

MNEs and the wealthy must pay taxes to the communities where they operate and whose resources they use to generate profits. LRGs must be involved in tax and trade policy formulation, so that they can ensure balanced agreements with domestic and global business and investors and have the right to a direct say on setting fair returns for local communities in terms of tax revenues, local decent work creation, clean technology transfer, profit reinvestment, fair pricing for commodities, procurement of public digital product and services and right to their own data, non-abusive dispute settlement clauses and the protection of PS for their communities.[32] Yet, There are more than 3,000 bilateral treaties, which are meant to divide up the right to tax a multinational's income between the country where it is resident and a country where it does business. Often, these tax treaties are imbalanced and can lead developing countries to give up valuable taxing rights in the belief that this will make them more attractive to investors.[33]

Sometimes, the dispute mechanism framework of these bilateral treaties ties the hands of and local governments from pursuing social and environmental policy objectives and improvement in public services. It also prevents them from making wage increase for their

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staff. Bilateral tax and trade treaties often use the Investor-State-Dispute System (ISDS) to close the public policy space and burden the government purse with high cost of dispute resolution processes and penalties. Under the ISDS scheme, MNEs have the right to sue governments if policy initiatives such as wage increases, public health protection, environmental protection, re-municipalization, or tax reforms jeopardize their profits or impinge on their assets. With this scheme, MNEs have the right to sue states in international tribunals, many of which are headquartered in Washington D.C. (USA), which avoids them to go through the judicial systems of the states. Private lawyers serve as arbitrators in these courts. States end up paying a price in the form of fines and legal fees imposed by MNEs, which inevitably affects LRG funding. For example, between 1993 and 2010, Africa's loss due to ISDS cases was reported to be more than $50 million.[34]

To recover precious tax resources to fund local public services, central government investment in adequately funded, staffed, skilled and independent tax authorities in decent working conditions and with whistle-blower protection is key, as it can recover resources lost to tax evasion and optimisation. Tanzania's revenue authority has created an international taxation unit with ten staff which, at a staff cost of about US$130,000 a year, had raised about US$110 million since 2012 in a developing country where more revenue is desperately needed to pay for public services for citizens. The UK public service union PCS estimates that each tax inspector dedicated to compliance brings back to the UK government some £650,000 (€755,000) net of staff costs per year and a "special investigations unit" that fights the most complex tax avoidance cases has yielded 450 times its costs.[35] Also, LRGs should demand their central governments not to enter bilateral treaties with ISDS provisions. They should work with and learn from other countries who over the years have been able to withdraw from such treaties and privilege or develop dispute resolution systems with private companies that are balanced, use domestic courts and duly involve public institutions – including LRGs - to resolve trade disputes.

Platform and gig economy operators such as Uber and Airbnb have a clear impact on cities and territories (e.g. by increasing urban traffic density in and encouraging shifts from public to private transport and by rising rental costs for permanent residents). Yet, national fiscal and regulatory frameworks are lagging behind, which means that LRGs are bearing the consequences but cannot recover any share of the huge profits made my these MNEs in their jurisdictions. In their Joint Statement in the context of the Covid-19 pandemic, PSI and UCLG call on national governments, multilateral and international/regional financial institutions to "introduce a tax on digital services and a financial speculative movements tax ensuring that a fair share is channelled to the territories most in need and used in strengthening the resilience of PS".[36]

11. THE POTENTIAL OF PUBLIC DEVELOPMENT BANKS

Public development banks (PDBs) are state-owned or controlled that aim to deliver on public policy objectives to support economic development in a country or region. Although PDBs are concerned with financial returns, profit is not their main driver and do not need to function according to market-based and profit-maximizing imperatives.[40]

During Covid, as private investors withdrew from the pandemic-hit economy (they have no interest to bail out real-economy business, enhance service access and quality, support social services, provide public housing for the homeless or create jobs for crisis-hit unemployed) public banks have stepped in to ensure liquidity, fund cash-strapped public health agencies, avoid LRG bankruptcies, and business (including real economy SMEs) bailouts avoiding socio-economic meltdown.[41] Deliberately overshadowed by decades of pro-privateering neoliberalism in favour of commercial banks, and relegated to the role of lender of last resort to bailout risky private ventures (e.g. the 2008 financial crisis), PDBs have traditionally played a crucial role in the development, public service infrastructure investment, industrialisation, technological innovation of virtually any country.

Many PDBs are subnational, as state, provincial or municipal banks. Investing public funds in projects of public interest, and lending for social and environmental goals that do not yield financial returns private investors would go for, public banks are a key instrument to tackle the multiple crises of our times. Besides, interest rates of public banks are always more advantageous than those of private ones as governments can print money and lend to itself, ultimately magnifying public resources and being the most credit trustworthy entity around. As LRGs seek solutions for mid- and long-term solution for reliable, adequate, stable funding for local quality public services, PDBs have a key role to play. According to UNCTAD, "public banks can be better supported for the future and can help ensure that this pandemic does not lead to another 'lost decade'.[42]

12. STRATEGIC LOCAL PUBLIC PROCUREMENT

In 2018, public procurement amounted to 11 USD trillion out of global GDP of nearly 90 USD trillion, amounting to 12 percent of global GDP. Local and Regional Governments (LRGs) are major public procurement agents, accounting on average for almost 50% of public procurement in the OECD. This figure goes up to 62% in federal countries.[37] While LRG procurement contract chains can stretch globally across continents, they can be used strategically to fuel backyard economies and benefit local communities. And even at times of crises, major local institutions such as schools and hospital need to procure vital goods and services linked to local public service delivery.

In 2010 in the UK, Preston council was hit hard hit by austerity cuts and disinvestment. To counter the disastrous socio-economic consequences for its community, inspired by the exemple of Cleveland, Ohio, in 2011 Preston council changed its procurement processes for large-scale public institutions with an important role in the city - such as colleges and hospitals - encouraging them to contract services from local socially responsible suppliers where possible, as opposed to large corporate actors. This work increased the procurement spending retained in Preston by £74 million from 2012-13.[38] By 2016/17, local spending had increased significantly: of £620m spent on goods and services by the same anchor institutions, 19 per cent was spent in Preston and 81 per cent in Lancashire as a whole. This practice very much benefitted the local economy and employment. Preston's initiative is based on the UK 2013 Public Services (Social Value) Act, which allows UK public bodies to take the social, environmental and economic impact of their commissioning into account in their bidding processes. The Preston case shows that local authorities, through progressive public procurement practices, can foster social inclusion in their local communities even at times of austerity and budget cuts.[39]

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In the wake of the 1990s outbreak of mad cow disease, the French municipality of Mouans-Sartoux ended procuring means from a food catering MNEs and opted for a 10-year transformational programme to serve entirely organic food locally produced in its local school and public institutions. Today, this local procurement plan delivers 400,000 organic meals a day supplied through a 6-hectar organic farm owned by the municipality (on previously abandoned land). The food is grown by three farmers directly employed by the town. Waste has decreased by 75% in the school meal production process, while a survey showed that 66% of the entire population's eating habits have subsequently changed for the better, towards healthier, local and organic food. However, municipalities are at a disadvantage when it comes to the procuring food supplies for public canteens. EU rules mandate to launch a public tender at a EU level instead of choosing to buy directly from the local producers, while corporations that win a tender are free to buy from any supplier of their choice.

As Covid has shown the urgent need to re-locate vital supply chains such as those for life-saving health equipment, vaccine and medicines among others, it is fair to question whether it is really need to procure so many basic goods internationally seeking for the lowest possible price. The answer is that many can be sourced at arm's length if not in-house. Besides, a strategic use of LRG procurement can include labour and environmental clauses in public procurement tenders and contracts to promote socially responsible and sustainable sourcing practices along both long and short supply chains. The Canadian government's recent Infrastructure Assessment, for example, proposes incorporating the real labour and environmental costs of materials and processes into procurement best practices, a move that would favour local procurement. Through such clauses in the procurement contracts local authorities can require suppliers to adopt climate crisis mitigation standards, pay a living wage, to recognize trade unions in the most expeditious way, to negotiate and uphold collective bargaining agreements, or to hire quotas of vulnerable workers throughout their operations, such as disabled workers or long-term unemployed, benefitting the local communities with public money that was to be spent in any case.

13. PUBLIC PENSIONS FUND

Private institutions such as pension funds, capital investment funds, insurance firms, and finance companies lend money to LRGs through municipal finance authorities or through the purchase of municipal bonds at relatively low interest rates. This investment can provide a sustainable stream of funding to LRG public service providers. At the end of 2020 combined assets of global pension funds amounted to over USD 35 trillion, exceeding 2019 levels despite the Covid pandemic. In OECD countries, pension fund assets grew by nearly 9% in the to reach USD 34.2 trillion at end-2020.[43]

However, just as public-private partnerships capitalize on the inelastic demand for services, pension fund investment boards have recognised that there is profit in LRG infrastructure. Pension funds based in Canada and Australia lead the pension world in supporting the privatisation of local services, including in the global South. The Canadian government, in an attempt to bring this investment bonanza back home, has attempted to make domestic investment by Canadian and foreign pension funds a cornerstone of its infrastructure financing strategy. This is highly problematic, as the return on investment sought by these funds is often much higher than the interest rates offered by the public sector, doubling and sometimes tripling the cost of a project over twenty to thirty years. Workers, local residents and users of these services pay the difference.

For example, in April 2021, the Canada Pension Plan Investments Board (CPPIB) sought to acquire a 45% stake in Brazilian sanitation company Igua Saneamento SA for 1.18 billion reais ($Cdn 213 million) to strengthen Igua's bid in the privatisation of Rio de Janeiro's sanitation company CEDAE.[44] PSI's Brazilian affiliate, the National Federation of Urban workers, FNU is engaged in a fight to keep water public across Brazil, with PSI support. The focus of this struggle is the state of Rio de Janeiro.[45] Canadian unions such as the Canadian Union of Public Employees (CUPE) and the National Union of Public and General Employees (NUPGE) called on the CPPIB to reject the plan to invest in the privatisation of Rio de Janeiro's water and sanitation system.[46]

Pension funds and other private investment institutions can and should invest in LRGs, the infrastructure they build, and the services they provide - but not at the expense of local control and ownership. Publicly controlled bodies such as municipal finance authorities and public banks allow room for this investment while maintaining a firewall between the public good and private profit.


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14. CONCLUSIONS

Sustainable, adequate funding for local PS goes hand in hand with quality, access and equality, ensuring sufficient and secure funding is of primary importance. Adequate, secure LRG funding makes the difference for people in terms of quality and equitable access to local PS depending on need, not ability to pay; as well as for the working conditions of local PS employees.[47]

As local authorities and their local PS staff are on the frontlines of the concurrent challenges of our times, it is essential to ensure their political, fiscal and administrative empowerment, so they can create inclusive, sustainable urban development and effective risk and crisis management systems across territories. Local governments and their PS are not abstract entities: they are made up of working people, and only skilled, well-trained LRG staff, with decent working and living conditions and with access to adequate resources, can sustainably deliver quality PS to the communities they serve and successfully confront the many challenges that lie ahead.[48]

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