UNIWERSYTET GDAŃSKI

HERIOT WATT UNIVERSITY

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- Conclusions

Decision making in local governments - a comparative analysis of investment strategy

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Research objectives

- Direct:
  - to recognize and compare the conditions of the investment planning process and decision making in two local governments – Gdansk in Poland, and Edinburgh in Scotland
- Indirect:
  - to identify problems in the decision-making processes of municipal investment management (MIM) units
  - to derive possible solutions from best practice

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Methodology

- Analysis of the current literature, including studies by consulting firms
- Case studies
  - Accepted method of qualitative research
  - Principle of triangulation
  - Shows the richness and complexity of human behavior by studying a subject from more than one viewpoint
    - Assures objectivity ("looking at a mountain from three sides")
    - Data/method/time/observer/theory/space/levels triangulation
  - In-depth analysis, mainly by interviews (with majors, investment managers, politicians, facility managers, residents) but also by data analysis
- Selected cities
  - Gdansk, Edinburgh → *in this paper*
  - Several other cities

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Justification

1) Infrastructure gap.

2) Infrastructure financing gap.

3) High proportion of public wealth.

4) Lack of professional management in municipal investment management compared to corporate investment management.

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1) Need for more professional management in municipalities.

2) Local government strategies must provide higher effectiveness of public resources management and re-orientate to the most important development needs.

Literature overview

- Literature on investment management provides comprehensive descriptions of investment management, project life cycle, criteria for investment decision-making and risk management [e.g. Sayce 2006; Baum 2011; Gal et al. 1999; Boardman 2001]
- Public sector investment management is a relatively new issue [Howarth 2006; Pina 2011; Kaganova 2012]
- Some steps to professionalisation is New Public Management [Peters 1996; Phelps 2010; Kozak 2013; Krynicka 2006; Monfardini 2010]

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Current managerial topics in municipal investment management (MIM)

1) Organisation of investment management
2) Investment strategy
3) Investment management and finance
4) Decision making

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Selected cities → Edinburgh

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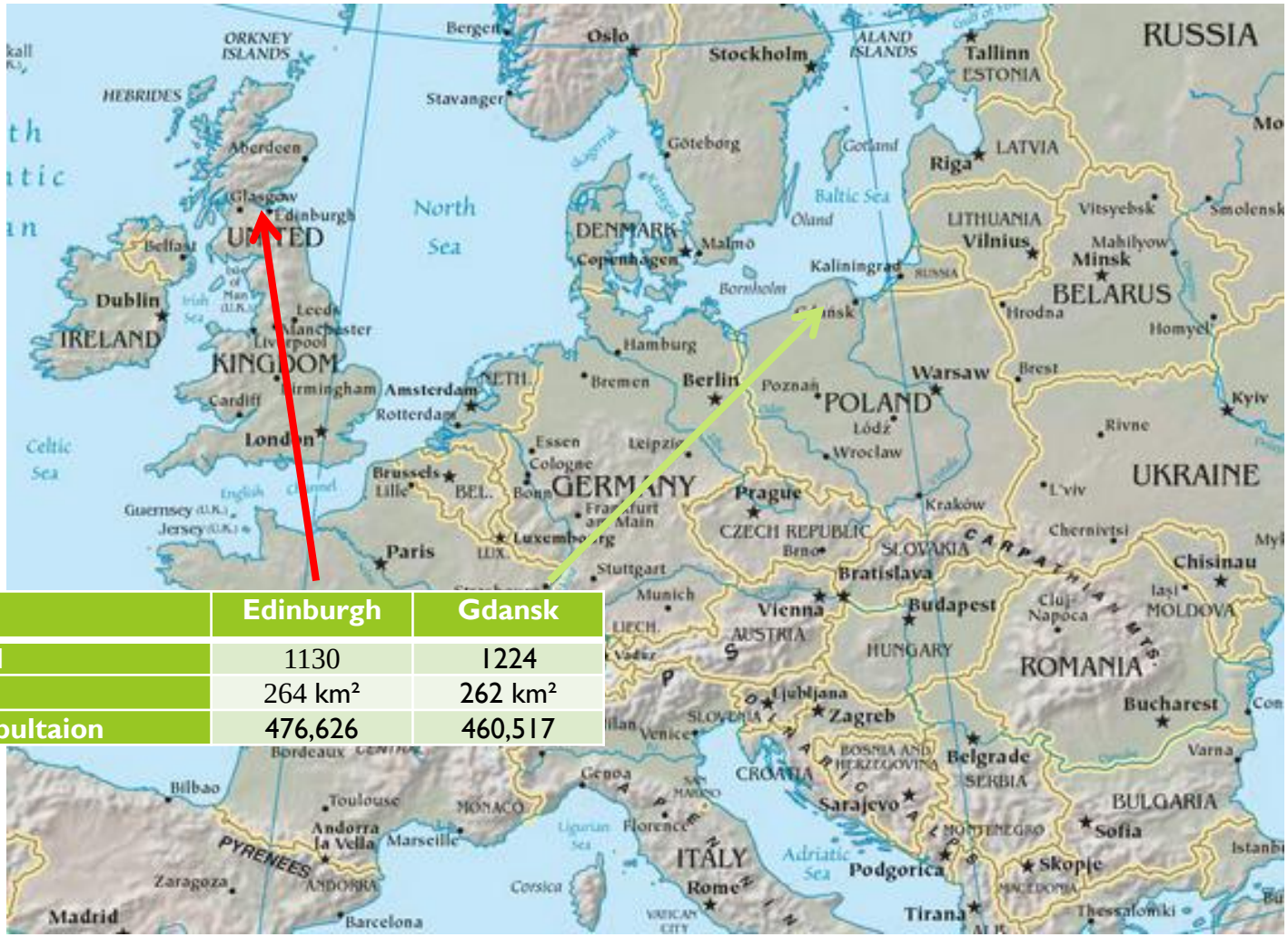

	Edinburgh	Gdansk
Founded	1130	1224
Area	264 km²	262 km²
City popultaion	476,626	460,517

Edinburgh Council overview

- Council controlled by political consortium
- Executed by CEO, and 5 directorates
- Staff of 1500
- Decisions determined by 5 year Strategic cycle
- Budgetary approval via government audit
- Importance of central government funding

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Corporate Performance Management Framework

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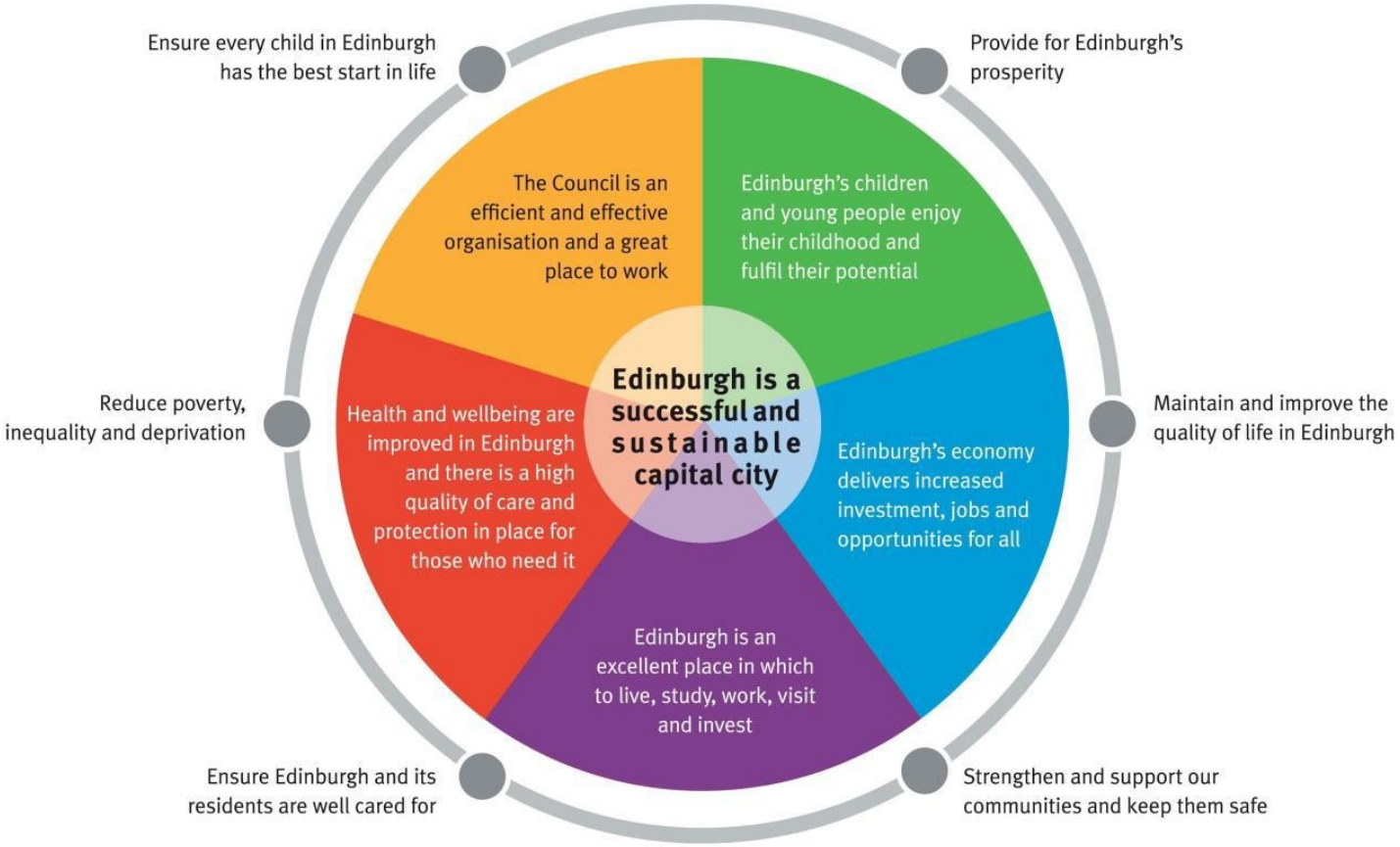


Edinburgh Council: Vision statements /strategic outcomes on:

Theme	Responsible directorate
Children	Children and Families
Economy	Economic Development
Place	Services for Communities
Health	Health and Social Care
Staff	Corporate Governance

Outcomes most relevant to project investment and management.....

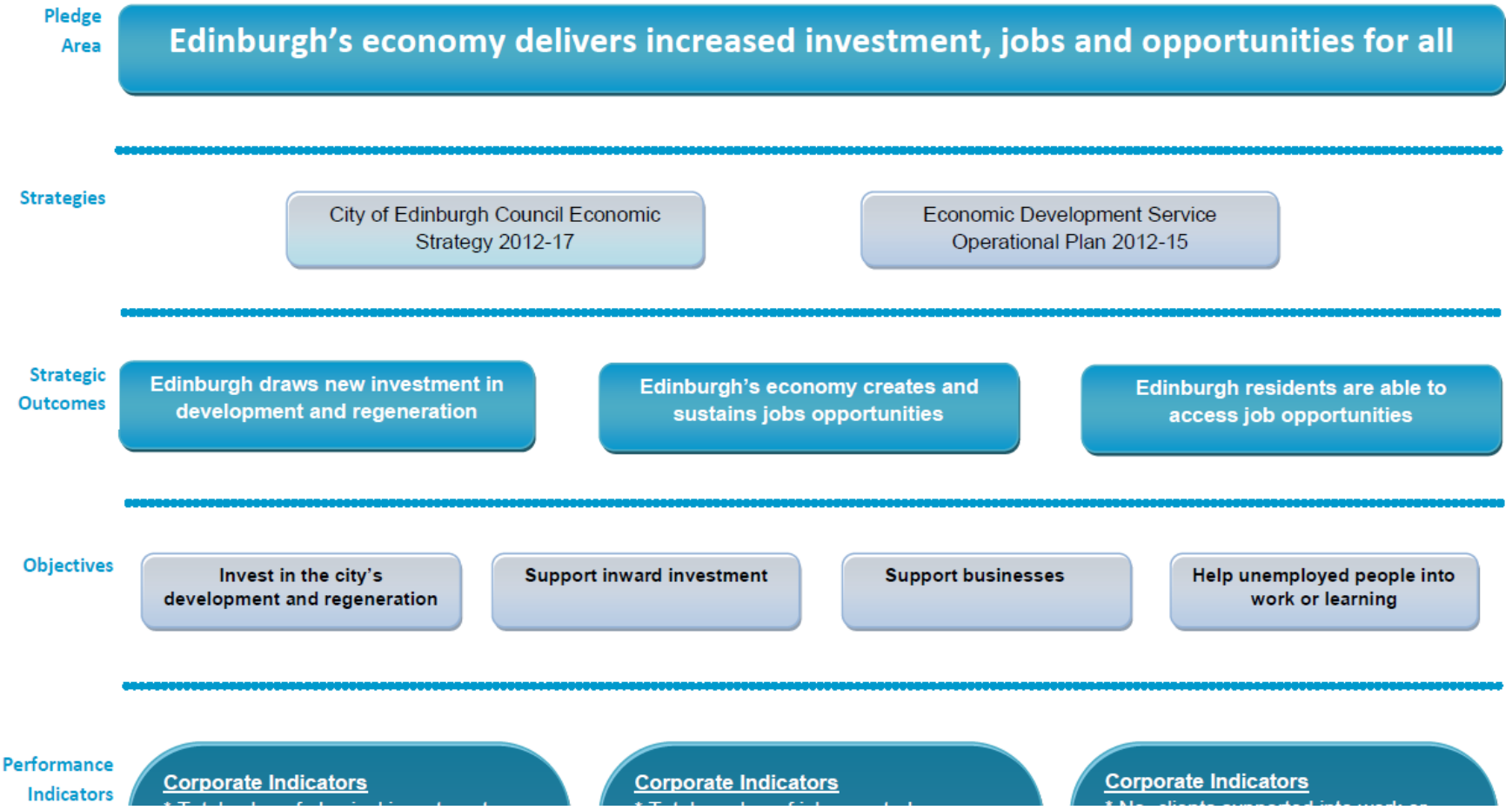
Edinburgh's economy delivers increased investment, jobs and opportunities for all

7. Edinburgh draws new investment in development and regeneration.
8. Edinburgh's economy creates and sustains jobs opportunities.
9. Edinburgh residents are able to access job opportunities.

Edinburgh is an excellent place to live, study, work, visit and invest

10. People live in a good quality home that is affordable and meets their needs in a well-managed Neighbourhood.
11. Edinburgh's streets and open spaces are clean and free of litter and graffiti.
    We reduce the local environmental impact of our consumption and production.
12. Edinburgh remains an attractive city through the development of high quality buildings and places.
13. Edinburgh delivers high standards in the maintenance of infrastructure and public realm.
14. Residents, visitors and businesses feel that Edinburgh is a safe city.
15. Edinburgh has a transport system that improves connectivity and is green, healthy, accessible and safe to use.
16. Communities and individuals are empowered and supported to improve local outcomes and foster a sense of community

Each directorate has strategy model ⇨ Economic Development



Budget 2012/13

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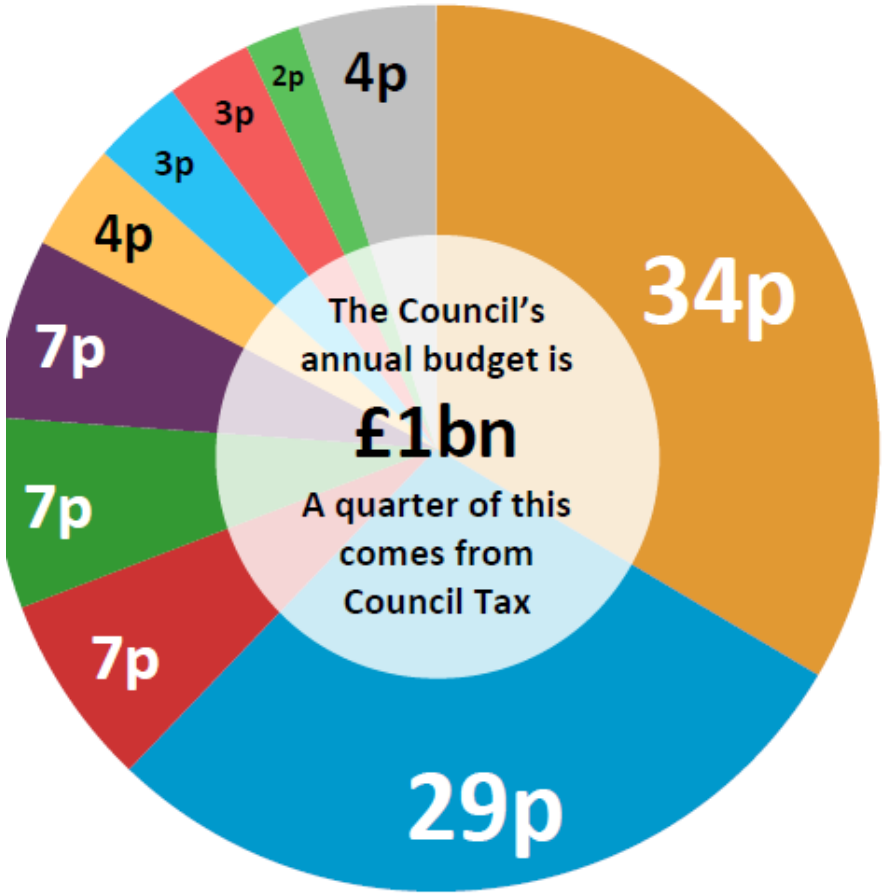
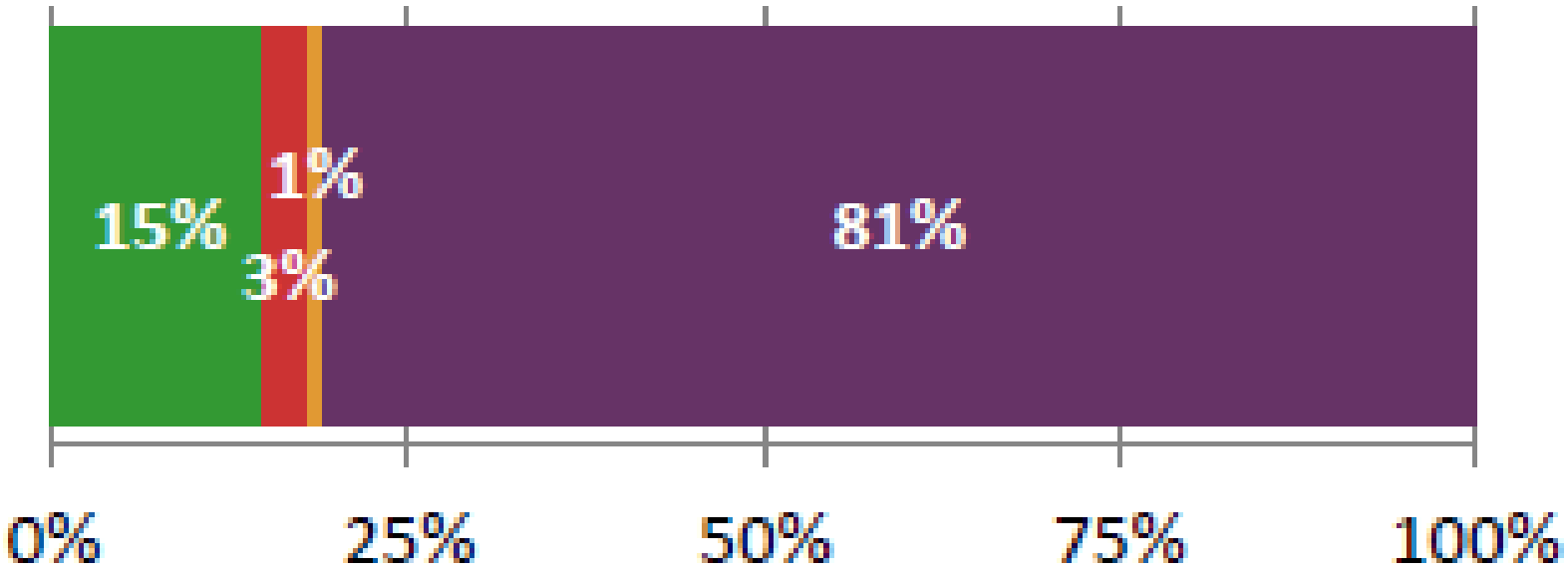


Apportionment of capital budget of £171m for 2013/14



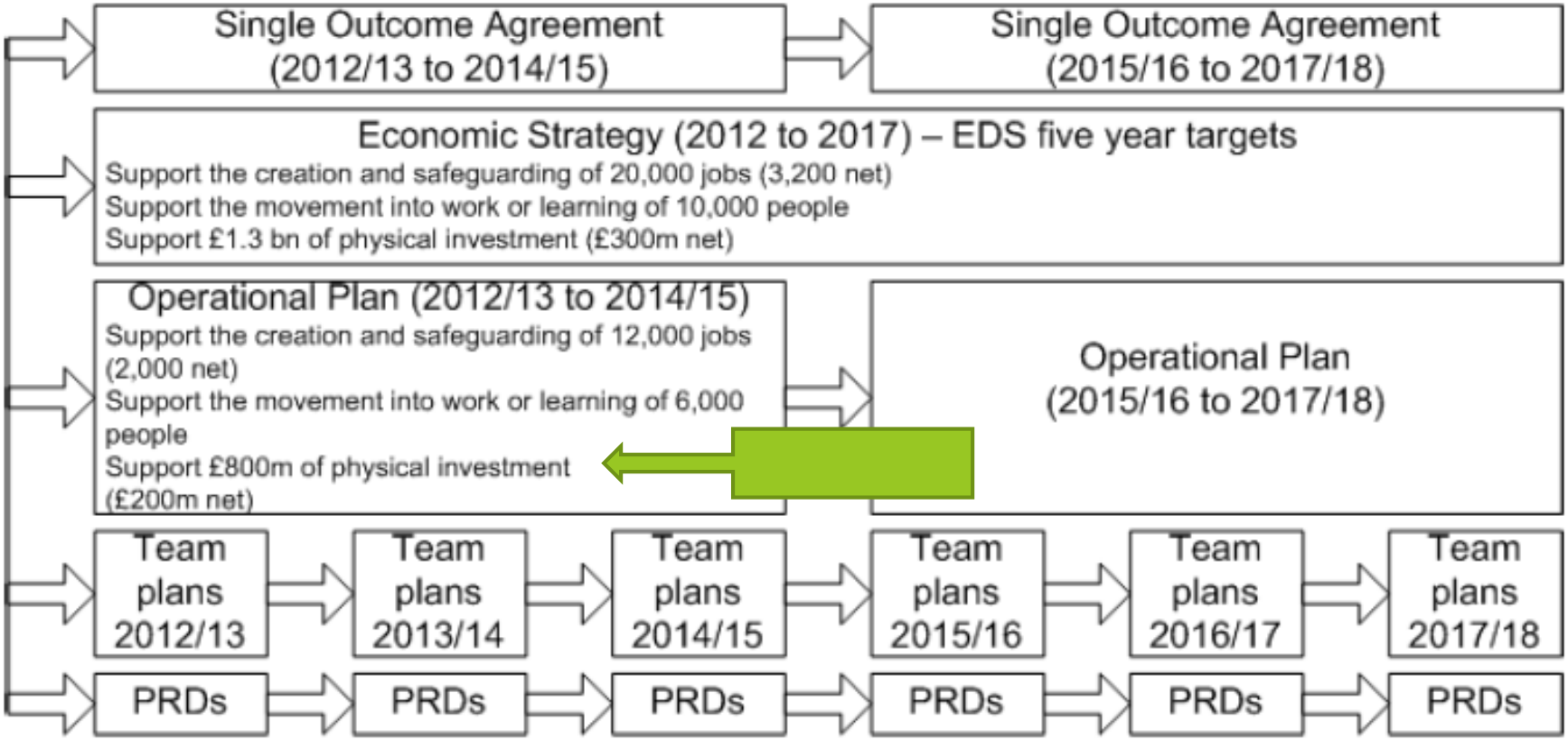
Key

1. Edinburgh's children and young people enjoy their childhood and fulfil their potential
2. Edinburgh's economy delivers increased investment, jobs and opportunities for all
3. Edinburgh is an excellent place to live, study, work, visit and invest
4. Health and wellbeing is improved in Edinburgh and there is a high quality of care and protection for those who need it
5. The Council is an efficient and effective organisation

CEC Tangible assets £,000's

Council Dwellings		1,045,144	
Other Land and Buildings		1,732,764	
Vehicles, Plant, Furniture and Equipment		132,922	
Infrastructure Assets		922,930	
Community Assets		11,263	
Surplus Assets		36,984	
Assets under Construction		29,233	
Property, Plant and Equipment	14.		3,911,240

EDS: Strategic outcomes to individual objectives



Constraints and checks/mini conclusion

- Edinburgh regarded as well run authority applying 'best value' principles well.
- Focus of attention mainly on revenue account and need to reduce this year on year over next 3 years.
- All capital projects are vetted and approved at Council level committee.
- Annualised capital investment very varied due to control factors much fewer asset sales and major tram project.

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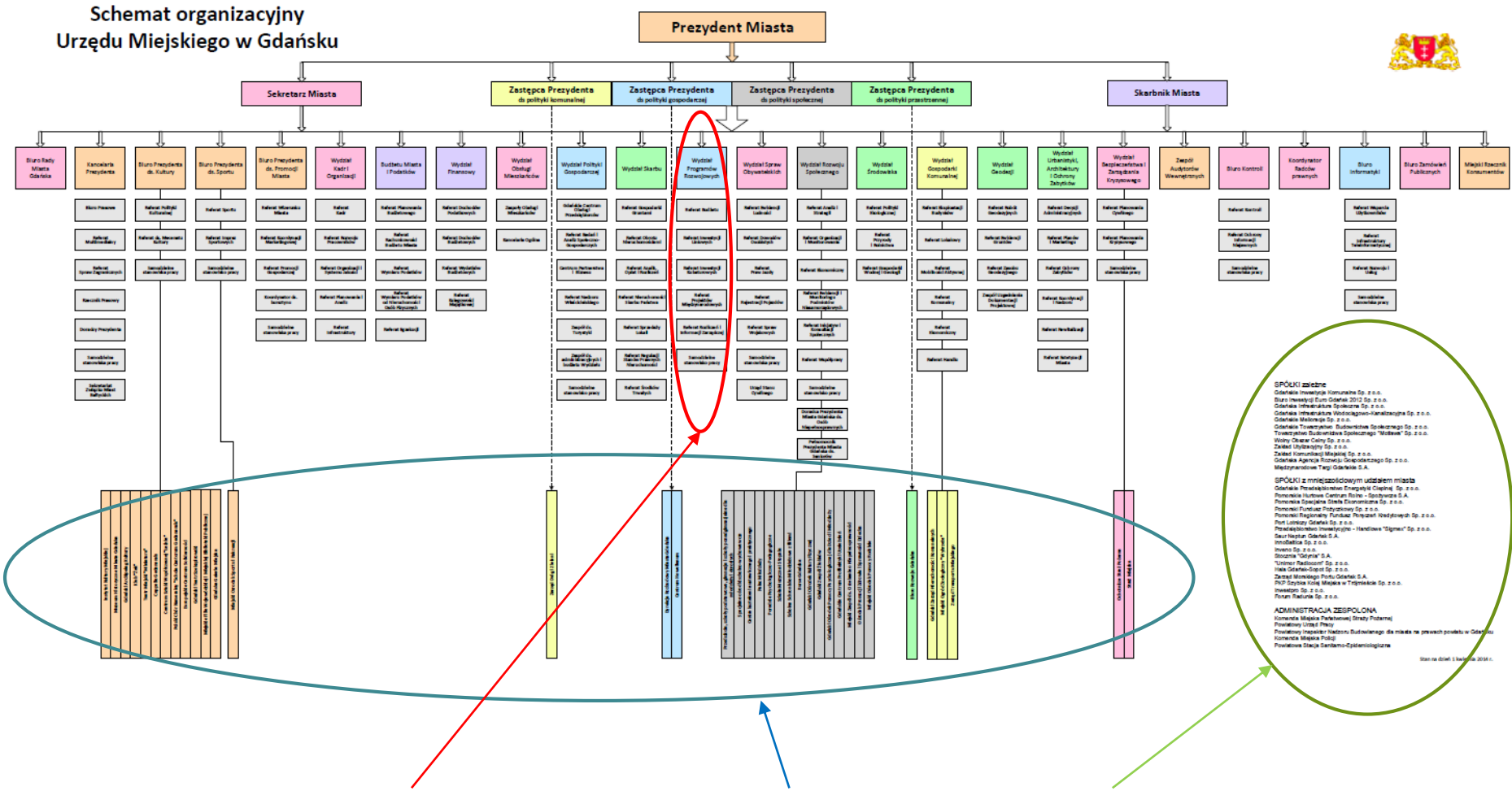
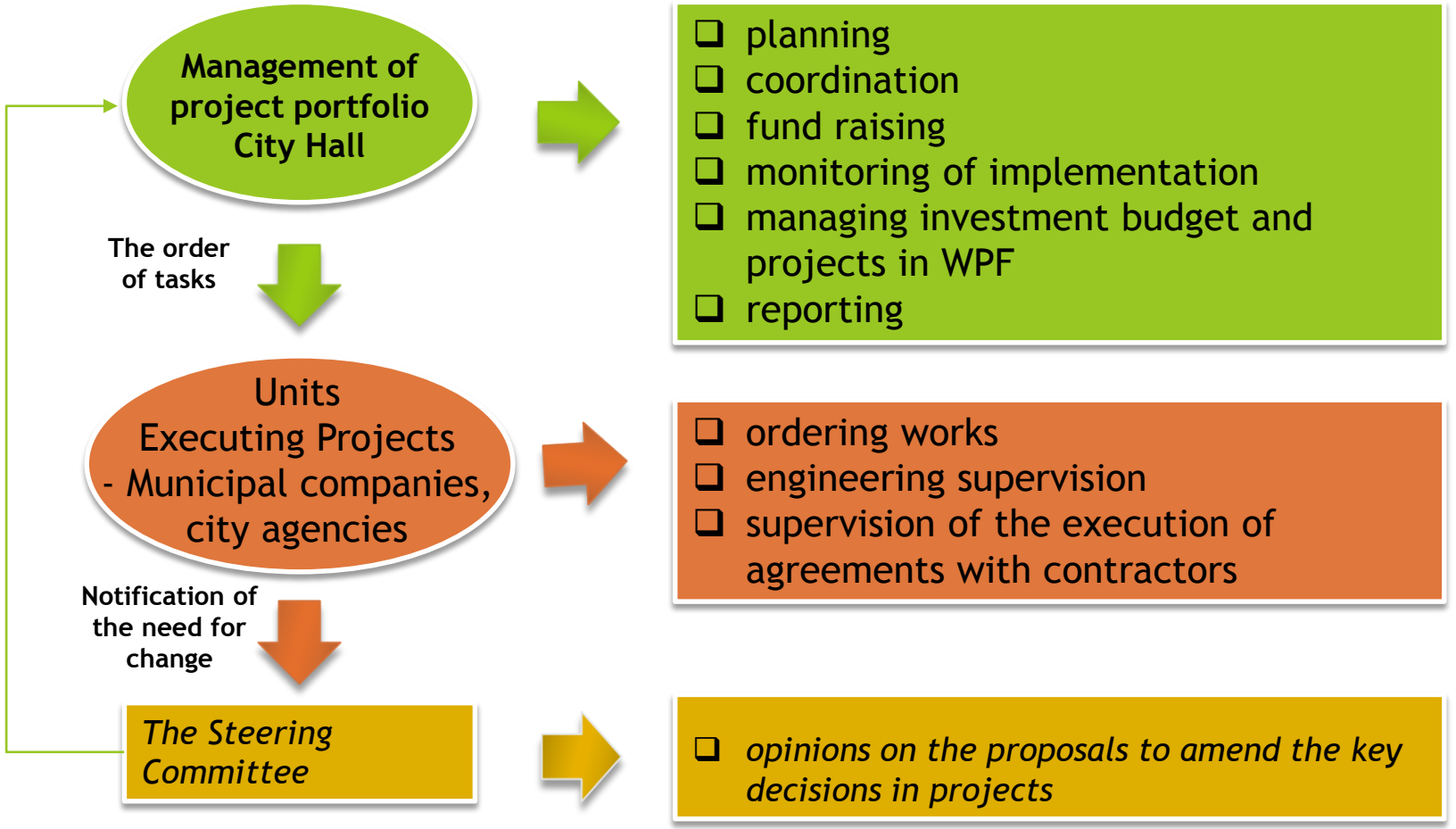
1) Organisation of investment management



City departments, budgetary units, municipal companies

Units engaged in investment management on strategic and operational level



Reasons for delegating the tasks

- The overall evolution of the administration - increased involvement of the private sector in economic development
- The size and diversity of the investment portfolio
- Strategic importance of investment
- Increased risk associated with investments
- Creating opportunities for development
- Requirements for the decision-making process - management from a single location – eg. development department coordinates the flow of money
- Expectations of the private sector (in order to increase the participation of the private sector) - keep up, which is reflected by GARG)
- To improve performance - the pressures of the market, development of standards; uniqueness of competence, without duplication of functions
- „Bureaucracy is good" - transfer labour costs to a special purpose vehicle
- The issue of VAT – possibility to get it back
- The ability to hire better employees, flexible working

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2) Investment strategy

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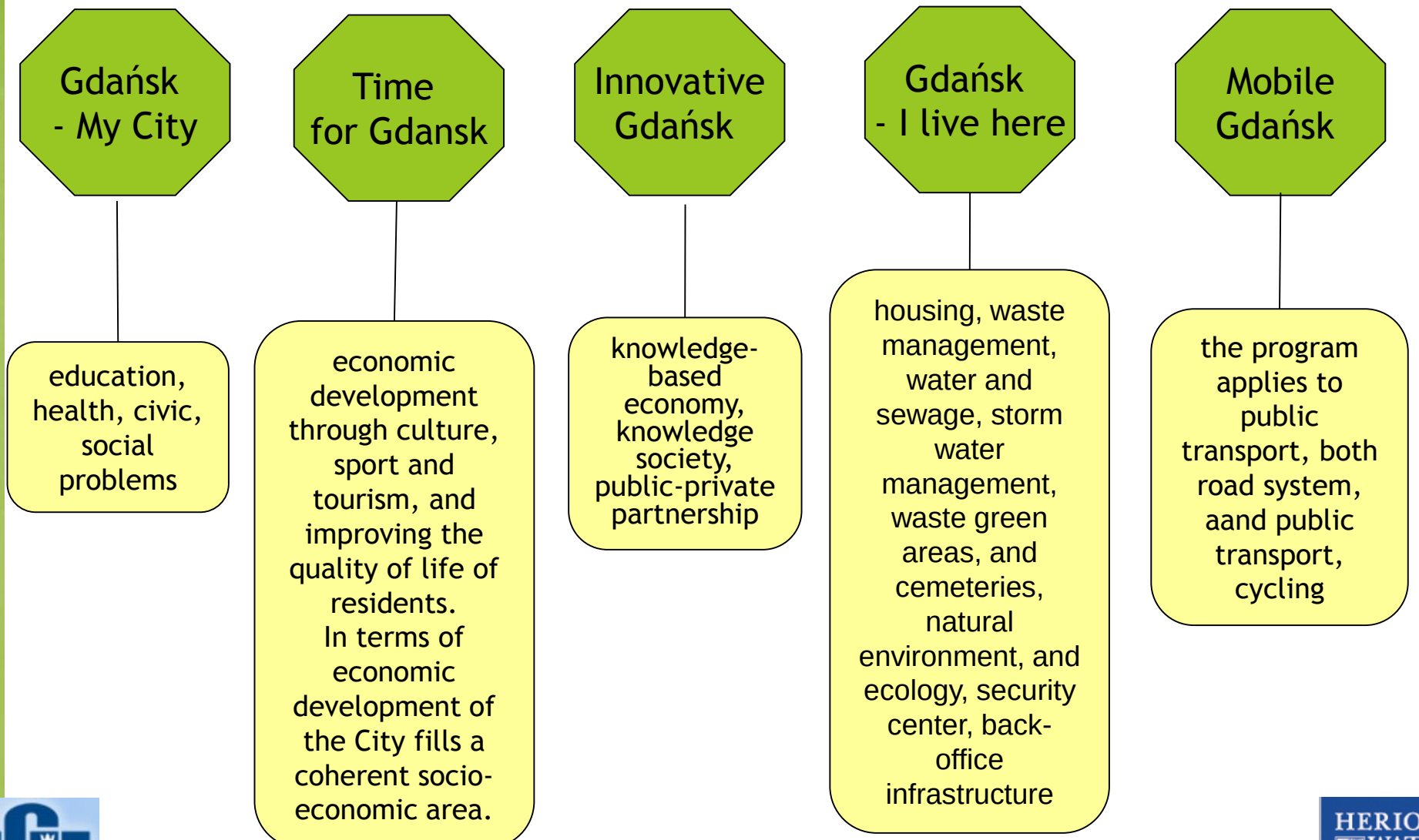
Strategy of Gdansk development 2015

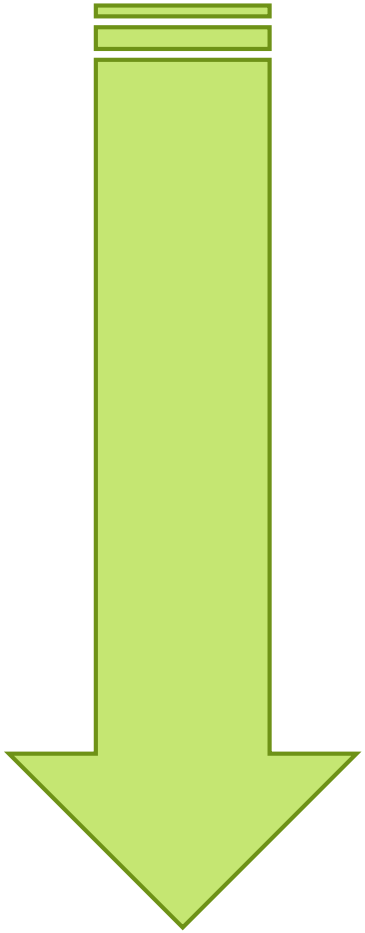
- Objective:
  - To determine the directions of development of the City
- Vision:
  - Gdańsk attractive place to live for a competitive and modern economy
- Includes 5 Operational Programs
- Mentor coordinator for each program

Operational programs



Creation of strategy 2030

- **Report from:**
  - **the 2015 Strategy**
  - **SWOT**
  - **Development Trends 2003-2012**
- **Recommendations / thesis**
- **Social Participation (!)**
  - Group Theme/ Industry
  - Program body
  - Meetings with residents
  - Media
  - City Council
  - Directions of development goals
- **A draft Strategy 2030**
- **Public consultation**
- **The development of the final strategy document**



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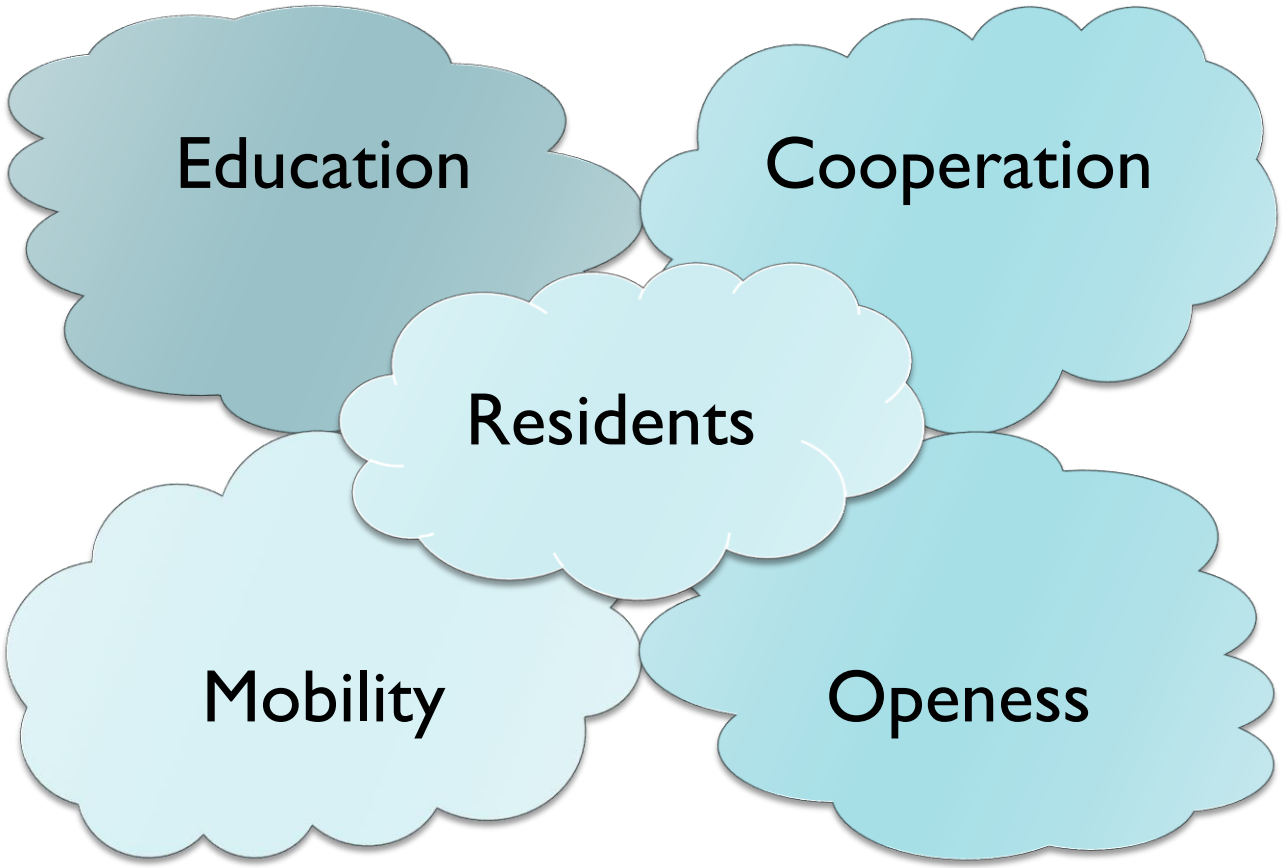
New strategy 2030



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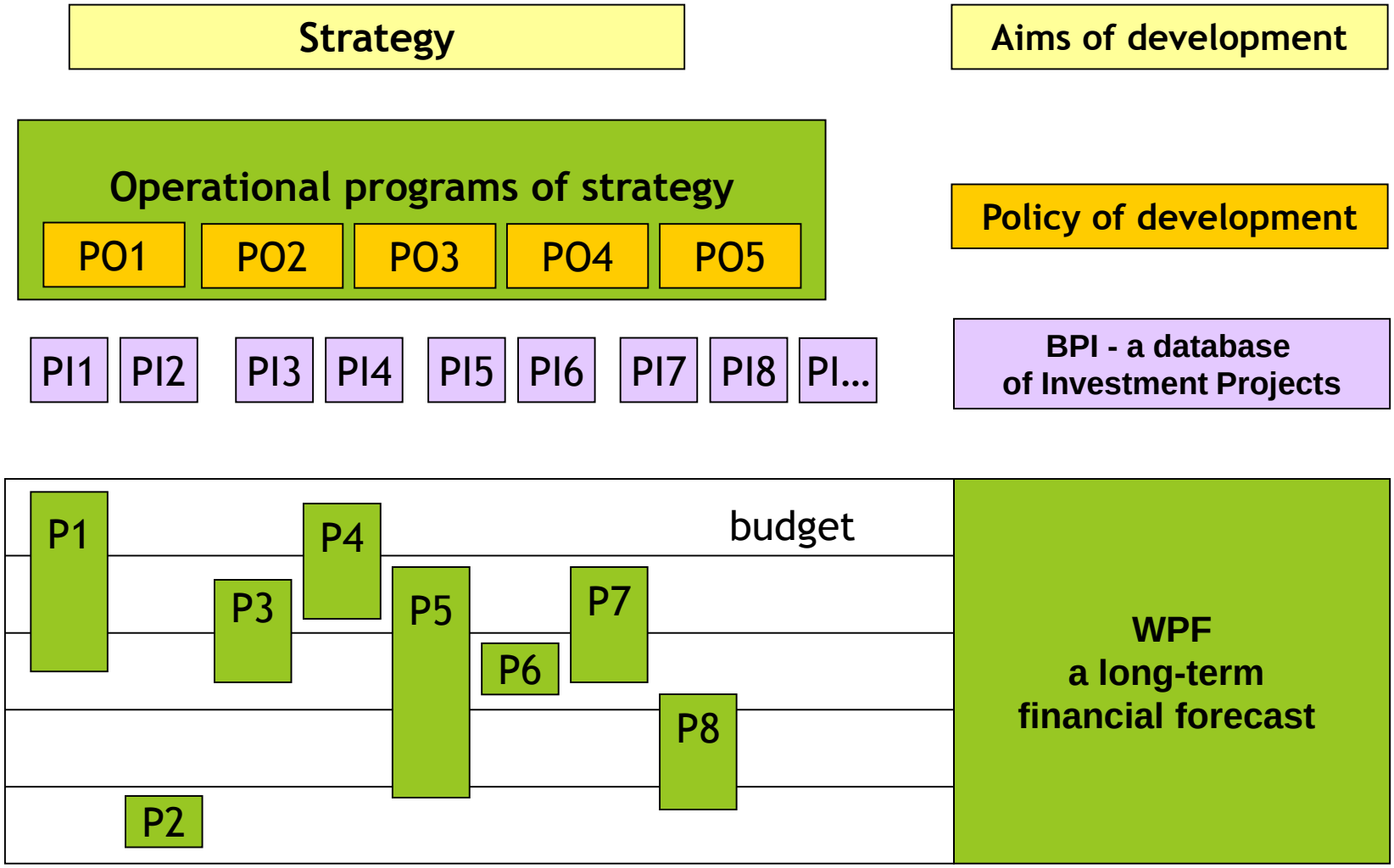
3) Investment management and finance



PO operational program
PI investment program
P project

Multiannual planning

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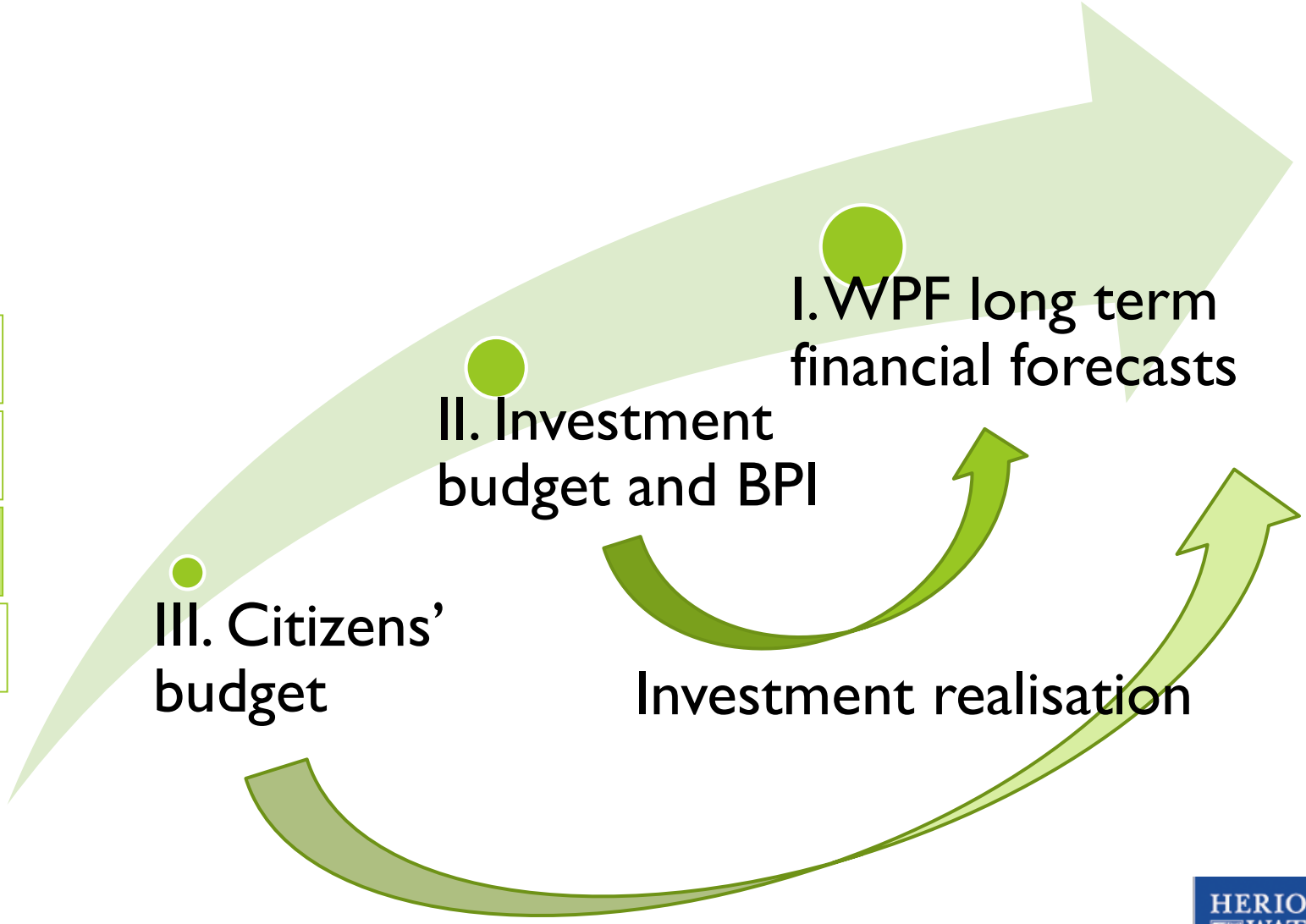

Sources of financing

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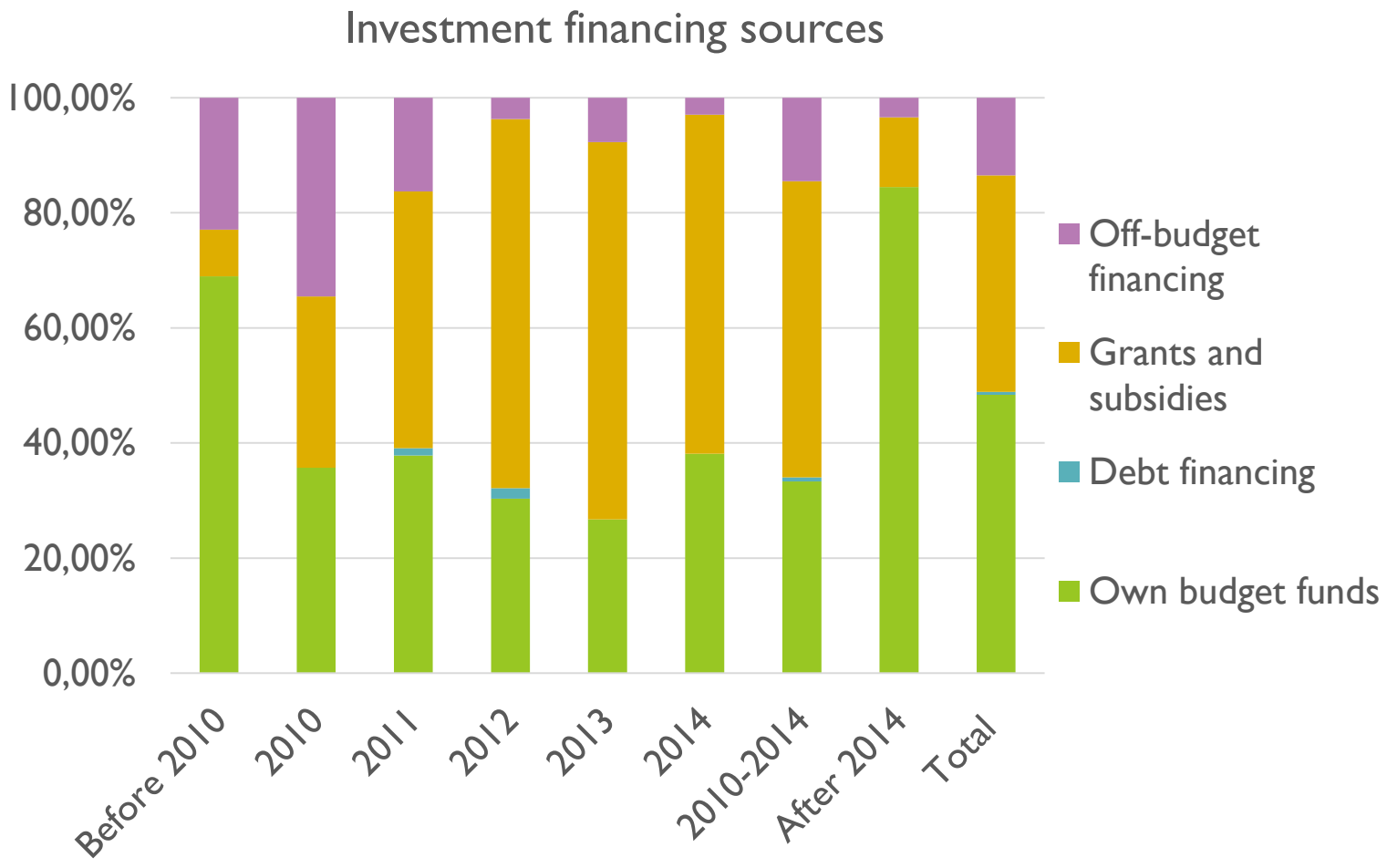

4) Decision making

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The role of the Operational Programs Coordinators

- Analysis of investment proposals received
- Ranking investment applications
- Creating a strategy for the sector

Characteristics of WPF and BPI

Characteristics	WPF	BPI
Based on real financial indicators		
Multiyear		
Adopted by the City Council		
Includes all investments planned for implementation		
Includes one-year investment		
Includes investment priorities and establish a Development Strategy		
Allows you to incur financial liabilities		
Includes all types of projects		

Conclusion (I) *Organisation of investment management*

	EDN	GDA
Formalisation	+	++
Bottom-up/bottom down	Increasing	
Goal/business oriented	++	+
Flexibility	++	+

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Conclusion (II) *Investment strategy*

	EDN	GDA
Universal vision - but as something is about all, it is about nothing.	+	++
Money important, but it is not the goal. Finance is purely a tool.	++	+ (change!)
Satisfaction of needs is the purpose.	+	++

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Conclusion (III) *Investment management and finance*

	EDN	GDA
VFM	++	+
EU funds	-	++
Risk taking	+	++
Regional cooperation	-	++

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Conclusion (IV) *Decision making*

	EDN	GDA
Process orientation/ life cycle planning	+	++
Formalisation	+	++
Investment vehicles	++	+

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Conclusions and questions

- Richness of diversity from 2 cities
  - There is no universal model of investment management
- Similarities
  - size, culture, trend, local govt hierarchies
- Contrasts
  - EU/finance, political/transformation history
- Challenges
  - typologies (of infrastructure)

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Future research

- Potential comparison with other European cities:
  1) Organisation of investment management
  2) Investment strategy
  3) Investment management and finance
  4) Decision making
- What are possible MIM performance metrics which would support:
  - improving decision-making in investment management?
  - improving public investment management?

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