

	HOT-TOPIC ARTICLE	CityRegion Net Lead Expert: Bernd Gassler
---	-------------------	--

City-hinterland co operations

A challenge to accomplish in urban agglomerations made worse by the crisis

(Making City hinterland co operations work)

Introduction

This crisis is affecting smaller conurbations as much as the larger metropolitan regions.

These smaller agglomerations are nevertheless the engines for the development of the decentralised regions.

The borderline between city and hinterland has quite a significant impact on many communal fields – e.g. politics, governance, provision of financing and an adequate organisation. These new duties and complex problems cannot be solved under the current strict political and administrative structures

The increasing upward financial pressures from increasing needs in cities and downward pressures from restricted availabilities of public funds has been exacerbated by falling business tax revenues and restrictions on central government subsidies. This fact influences severely the resources of local and regional authorities and affects their liquidity. Reports on highly indebted cities and municipalities are increasing in quantity.

The financial struggle of many businesses has also led to a partly dramatic decrease of revenues for municipalities, especially regarding the income through

business taxes. Therefore even well-off municipalities feel the effects of the economic crisis now.

The world wide crisis is on the one hand a central problem for the European Union and its member states; on the other hand implications have to be coped with regionally and locally. Many cities have gambled with risky but appearing to be lucrative investments and have lost considerable funds. Consequently they have to find responses in their own fields of competencies with adequate measures.

The worldwide crisis can therefore only be countered successfully by concrete and concerted measures and reforms on all levels (Europe, national states, cities and regions). An intensive cooperation of all local and regional authorities, but especially on metropolitan level, between the cities and their surrounding municipalities, is necessary.

This paper wants to explore, how the vertical cooperation between the state, the region and municipalities can be improved by exploring the potential models that have already been tested in European conurbations. Furthermore it will examine how these vertical arrangements interact and work with horizontal partnerships of municipalities and other co-operations with sectoral interests.

Crisis is affecting city-hinterland co-operations

The financial crisis requires a change of the customized view, especially for agglomerations. Many agglomerations are not able to cope with all these problems on their own. An intensive cooperation of all local and regional authorities, but especially between the cities and their surrounding municipalities is necessary.

While decentralization of public urban services has generally improved the basic conditions for urban development and increased responsibilities are not always in line with the capacities and financial means of local governments. In many cases local government institutions and public utilities are not well-prepared to meet the challenges they face in providing the services and infrastructure required. This has led to shortfalls in coverage, service levels and service quality.

The main challenges of urban infrastructure finance are the lack of adequate funding. In many European countries there also still exists an insufficient legal and administrative framework for private sector participation, such as attractive investment laws, tariff laws and policies, transparent and reliable planning and procurement processes, and sufficient accounting standards of local governments. In particular, medium-sized and small cities have problems to access private funds due to their low absorptive capacity for outside financing

resulting from local budget deficits. Furthermore, their financing needs are comparatively small and unattractive for commercial financial institutions.

Improving or creating an adequate environment for increased private sector participation normally requires sector and often additional legal reforms. This takes time and will only be successful if development partners have the political will to undergo sensitive and sometimes painful reforms and policy changes. This refers in particular to the issue of adequate user fees and tariffs.

Another aspect is that of a missing coordination of taxes between the cities. That means facing the crisis, cities still don't have a joint cooperation in financial matters but they are still acting in sort of a 'competitive situation', pressing down – even now – prices for land or infrastructure and there by getting even less income into their city household.

New Approaches in regional cooperation to counteract the crisis

New approaches are particularly needed for financing the measures with respect to an equal and fair cost distribution between cities and their hinterland. Furthermore new methods have to be applied for the redesign of processes and structures ('regional governance') and for the development of projects of common interest as well as for the protection and conservation of the environment.

France for instance has already built up a legal framework for regional structures and tax systems for conurbation areas, to improve the downward spiral situation of their cities and municipalities.

These cooperation are institutional tools to allow municipalities on the one hand to retain their autonomy (no fusion) and on the other hand to cooperate in one or more communal fields (mandatory or optional transfer) creating a public inter-municipal cooperation (EPCI). This is a new public legal entity, with respect to its own budget (expenditure and revenue), its decision-making bodies (ex - council and president), its means of action (staff, assets, equipment). It will manage the equipment or utilities for the instigation of economic development projects, of urban planning measures, etc. at the scale of an area larger than the town.

The following three models describe cooperation possibilities in France:

- Associations of cities are applied primarily for rural and small towns. The skills required are centred on the idea of establishing joint development projects (economic development and spatial planning). As an option, they must manage at least one of these four tasks: protection and enhancement of the environment, housing policy and living standards, development and maintenance of roads, construction, maintenance and operation of cultural, sport, primary education and preschool facilities. Its own taxation finances the inter-municipal cooperation but the introduction of a single business tax is not required.
- Conurbation communities are subject to a test population (city-center for a town of 15.000 to 50.000 inhabitants). The list of mandatory tasks reflects a policy of common development on a territory (economic development, spatial planning, urban policy, and housing policy). The law also provides a list of optional tasks: sanitation, water, construction, development and maintenance of roads and parking lots of communal interest, enhancement of the environment and quality of life, construction management, maintenance and management of leisure, sport and cultural facilities. The statutes must include inter-municipal management of at least three of these five tasks. They receive state support (improved FMD). The establishment of the TPU (single business tax) is required. They may levy a tax on joint property taxes and housing taxes.
- Urban communities have been applied since 1999 to towns of more than 500.000 inhabitants. The list of required tasks is impressive (e. g. economic development activities, cultural facilities, sports, planning documents and land use management, urban transport, roads, local program of habitat, urban policy, sanitation and water, cemeteries, fight against air pollution). They receive state support. The establishment of the TPU is mandatory. They may also levy a tax on joint tax and housing tax (if TPU).

In 2009 the French government proposed reforms for institutions, regional and inter-municipal cooperation. In response to the success of quantitative tax, the Secretary of State for Local authorities, no longer concealed its desire to establish by law a target date (1st January 2014) by which the last isolated

communes would have to choose their community of attachment¹. President Nicolas Sarkozy goes ahead with a new plan to cut costs and bureaucracy by wiping a few regions off the map. He wants to simplify France's complex system of regional, sub-regional and local bodies.

Atop the system sit the French state and the European Union. But France needs to cut down on its public spending and Sarkozy has called the layers "costly and inefficient". He set up a committee to study ways to make the system simpler and cheaper.

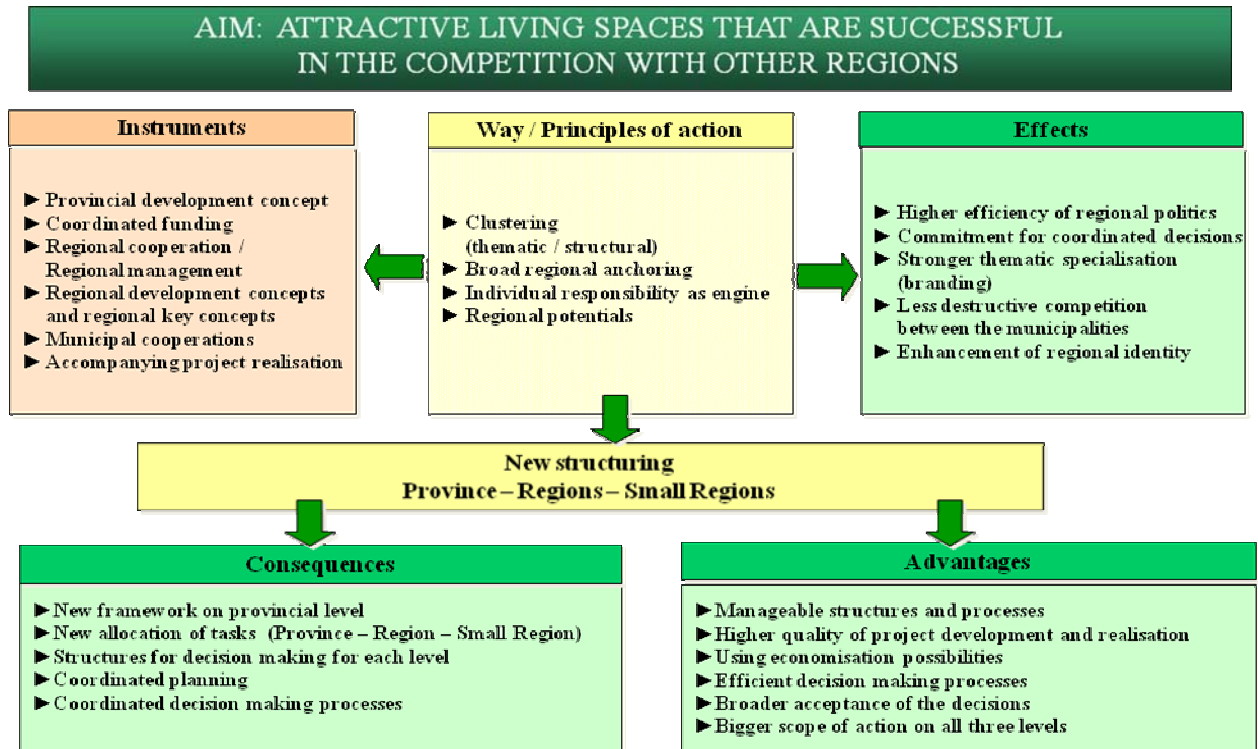
For some structures, the reform could be more drastic with the legal obligation to create '25 cities of the future.' These cities, including 16 from urban communities today, would serve to 'replace the departments.' In legal terms, they might have 'community status' and therefore, their representatives could be elected by direct universal suffrage. The simplification of inter-municipal landscape by establishing a uniform legal regime for the other structures of cooperation between own tax (excluding cities) is also mentioned as 'communities of territory'. Finally, the decision-making structures of inter-municipal cooperation will naturally be sensitive to developments affecting the overall operation and business tax.

Also other European countries are aware, that more actions must be set for the strengthening of city – hinterland regions. In 2008 the Land Steiermark (Provincial government of Styria) in Austria passed a bill, which regulates new forms of municipal cooperation in 'great regions' and 'small regions'. According to these models, the cooperation will receive special grants, if a certain number of municipalities decide to cooperate on specific topics.

¹ This will not apply to Ile-de-France

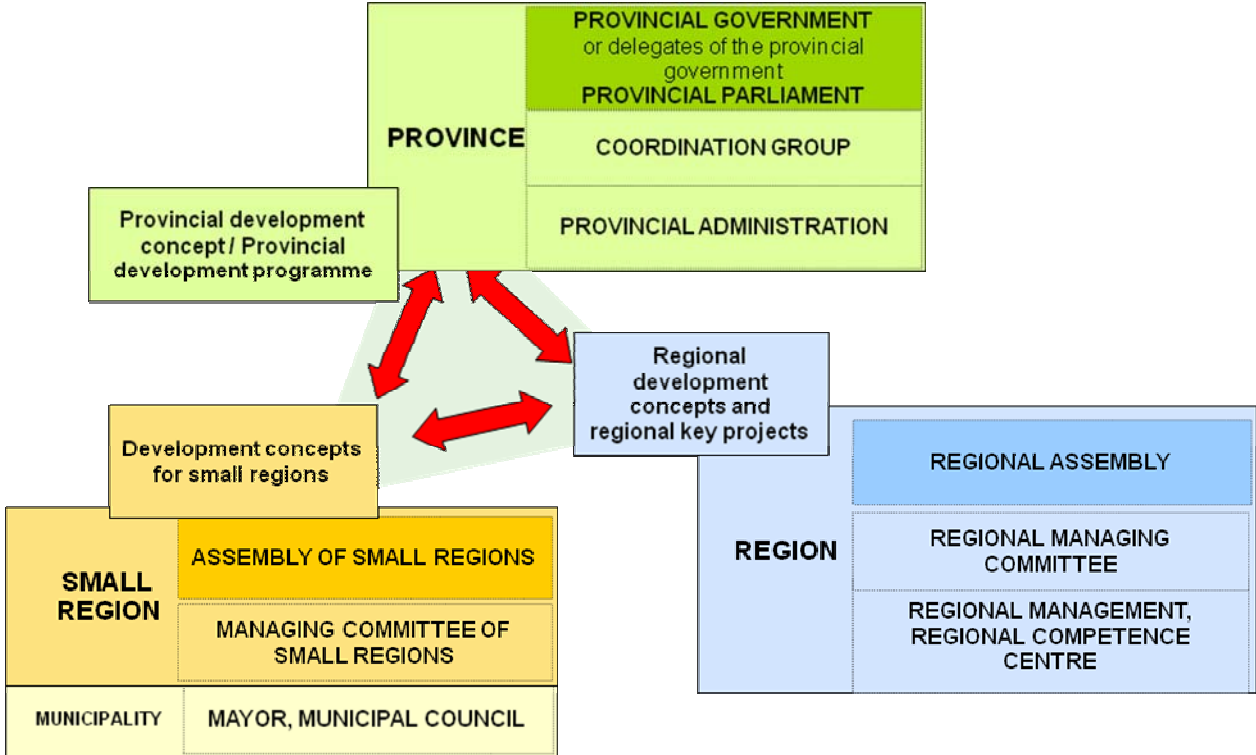
The process of the implementation of these models is documented on the figure 1 below.

Figure 1 Principles of regional reform in Steiermark, Austria



The institutional structures on the three levels can be seen in Figure 2 below.

Figure 2 governance arrangements for regions and cities in Steiermark



At the moment, almost 95% of the Styrian communities have found cooperation in small regions. This high proportion was achieved in a relatively time. Within the next few months the bigger regions will be founded which are then supposed to work as 'laboratories in regional development'. The next steps will also be highly concentrated on the level of the provincial government of Styria where sectoral funds will have to be coordinated within the framework of Regionext.

In Switzerland and also in the Canton of Zurich, there are different initiatives being implemented in order to improve regional structures and cooperation. One strategy is a better institutionalisation of the larger metropolitan region (Zurich: 7 cantons, 220 communities, several agglomerations, etc.). Another strategy is to find more binding and efficient structures for the strategic cooperation and policy-making between municipalities. On an operational level, they know the system of purpose-orientated associations (Zweckverbände). Last but not least,

there is also a trend in Switzerland for fusions between two or more municipalities. However, in the Canton of Zurich, the number of municipalities has not changed for about 50 years and still stands at 171.

For the cooperation between Zurich and surrounding municipalities there is no ceiling for all cooperation or interests. The municipalities are very anxious to avoid losing their autonomy.

Within CityRegion.Net Zürich proposed a new cooperation form - a multi-level decision-making model based on the following building blocks:

- **Functions:** shared projects, lobbying, identity-building, etc.
- **Finances:** yearly contributions in relation to the inhabitants of cantons and municipalities, and separate financing of larger projects by those who are interested and willing.
- **Framework:** association with statutes, management board, small office, but with clear political lead (not by administrations)
- **Voting rights:** more inhabitants, more voting rights, more financial contributions
- **Stakeholders:** both cantonal governors and communal mayors

Financial measures against...

Since October 2008, the European Commission has proposed a series of measures to speed up the implementation of European cohesion policy programs for the 2007-2013 period to ensure that all cohesion policy resources are fully mobilized to support Member State and regional recovery efforts. These measures are based on recommendations to Member States and specific legislative or non-legislative measures designed to accelerate investment and simplify the implementation of European cohesion policy programs. The idea is to introduce greater flexibility, give regions a head start and target cohesion policy programs on smart investment.

The Commission suggested increasing the advance payments to the 2007-2013 programmes. These additional advance payments will provide an immediate cash injection of €6.25 billion in 2009 for investment, within the financial envelope

agreed for each Member State for the 2007-2013 period. This change would raise the total of advance payments to €11.25 billion in 2009, bringing a much needed boost to public investment.

To help the cities accelerate the development of major projects the Commission has proposed the following:

- Increase the resources available to JASPERS (Joint Assistance in Supporting Projects in European Regions) by 25%, to help cities prepare and implement major projects faster from 2009 onwards
- Accelerate intermediate payments for major projects to provide them with adequate financial liquidity
- Simplify state aid rules

The Commission has negotiated with the Member States to simplify the rules governing state aid schemes which are co financed by cohesion policy.

In practice, under certain conditions, this would mean that advances to state aid schemes' beneficiaries could be eligible up to 100%.

In addition, the Commission has put in place a temporary framework under the State aid rules for Member States to tackle the effects of the credit squeeze on the real economy until 2010.

This temporary framework provides cities under certain conditions with:

- a lump sum of aid up to €500 000 per company for the next two years, to relieve them from current difficulties;
- State guarantees for loans at a reduced premium;
- Subsidized loans, in particular for the production of green products (meeting environmental protection standards early or going beyond such standards);
- Risk capital aid up to €2.5 million per SME per year (instead of the current €1.5 million) in cases where at least 30% (instead of the current 50%) of the investment cost comes from private investors.

All these measures are limited until the end of 2010.

Above that many member states have also adapted their own regulations for state aid within the rules of the Commission to be able to give the private sector an instrument which enables it to react to the crisis a bit more actively.

Investing in areas of high growth potential the Commission will modify the existing cohesion policy programs with a greater emphasis on smart investment, such as investing in projects for energy efficiency, clean technologies, environmental services, infrastructure and interconnections, broadband networks, forecasting and matching skills with future labour market needs or opening up new finance for SMEs (i.e. research-intensive and innovative SMEs).

There is also a need to maintain high levels of public investment to ensure that cohesion policy resources are fully mobilized to support local and regional recovery efforts.

In view of the crisis local authorities and municipalities are also facing major difficulties on the financial market. At the same time public authorities are put under pressure to deliver better quality services to citizens and industry. The lack of financial resources and the budgetary burdens make the public-private partnerships (PPP) very attractive as mean of delivering public services. PPPs are more and more important, as they enable local authorities to maintain services while saving financial resources. There is a visible augmentation of public-private partnerships in almost all member states of the European Union. Today PPPs are present in almost all sectors of public services like transport, water, waste, health, education, etc. PPPs are not only a solution to financial shortages in the public sector, but they also share the financial risk between public and private sectors and enable the private sector to apply innovative solutions. Many of the PPPs are based on very complex contracts covering huge amounts of expenditure and in some cases over a long period of time. They influence the way public services are delivered in the municipality, the city or even an entire region.

Municipalities are likely to fear the complexity and lack of transparency surrounding PPPs. PPPs allow investment now in return for long term revenue commitments in order to pay the PPP holder for services in the future. They essentially convert capital needs in the present into future revenue obligations. Some alarming experiences of financial engineering in the Cross Border Leasing may cause some municipalities to hesitate before entering complex schemes. In Germany over 150 municipalities made agreements to lease back their transport, water and waste management infrastructures from American banks and

insurance companies in what were described as a one way bet. American tax laws prior to 2004 made these deals attractive to both parties. But turmoil in the financial markets has shown that there are no free lunches in finance. Voters are likely to insist on greater transparency and open discussion of private sector deals in the future.

A lot of agglomeration areas try to include more energy efficiency improvements and renewable energy schemes in housing in their regions.

One key area of the recovery program in Germany has also got off to a promising start. The municipal investment program aims to modernize schools, daycare centers for children and sporting venues to improve their energy efficiency. Ten billion Euros have been allocated for this purpose; the respective state bears a quarter of the costs.

The benefits should be great. Firstly, it should cover additional projects that have a positive economic effect. Secondly, mainly small and medium-sized businesses profit from this program and thirdly, municipalities save energy costs when modernization is complete. Not to mention the children and young people who gain practically new sporting and educational facilities.

To promote entrepreneurship and enhance cooperation with the European Investment Bank (EIB) and European Investment Funds (EIF) the Commission encourages and helps the cities to get the most out of the JEREMIE (Joint European Resources for Micro to Medium Enterprises) initiative for SMEs, including guarantee, debt and equity instruments, and improving the business environment for micro-credit. The new JASMINE initiative (Joint Action to support Microfinance Institutions in Europe) will channel various forms of technical and financial support to non-bank micro-credit providers to promote the availability of micro- credit for businesses – especially micro enterprises and self employed across the EU.

Recovery Packages for cities in Germany

Awesome facts and figures come from Germany's first two economic recovery packages, which are worth more than 30 billion Euros. These incorporate a dozen individual measures.

For example, the funds for the building modernization programme to reduce CO2 emissions are increased by three billion Euros from 2009 to 2011 to boost growth and employment and at the same time protect the environment through increasing energy efficiency. The temporary exemption from motor vehicle tax

for new cars also benefits the car industry and the environment. Additionally, the payment period for short-time work unemployment benefit is extended from 12 to 18 months to prevent lay-offs and enable firms to better bridge cyclical fluctuations in the economy.

At the heart of the second recovery package is a public investment programme with a volume of 17.3 billion Euros. It is intended to facilitate the modernization not only of schools and day-care facilities for children, but also traffic infrastructure and public buildings. The Federal Government provides ten billion Euros for the municipal investment programme, while the provinces have to contribute 3.3 billion Euros.

Four billion Euros of federal investment will be spent on traffic infrastructure and other construction projects. To support the car industry, an 'environmental bonus' of 2,500 Euros is paid to owners of at least nine-year-old cars who scrap their vehicles and buy a new or one year old model in its place between 14 January 2009 and the end of the year. A total of 1.5 billion Euros is allocated for this purpose.

On 1 July 2009, the level of contributions to statutory health insurance funds paid jointly by employees and employers were reduced from 15.5 to 14.9%. Employees and employers will accordingly save nine billion Euros by the end of 2010. The Federal Government subsidy to health insurance funds will increase by the same amount.

Short-time working will be made more attractive to help prevent lay-offs. The period of short-time working is to be used for training and skills acquisition to fill the interval -until the next upturn. The Federal Employment Agency will pay the employers' social insurance contributions to the tune of 2.1 billion Euros until 2010. Additionally, some two billion Euros will be made available for retraining long-term jobseekers.

A loan and credit guarantee scheme is helping healthy larger companies that receive no or insufficient credit due to the caution currently being shown by banks. 100 billion Euros are allocated for this purpose. Government ownership of shares in companies is not envisaged.

Conclusions

Will these be the right measures to face the crisis? Is an economical approach enough for a sustainable cyclical upturn? These are among the questions, which cannot be answered at the moment.

In the range of politics long term measures against the financial crisis are not feasible. The only possibility is to watch, if the short term measures as the examples in Germany help to come to a midterm strategy to face the real upcoming problems in city-regions - as e. g. the general public services or the demographic change.

Some important success factors to improve urban infrastructure facilities and services seem to be a close coordination and cooperation between different actors, especially in the areas of policies and the private sector and an adequate combination of investment and policy/reform components that seem to reinforce each other. The participation of the local target population in the process of identifying, planning, implementing and operating urban infrastructure facilities will also have a positive impact on the sustainability of project and program measures.

The partners of the network "CityRegion.Net" have implemented their experiences in developing best models of planning tools and models of regional structures to face the financial crisis in the cities. The joint current analysis was that all cities have more or less financial problems not only affected by the crisis but more because of their fields of infrastructure activities, which get more and more expensive and could be arranged much better in regional cooperation in an agglomeration area. Environment, waste and waste water management, public transport or social affairs are issues which could be arranged more efficient in regional cooperation.

All these tasks would need a strong government on the functional urban area level. The development of integrated policies in the city-regions is the main question for cityregions in the future.