

The need for integrated policies in the context of economic crisis and the new challenges of territorial governance in European cities and regions

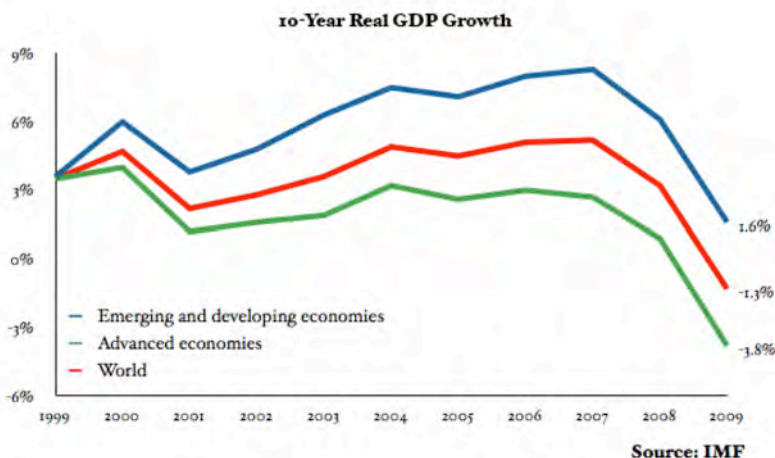
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On the 15th of September 2008, just one year ago, the Lehman Brothers Investment Holding went bankrupt: it was the beginning of a global crisis, which in scale has been unprecedented for at least the last seven centuries. This collapse has ignored borders, placing capitalism under a big question mark. The global dimension has affected all sectors of society, on different levels, at different stages and over different time scales. Although today some economic figures indicate a slow consolidation of the economy, it appears more and more that cities and regions in Europe will be confronted by the consequences in 2010 and later, accompanied with huge financial difficulties - and things will never be the same as before.

1. What are the territorial consequences of the economic crisis?

A global systemic crisis

The global economy is experiencing one of its deepest and most widespread recessions in the post-war area, and the economic situation continues today to be exceptionally uncertain. This crisis is not the same crisis as those experienced in 1929, the 1980s, or the dot-com bubble in 2000. A huge uncertainty dominates at the global level: will we have an extension of the economic decline, how long will this economic decline persist, and what are the territorial consequences of this decline, or in other terms, when will the global recession be over, what will be the shape of the economic recovery, and are there risks of a relapse? The themes, related to economy and growth, are changing fundamentally for European cities.



In many advanced economies and some market economies, the recession will not be formally over before the end of 2009; in other economies, recovery has started already (Germany, France and Japan). In relation to a EU-GDP of -4% in 2009, the EU Commission is hoping for -2% figure in 2010 and later, although this no-growth-model will be uneven across the EU-Member States (EU Commission, Economic forecast 2009). As the emerging market of the Asian economy has better prospects in the near future, exporting markets like Germany or France can be modestly optimistic for the future. But the risk of a double-dip recession is growing. Due to high unemployment in advanced economies (US, Germany will be above 10 percent in 2010), limitation of investment by banks (crisis of solvency, not just liquidity), shrinking income and high current deficits in market economies, a damaged financial system, weak profitability, and

finally weak financial power by municipalities: economists are debating between a V-shaped recovery with a rapid return to growth and a U-shaped, anaemic and under performing trend for at least a couple of years (Financial Times, 23.08.09). For European cities, a U-shaped recovery could have fatal consequences.

According to the European Commission, cohesion policy can help to overcome the crisis, recognising that cohesion demands a long term policy orientation – over a period of 7-9 years - : by advanced payments, pre-financing projects, simplified re-imburement methods, flat rate lump sum shifting, extension of eligibility rules, reduction of minimum rules for revenue generating projects, shifting of payment period from the past funding period 2000-2006 until 2008, exploiting advice from JASPERS or JESSICA. Nevertheless, according to the Commission (Dirk Ahner, Open Days 2009), the measures undertaken until now are frustrating and unconvincing: due to delays in responding to claims, lack of money for co-financing and reduced liquidity in national budgets and financial institutions. Member States will experience a slow growth, combined with considerable problems, and with the double dip risk.

Convergence regions for example exhibit, a worsening unemployment and underemployment, a further access impediment to credit, deep crisis in manufacturing and tourism, a slowdown in bridging digital divide and technology adoption, and less SME investment in research and development (ESPON Seminar on financial crisis, May 2009).

Three global systemic crises

A recent analysis carried out by the European Environment Agency clarified the global consideration; we do not have today one global crisis, we have to consider three systemic multiple crises: a finance/real economy, an energy/climate and an ecosystem/biodiversity crisis, combined with a crisis of trust. This is compounded by the exposure of concealed debts, including ecological debt, which is not even recorded in accounting books, and a governance crisis, where responses are represented by a series of untested rescue packages, as well as trial and error solutions (Jacqueline McGlade, EEA 2009). The common features of the three systemic crises are: making money from money, an overconsumption of natural resources, and a destruction of the capital base. These three points are applicable to all levels of the three crises, financial, human, natural and social.

These crises are accompanied by a certain number of driving forces at the European level, which unfortunately are often considered in a too sectoral manner in European strategies: an ageing population; a concentration of immigration in cities and a diminishing population in villages; a growing segmentation of the society in general; a need to exploit renewable energy sources; short-term thinking in terms of investments; uncontrolled spatial changes (urban sprawl) and a further process of suburbanization; lower growth rates predicted for the years ahead; a substantial increase in unemployment; a strong development of green economy and energy; a decrease in transport flows; and finally an acceleration of climate change and intensification in prevention measures limiting greenhouse gas emissions.

Cities and regions hit by crisis

Cities and regions have been touched in two waves by the financial crisis: the first-wave of impacts started in 2008 in the financial sector, and were prolonged in 2009, while the second-wave affecting the urban economy, is more recent and expected to last for the coming years. Impacts on cities may vary depending on countries involved and sectors of activities, as well as territorial patterns of impacts - on the other side, actual policies developed by member states will provoke different territorial impacts, resulting in rapid shifts over the next months and years. The global recession implies a territorial vulnerability in relation to national economy, export-oriented sectors, housing related sectors, the automotive industry and the tourism sector.

Consequences, impacts –and challenges- for cities are varied and several:

- Loss on investments: a major impact can be observed on affected municipalities, but is quite rare across responding countries. Examples of heavy loss are exemplified in the UK (bankruptcy of Icelandic Banks – 1 billion € loss in financial investments), in Belgium (Dexia Bank crisis), or Norway.
- A loss in tax revenues: the general economic downturn is expected to affect the volume of tax revenues across Europe. It is expected, that the volume of loss will rise in the next years, depending on the type of tax (personal income tax, company income tax, etc) levied or shared by the local or regional government in the respective countries, and the proportion of this income source in respect of total budget revenues. In Germany for instance, first budget calculations for 2010 indicate a crash in municipality budgets: with a budget based on 50% of company income tax, the city of Frankfurt is expecting a deficit of -670 Mio € in 2010, and this in comparison with the federal subvention of 169 Mio €. In terms of budget this represents a catastrophic situation (Welt am Sonntag, July 2009): it means in total a lack of 40% tax income, with huge consequences for city budgets, infrastructure and social services. In comparison, the city of Munich is expecting in 2010 “only” a 25% reduction in tax income. Cities e.g. in Spain, Latvia, or Poland will suffer much more as a result of this in the immediate years to come.
- A lack of credits and high costs of borrowing: the global financial crisis and financial difficulties in the banking sector affect the availability of credits. Even if the municipal sector has generally high ratings as a borrower, the requested volumes of credits are not available, or available only at high cost, due to the liquidity shortage on the market.
- A lack of cash liquidity: due to poor payment discipline by national authorities in the transfers of grants or compensations, regional authorities and municipalities are already encountering some difficulties in cash liquidity. Also the consequences of bad banking in the last years, like cross-border-leasing, a US-model with a leaseback function, or the sale of own municipal energy utilities, are influencing cash liquidity in municipality budgets.
- An increase of expenditures and of social disparities in deprived areas: as a main source of worries, the increased expense due to higher demand for social and welfare services requested as a consequence of the economic unease will affect local municipalities (in Germany e.g. with Hartz IV). Also authorities, which throughout the year 2008, levied forward payment on tax, will have to face the need for reimbursement to tax payers, who report loss and claim back the excess tax paid.
- Cuts in local authorities staff: will be the consequence of the crisis in 2010 in many cities.
- A lack of independency, and an increase of dependence regarding governance.
- A lack of public-private partnership engagement, as a consequence of the reduction in investment capabilities.
- The incapacity to rely on the objectives of the Lisbon Strategy and the Leipzig Charter.
- The incapacity to manage infrastructure costs and city development, due to low financial power.
- And finally, expansions on greenfields and wide – unplanned- urbanization, which are hidden at first hidden by the crisis.

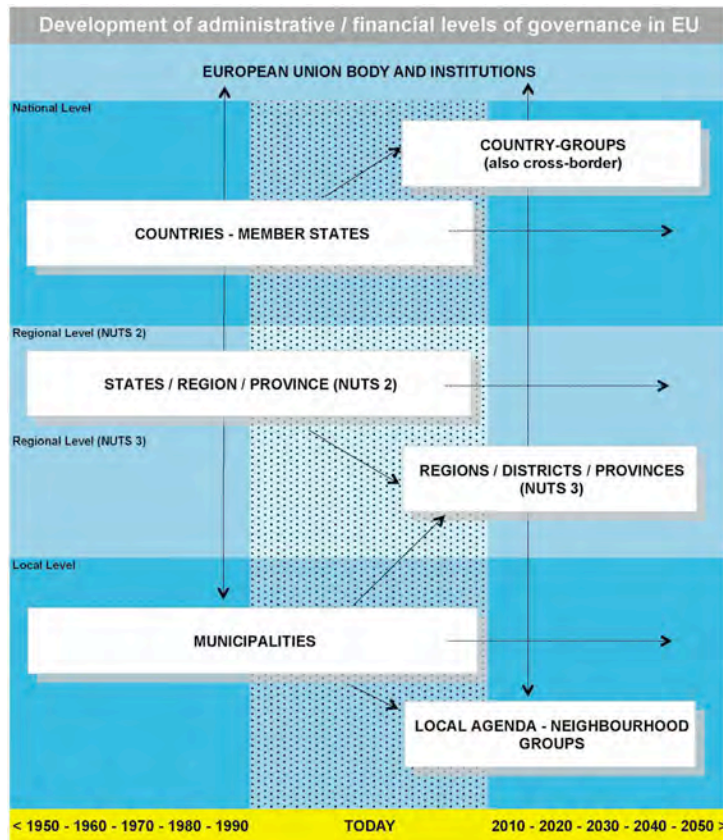
2. Radical change in territorial governance and finance

As a matter of fact, due to the systemic crises, Europe will experience in the next years a radical change in the driving forces and territorial trends, also because Europe is becoming more and more urban. Therefore, a feedback is needed on the prospects for territorial and regional policies.

Shifting territorial governance, shifting financial governance

Everywhere in Europe, a shifting in political and territorial governance can be identified. The actual governance structure, organized in a traditional way, is in a process of transformation: remodelling a situation which was mostly based on a model of the 19th Century and not reflecting the needs of the 21st Century, e.g. in the missing link between local actions and global issues. Structures of Country/Member states, states (NUTS 2) and municipality are shifting today into a

new, flexible and un-“official” structure, with country-groups, regions (NUTS 3) and local (Agenda 21) – neighbourhoods (see illustration).



Possible future territorial structure in 2020, Vancutsem 2009

The recent white paper produced by the Committee of Regions on multi-level governance (Committee of the Regions 17.-18.06.2009) confirms this evolution: by strengthening partnerships, increasing participative democracy, development of “Local Agenda 21” type mechanisms. Reflecting participatory and integrated mechanisms in developing long-term strategic plans, as well as through development of territorial pacts, the Committee of Regions is insisting on the fact that “traditional” governance structures will experience a significant evolution into this form of more deregulated structure.

This shift into new structures, new territorial responsibilities and new challenges (trend of metropolitan regions in the EU – see Regional Focus “Metropolitan Regions in the EU, DG Regio 2009) is also accompanied by a shift into **new financial structures**, which will influence the different territorial trends in Europe.

As an example, the impact on metropolitan regions have been examined during the past months: in the short-term horizon, metropolitan areas could suffer relatively more than others, particularly if these are industrial cities specialized in low or medium level technologies; but in the long term, metropolitan regions with creative and knowledge potentials could recover much easier from the crisis. Also metropolitan areas in a global network are better placed in terms of concurrence and competitiveness. During the financial crisis, capital flows were redirected from state into metropolitan banks, which may signify that metropolitan areas will suffer less impacts than initially expected.

3. Need for a sustainable territorial governance

The current systemic crises underline the importance of the multi-level governance model; as a coordinated action between European Union, Member States and local and regional authorities. It is based on partnership and aimed at drawing up and implementing EU policies. Furthermore it is a dynamic process with horizontal and vertical dimensions.

Implementation of multi-level governance depends on respect for the principle of subsidiarity, which prevents decisions from being restricted to a single tier of government and which guarantees that policies are conceived and applied at the most appropriate level.

In the context of the link between the governance settings of agglomerations and economic development, many examples show that well organised governance systems (gathering local Authorities and favouring partnership) allow strong political decisions to be mobilised benefiting the development of the whole agglomeration.

Notion of territory

In the past two decades, the shift from government to governance, which is the shift from pre-dominance of dominance of State power organised through formal and hierarchical public sector agencies and bureaucratic procedures, to the emergence of overlapping and complex relationships, involving "new actors" external to the political arena, and this is firing the current debate.

The shift to governance has not only led to changes in government, it has also led to disruption of established channels, networks and alliances through which (particularly local) government linked to citizens and businesses. Hence, the key challenge for governance is how to create new forms of integration out of fragmentation, and new forms of coherence out of inconsistency.

In this framework, the role of territory is considered, seen as a complex set of values and resources, a common good of fixed assets, material and immaterial, an exhaustible resource, a political and economic "fact", or a "social construction" deriving from the collective action of groups, interests and institutions: all these actions are related to the use of land.

If the territory is considered as a social and political construction, territorial governance is what makes it possible for territories, from the EU to local level, to behave and act as "collective actors"; determining the capacity of public and private actors to build an organisational consensus involving various different actors as a means of defining common objectives and tasks. It is necessary to agree on the contribution expected by each partner to attain the objectives previously defined, and to agree on a common vision for the future of their territory and land use.

On the other hand, the second aspect of territorial governance, territorial capital, is about making investment, for example, more effective in one region than in another. Elements that make up a region's territorial capital can be divided into structural and spatial characteristics. These elements can be identified as a localised set of common goods, producing non-divisible collective assets that cannot be privately owned; immovable goods, that are a constant part of specific places (place-specific, that is they are almost impossible to find elsewhere with the same features); and heritage goods, those which are produced and stored over a long period and cannot be produced easily in the short term.

Territorial governance as integrated approach

Considering that territorial governance is the process of organization and coordination of actors to develop territorial capital in a non-destructive way in order to improve territorial cohesion at different levels, this includes the construction of a shared territorial vision, based on the recognition and valorisation of the territorial capital to create sustainable territorial cohesion at different levels. In other words, territorial governance is the sine qua non condition required to guarantee a more balanced development across Europe and to achieve territorial cohesion.

This cohesive, shared vision can only be achieved by a systematic use of integrated instruments,

reflecting the new changes in the governance structure in Europe at the metropolitan level (see above): vertical coordination, horizontal coordination, participation and involvement of the civil society and organised interests, in respect of territorialized actions. This is encapsulated in:

- Vertical coordination, because of the principle of subsidiarity linking both –mainly public- actors and policies, and the coordination of sectoral policies with a territorial impact, as in the case of infrastructure policies for example;
- Horizontal coordination, because of the reference to public and public/private actors, different forms of cooperation among authorities, departments and policies in terms of funding and resources, implementation of inter-sectoral policies;
- Participation and involvement, because of the involvement of stakeholders and public-private partnerships, as well as private actors (citizens) (LUMASEC Thematic Reports, 2009)

Land Use Management and financial aspects of territorial governance

Land use management is to be considered as a fundament of the territorial approach and territory concept and concerns all levels of governance; it should involve all stakeholders, integrate and respect their tasks, roles, competences and principles. Land use management is known as a process of managing use and development of land, in which spatial, sector-oriented and temporary aspects of urban policy are coordinated. It covers the debate concerning norms and visions which drive policy-making, sector-based planning both in the strategic and more operative time spans, spatial integration of sectoral issues, decision-making, budgeting, implementation of plans and decisions and the monitoring of results and evaluation of impacts. A management system based on the use of land includes all processes, methods and tools used for organising, operating and supervising the development of the urban environment including the factors influencing it. It covers all phases, from the elaboration of visions behind the preparation of plans and decisions to their implementation and the monitoring of impacts. Planning practices, decision making processes and procedures, implementation and monitoring mechanisms plus methods and tools used in the above-mentioned phases are all elements of management systems (LUMASEC Baseline study, 2008)

In considering this, land use management is logically related to financial aspects: as land is a limited asset, the search for a better use of the land and Return on Investment (RoI) is a real issue. But also public financial incentives or disincentives can influence urban development and be used as an instrument to support land use planning, for instance to limit urban development and urban sprawl. In the case of financial incentives, public actors may decide to impose taxation systems on land or infrastructure, to reduce or increase attractiveness of certain locations in comparison to others. An example of this in Germany is the case of the Ruhr Area, where special incentives for re-conversion of brownfield areas, have been attributed to investors. Public financial taxation systems can also be applied to intervention in roads and infrastructure.

A new generation of financial instruments

The financial crisis thus is transformed into a territorial crisis. Governance structures of European cities and regions are changing, and financial instruments should consider these changes.

Territorial governance, based on sustainable land use management, should include financial instruments, which are more flexible, more inventive, inter-sectoral and inter-connected (Brian Field, European Investment Bank, 2009)

New instruments such as JEREMIE, JASPERS or JESSICA are the right way to go ahead.

Oriented to the new governance structures of the 21st century, new strategic financial instruments should consider on the country/member state-groups level, on the regional level (NUTS3), and on the local/Agenda21/neighbourhood level; they should move towards generating long-term growth through strategic investment and be oriented towards a double dividend, involving:

- Investors and developers, such as banks, financial institutions / institutional investors / funds

of funds, and these placed in relation with allocation of structural funds, but also

- Funds, such as Real Estate funds, infrastructure funds, ethical funds, and
- Assets, such as Property assets, PPPs, Social Environmental SRI assets.

On the **macro-regional and macro-national levels** some new instruments could appear, in the form of European territorial pacts for instance, focussing on synergies between the European level (Structural funds, policy budgets) and the regional/national budget resources, without creating additional community regional policy instruments, like Regional Development Funds (RDF), reflecting a similar structure to the Urban Development Funds (RDF) of the JESSICA strategy;

On the **regional and metropolitan area level**, new financial instruments could be e.g. Regional Action Plans, binding authorities and institutions on the regional level, assuring the implementation of integrated strategies, incorporating financial aspects and constructions, or macro-regional development strategy concepts, like EGTC's, or also territorial impact analysis documents;

On the **sub-regional and local level**, the development of instruments, corresponding to infrastructure investment, gap funding, front-loading investment in infrastructure, cities network (e.g. English Cities Fund, Caisse de Dépôts), but also innovative instruments based on tax systems related to land use management (e.g. in the fields of tax on buildings or on land, on consumption of land and inner density models, etc.) should be developed.

Housing Gap funding, for instance, is a European-Commission-approved investment tool available to the public sector to enable it to support regeneration and housing supply and which was started some years ago in the UK. The approval enables Local Authorities, Regional Development Agencies, the Housing Corporation and English Partnerships to give grants to private developers and housing associations for housing-led regeneration and development whilst remaining compliant with European State Aid rules. Housing Gap Funding is an important tool in the UK Government's Sustainable Communities Plan, offering the opportunity for private-sector solutions to housing-led regeneration sites and housing supply. It can be used to tackle the problems of housing decline and abandonment as well as subsidising the cost of providing affordable housing in areas of housing growth and high demand (English Partnerships, National Regeneration Agency).

Independently of the financial instruments, further possible recovery strategies for regions in financial crisis should also be adopted to:

- Reduce the economic vulnerability of regions, by diversification of the economic structure in most vulnerable regions, reducing energy demand
- Reduce transport dependence, by diversification of economic activities
- Reduce the social impact of rising energy prices
- Develop regional policy making based on regional typologies: interregional cooperation e.g. in the energy fields, governance on local, regional and supra-regional energy systems levels, so reducing the vulnerability of regional energy infrastructure.

Another tool on the level of land use management could be to provide support for the task of the developer: this is a well understood and known practice in the US or in the UK, the developer is operating in a multi-faceted business, carrying out activities that range from the renovation and re-lease of existing buildings to the purchase of raw land and the sale of improved parcels to others.

Therefore support is based on the premise that developers are in fact the coordinators of the activities, converting ideas on paper into real property. They create, imagine, fund, control and orchestrate the process of development from the beginning to the end result. It recognises that developers usually take the greatest risk in the creation or renovation of real estate—and receive the greatest rewards. Typically, developers purchase a tract of land, determine the marketing of the property, develop the building programme and design, obtain the necessary public approval

and financing, build the structure, and lease, manage, and ultimately sell it. Developers work with many different counterparts along each step of this process, including architects, city planners, engineers, surveyors, inspectors, contractors, leasing agents and more.

4. Conclusion

A real contribution to recovery

Territorial governance, political and administration structures are shifting towards a more flexible system; cities and regions in Europe need integrated financial strategies, combined with integrated land use management.

Metropolitan regions for instance are confronted by a certain inadequacy of classical instruments and a change in political responsibilities. This new governance should be based on an integrated land use management system in combination with new strategic financial instruments.

Regarding the topic of funding and subsidiarity, Structural Funds Programmes are designed for growth forecasts; in the present crisis, there is a need for re-adjustment of these programmes and a need to redesign the subsidiarity-schemes according to new territorial governance structures.

Principles of sustainable governance have to be elaborated, combining strategies of land use, new financial instruments, together with an essential logical system of cooperation capable of operating at the different levels necessary to ensure effective action.

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