

Options of Actions



Results WP 1

Finances & Cooperation

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1. Introduction

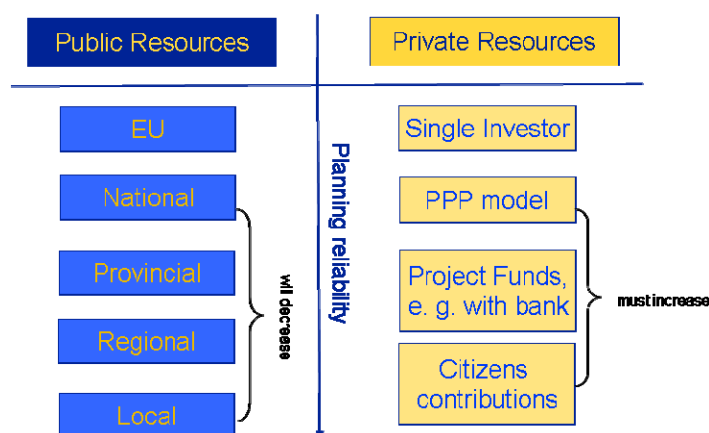
Generally it can be stated that almost all of OP-ACT's partner cities suffer from declining financial resources. Due to the fact that demographic and economic change influence the financial situation of the cities, which is even made worse by the still perceptible consequences of the recent financial crisis, every city ascertains decreased municipal income because of a loss of tax revenues, less allocations of funds and declining investment activities. It is therefore getting more and more difficult for the cities to finance their local public tasks that still remained the same even if there are fewer inhabitants in the city.

On-going residential and commercial suburbanisation is one more factor that weakens the communal income not only because of shrinking tax revenues but because these suburbanites continue using the infrastructure and facilities (e. g. transport links, education facilities, health care, etc.) that are primarily financed through municipal budget.

All partners admitted that social services are the sector that certainly suffers most from reduced municipal budget. Many planned projects that would have been important for the youth, the senior citizens and migrants had to be postponed or abandoned at all.

It is clear to all partners that a city confronted by population decline and demographic change needs restructuring, but the implementation of sustainable policies is only possible with stabilised municipal finances. The development of new financial strategies is therefore the most ardent challenge for the cities. The following criteria could contribute to reach this objective:

- ✓ Looking for synergies and cooperation with the region or other municipalities
- ✓ Developing new structures of subsidies and government aid
- ✓ Defining of new financial models



Based on the good practice examples that were presented by the partners during the workshop in Leoben, the results of the common work and discussions in working groups and the input of the thematic expert, this paper describes the current status of the municipal finances of the partners, offers some solutions for financing specific municipal tasks and gives recommendations for future actions.

2. Status quo on municipal finances

ALTENA:

The financial situation in Altena is very bad. The city has a budget deficit of 10 million Euro per year (out of 14 million). Unlike Leoben, Altena did not invest during more prosperous times. The city wants to cut the budget but this is very difficult due to the low number of inhabitants. A first attempt to reduce the costs was to reorganise the public administration. It has now fewer employees and the accounting system was modernised. The municipality acts now like a private company and co-operates with a neighbouring town. It has target equity holdings and engages opportunities by credit management without providing guarantees. National and regional governments keep providing Altena with less money and this creates unclear and pessimistic financial conditions for the future.

ANCONA:

The city suffers largely because of the economic crisis and the main industrial and commercial sectors face big problems (especially the maritime industry and the retail and trade shops in the city centre). Higher rates of unemployment compared to the past, fewer opportunities for the young generations and few options for the future are the resulting consequences. The city government also deals with a bad situation because of the cuts from the central government. The sectors suffering the most because of this difficult situation are the social and cultural ones. The local authority lacks innovative ways of financing, except applying to the EU funds. Public-Private partnerships are missing at all in the management of city services and this aspect should be improved, but at the moment it is far away.

DABROWA GORNICZA:

The budget of the city is an annual financial plan based on incomes, expenses, revenues and outgoings and is passed by city council for one budget year, which is a calendar year. Financial economy is based on budget resolution. The difference between incomes and expenses may be defined as surplus or budget deficit. The budget deficit in Dąbrowa Górnicza is financed by revenues that come from credits, loans and others free financial resources.

One source of municipal revenue is general subsidies. They are divided into the compensatory, balancing and educational part. The size of educational subsidies is dependent on models of schools, school's types, degree of professional

advancement of teachers and number of pupils in schools. Balanced subsidies are mechanism so that communities with lower incomes may supplement them by financial means of others communities. Compensatory subsidies include tax revenue per capita compared to the national average tax revenue for all municipalities. Dąbrowa Górnicza gets most subsidies for education, repairs, maintenance, protection and management of national and provincial roads within cities with county rights. In prospect grants for municipalities are assigned for tasks of government administration, removing direct threats to public safety and order, removing the effects of floods and other natural disasters, execute own tasks of local government units. Dąbrowa Górnicza receives the largest grants on education, health, public security and fire protection.

The government gives grants for current expenditures purposefully, when it comes to financing or co-financing investments grants appear sporadically. Mostly the tasks have to be fulfilled at regional level - with no additional money for them. Funds from the EU help and these are allocated to city budgets. At the end of September 2011, funds provided from the European Union are ca. 17 million PLN. This year, the district's investment expenses make over 34% of all budget expenses.

The City needs to ask a bank for funding which in turn creates a lot of city debt. This influences national budgets, too. In 2010 Dąbrowa Górnicza got a credit from European Investment Bank on water and sewage system modernization as well as culture infrastructure. Public-Private partnerships are also a good answer on how to finance big investments and avoid creating public debt. The city has started the procedure for selecting the private partner in a competitive dialogue for an enterprise 'Construction, operation and maintenance of transport system with the aim of communicating with the Tucznowa investment area' in Dąbrowa Górnicza. The Ministry of Regional Development has provided support for this project.

EBERSWALDE:

There are few effects of the economic crisis perceptible in Eberswalde; however there are problems linked to the budget reduction due to the shrinking population. Here again, the city services suffering the most due to the budget cuts are the social and cultural ones. At the economic level, the housing sector is in crisis because there are too many houses for always fewer people.

An innovative solution underway in Eberswalde is the sponsorship of cultural activities by local companies. No solutions are envisaged at the moment for the social services, these are just being reduced.

HEERLEN:

The financial situation of the city is not great but not bad either. Heerlen received funds from the central government for the further prevention of structural problems on empty housing/buildings and restructuring for all of Parkstad (2010-2020). The City of Heerlen already has some experience with cost resistance. Costs are going down slower as does the income of a city. Heerlen calculated this for the sewer system and

public green areas. The city needs more financial support from the national government and adjustments in the rules and laws are needed, too. The financial difficulties are mostly reflected in the stagnating housing market.

Because of the small budget at disposal, the cultural and social services of the municipality are not developed enough, even if there aren't big changes and the situation is not getting worse because of the economic crisis. The main difference for the social sector is that the companies involved in social housing have now to pay taxes, where before they were exempt. To save money, the municipality starts to share some services with other neighbour municipalities: for example there is a common service for the waste collection and management (shared with other 8 municipalities).

More people appear to need financial assistance from the city and loss of income influences participation in community activities. There is an increase of entrepreneurs (without employees) but a reduction of the gross domestic product. The low level of education and housing stock is uniform throughout the city. The city also uses national and European subsidies like ERDF. It has put up a co-financing fund based on a multiplier aim and can be implemented for projects that fit within the economic priorities of the city.

LEGAZPI:

The financial situation in Legazpi is delicate for the year 2011 and greater budget cuts are foreseen for the year 2012. The municipality will finish 2011 with no debts; all the expenses will be covered but some mayor cuts on the budget have been made during this year.

The town is dependent on provincial financing, as 65% of the town's budget comes from the Provincial Government, who is in charge of collecting main taxes. Due to the economic crisis, income from taxes has decreased considerably, that means less money going back to the municipalities. So far, the first attempt to content the costs during 2011 has been to decide not to accomplish new infrastructures and investment projects and reduce the budget for cultural, language, sport, etc. issues. The municipality has made an effort to maintain the quality of Social Services delivered till now with no restrictions in the budget (home delivery services, day care centre, elder people housing, and youth)

Nevertheless, the situation will change for the year 2012. The Municipality foresees 10% of decrease in the incomes from the Provincial Government for 2012. The town will have to cut the budget to cover the expenses and still there is no clear proposal on what type of services will be prioritized.

Unfortunately the Municipality has not defined any saving measures on electricity, etc.

LEOBEN:

The city is dependent on national measures for financing but is developing alternative income resources. The city provides guarantees to companies so they settle there. Leoben is on its way to a cost-economic recovery but needs to spend now on regional government. Overall, Leoben is relatively well off compared to other cities in the region. The future aim is to keep young people in the region by supporting 'creative' industries. The building law system, which is described in the chapter of Good Practices, is not so much a financial instrument but an instrument for the management of the city's properties. Revenues can only be gained through payments for the right of utilisation of the property. What is more important is that the supervision of what is done with a real estate or a building remains within the city as this property is not sold. This is a necessary aspect for urban planning and development. When the right of utilisation expires, the property falls immediately back to the city property. The advantage for the "user" is that his financial risks are minimized and the bank accepts the utilisation right of a real estate or a building as collateral for a loan. The innovative aspect of this instrument is that normally in Austria the real estate together with the building is seen as one property, but here the properties are split.

NAGYKALLO:

The single biggest employer company relocated from the town; this resulted in the loss of jobs and consequently in the reduction of tax revenues.

NOTODDEN:

Generally, social welfare payments are too high in Norway compared to work incomes - as a result, young people after finishing school decide to live on social support instead of getting a job. This results in a gradual loss of taxpayers.

3. Good Practice examples:

During the workshop in Leoben the partners and the thematic expert presented good practice examples in the field of new financing methods and cooperation:

- Building Law System (Leoben/Austria)
- Equity interest management or a municipal holding structure (Altena/Germany)
- Budget for Environmental Projects (Eberswalde/Germany)
- Bürgerkredit – Citizen loan (Quickborn/Germany)
- Statt – Aktie (Stadt Langen / Germany)
- Valuation of municipal budget (Leipzig/Germany)
- Intracting method (Stuttgart / Germany)
- Energy Performance Contracting (EPC) (Prague/ Czech Republic)
- Public Private Partnership Model (Dąbrowa Górnicza/Poland)
- Start-UP Center - Building a Start-UP Centre for young entrepreneurs on the premises of the former Brewery Reininghaus as a PPP (Graz/Austria)
- Porto com Pinta PPP model (Porto/Portugal)
- Espace grand rue PPP model (Roubaix/Lille – France)
- INKOBA - inter-communal settlement of companies (Upper Austria)
- Cooperation of municipal administration in Oberhünigen and Zäziwil (Switzerland)

Building Law system (Leoben/Austria)

Main objective(s):

- Retention of municipality's properties
- Limitation of the utilisation of the building
- Property can be utilised by contractor but stays in the asset of the municipality

Project description: Whenever new businesses are established, the company owners need properties. The municipality offers properties but does not want to sell its properties. The special building law system that Leoben uses, guarantees that the property stays in the asset of the municipality but the contractor can use the property for a minimum of 10 and a maximum of 100 years. When the contract ends the property still belongs to the municipality. Historically the Catholic Church and the state have used this system to keep their assets and give entrepreneurs the opportunity to use the property with some defined restrictions.

Process management: The municipality tries to offer the contractor the best disposition for the property. The utilization is contractually limited by the municipality this way the urban development is controlled. The contractor has more legal securities with this system in comparison to legal or rental agreements. The municipality has more control over the property in case the owner goes bankrupt. If the owner buys the property the municipality would have no further control over the utilisation of the building. If the contractor does not pay the fee for two years in a row the contract can be terminated by the municipality. The advantage for the contractor is that the bank accepts the contractor as owner of the property and provides loans if needed. The contractor has a tax benefit in which he would not have if he would buy the property.

Results and impacts: Most of the municipality's properties are leased in the framework of this legal building system like for example the LCS shopping mal.

Barriers and conflicts: The municipality also tried to use this system for private property owners but they did not accept this system. Most people rent or buy houses. It is not common in the region to use other forms of ownership.
In some cases especially in times of economic downturn it can be better to sell a property instead of using the building law system to boost the revenue but this is only seen as a second option.

Lessons learnt:

- Better planning of urban development
- Property assets stay within the municipality
- Contractors have more legal securities

Equity interest management or a municipal holding structure (Altena/Germany)

Main objective(s): - The equity holdings should be better controlled with this new tool.

Project description: Although Altena is a small town, there is an equity interest structure involving three local companies (equity holdings), equity interest in four companies and four associations, of which one is a savings bank. One of the local companies

additionally holds three sub-partnerships (utility companies, among others).

- Balance sheet volumes: ca. 200 million Euro
- Annual expenditure: ca. 60 million Euro

Process management: With the changeover to operational accounting, all equity holdings have to be combined into a consolidated balance sheet in 2011. All the various balance sheets and accounts shall be analysed and compared.

The main stakeholders are business economists in holding companies and administrative positions, auditors and decision makers in administration and municipal politics.

- Costs: Setting up a consolidated balance sheet costs approx. 15,000 – 20,000 Euro, the running costs are not yet known.

Results and impacts:

- Trial balance sheets for 2008 and 2009 have been set up.
- The first balance sheet for 31.12.2010 is being prepared.

Barriers and conflicts: Non-identical bookkeeping systems and software is the main problem.

Lessons learnt:

- The system is still too new to deduce lessons learnt. Further information is only possible after further implementation in practice (at the end 2011).

Budget for Environmental Projects (Eberswalde/Germany)

Main objective(s):

- Using cities' budgets to directly meet the needs of the citizens
- Activate civil engagement in cities with their ecological environments

Project description: This is a project fund for environmentally motivated projects in the area of the city of Eberswalde with a total budget of 4800 € per year, which has been available since 2008. With this fund, the citizens of the city or private and public institutions can apply for projects with an environmental background, and a maximum budget of 1000 € per project. The funds can be applied for different reasons. There are for example projects for public or private land for enhancement with plants in front of shops or buildings, renature of old unused infrastructure, or the

construction of several "insect hotels" in kindergartens realized. It is important that the public can participate in this variety of improvements. The city only takes over the cost of administrative expenses and can support the applicant in certain administrative issues relating to the construction procedure. A very important consideration is that the construction and maintenance must be completed by the applicant. Thus, the city tries to conduct self-reliant citizens by improving the urban infrastructure and simultaneously giving the citizens a stronger influence in shaping the aesthetic of the city. Furthermore, the project funds can be spent for environmental education projects. Thus, schools, daycare centers, and civil organizations can issue topics which are important for the city, and relate to environmental topics like courses and information sessions. In this example, action days were conducted wherein children and their families received information about bats and their habitat while at the same time they built nesting boxes.

Process management: Citizens or public and private organizations and companies can apply in compliance with the conditions (which are available on the Internet) at any time. Important rules to follow include describing the content of the project and the potential costs, the realization process and how the public could benefit from the project. It is also important that civil engagement is connected to the project. For example, parents will support children in greening the infrastructure or planting new plants. The applicant can be informed in advance about options and application requirements via the responsible entity in the respective city, and also receive guidance during the application process. Once a year, the projects are presented by the political representatives of city projects.

Results and impacts: A total of 21 projects have been implemented through this project fund in the last 3 years. So far, through the cooperation between citizens and the city, almost all projects have been completed and during this period the "green infrastructure" has been improved and has contributed to a greener character of the city. In addition, various training courses were held for citizens of all ages. This also demonstrates that even in difficult budgetary

situations, with the help of political will, citizens can actively contribute to urban development and money can be spent for citizens' needs.

Barriers and conflicts: A further increase in the number of applications is desirable. Other (usually typical) problems have not arisen in most of the small projects because of the direct contact between the applicant and the city. A sustainable approach to the created infrastructure could be obtained for most projects. To expand rules relating to the sustainable use, the application process could become too complicated and could harm the course of the project or perhaps deter new applicants.

Lessons learnt:

- Small projects and budgets can also help to improve the image of the city
- Better urban conditions can result from the involvement of the citizens in city development

Bürgerkredit – Citizen loan (Quickborn/Germany)

Main objective(s): - Financing of the renovation and construction of a school and a fire station

Project description: As the municipality had too less money for the renovation and/or new construction of the school and the fire station they had the innovative idea to borrow money from the citizens to avoid another very expensive municipal bond. This would have made the municipality, which was already suffering from reduced communal budget because of a declined income caused by the economic crisis, even more dependant of external financiers. During an open council, one citizen had the idea to lend the municipality money.

Process management: The contract for the citizen loan was written on a simple A4 template without a bank as operator. The interest rate was fixed with 3% and the loan was for 1 year. The minimum amount of one citizen to lend the municipality was € 5,000. Citizens phoned the municipality to inform them that they were willing to lend money and told them the exact amount.

- Results and impacts:*
- 75 citizens loaned their municipality 4 million Euro – and this only within two days. The municipality stopped the initiative at 4 million, because this was exact amount they needed. But many more citizens would have been willing to lend their money.
 - Not only citizens from Quickborn participated, but also from Kiel and Lübeck.
 - The interest rate was lower than when investing in stocks, but higher than for a saving deposit at a bank. The municipality saved a lot of money, because the interest rates for a credit at a bank would have been much higher.
 - In a 2nd phase the bwi-Bank had to be involved. There are now two possibilities: Citizens can invest their money for 2 years at an interest rate of 1.5% (the municipality gained 1 million euro) or for 5 years at 2.6% (investors gave 65,000 euro so far).
 - The 2nd phase was still successful but not as financially lucrative as the 1st phase, as the bank asked for fees and the interest rates were not so attractive anymore.
 - Other municipalities (Wiesbaden, Willich, etc.) are already interested to adopt this financial model.

Barriers and conflicts: As the collection of money on which interest is charged is a banking transaction that has to be officially approved, the Federal Agency for Financial Market Supervision forbade the continuation of this model without a real bank as operator.

- Lessons learnt:*
- By creating a win-win situation for both, the citizens and the municipality, the initiative was a big success in the first phase.
 - Citizens are involved in communal tasks and identify with the problems of the local authorities. There is a real interaction between the administration and the population.
 - The financing model is absolutely transparent and the loans are earmarked. Citizens therefore know exactly what their money is for.
 - Costs for the municipality are much lower than with traditional municipal bonds.

Statt – Aktie (Stadt Langen / Germany)

Main objective(s): - Support at the maintenance of public social services

Project description: With the purchase of a “Statt-Aktie” the citizens support the voluntary communal tasks in the field of social services, culture, services for senior citizens and young people, sport and environment, for which the municipality is only allowed to spend very little money. Because of legal obligations to a balanced budget, voluntary tasks are strictly limited within an imbalanced administrative budget. Nevertheless much expenditure in the field of social services is not dispensable because of social and local politics reasons. Especially these fields determine the quality of living in a municipality. As “soft factors” they make a location more attractive in the competition with other municipalities.

Process management: Citizens can buy a share with the value of € 10, € 20 or € 50. As this is no loan and the municipality will not pay back any money, there is no contract needed. The sponsors only get a charter.

Results and impacts:

- In 2010, 400 citizens have bought shares amounting to € 10,000.
- It was also possible to abolish the fees for the public library for children and young people totally with the help of these shares.
- The municipality did not have to reduce their social services so far or to raise the fees or taxes.

Barriers and conflicts: - As the amounts for one share are very low, it takes a long time to collect some money.

Lessons learnt:

- Citizens are involved in the social services of the municipality.
- When buying a share, citizens will become members of the Stadt Lange AG.
- Citizens are willing to support their commune when they know what will be done with their money without getting anything back.

Valuation of Municipal Budget (Leipzig/Germany)

- Main objective(s):* Linking of the municipal budget to the objectives of the development concept for the city
- Project description:* Since 2010, a new methodology to link and optimize the municipal budget to the objectives of the Integrated Urban Development Concept (IUCD) is currently under development and being tested. This methodology evaluates mid-long term city planning investments and values them based on the objectives and plans within the IUCD to be either a "conform", a "priority" or a "conflict" for the implementation of the IUCD. It also shows how many of the investment is spend for actions in the focus areas. The judgement is based on the objectives and plans and the written explanations within the IUCD and is accompanied by regular inter-sectoral working groups on different levels, where it is discussed. As the value of investment does not necessarily correspond to the impact of an action, there is a qualitative evaluation given as a result. This all builds a basis of discussion for the mayor/deputy mayors and the city council when they decide upon the future expenditures. This will be further refined and expanded during the next years.
- Results and impacts:*
- A more interdisciplinary discussion on the allocation of budgetary resources occurred. This process of discussion and the results of the evaluation contributed to greater transparency within the administration.
 - Active participation of the relevant departments by using the established I.U.D.C. participation structures.
- Barriers and conflicts:*
- Very short processing times because of the narrow timeline for budgeting
 - The budget so far lacks the spatial allocation of measures to I.U.D.C. areas
- Lessons learnt:*
- A significant portion of investment has relevance for urban development
 - The I.U.C.D. focus areas must be more engaged,
 - The focus areas are considered very different and only some of the investment used here correspond to the intended objectives,

- Not all measures can be estimated due to the existing financial management (e. g. flat-rate city-wide measures),
- It is not sufficient to consider only investments as non-investment measures constitute in some cases a significant proportion, especially in social or cultural issues

Intracting method (Stuttgart / Germany)

(Source: ADEME Convention for Energie-Cités, 2006)

Main objective(s): - Energy Efficient Retrofitting of a Swimming Pool –
Implementation of a Cogeneration Plant
- Achieve self-supply in heat and electricity in the swimming pool

Project description: At the “Sonnenberg” indoor swimming pool in Stuttgart a cogeneration gas engine was installed. The plant produces 5,800 hours/year in cogeneration, out of which annually approximately 300,000 KW electricity and 570,000 KW heat. The static payback period (calculated by taking into account the technical life-time of the equipment) represents 6.5 years. The project started in 2000. The investment costs of the cogeneration plant were about EUR 94,000.

Process management: In 1995 the Stuttgart Environmental Protection Department in close cooperation with the Financial Department developed the “intracting” method for financing energy saving projects.
This method is based on the idea of contracting but operates entirely within the city administration. It consists of a special budget item (a revolving fund) to which the cost savings are later returned. The Environment Department thus grants an earmarked, interest-free loan to the host department. The amount of the loan depends - as with the conventional Contracting - on the energy and cost saving potential. Today, the annual “intracting” budget represents approximately EUR 1.3 million in Stuttgart.

Results and impacts: The annual savings obtained from the projects sum up to 13.900 MWh savings on heating, 1.850 MWh savings on electricity and 31.700 m³ savings on water. The implemented measures lead to a total annual cost saving of EUR 1.1 million.

Barriers and conflicts:

- Calculation of the investment costs can lead to misleading profitability forecasts.
- Cost estimation was delivered by an external engineering company. This turned out to be too high, and thus provisions showed no profitability for half of the economic lifetime, therefore the “intracting” was evaluated as unfavourable. By using a rescheduling and cutting back on the technical side, costs were reduced and “intracting” approved.

Lessons learnt:

- No additional costs of possible risks and no interest charged on the invested capital.
- Lacking an external contractor, transaction and administration costs of contract management are substantially reduced.
- Small volume projects can be promoted as well, which otherwise would not be attractive enough for an external Contractor. “Intracting” also offers the possibility for partial financing of projects.
- The preparation period is minimised by the internal completion of the process, so that energy conservation measures can be implemented in a shorter time.

Contracting method (especially used for energy saving projects)

Generally: A private company invests in modern energy technology und re-finances its costs through reduced energy costs or through the margin between buying and selling of energy performance.

Currently there is a differentiation between two models:

- a) Energy contracting: The contractor gets paid for the delivered energy to a fixed prize. The municipality saves costs because they do not have to pay for the system and the fuel. The contractor bears the risk alone.
- b) Energy saving contracting: The contractor optimizes the energy efficiency of a public building. He plans, finances and organises the energy saving measures. He gives a fixed saving guarantee. He re-finances the work through a contracting-rate, which derives from the reduced energy costs.

Energy Performance Contracting (EPC) (Prague/ Czech Republic)

(Source: ADEME Convention for Energie-Cités, 2006)

Main objective(s): - Energy and cost saving

Project description: 4 primary schools were refurbished within a project running from 2000 until 2006.
Using the EPC method, the private company (Siemens) invested into energy efficient measures, such as temperature sensors for radiators and replacement of windows.

Process management: In the Czech Republic there is a law on energy efficiency in place. In 2005, with legal assistance of the EBRD a law enabling PPP investments, making them more simple and transparent was implemented. The Czech Ministry of Industry is also promoting EPC by subsidising the preparation phase. This subsidy is at the disposal of municipalities, schools or buildings serving for health services. The successful applicants are able to cover 75% (up to 5.000 EUR) of the costs required for the preparation phase of the EPC by using the subsidies they obtained.

Results and impacts: - Due to the investments, the energy consumption, thus energy costs of the four buildings decreased min. by 20%.
The city can keep a fraction of the financial savings achieved, and a percentage of the financial savings serves for the repayment of the installed technology and work carried out by the ESCO.

Barriers and conflicts: Via more careful planning and establishing a stronger negotiation position, the city could have eventually achieved a better position against the ESCO company, benefiting of a higher amount of the financial savings.

Lessons learnt:

- The municipality could finance this operation via an off-balance method, without the need to make any upfront investment. The selection criteria of the ESCO contractor were the payback time as well as the rate of guaranteed savings, which guaranteed foreseeable results.
- Up to 36% yearly savings was achieved during the project lifetime. The surplus savings were shared 50-50% between the municipality and the ESCO. The ESCO reinvested 50%

of its share, i.e. 25% of the total surplus savings were re-invested into partial change of windows in one school building, new hydraulic layout of heating pipelines etc.

- The project lifetime (6 years) is relatively short, thus giving an opportunity for the municipality to benefit from the savings longer, without any necessary upfront investments right after the end of the project.

Public Private Partnership models

Public Private Partnership models have become increasingly important as financing models in the field of an exemplary way of implementing projects. They often were and are preferred to the financing variants exclusively based on private or public investments as being the “more intelligent” variant.

PPP models have the advantage that both, the public administration as well as the private company apply their individual strengths commonly to reach a greater aim. Winners in this model are both: The public authority can rely on private invested capital in times of shortened municipal budgets and the efficiency of privately operated planning, constructing and operating can be used. The private partner on the other hand enters a totally new field of activity with a high know-how demand. Additionally the capital market gains long-term and profitable possibilities for assets.

In the following some examples for different PPP models are highlighted:

Public Private Partnership model (Dąbrowa Górnicza/Poland)

A choice of a Private Partner for an enterprise called ‘Construction, operation and maintenance of transport system with the aim of communicating with the Tuczna investment area’ in Dąbrowa Górnicza.

Main objective(s): Improve the transit services and to open the biggest investment area in Southern Poland /260 ha for the investors, which, consequently, will influence the growth in the value of the investment in the region.

Project description:

- Construction works, according to the project documentation, are due for the years 2012-2014.
- As part of the completion of the subject of the Order, the private partner is obliged to perform the following duties and tasks: to be an investor, to rebuild the section of the road

according to the existing track, to build a section of the road according to a new track, to build rain inlets, to repair, renovate and build passes, to build and rebuild street lighting, to rebuild or secure colliding unfamiliar devices, to renovate and repair or rebuild already existing draining devices or build new ones as well as devices channelling rain waters and melting snow, to build facilities needed for environmental protection, to mark all the traffic security devices with vertical and horizontal signs (e.g. energy-intensive barriers and barriers for pedestrians), to install acoustic screens.

- Having finished the construction works and technical acceptance of the road, the private partner will be obliged to perform the following tasks connected with the operation on it as well as its maintenance: the maintenance of the surface of the road, the pavements, the road engineering facilities, devices ensuring proper road traffic, and other facilities connected with the road, to coordinate the renovation works in traffic lanes, to perform government assisted employment, maintenance and protecting works, to prevent any unfavourable or adverse transformations of the environment which can arise or have arisen as a consequence of the construction or maintenance of the road.

- Management and maintenance of the road within the period of the agreement, along with current and periodical road repairs and then handing the road over to the municipality in accordance with the technical conditions of the road agreed upon in the Agreement, mentioned above.

Process management: - The form of cooperation is assumed as BOMT system – Build – Operate –Maintain - Transfer
- The private partner is obliged to complete the project for the remuneration and pay all the costs connected with its completion / internal funds or obtained from banks and/or financial institutions.

- The remuneration has to be paid by the municipality for the private partner on account of executing the public-private partnership agreement, in a form of a payment for making the road available, the amount of which will depend

on the private partner complying with the standard of the road required by the municipality within the period of time indicated in the agreement. The remuneration is due each year of the public-private partnership agreement starting from the period of road operation, i.e. the day of opening the road.

- The payments for the partner will be quarterly. The criterion of the choice of the partner, i.e. the most beneficial and profitable partner will be: the remuneration, the period of the operations on the road, the period of the road construction works as well as the division of the tasks and risks connected with the project between the municipality and private partner.

- The Remuneration must include any costs connected with the comprehensive workmanship and execution of the subject of the order: all the investment expenditures, financial costs, maintenance costs and operation costs of the road as well as the profits from private partner's investment.

Results and impacts: The first approach to the project did not work out because the amount of investment in relation to the risk assumed by the private partner was too low. Now with the additional support from the Ministry of Regional Development we are going to prepare the new proceeding.

Barriers and conflicts:

- Lack of experience in the implementation of public-private partnership in Poland
- Implementation of the project involves high risk of contract in the context of the full protection of public interests
- Legal problems from the government due to changes in the Public Finance Act,
- Lack of appropriate procedures for co-financing from EU funds

Lessons learnt:

- To focus more on investors' needs and better estimating costs for its requirements.

Start-Up Centre Reininghaus (Graz/Austria)

(Source: Public Private Partnership in urban regeneration - A guide to opportunities and practice)

Main objective(s): - Building of a start-up centre for young entrepreneurs on the premises of the former Brewery Reininghaus

Project description: The Start-Up Centre (SUC) for young entrepreneurs in Graz was a key component of the city's sustainable economic development strategy for the western part of Graz. The city wanted the SUC to help transform western Graz from a mono-functional industrial area into a more attractive mixed use district, whilst BBAG (the private partner) saw it as an opportunity to develop a focal point for development of their remaining property holdings. The project involved the redevelopment of a former brewery of the Steirerbrau / BBAG (Brau Union) into workspace for new start companies, along with the provision of management services. It was the first project in Graz that was realized as a PPP model.

Process management: Both parties agreed that the involvement of a third partner (Innofinanz/SFG) to provide management and support services would enhance the project and help create a more attractive and sustainable centre.

This centre for founders is meant to attract mainly young, innovative and technology oriented enterprises and to help them with its equipment and design. An additional impetus to position the western part of Graz as a technology and science zone was given by the foundation of this centre.

Results and impacts:

- The Start-Up Centre was built in time and is since then almost throughout fully booked.
- The use of public subsidy to support running costs of the centre and rental costs for the new tenants
- The sharing of risk between the various partners, and the selection of partners that brings different but complementary interests to the project.

Barriers and conflicts: - The main difficulty identified was the slower decision making processes of the public sector which led to some delays in project implementation.

Lessons learnt:

- The project partners could be won over by clearly defining personal added value yielded to each individual and specifying assignment of roles and competencies in an unequivocal manner.
- Identification and agreement on the specific roles and responsibilities of each partner as a learning point. This helped to develop trust between partners who had not previously worked together
- The use of contracts that extend beyond the initial building phase created long-term confidence and viability.

Porto com Pinta PPP model (Porto/Portugal)

(Source: Public Private Partnership in urban regeneration - A guide to opportunities and practice)

Main objective(s):

- Porto com Pinta is a PPP established by Porto city council to improve and renovate important facades and monuments in the historical city centre.

Project description:

A company largely owned by the city (APOR -Agência para a Modernização do Porto SA) was used to bring together building owners and sponsor companies and establish contracts between the two parties whereby the building owner allowed the sponsor company to advertise outside their building for a six month period, in exchange for the sponsor company paying the majority costs of restoring the building facade. The city facilitates this process by exempting the sponsor company from paying local advertisement taxes and the owner from paying rates due on the building road frontage.

Process management:

In the scope of PORTO COM PINTA, APOR is responsible for several activities: acting on its own initiative or recurring to the analysis of applications, APOR has to select the buildings subject to intervention; to carry out the working programmes and costs estimates; to license the operation in the Porto City Council; to adjudicate the work upon the launching of a restricted request for tenders; to get the financing entity; to draw up a contract with the contractor, the owner and the financing entity; to supervise the work and to manage the operation financial process. APOR undertakes these activities in articulation with the other partners, according to their participation, but it is the leader

of this project. Porto City Council's role is to license the work in time and exempt it from the rates imposed to both traffic ways occupation and publicity. The owners of the buildings are responsible for their respective quota in the costs and also, although not very relevant, for conditioning the technical works. The financing entities shall conceive and produce the advertisement to place on the fence and hold responsible for their quota in the general costs of the operation.

Results and impacts:

- PORTO COM PINTA has already intervened in more than 50 monuments and buildings in Porto. There are still a lot of other cases waiting, which according to the financing availability are gradually subject to intervention.
- The Porto com Pinta case study identified a new way of working and an innovative method of bringing together the different interests of various partners.
- Other positive issues identified include the availability of public subsidy to help smooth the process, the importance of effective contracts, and the leadership role of the city council.

Barriers and conflicts:

- A lack of greater public subsidy which meant that the project focused on buildings that could be renovated relatively quickly and cheaply - which were not always the ones that were most worthwhile.

Lessons learnt:

- The participation of the public sector guarantees the transparency of the process and its quickest administrative framing.
- The participation of the private sector guarantees a better management of procedures and resources.
- The participation of both sectors gives rise to many advantages which should reflect upon the quality of the project.
- The constraint to the practice of public-private partnerships lies essentially in the trust between the partners, which is not always clear, because they fear being deceived from their specific goals.
- The creation of public-private partnerships demands a prior work in order to clear up which advantages each partner has in participating in the process and which the relation cost-benefit is.

Espace grand rue PPP model (Roubaix/Lille - France)

(Source: Public Private Partnership in urban regeneration - A guide to opportunities and practice)

- Main objective(s):* The project was launched to revitalise part of the Roubaix city centre.
- Project description:* The arrival of the McArthur Glen designer outlet in 1999, combined with the completion of metro line 2, provided the opportunity and impetus for the revitalization of Roubaix city centre. The Espace grand rue project, constructed between 2000 - 2003, includes 32,000 sq mtrs of new retail, commercial and office development combined with extensive street enhancements and public realm.
- Process management:* The project was undertaken as a PPP involving Roubaix City Council, Lille Métropole Communauté Urbaine, several private sector organisations and the Caisse des Dépôts et Consignations - a unique French institution that is part banker / financier and part implementer of public policy in urban renewal, SME /jobs growth, sustainable communities, and social cohesion.
- Results and impacts:*
- The integrated use of several financial instruments was a learning point that was essential to the success of the project.
 - The enabling role played by the Caisse des Dépôts in attracting private finance.
 - The financial instruments included the French urban development zone or ZAC (which allowed the public sector to undertake site assembly and public realm improvements, including the use of ERDF), Société d'Economie Mixte or SEM (a local public/private company that undertook direct development and also contracted with the other partners including the city, developers and end users)
 - The ability of the public sector to make development land available at a discounted price well below market value.
- Barriers and conflicts:* - Delay caused by bureaucracy and slow public sector decision making.
- Lessons learnt:* - The public sector should spark the interest of private investor by investing in public space and also in making sites available to potential investors. Without this new

impetus and without a strong political support, projects would fail to make a success.

- Political engagement and backing of projects by the public partner is necessary to attract new investors.

Municipal cooperation as a possibility to reduce costs

The strict dividing-lines between a core city and its surrounding municipalities are a thing of the past – the boundaries are becoming blurred. But the functional links between urban and rural areas are increasing. Co-operation between a city and its surrounding region or between some smaller municipalities is therefore one possible way of overcoming increasing costs and financial restrictions. Co-operations in city regions, in whatever form, will be one way to enable a concerted integrated "city-regional" development and thus react to the current challenges, such as conflicts of competences, overcoming common economic, ecological and social problems, and a fair distribution of burdens and finances. Transparency in the structures, broad information and equal rights for the involved parties are key success criteria for a municipal cooperation. Common objectives and projects can only be realised if all stakeholders are involved right from the beginning and communication is taken seriously.

Some examples for good practices in the field of municipal cooperations:

INKOBA - inter-communal settlement of companies (Freistadt/Austria)

Main objective(s): INKOBA is the attempt of several municipalities to act as one region to facilitate location management and the attraction of new investors.

Project description: Because of the very small economic structures of the region and almost no industry, the region cannot offer many job opportunities. Many inhabitants of the local municipalities therefore have to commute to bigger cities. 26 communes of the region therefore decided to cooperate to make a concerted land use development and location management possible. The main tasks for the INKOBA are:

- Ensuring of availability of locations / business sites
- Planning of the business site areas
- Planning and realisation of developing of the ground
- Marketing and promotion measures
- Decision on the settlement of businesses
- Coordination of the economic support within the developed business sites

Process management:

- The participating communes cooperate as an unincorporated association.
- The real estate for a business site often is not purchased but assured by option contracts of € 10,-/m² for a longer period.
- The costs for the development of the area are partly financed through regional and EU funds, the rest is passed on to the new companies with 35% or € 5,-/m².
- The 8 municipalities divide the revenue according the following key: 20% for the municipality that provides the real estate, some municipalities get 12% and other get 10% (according to a certain pre-defined key).
- The yearly costs for operating INKOBAs are divided with the same scheme.

Results and impacts:

- Up to now there are 13 inter-communal cooperations for the settlement of companies in Upper Austria
- This means that more than 100 municipalities work together in one of these 13 cooperations
- All in all they offer ca. 150 ha of fully developed business land

Lessons learnt:

- Financing is easier because of the cost sharing.
- Conflicts and competition between the municipalities are avoided because of a common development of the projects and a common decision-making.
- The Provincial Government of Upper Austria supports the building of these INKOBAs.

Cooperation of municipal administration in Oberhünigen and Zäziwil (Switzerland)

Main objective(s):

- Reducing of costs for municipal tasks
- Strengthening of the stability of the communes
- Improvement of the personnel situation of Oberhünigen

Project description: The overall administration of the municipality of Oberhünigen is now made by the municipality of Zäziwil.

Process management:

- The cooperation is regulated by a contract.
- Both municipalities stay politically independent and have both their own councils.

- Oberhünigen pays a small compensation to Zäziwil and the administrative employees work for both municipalities.

Results and impacts:

- Cost advantages, because there is no separate municipal office in Oberhünigen.
- Optimized capacity utilization
- Team work is now possible, because before the cooperation there was only one employee at the municipal office of Zäziwil (difficulties when this person was ill or on holidays). Now there are 4 employees and the tasks can be divided.
- Increased know-how of the municipality of Zäziwil
- The municipal office is now open all day

Lessons learnt:

- With this cooperation costs were reduced.
- There is no disadvantage for the inhabitants of Oberhünigen in closing down their municipal office because most of them do work in Zäziwil anyway.
- For those persons who are not able to come to Zäziwil, there is a mobile service of the communal administration.
- Jobs could be secured and even more jobs were created.

4. Effects of the current financial situation

The following effects were described by the partners on the OP-ACT priorities:

Social inclusion

- Increasing number of unemployed people, less funds for retraining, reintegrating unemployed into the labour market
- A growing number of people who are in financial needs and are dependent of debt remission programs
- Municipalities struggles to maintain the quality of social services, even at the expense of other services
- EU funding results in competition between the municipality and the Labour Office in services for unemployed people (thus creating overlaps, reduced efficiency)
- Participation on community activities decreases because of income problems.

Economic growth

- Poland: with the use of EU funds, the municipality managed to counteract economic downturn (mainly through redirecting the majority of funds towards economic development purposes);
- Spain: the municipality reduced funding for infrastructure development, less money for infrastructure enabling economic development;
- Norway: decline in the number of taxpayers / workforce - bad for the economy;
- Hungary: with the relocation of the biggest company, the municipality becomes the biggest investor in town, as well as the biggest employer; the investments, though, are not revenue making investments;
- The Netherlands: Increase of entrepreneurs (without employees). Also companies are outsourcing their activities, which lead to an increase of the number of companies, but a reduction of the gross domestic product.

Living conditions

- People have less money, they spend less to improve their immediate environment;
- Youth unemployment, long term unemployment and presence of immigrants can influence the quality of life in living areas and safety problems arise.
- Reduced funding results in postponing investments to improve the infrastructure of public services;
- While there is an improvement in living conditions as a result of investments from EU funds, people are getting poorer;

Site advantages

- Too few visitors
- Too high taxes for companies
- Often absence of an attraction of the cities (university, stable housing market, knowledge based or creative industries, touristic hot spot, culture, etc.)

5. Conclusion and recommendations

Conclusions:

The main problems regarding finances and city budgets clearly lie in the fact that the cities have less income than in the previous years. On the one hand the national and regional governments have reduced their financial subventions for local authorities drastically and on the other hand cities suffer from a decrease in personal revenue and corporate tax payments, which again are consequences of the shrinking number of inhabitants. This local situation has even worsened in some of the partner cities by the economic crisis when many big companies had to downsize or to close down at all. The partners declared unanimously that cultural and social services had to be reduced the most because of the cut back in city finances. Many of these services had to be therefore taken over by volunteers without remunerations.

Innovative forms of financing are needed badly and some of the partner cities have already started to implement new solutions. There is a positive example from Poland, where an access road to an investment area was built through a public private partnership (Build – Operate – Maintain – Transfer concept) or some other cities cooperate with their neighbouring municipalities to share tasks and costs (e.g. Herleen shares its waste collection and waste management with eight other municipalities) or they also try to reduce costs by reorganising their local administration like Altena. Currently less people work there and the accounting system was reorganised. The city now is structured like a private company.

In The Netherlands the national government decided to pay a once only budget on shrinking areas (decentralization payment) in 2010. This regards an amount of 14.750.000 Euros and has the aim to prevent structural problems on empty housing/buildings and restructuring between 2010 and 2020 in the Parkstad Region. Some cities, as Heerlen, also use national and European subsidies like ERDF, but there the problem came up that they are not able to raise the necessary share of equity capital. This is why e. g. Heerlen has established a co-financing fund with an every year deposit of 5 million Euros. This fund is based on a multiplier aim and can be implemented on projects that fit within economic priorities of the city.

Partners also stressed that not only finding ways to saving costs is important but also to stimulate the local economy and to develop plans to keep the young people in town or make them come back after their education and training in other cities. Leoben, for example, tries to make the city interesting for young people by supporting “creative industries” and young entrepreneurs. Others offer incentives for students so

that they live in town during their studies or even stay there after the completion of their education.

The success and the value of new financial instruments or the below recommended actions can be measured with these indicators:

- How many new businesses have settled in the city?
- How much was invested?
- How many new jobs were created in the municipality?
- Was there a reduction in the value of social grants?
- Has the income through local tax revenues increased?

Recommendations:

Finally the following key success factors for the access to finances were commonly defined:

- ✓ Reduce your level of standards – settle for less
- ✓ Create win-win situations for all involved parties (either private partners or other municipalities) and define the roles of all partners in a contract
- ✓ Be more active on European level – look for funds and learn from others
- ✓ Use EU-funding to develop sustainable projects of common interest
- ✓ Cooperate rather than compete with neighbouring municipalities – identify common interests, build up trust and create shared services / infrastructure – look for long-term cooperations
- ✓ Involve local stakeholders and businessmen more – be open to new ideas from them however strange they sound at first
- ✓ Involve citizens to support the local administration to help them conduct their tasks as government (e.g. care, cultural events...) to save money
- ✓ Find sponsoring from private companies for cultural activities
- ✓ Management skills are essential to run a municipality successfully
- ✓ Give guarantees and loans for companies that settle in your municipality
- ✓ Structure your communal administration like a private company or as a holding
- ✓ Invest on integrated projects on regional development
- ✓ Lobby at national government for extra investments in shrinkage region
- ✓ Establish a co-financing fund with the help of multipliers, local banks and investors

It is also very important to involve the relevant key stakeholder right from the beginning of the project development and discuss the financial situation and necessary cutbacks with them. Innovative ideas could be brought up by them, which could help to solve the financial problems of the municipality. The following key

stakeholders should be involved when discussing new ways of financing the communal tasks:

- Local administration
- Relevant politicians
- Local businesses and external investors
- NGO-s in the area
- Local community
- Neighbouring municipalities
- European Union - Commission
- Financial institutions
- Higher education institutions
- Citizens