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EUROCITIES response to the Fifth Cohesion Report

EUROCITIES

EUROCITIES is the network of major European cities. Founded in 1986, the network brings together the local governments of over 130 large cities in some 34 European countries. EUROCITIES represents the interests of its members and engages in dialogue with the European institutions across a wide range of policy areas affecting cities. These include: economic development, the environment, transport and mobility, social affairs, culture, the information and knowledge society, and services of general interest.

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CONTENTS

Executive summary.....	3
Introduction	5
A cohesion policy to deliver Europe 2020.....	5
For EUROCIITIES, an ambitious urban agenda for cohesion policy means.....	6
Conclusion	10

EXECUTIVE SUMMARY

EUROCITIES believes that an active role of cities in the future cohesion policy is essential because this is the only way to reach Europe's 2020 objectives. Europe 2020 sets out Europe's overarching priority within an increasingly competitive global context, as 'smart, sustainable and inclusive growth'. This will not be achieved without **smart, sustainable and inclusive cities**. Cities account for 75% of our population, 80% of energy use and 85% of Europe's GDP.

- Smart cities: 85% of GDP is generated by cities, centres of commerce and innovation. They are drivers of growth and of the EU's global competitiveness. Furthermore, metropolitan economies provide critical mass of markets, consumers, businesses, etc.
- Sustainable cities: urban concentration makes best use of natural resources - land, energy, water, etc, but at present cities account for 80% of emissions (UNFCCC) and therefore we must green our cities if we are to meet the EU's climate targets: energy efficient buildings, renewables, waste to energy, urban mobility, information and communication technologies etc.
- Inclusive cities: cities provide an economic infrastructure for social mobility, attracting migrants, educating, developing, up-skilling, integrating, offering opportunities for jobs, enterprise and wealth creation. 75% of people live in cities and that will grow. The world is becoming urbanised.

If we want Europe to maintain its economic competitiveness in this rapidly changing world, to deliver a high quality of life for our 500 million Europeans, we must invest in our cities so that they perform economically, socially and environmentally, driving the development of their regions and countries for the benefit of all. Cohesion policy is a key instrument at the strategic, EU level to support those goals.

For future cohesion policy to be effective, efficient and enduring, we need an **ambitious urban agenda**. This means:

1. **Compulsory urban earmarking in the mainstream programmes.**
2. **Tackling the realities in all our cities**
 - Cohesion policy remains a development and investment policy for the whole of the EU, and should maintain its current architecture.
3. **Cities at the table: strengthening multi-level governance beyond the regions**
 - Cities must be involved in deciding on priorities and developing the programmes to maximise the effectiveness of the compulsory urban earmarking. As the level of political representation closest to the citizens, our city leaders know how best to manage the coordination and delivery of policies to deliver results in their territories.
 - The Commission should elaborate guidelines for member states to work in partnership with cities, leaving it up to each member state to decide the best option, according to their internal structure. One option would be for each member state to draw up a list of representative cities in their own national contexts that they would involve in the negotiations. This list would be based on an analysis of which cities would be the key enablers and key drivers to deliver Europe 2020 on the ground.
 - To address social and territorial cohesion, we need to look at the interlinkages of social inclusion with urban regeneration, the digital agenda, transport, employment and training as well as the provision of quality social services. Many cities attempting to

implement integrated development measures have faced challenges due to the structure of EU policies and programmes, which can lead to sub-optimal use of EU funding. Better coordination between EU funds, in particular the ERDF and the ESF, would help combine physical development and social issues at the local level.

4. Thematic concentration supporting new partnerships

- A mandatory partnership approach within each thematic priority would combine thematic measures in an integrated territorial approach by obliging managing authorities to identify in each case the appropriate functional area and the appropriate delivery partnership. It would support further decentralisation towards OPs and/or sub-OPs managed by functional areas, with cities at their core.

5. Financial engineering to design instruments with direct access for cities

6. Conditionality: keeping it urban and integrated

- In order for programmes to be approved by the Commission, it should be a condition that member states can demonstrate that their cities were involved in the process of developing National Reform Programmes and Development and Investment Partnership Contracts.
- Wherever an integrated approach has a clear advantage over sectoral approaches, conditionality could be helpful. If such an approach is taken the level of evidence should be proportional to the size of the budget
- In principle, it is not feasible to cut funding off for cities due to the failure of national governments to implement agreed measures linked to the Stability Pact.
- We have reservations about the performance reserve proposal given past experience and the potentially substantial administrative costs it could incur to allocate 2-3% of the budget.

INTRODUCTION

Europe's overarching priority, set out in the 2020 strategy, is 'smart, sustainable and inclusive growth'. This will not be achieved without smart, sustainable and inclusive cities. Cities account for 75% of our population, 80% of energy use and 85% of Europe's GDP.

Europe's global competitiveness in the world depends on the leading edge industries, the knowledge base and the proper functioning of our cities. Future cohesion policy needs to empower cities because of their key role in tackling EU current and future challenges, their role in the development of their surrounding regions and their capacity to deliver through an integrated approach.

Europe's goals (smart, sustainable, inclusive growth) are interdependent. Our experience shows that cohesion policy has greater and longer-lasting impact when economic, social and environmental measures are combined. Such an integrated approach is best led by city governments because they are closest to the ground and are able to bring together all those with a stake in the area's future. Integrated development is the way to combine and strengthen the objectives of Europe 2020 and to ensure smarter spending for maximum impact. This is best done in cities and functional urban areas, supported by a strong cohesion policy.

A COHESION POLICY TO DELIVER EUROPE 2020

A cohesion policy able to deliver Europe 2020 Strategy objectives should:

- encourage integrated policy development and delivery
- improve effectiveness by targeting resources where results can come more quickly, more broadly and more strongly
- be a development and investment policy to cover all regions and cities of the EU
- identify the strengths and unlock the potential of Europe's diverse territories to support them in achieving smart, sustainable and inclusive growth
- guarantee real multi-level governance beyond the regional level, to ensure local realities are reflected in priorities, programming and spending
- tackle the major societal challenges facing Europe in the places where they hit hardest - in Europe's cities and urban areas
- be visible to as many people living in the EU as possible

We need to empower, engage and resource our big cities if together we are to ensure

- that 75% of Europe's population between 20-64 are employed
- that our 3% GDP investments in R&D stimulate the maximum in innovation and pay off in terms of take up and deployment
- that we meet our 20/20/20 climate targets and even move beyond them where the potential exists
- that we reduce school drop-out rates below 10% and that at least 40% of 30-34 year olds complete third level education,
- that we lift 20 million people out of poverty.

In the 5th Cohesion Report, the European Commission has proposed an ambitious urban agenda. We fully support this proposal and believe it should be at the heart of the future cohesion policy.

But what will it mean in practice?

FOR EUROCITIES, AN AMBITIOUS URBAN AGENDA FOR COHESION POLICY MEANS...

1. Compulsory urban earmarking in the mainstream programmes

In the current period, the intention was to mainstream the urban dimension. We had great hopes that this would allow for the advantages of the URBAN programme and its methodology to be integrated into all operational programmes (OP). However this has rarely happened. Even where an urban priority has been included in an OP, it has usually been under-resourced and cities have not been closely involved in the design of the priority. Many strengths of URBAN have been lost: inter-sectoral coordination of activities, strong horizontal partnership, enhanced local responsibility, and concentration of funds in selected intervention areas.

Given the challenges we face and the objectives Europe has set itself, we must maximise the opportunities and potential of Europe's cities and metropolitan areas in order to drive economic growth, deliver integrated development, and tackle our major societal challenges.

Compulsory urban mainstreaming, with a clear financial allocation in each OP, is essential to follow through on ambitions to prioritise and target for maximum impact. It would also help ensure that the flow of resources to our big urban centres is not hindered by political considerations or rivalry over competences as is sometimes the case.

In the next programming period the allocation of technical support for capacity building should be offered to all cities where it is lacking, to ensure that their new competencies in the field of cohesion policy can be fulfilled correctly. Giving more competences to sub-regional level will not be enough if it does not come together with measures to strengthen capacity. This is also important for the implementation of financial engineering instruments. If they are to become a crucial tool of future cohesion policy, the European Commission must ensure that all cities are able to utilise them.

2. Tackling the realities in all our cities

The 5th Cohesion Report understands cohesion policy as a development and investment policy for the whole of the EU. This is an important principle. The most substantial social and economic differences often exist between neighbourhoods within cities. This is an important reason why cohesion policy should be for all regions and cities. It should realise potential and tackle the economic and social disparities where they are at their starkest.

GDP per capita remains the main indicator for determining the level of development. We are aware of the challenge to finding other indicators; however it is essential that we continue with this. To improve the effectiveness of the policy, we first need to better understand the real social and economic situation on the ground. We support the idea of introducing new indicators as soon as they become available.

A cohesion policy for all EU regions and cities can be implemented with the current architecture of three objectives: convergence, regional competitiveness and employment, and territorial cooperation.

In the 5th Cohesion Report the Commission introduced the idea of a new intermediate category of regions. We would support the principle that regions that have moved out of convergence but remain below the EU average should be given some additional support, and believe this could be funded from within the convergence budget.

Territorial cooperation programmes should be maintained as they exist (A, B and C) but in a simplified manner and giving more room for experimentation and improved dissemination of good practices.

Better links are needed between networking programmes (URBACT) and urban mainstreaming to increase coherence and coordination. Currently there is little connection between URBACT findings and the OPs, it is also difficult to modify an OP to take into account URBACT findings.

Where existing tools of territorial cooperation do not work, innovative solutions as an EGTC or macro-regional strategies can be studied. It is however important that any resource allocation to these strategies does not limit the possibility to work within the framework of European territorial cooperation in other geographical areas.

3. Cities at the table: strengthening multi-level governance beyond the regional level.

To maximise the effectiveness of compulsory urban earmarking, cities need to be involved in deciding on priorities and developing the programmes. As the level of political representation closest to the citizens, our city leaders know how best to manage the coordination and delivery of policies in their territories to deliver results.

We agree in principle with the structure proposed by the 5th Cohesion Report. A Common Strategic Framework and Development and Investment Partnership Contracts could offer the perspective of better and more readily coordinated funds.

The Common Strategic Framework should help address the challenge of coordinating the different programmes. Our work around the European Year 2010 for combating poverty and exclusion has shown again clearly the need for an integrated approach. To address social and territorial cohesion, we need to look at the interlinkages of social inclusion with urban regeneration, the digital agenda, transport, employment and training, as well as the provision of quality social services.

Many cities attempting to implement integrated development measures have faced challenges due to the structure of EU policies and programmes, which can lead to sub-optimal use of EU funding. Better coordination between EU funds, in particular the ERDF and the ESF, would help combine physical development and social issues at the local level.

The city level will be crucial in order to define the investment priorities, conditionalities and the targets to be achieved. If cities are not involved in national discussions on the framework for cohesion policy, it will be impossible to ensure an integrated approach in delivery, which we believe can be a crucial European added value of cohesion policy.

This means that national governments should involve their cities and metropolitan areas (where they exist) in the development of the National Reform Programmes, as an important strategic framework on which the Development and Investment Partnership Contracts must ultimately be based.

Bearing in mind the principle of subsidiarity, which intends to ensure that decisions are taken as closely as possible to the citizen, the involvement of cities in the design of the policy must be mandatory. The European Commission should elaborate guidelines for member states to work in partnership with cities leaving up to each member state to decide the best option, according to their internal structure.

One option would be for member states to each draw up a list of representative cities in their own national contexts that they would involve in the negotiations. This list would be drawn up based on an analysis of which cities, within a country, would be the key enablers and key drivers to deliver Europe 2020 on the ground.

4. Thematic concentration supporting new partnerships

The 5th Cohesion Report proposes to increase thematic concentration by establishing in the cohesion policy regulations a list of thematic priorities linked to the integrated guidelines and flagship initiatives of Europe 2020.

Channelling EU funding towards a limited number of priorities can help in the process of focusing resources, smarter spending and improved effectiveness. In principle, including compulsory priorities could also help ensure EU funding is targeted rather than spread too thinly. However given the diversity of realities and challenges across the EU, the thematic priority approach must include a degree of flexibility so that programmes can identify and tackle the realities at local and regional level.

The Commission also proposed that greater flexibility in the regulations could help better reflect the real nature and geography of development approaches. Opening up to a more flexible geography is important because it means tackling the problems at the best suited level.

We have been advocating the need to support a more variable geography and in particular the potential of functional areas with cities at their core, to drive forward integrated development in the wider area, in close partnership with the relevant stakeholders. This could be done through a mandatory partnership approach within each thematic priority.

The ambition to combine thematic measures in an integrated territorial approach by requiring managing authorities to identify in each case the appropriate functional area and the appropriate delivery partnership is essential to deliver Europe 2020 objectives.

Fostering experimentation to build new and better partnership models would make an important contribution to improving the effectiveness of the policy. It would also help foster metropolitan governance, and/or integrated neighbourhood interventions. It would also support further decentralisation, where different contexts allowed, towards OPs and/or sub-OPs managed by urban functional areas, with cities at their core.

5. Financial engineering to design instruments with direct access for cities

Continuing a focus on financial engineering and developing new instruments will be crucial in order to maximise the potential of cohesion policy to create more opportunities. There is scope to improve existing tools, as well as to develop new ones.

For example, our experience with JESSICA so far has shown that not all member states adopt a decentralised approach to dealing with financial instruments and, where this does happen, only managing authorities can apply. This is a major barrier to cities applying directly, and using their own real estate and land values in the process.

Secondly, JESSICA is currently not legally compatible with all the national regulations, which again makes it impossible for some cities to apply. For example, in Sweden the use of financial instruments such as JESSICA is, according to the responsible ministry, considered to be in opposition to the municipal law's provisions that municipal business operations may only be carried out on a non-profit basis and that the focus shall be the general promotion of business activities in the municipality

And thirdly, JESSICA overlaps with other funds on the market.

A clearer, more decentralised structure, involving all administrative levels, is needed. The framework needs to be sufficiently coherent and flexible to adapt to national circumstances and must have a clear communications strategy. We also need to find ways to simplify the regulations for financial instruments. This may mean applying different regulations to EU funding within financial instruments to those applied to more standard ERDF and ESF grant funding.

An ambitious urban agenda needs a JESSICA more fit for purpose.

6. Conditionality: keeping it urban and integrated

Conditions for member states

With a mandatory urban earmarking, and the essential multi-level governance this implies to ensure effectiveness, member states should be in a position to demonstrate that their cities were involved in the process of developing National Reform Programmes and Development and Investment Partnership Contracts. This should be a mandatory condition to having the documents approved by the European Commission.

Conditionality linked to the integrated approach

Integrated approaches not only deliver a higher quality of development but are also more cost effective because they allow needs in one sector to be addressed by taking advantage of opportunities in another. Wherever an integrated approach has a clear advantage over sectoral approaches, e.g. in urban regeneration programmes (using the URBAN methodology) and socio-economic programmes in functional urban areas, conditionality could be helpful. In these cases, a project could only be approved if it could illustrate that it is a part of an integrated approach. If such an approach were taken, the level of evidence required should be proportional to the size of the grant.

Conditionality linked to macro-economic governance

The 5th Cohesion Report proposes to introduce incentives and sanctions linked to the Stability Pact. So far, this kind of sanction just affected those Member States receiving Cohesion Fund but was never implemented. The current proposal seeks to enlarge the scope of the measure to all Structural Funds, consequently to all Member States.

In principle, it is not feasible to cut funding off for regions and cities due to the failure of national governments to implement agreed measures. If this conditionality tool happens to be approved, we ask for setting up enough preconditions to avoid a situation where regions and cities are affected due to the failure of national governments.

Performance reserve

The 5th Cohesion Report introduces the idea of a performance reserve to encourage progress towards Europe 2020 targets and related national targets and objectives. A small percentage of the EU Budget would be allocated to this performance reserve to award those MS and regions whose programmes have contributed most to the 2020 targets and objectives, compared to their starting point.

We remain sceptical about the utility of such a performance reserve. Firstly, the last experiences with such a tool were not very positive as, to be able to secure the performance reserve, the same amount was underspent because the money arrived too late. Secondly, as we are seeing in the current period, the economic situation can change and make achieving targets very difficult. Finally, allocating just 2-3% of the budget with substantial administration costs makes us think that this money could be better used in another format.

CONCLUSION

We find the 5th Cohesion Report to be a step in the right direction. This report represents huge progress and achievement not just for cities but for the EU as a whole. But we are only at the start of a process. EURO CITIES will continue to support the European Commission to ensure that these recommendations are taken up by member states.