

- Master thesis -

**Financial decentralisation of governance of Urban
Policy in France, the United Kingdom and the
Netherlands**

Mirjam Rutters



- Master thesis -

**Financial decentralisation of governance of Urban
Policy in France, the United Kingdom and the
Netherlands**

Mirjam Rutters

Student number: 0154512 (Universiteit van Twente)
351412 (Westfälische Wilhelms-Universität Münster)

Universiteit van Twente & Westfälische Wilhelms-Universität Münster

European Studies - Double diploma program

Supervisors: Dr. G. J. Hospers
Universiteit van Twente

Prof. Dr. N. Konegen
Westfälische Wilhelms-Universität Münster

August, 2008

Table of contents

1. INTRODUCTION	2
2. THEORY.....	6
FISCAL FEDERALISM THEORY	6
<i>Division of taxes</i>	6
<i>Government as Leviathan</i>	7
<i>Spill-overs and externalities</i>	8
<i>Federalism vs decentralisation</i>	9
<i>Types of federalism</i>	10
<i>First- and second-generation theory of fiscal federalism</i>	10
<i>Soft and hard budget constraints</i>	11
CRITICISM ON FISCAL FEDERALISM THEORY	12
MULTI-LEVEL GOVERNANCE.....	13
3. URBAN POLICY IN THE EUROPEAN UNION	16
<i>Multi-level governance in the European Union</i>	16
<i>The European Union and Federalism</i>	16
<i>Urban Policy</i>	18
<i>URBAN Community Initiative</i>	19
4. FRANCE	21
URBAN POLICY	21
FISCAL DECENTRALISATION	22
<i>Local taxes</i>	22
<i>Grants</i>	23
<i>Multiple office-holding and dual representation</i>	24
<i>Indexation methods land value</i>	24
<i>Second decentralisation process</i>	26
5. THE UNITED KINGDOM.....	28
URBAN POLICY	28
<i>Scotland and Wales</i>	30
<i>The North-South divide</i>	31
<i>Closing the gap</i>	32
FINANCIAL DECENTRALISATION.....	32
<i>Local property tax</i>	33
<i>Grants</i>	34
6. THE NETHERLANDS	36
URBAN POLICY	36
<i>Broad Special Purpose Grants</i>	37
<i>The fourth term of Urban Policy</i>	38
<i>Administrative system</i>	39
<i>Organs of sub-central governments</i>	40
FINANCIAL DECENTRALISATION.....	40
<i>Municipal co-operation</i>	41
7. COMPARISON AND CONCLUSIONS.....	42
COMPARISON	42
CONCLUSION.....	47
8. LITERATURE.....	49
BOOKS	49
ARTICLES	50
INTERNET SOURCES	51

1. Introduction

In The Netherlands, municipalities are asking for more autonomy when it comes to governance of urban policies. The agreements that have been made between the national government and the 31 biggest cities in The Netherlands (the so-called 'covenants') are valid until 2009. Negotiations for new agreements have already started, with the municipalities asking for more freedom in spending the budget for urban policy. They also feel that it would be an improvement if the national government would step away from a general agreement that is valid for all 31 cities and instead make agreements with all the cities one by one. Another issue that deserves attention, according to the municipalities, is a more 'integral approach' to Urban Policy, meaning that Urban Policy does not focus only on the cities themselves but also on the region in which it is located.¹

The Netherlands is one of the forerunners in the European Union when it comes to Urban Policy, along with the United Kingdom and France.² Urban Policy affects a large part of the population in the European Union, due to the fact that more than 80% of the population of the European Union lives in an urban area.³ Urbanisation will continue in the future, increasing the percentage of the population living in an urban area.⁴ This fact makes Urban Policy an important policy area. Throughout the years, urban policy has become more important at a European level, which is shown by several important agreements and community programmes that have been set up.⁵ Many policy documents, statements and declarations talk about the importance of the European cities with qualifications such as "...primary source of wealth creation and the centre of its social and cultural development"⁶, "...principal motors of growth in a global economy, they contain the major share of Europe's wealth, knowledge and technology"⁷, "the main source of prosperity, and they contribute disproportionately more to regional or national GDP compared to their population, reflecting the higher productivity of cities"⁸ and "the important role and potentials of cities and towns for regional development and the cohesion of the EU territory."⁹

European policies have always focused on the region, however, and not on the city as such. That means that an Urban Policy did not really exist at a European level, but only existed as an element of Regional Policy.¹⁰ Nonetheless, the European Union is becoming a more important source of legislation and information to the municipalities as they 'set the rules' for the Urban Policy of national governments. This makes it important for local governments to make their opinions known at a European level.¹¹ An example of that in The Netherlands is the Vereniging van Nederlandse Gemeenten (VNG), a national association of Dutch municipalities, which has a European and International division.¹² Municipalities and local governments are also lobbying at a European level, not only through their own lobbying offices in Brussels, but also through the Committee of the Regions and other organisations at a European level that represent the interests of local governments. The European Union is not

¹ Nicis, 2007b; Van den Berg, Braun & Van der Meer, 2007; Van der Wouden, 2007

² Van den Berg, Braun & Van der Meer, 2007

³ CEMR, 2008; Communication from the Commission, 1997; Le Galès (2002); Van den Berg, Braun & Van der Meer, 2007

⁴ Communication from the Commission, 1997

⁵ European Commission, 2003; Le Galès (2002)

⁶ Communication from the Commission, 1997

⁷ European Commission, 2003

⁸ Communication from the Commission, 1997

⁹ Common Declaration of URBAN cities and players, 2005

¹⁰ Van den Berg, Braun & Van der Meer, 2007

¹¹ Leipzig Charter on Sustainable European Cities, 2007

¹² Vereniging van Nederlandse Gemeenten (2008)

only interesting for local governments to make their opinions known, but also for obtaining European funds and participating in Community programs that are focusing on urban renewal and sustainable (urban) development, such as the URBAN program.¹³ These programs distribute the funds that are attached to them to the member states so they can execute projects in urban areas. The money for financing these programs comes mainly from the Structural Funds and the Cohesion Fund.¹⁴ Van den Berg, Braun & Van der Meer phrase these developments at the different government levels as follows: “One of the assumptions is that the interaction between the local (urban), regional (if there is one), national and European levels is becoming more important. We emphasise that interaction refers to the influence on policy-making among different levels of government. Hence, it is not just concerned with the classical top-down policy-making process but also includes local policy initiatives that effect policy-making of higher layers of government (bottom-up).”¹⁵ And they add to this that “In most cases the national government is an intermediary between the local and European level because of the principle of subsidiarity.”¹⁶ In the Leipzig Charter on Sustainable European Cities, the Ministers responsible for Urban Development also expressed their vision of an important role for the national governments by stating that “Urban development policy should be laid down at national level and the stimuli for innovative solutions should also be created at national level, as well as at other levels.”¹⁷ Ten years earlier, the Commission already stated the special role for the national governments in urban policy: “Member States have primary responsibility in developing the urban policy for the next century.” The Commission adds that many issues “need the involvement of policy instruments which are in the hands of national administrations.”¹⁸ Following the principle of subsidiarity, (the execution of) Urban Policy should be in the hands of the local governments. Is this also the case? Do local governments have the responsibility for Urban Policy? Do they make the decision to which projects the financial resources will be allocated? Or is this in the hands of the national governments? Another possibility is that this is a shared responsibility between the national and local governments. Regarding the EU’s urban policy, participants in the URBAN program¹⁹ have agreed with the recommendations of the Commission to improve the co-operation between the different government levels when it comes to future projects within the URBAN program and to make use of the principle of subsidiarity. The role of the local governments, authorities and other stakeholders should be emphasised especially in the execution of the programs. Furthermore, there should be the possibility for mutual learning by “exchanging experiences and know-how” and the differences in administrative structures of the Member States should be taken into account.²⁰ In order to make this possible, the Urban Audit and URBACT have been set up. The Urban Audit collects data of European cities, thereby creating the possibility of comparison. URBACT is a European network for exchanging experiences between cities.²¹ The calls for more decentralisation of Urban Policy in The Netherlands fit well with the principle of subsidiarity. Put differently, the principle of subsidiarity leads to decentralisation

¹³ Van den Berg, Braun & Van der Meer, 2007. The URBAN program was started in 1994 (Communication from the Commission, 1997; European Commission, 2003); Keating and Hooghe in Richardson (2006); Le Galès (2002); Schobben (2000)

¹⁴ Communication from the Commission, 1997

¹⁵ Van den Berg, Braun & Van der Meer, 2007

¹⁶ Van den Berg, Braun & Van der Meer, 2007

¹⁷ Leipzig Charter on Sustainable European Cities, 2007

¹⁸ Communication from the Commission, 1997

¹⁹ In the case of this declaration, the participants refers to the French and German-Austrian URBAN networks.

²⁰ Common Declaration of URBAN cities and players, 2005; Communication from the Commission, 1997; European Commission, 2003; Leipzig Charter on Sustainable European Cities, 2007

²¹ Communication from the Commission, 1997. The Urban Audit was started in 1997 and is being led by Eurostat, in co-operation with the national statistical institutes. URBACT was set up in 2002 and is being led by the French authorities (Communication from the Commission, 1997; European Commission, 2003).

of governance. To see whether or not this is the case in practice, the member states of the European Union that have the most developed urban policies will be compared: France, The Netherlands and the United Kingdom. Urban Policy encompasses many aspects as the example of The Netherlands shows where eleven different ministries were involved in the Urban Policy.²² Therefore, the comparison will focus specifically on the financial aspect of Urban Policy. When bringing together the financial aspect of Urban Policy and decentralisation of governance, theories that support this connection are fiscal federalism theory and more generally, multi-level governance.²³ Multi-level governance relates to the assumption stated above by Van den Berg, Braun & Van der Meer, namely the increased importance and practice of interaction and interdependence between the different levels of government. This is a development that is stimulated and emphasised at a European level.²⁴ The comparison of the three countries will be used to test the following hypothesis:

Decentralisation of governance of Urban Policy leads to more efficient governance of Urban Policy

In order to be able to verify or falsify this hypothesis, the following questions will be answered and will serve as a guideline:

- To what extent can we speak of a decentralised urban policy in France, The Netherlands and the United Kingdom?
 - *What government level(s) is/are responsible for implementing urban policy?*
 - *What government level(s) execute(s) urban policy?*
 - *What government level(s) take(s) the decisions on the allocation of financial resources for urban policy?*
 - *Do local government have the authority to levy taxes or other financial competencies?*
- What developments can be identified at a national level when it comes to decentralisation of governance of urban policies in France, The Netherlands and the United Kingdom?
 - *Has there been a shift of tasks from one government level to another over the past few decades?*
 - *Has there been a shift in allocation of financial resources over the past few decades?*
- What developments can be identified at a European level when it comes to (decentralisation of) governance of urban policies?
- What examples can be found in France and the United Kingdom that could serve as examples of 'best practices' for The Netherlands?

After setting the theoretical background of fiscal federalism and multi-level governance in the next chapter, it will be followed by a chapter that relates the two theories to the European Union and deals with the development of Urban Policy in the European Union. The chapters 4, 5 and 6 following after that will deal with urban policy and financial decentralisation in France, the United Kingdom and The Netherlands, respectively. The seventh chapter will compare the three countries regarding urban policy and financial decentralisation and will

²² Van den Berg, Braun & Van der Meer, 2007. This number of ministries involved refers to the Dutch Urban Policy during the period 1999-2004. This composition was mostly similar during the first period of Urban Policy (1994-1999). After this second period, the composition was changed due to a change in government.

²³ Groenendijk, 2003

²⁴ Communication from the Commission, 1997

draw conclusions based on the answers to the sub-questions posed in this chapter. The conclusions drawn from the answers to the sub-questions will lead to the verification or the falsification of the hypothesis.

2. Theory

Fiscal federalism theory

Fiscal federalism theory describes what the fiscal structure of the different government levels of a state should look like. This fiscal structure should say what government level does what and what government level has the resources to execute these functions.²⁵ In order to shape the fiscal structure of government, four questions would then have to be answered²⁶:

(a) Which tasks should be in the domain of federal and/or central government, and which in the domains of regional or local governments?

(b) Should governments be financially autonomous or should there be financial relations between governments?

(c) If there are to be financial relations, should there be upward or downward funding?

(d) What grants (block grants, specific grants) are most appropriate?

These questions cover similar aspects of fiscal structures of governments as the sub-questions of this research that were posed in the introduction.

The criterion for the division of these functions and resources should be the optimal level of efficiency.²⁷ Musgrave is considered to be the founder of theory on fiscal relations between different levels of government.²⁸ Musgrave has distinguished three fiscal functions: allocation, (re)distribution and stabilisation.²⁹ The latter two functions would be best carried out by the central government, while the first function would be a well-suited task for lower levels of government.³⁰ An argument for leaving stabilisation and (re)distribution tasks to the central government would be that it would result in a (more) uniform application.³¹ An argument in favour of occupying local governments with the allocation function is that when preferences for a certain good or service are very heterogeneous, a uniform provision of that particular good or service would produce "welfare losses, because the chosen level is either below their preferred level (at that price) or above their preferred level."³²

Division of taxes

This division of functions leads to a division of different types of taxes among the different levels of government. "(1) highly progressive taxes should be centralized, (2) a revenue source with a highly unequal distribution of its base ought to be used by the central government, (3) taxes on mobile tax bases should not be used by lower-tier governments, and (4) user taxes are especially appropriate for the lowest tiers of government."³³ The line of thought behind this division is that if lower levels of government levy taxes on a tax base that is "highly mobile" and the tax rate is seen as too high, this population will move to a different jurisdiction where these taxes are not as high. An example of a "highly mobile" tax base is capital. The result of such a population shift from one jurisdiction to another could be an uneven distribution of "location and levels of economic activity" across the nation.³⁴ Lower levels of government should levy taxes that are not very mobile such as benefit taxes.

²⁵ Groenendijk (2003); Hooghe and Marks (2003); Krane, Ebdon and Bartle (2004)

²⁶ Groenendijk (2003)

²⁷ Morris, 1968; Simon *et al.*, 1954 in Rubin and Feeley (2008)

²⁸ Krane, Ebdon and Bartle (2004)

²⁹ Groenendijk (2003)

³⁰ Groenendijk (2003); Fossati and Panella (1999); Krane, Ebdon and Bartle (2004); Oates (2005)

³¹ Groenendijk (2003); Rubin and Feeley (2008)

³² Groenendijk (2003). In this case, "their" refers to the population of the jurisdiction of the local governments; Hooghe and Marks (2003); Oates (2005); Rubin and Feeley (2008)

³³ Krane, Ebdon and Bartle (2004); Oates (2005) draws the same conclusions in his article.

³⁴ Oates (2005)

Property taxes are an example of benefit taxes.³⁵ Related to this is the (re)distribution function of government. Lower levels of government do not have the same capacity as the central government to (re)distribute income. Therefore, this should be left to the central government. Oates suggests that the taxes levied by lower levels of government should be at least enough to cover the costs of providing the local goods in that jurisdiction. Another point made by him is that lower levels of government should have enough own sources of revenues and not fully rely on grants or other sources of revenues from the central government in order to finance their own budgets.³⁶

Charles Tiebout has written about what these lower levels of government would/should do when making decisions in relation to allocation.³⁷ In 1956, he published his 'model of interlocal competition', which is based on the assumption that local governments are competing amongst each other "(...) for citizens and the taxes they pay by manipulating the level, mix, and the quality of public goods and services offered by the jurisdiction (...)" Citizens would then choose the city that offers the mix of goods and services that best suits their preferences.³⁸ Peterson continued in this direction and developed a theory called 'competitive federalism'. Where Tiebout's model approaches the search for the most optimal situation from the perspective of the taxpayers, Peterson's model uses the point of view of the government officials. Schneider's main criticism of the models of Tiebout and Peterson is that the variation in the goods and services that are offered by local governments is not that large and therefore it is the amount of taxes that have to be paid that is decisive in choosing a location to live. This claim is supported by research by Stein.³⁹

Government as Leviathan

Brennan and Buchanan take an entirely different approach with their model, however, by claiming that governments or rulers try to "maximize budgetary resources, even over the opposition of the citizens." This Leviathan, as the central government is called in this model, tries to become bigger and bigger.⁴⁰ In their model, citizens do not have an equal share as the governments in influencing the taxes that are levied. While in the model of Tiebout citizens have the power to influence the level of taxes by comparing the tax rates and bases of the competing local governments, in the model elaborated by Brennan and Buchanan, citizens have no control over the actions of governments related to the setting of tax rates and bases. The functions and resources that are available to governments and rulers should therefore be clearly described by law, thereby setting clear boundaries for their power.⁴¹ According to Brennan and Buchanan, the central government's power should be limited by fiscal decentralisation. As these lower levels of government are competing amongst each other, they will keep each other's power in balance.⁴² Oates claims that earlier work on the Leviathan model did not prove its point as well as more recent work on this topic has. This recent work explained that decentralisation itself is not enough. Only when lower levels of government are given their own resources of revenues does fiscal decentralisation work. In those cases where the central government transfers money to the lower levels of government, their dependence on the central government only increases.⁴³

³⁵ Oates (2005)

³⁶ Oates (2005)

³⁷ Krane, Ebdon and Bartle (2004)

³⁸ Krane, Ebdon and Bartle (2004); Hooghe and Marks (2003); Oates (2005)

³⁹ Krane, Ebdon and Bartle (2004)

⁴⁰ Krane, Ebdon and Bartle (2004); Oates (2005)

⁴¹ Krane, Ebdon and Bartle (2004)

⁴² Oates (2005)

⁴³ Oates (2005) In this case, when decentralisation 'works' it means that the size of government is smaller. This refers not only to staff but also to budget and power.

Spill-overs and externalities

An important issue that comes up when discussing the best division of allocation functions among levels of government, is that of spill-overs and in particular externalities. Groenendijk defines spill-overs as “negative or positive externalities from one jurisdiction to another.”⁴⁴ When local governments are competing for citizens by providing a certain mix of goods and services, this does not mean that citizens will always relocate to that particular jurisdiction when they believe that this jurisdiction offers a better particular service or good. Instead, they may remain in the original jurisdiction but (occasionally) travel to the particular jurisdiction to enjoy the service or good that is offered there. An example given by Groenendijk is that of a theatre located in a particular jurisdiction and visited by citizens from many different jurisdictions.⁴⁵ In Fossati and Panella’s point of view, the problem with this situation is that “as local public goods are numerous and, as each of them has its different territorial circle, there should be as many subcentral levels of governments as there are goods.”⁴⁶ This issue would be an argument to allow interference from the central government in local governments in order to co-ordinate the negative consequences that this situation might have on the competitive position of the local governments. These negative consequences would be of a financial nature, as one jurisdiction has to bear the cost of providing a particular service or good while citizens of (an)other jurisdiction(s) also make use of it without the jurisdiction in which they reside having to pay for it. This situation is referred to as ‘interjurisdictional fiscal externalities’.⁴⁷ According to Dahlby, “Interjurisdictional fiscal externalities occur when a government’s tax and expenditure decisions affect the well-being of taxpayers in other jurisdictions either directly by changing their consumer or producer prices or their public good provisions, or indirectly by altering the tax revenues or expenditures of other governments.”⁴⁸ Besides direct or indirect, externalities can also be either positive or negative, vertical or horizontal - depending on the levels of government that are involved - or be a tax externality or an expenditure externality.⁴⁹ Examples of positive spill-over effects are roads and clean rivers and can be seen as “interjurisdictional spill-over benefits”.⁵⁰ As the consequences are of a financial nature, central governments can try to solve or diminish the problem by interfering in the financial structure between the government levels. It can offer grants to a lower level of government that is not performing well (enough) or use tax income from richer/well performing jurisdictions to provide the poorer/less well performing with the extra funds they need to perform according to standard.⁵¹ This implies that the central government has enough funds to provide lower levels of government with the necessary financial impulse or, in the words of Boadway and Keen, that there is a “positive fiscal gap” In this case, the central government’s revenues exceed its expenditures and this surplus transferred to lower levels of government. The reversed situation is called a “negative fiscal gap”.⁵² Oates argues in favour of allocating functions to lower levels of government with his Decentralization Theorem.⁵³ Under the right conditions, lower levels of government will be able to turn the right combination of local outputs and local preferences into the equation $1 + 1 = 3$, while central government would not be able to produce that effect since a uniform

⁴⁴ Groenendijk (2003)

⁴⁵ Groenendijk (2003)

⁴⁶ Fossati and Panella (1999)

⁴⁷ Groenendijk (2003)

⁴⁸ Dahlby (1996) in Groenendijk (2003)

⁴⁹ Groenendijk (2003)

⁵⁰ Oates (2005)

⁵¹ Groenendijk (2003); Fossati and Panella (1999); Oates (2005)

⁵² Boadway and Keen (1996) in Groenendijk (2003)

⁵³ Oates (2005)

approach will not be able to satisfy local preferences equally in every jurisdiction.⁵⁴ His two main arguments are, first, that lower levels of government have a better idea of the preferences of their residents than the central government and, second, that the central government cannot favour one jurisdiction over the other and must therefore apply a uniform approach towards all jurisdictions. As mentioned above, this may cause dissatisfaction with some jurisdictions, as the provided level might be too high or too low. Oates admits that in practice centrally administered programs often tend to produce different results among the lower levels of government.⁵⁵

Federalism vs decentralisation

In their article, Rubin and Feeley define federalism by referring to others that have written about federalism as it is used in political and legal sciences and state that federalism "refers to a mode of organizing a political entity that grants partial autonomy to geographically defined subdivisions of the polity. Clearly such a regime lies somewhere between a fully unitary state and an alliance of separate ones."⁵⁶ The autonomy given to the subdivisions means that they can take decisions that cannot be annulled by the central government and might be against their preferences. Also, a constitutional court could rule that the central government has intruded on the decision making process of a subdivision.⁵⁷ They stress that this is not the case in a decentralised state because decentralisation is "a managerial strategy by which a centralized regime can achieve the results it desires in a more effective manner."⁵⁸ and that "in contrast to federalism, it is the central government that identifies this result, defines the criteria for success or failure, and decides how decision making authority will be divided between itself and the geographical subdivisions. Under a decentralized but national regime, the subdivisions have no rights; they are simply creatures of the central government, created and structured for that government's purposes."⁵⁹ When referring to decentralisation, Rubin and Feeley also state that a dichotomy between centralised and decentralised nations does not exist, as no state is completely centralised. They therefore talk about the degree of (de)centralisation within a state.⁶⁰ The distinctions between federalism and decentralisation are viewed from a positivist point of view. As the relationship between the central government and the subdivisions are more fixed when it comes to federalism, the authors make the point that, from a positivist point of view, preferences may change and this change will be easier to handle when the relationship between the different levels of government are less strict and rigid. Therefore, decentralisation would be preferred over federalism.⁶¹ An important point that they make is that federalism 'comes before' decentralisation. In other words: "While federalism generally results in a fairly high level of decentralization, decentralization does not necessarily lead to federalism" because "decisions cannot be made until responsibility for the decisions is assigned to a particular institutional actor." In addition to this, decentralisation is an administrative issue, while federalism is also a matter of politics.⁶² Fossati and Panella also make the distinction between federalism and fiscal federalism, the former having "a purely political importance", whereas the latter is "an

⁵⁴ Oates (2005)

⁵⁵ Oates (2005)

⁵⁶ Blumstein, 1994; Dikshit, 1975; Duchacek, 1970; Friedrich, 1968 in Rubin and Feeley, 2008

⁵⁷ Rubin and Feeley, 2008; Laffin and Thomas (1999)

⁵⁸ Ammar, 1991; Beer, 1993; Cross, 2002; Diamond, 1969; Elazar, 1987; Post, 1992; Rapazynski, 1985; Scheppele, 1989 in Rubin and Feeley, 2008

⁵⁹ Rubin and Feeley (2008)

⁶⁰ Rubin and Feeley (2008); Hiemstra (1999)

⁶¹ Rubin and Feeley (2008)

⁶² Rubin and Feeley (2008)

economic theory” which has the aim of explaining “in economic terms, the existence of different subcentral levels of government”.⁶³

Types of federalism

There are different approaches to federalism such as process federalism, competitive federalism, fiscal federalism, etc.⁶⁴ Each of them focuses on a specific aspect of federalism and the relationships between the different government levels. Process federalism focuses on the degree of flexibility of the relationships between the levels of government and claims that these relationships are not as fixed as federalism claims they are. Furthermore, the functions that are divided between the levels of government are said to be intertwined and not as ‘boxed off’ for each government level.⁶⁵ Competitive federalism places its attention on the relationship between the lower government levels, arguing that they are competing with each other for citizens. Fiscal federalism deals with “a general theory of governmental organization (...) and specifies criteria for assessing effectiveness and efficiency” and “it offers criteria to guide policy formation once the state has been established and is functioning”.⁶⁶

First- and second-generation theory of fiscal federalism

Oates distinguishes a first and a second-generation theory of fiscal federalism.⁶⁷ The first generation was shaped by the views of Musgrave, Tiebout and the like. This generation dealt with fiscal federalism under the assumption that governments try to “maximize social welfare” and took the existing institutional and political structure for granted.⁶⁸ Research focused on the finances of subnational governments.⁶⁹ The second-generation theory of fiscal federalism works with a different assumption, namely that “participants in political processes” are motivated by their own interests. Another assumption that is made is that of asymmetric information: not all levels of government have the same (access to) information. Those who have more information, have an advantage to those who have less information.⁷⁰ Research emphasizes on “(...) the workings of different political and fiscal institutions in a setting of imperfect information and control (...)”⁷¹ The choice between centralization and decentralization is an important subject of (this generation of) fiscal federalism theory. The principal-agent model is used to argue the choice for either centralization or decentralization. It is assumed that the principal does not have as much information as the agent and the principal tries to stimulate the agent to behave in such a way that it realized the objectives set by the principal.⁷² Some see the central government as the principal and the regional or local government as the agent, while others consider the electorate to be the principal and the elected officials the agents.⁷³ An argument in favour of centralisation is that it would lead to a “greater coordination of policies” while decentralisation will likely result in more accountability.⁷⁴ Related to asymmetrical information, several assumptions exist, like that of the central government not having as much information as local government have on preferences and demands of citizens and not making use of the sources they have to obtain

⁶³ Fossati and Panella (1999)

⁶⁴ Krane, Ebdon and Bartle (2004); Fossati and Panella (1999); Rubin and Feeley (2008)

⁶⁵ Rubin and Feeley (2008)

⁶⁶ Rubin and Feeley (2008); Fossati and Panella (1999)

⁶⁷ Oates (2005)

⁶⁸ Oates (2005)

⁶⁹ Buettner and Wildasin (2007)

⁷⁰ Oates (2005)

⁷¹ Oates (2005)

⁷² Oates (2005)

⁷³ Buchanan and Tullock in Richardson (2006); Enderlein and Lindner in Richardson (2006); Oates (2005)

⁷⁴ Oates (2005)

this information. The reason for not doing so may be the cost of obtaining such information and the value this information has for the central government, compared to the costs and the value of the information for the local government.⁷⁵ Another assumption is that the central government does know citizens' preferences for national public goods, but not for local public goods. Oates argues, like with the first assumption, that the central government might find the costs of obtaining this information too high. From another point of view, he mentions that the central government has to be informed about local public goods in order to be able to determine grants and subsidies to be transferred to lower levels of government. It would therefore not be very likely that the central government does not have (sufficient) knowledge of the preferences for local public goods.⁷⁶

Soft and hard budget constraints

The first generation of fiscal federalism theory was more clearly in favour of decentralisation than the second generation. The first generation saw decentralisation as a way of increasing welfare gains by offering "a more diverse and efficient pattern of local public outputs". In other words, the differences in supply are better matched with the differences in demand among the different jurisdictions. The second generation is looking at the negative effects that decentralisation might have and sees decentralisation not just as a good solution to control the Leviathan-like tendencies of the public sector but also notice that decentralisation may lead to unwanted behaviour from the lower levels of government. This unwanted behaviour would consist in exploiting "the 'fiscal commons' by effectively shifting the burdens of local programs onto the nation as a whole."⁷⁷ This unwanted behaviour by the lower levels of government can be limited by posing budget constraints. These constraints can be either soft budget constraints or hard budget constraints. Soft budget constraints refer to the fiscal decision-making behaviour of the central government and the lower levels of government. Hard budget constraints have to do with the institutional structure that influences the behaviour of lower levels of government. In relation to soft budget constraints, the central government has to decide whether or not it will "bail out" lower levels of government that are having fiscal problems. The central government does not really have any other choice than to bail out the lower levels of government because if they do not do so, the jurisdiction in question will be left in a financially difficult situation which will affect the welfare in that jurisdiction. As a consequence, the electorate in that jurisdiction will most likely not re-elect that central government that did not help them out financially during difficult times, even though these problems may have been caused by irresponsible fiscal decision-making behaviour on part of the lower government level.⁷⁸ The unwanted behaviour mentioned above that leads to shifting burdens from a particular jurisdiction to the entire country is what is reflected in Wildasin's model that shows that "local government behavior has spillover effects on other jurisdictions."⁷⁹ That means that when the central government bails out a jurisdiction, this also has (negative) consequences for the other jurisdictions in the nation. The reason that the central government has to bail out these jurisdictions is because they spend "beyond their means". As these jurisdictions know that the central government has no other choice than to bail them out, they know they can spend more than they can afford to spend based on their own revenues and expenditures. A solution to this problem could be centralisation, but that comes with the danger of a central government that abuses its power and would create the situation that was to be avoided in the first place by opting for decentralisation. Since this type

⁷⁵ Oates (2005)

⁷⁶ Oates (2005)

⁷⁷ Oates (2005)

⁷⁸ Oates (2005) This motivation is reflected in the Goodspeed model.

⁷⁹ Oates (2005)

of behaviour is part of the system itself, the political and fiscal institutions need to be reformed.⁸⁰ These types of reforms are hard budget constraints. When credit and land markets work well, they can influence the local governments' behaviour. The governments have to abide by their rules because if they do not, they will face serious financial consequences. On the credit market, this could mean that local governments would have to pay a higher interest rate. The consequences on the land market could be that local property faces a decrease in value that in turn might make businesses decide to leave the jurisdiction. That would create a situation of competition between the jurisdictions, which in turn would make it a lot less attractive for jurisdictions to count on being bailed out by the central government.⁸¹ Other important hard budget constraints are fiscal institutions: "a reliable and effective local system of taxation to provide the revenues needed to finance local programs." And "the system of intergovernmental grants must function so as to meet its basic allocative and redistributive functions without being subject to manipulation so as to provide fiscal bailouts." The most optimal federal structure should therefore have a central government that is strong enough not to be manipulated by lower levels of government while at the same time there are sufficient constraints to keep the central government from acting like a Leviathan.⁸²

Criticism on fiscal federalism theory

Even though the term would suggest otherwise, fiscal federalism theory is by many considered not to be a theory as such.⁸³ Rather, it is described as follows "[...] there is no distinct theory of fiscal federalism. Rather, we deal with a composite of models, pointed at various facets of the problem."⁸⁴ Rubin and Feeley state it even more clearly: "...despite its name, fiscal federalism is not a theory of federalism at all."⁸⁵ As Krane puts it: "One is left with the unfortunate conclusion that theories of fiscal federalism have not done a very good job in predicting and explaining the actions of local governments. The problem appears to be, in part, the normative nature of the Musgrave, Tiebout, and Brennan en Buchanan theories. Another part of the problem stems from what has been left out."⁸⁶ Bird adds to this: "The tax assignment that actually prevails in any country inevitably reflects more the outcome of political bargaining in a particular historical situation than the consistent application of normative principles."⁸⁷ In addition to this, the tax sources of local governments tend to be more varied than in Musgrave's model, including taxes that, according to Musgrave, ought to be left to the central government.⁸⁸ Groenendijk lists three main categories of criticism on fiscal federalism theory: those that relate to the basic assumptions of the theory, those that question Musgrave's triad of functions, and those that claim that the theory is a government theory instead of a governance theory.⁸⁹ One of the criticisms that question the assumptions of fiscal federalism theory is that the arguments that are made in favour of a certain division of functions among levels of government cannot be weighed and it is difficult if not impossible to choose between different arguments because there are many decision-makers involved. Another criticism is that it is assumed that decision-makers only keep the general interest in mind and have no other (private) interests. It is also criticised that the existing financial and fiscal structure is not taken into consideration and that only the costs and benefits are taken

⁸⁰ Oates (2005)

⁸¹ Oates (2005)

⁸² Oates (2005)

⁸³ Groenendijk (2003); Krane, Ebdon and Bartle (2004); Rubin and Feeley (2008)

⁸⁴ Musgrave (1969: 521) in Groenendijk (2003)

⁸⁵ Rubin and Feeley (2008)

⁸⁶ Krane (1999) in Krane, Ebdon and Bartle (2004)

⁸⁷ Bird (1999) in Krane, Ebdon and Bartle (2004)

⁸⁸ Krane, Ebdon and Bartle (2004)

⁸⁹ Groenendijk (2003)

into account when making a choice between centralisation and decentralisation, which is too simple since it ignores other costs that are related this choice.⁹⁰ The different approaches to federalism have also received their share of criticism. Process federalism, for instance, has been criticised for arguing the “necessity of federalism”⁹¹ Rubin and Feeley claim that process federalism is actually more concerned with decentralisation than with federalism and that in many cases, decentralisation would be a better solution than federalism, due to the probability that federalism will provide less stability than decentralisation.⁹² The same argument is made with regards to fiscal federalism: the assumptions on which it is based are not arguments in favour of federalism but in favour of decentralisation.⁹³ For it to be an approach to federalism, it should have dealt with the origins of the state as well as political identity.⁹⁴

Multi-level governance

Multi-level governance has changed the way the different levels of government work together to create new public policies. Lenschow describes it as “the end of the separate treatment of European and national politics”⁹⁵ According to Groenendijk, multi-level governance has two characteristics. “central governments are no longer the dominant actors in the policy arenas” and “government increasingly is a co-producer of policies together with the private sector, forming policy networks, using public-private partnerships and/or interactive policy-making arrangements.”⁹⁶ Hooghe and Marks state that “the development of multi-level governance is commonly understood to be a general phenomenon in western democracies.”⁹⁷ They distinguish two types of multi-level governance, which are based on four questions they pose on the shape that multi-level governance should take. These four questions are the following⁹⁸:

- Should jurisdictions be designed around particular *communities*, or should they be designed around particular *policy problems*?
- Should jurisdictions *bundle* competencies, or should they be functionally *specific*?
- Should jurisdictions be *limited* in number, or should they *proliferate*?
- Should jurisdictions be designed to *last*, or should they be *fluid*?

The first options that are mentioned in the four questions are combined to form Type I (designed around communities, bundled competencies, limited in number and lasting), while the latter options together form multi-level governance Type II (designed around problems, functionally specific, unlimited in number and fluid).⁹⁹ Type I multi-level governance is based on federalism “which is concerned with power sharing among a limited number of governments operating at just a few levels.” These few levels are usually “a local, an intermediate, and a central level.”¹⁰⁰ The fact that this type is designed around communities means that jurisdictions are “general-purpose” as opposed to “task-specific” in a Type II jurisdiction. Membership of these types of jurisdictions is “nonintersecting” which means that

⁹⁰ Groenendijk (2003)

⁹¹ Rubin and Feeley (2008)

⁹² Rubin and Feeley (2008)

⁹³ Rubin and Feeley (2008) The authors mention that Public Choice Theory and Positive Political Theory suffer the same problems: the institutional set up is taken as a given and federalism is confused with decentralisation.

⁹⁴ Rubin and Feeley (2008)

⁹⁵ Lenschow in Richardson (2006); similar words are used by others, such as Mazey and Richardson in Richardson (2006)

⁹⁶ Groenendijk (2003)

⁹⁷ Hooghe and Marks (2003)

⁹⁸ Hooghe and Marks (2003)

⁹⁹ Hooghe and Marks (2003)

¹⁰⁰ John (2001) in Hooghe and Marks (2003)

there is no overlap between the different jurisdictions. The reason for this is that jurisdictions are usually defined territorially.¹⁰¹ In Type II jurisdictions, there are not a few levels of government that provide all the services for their particular level, but rather “a variety of different public service industries”.¹⁰² Switzerland is named as an example of a country where this type of jurisdiction is very common, in particular at the local level. It is very common in this type of jurisdiction that its territory overlaps with that of other jurisdictions, as they are driven by a particular function they are carrying out and not by a particular territory they serve. Also, the number of jurisdictions does not equal the number of levels of government. Usually there are more levels of jurisdictions than there are government levels. However, they are, for instance, “ad hoc, problem-driven jurisdictions in the form of interregional commissions, task forces, and intercity agencies”.¹⁰³ Since these type of jurisdictions were not created to last a long time like in Type I jurisdictions, the jurisdictions are often terminated when its role has been fulfilled or when there is no longer a demand to perform that function (in that jurisdiction). An important remark is that it is not necessarily a either/or type of choice between Type I and Type II jurisdictions: “Type II governance is generally embedded in Type I governance, but the way this works varies.” The two types are not mutually exclusive but can actually be combined leading to a situation of a stable Type I jurisdiction that is complemented by “a fluctuating number of relatively self-contained, functionally differentiated Type II jurisdictions”.¹⁰⁴ An important issue in multi-level governance is the co-ordination dilemma, which means that “to the extent that policies of one jurisdiction have spillovers (i.e., negative or positive externalities) for other jurisdictions, so co-ordination is necessary to avoid socially perverse outcomes.” Part of this dilemma is that the transaction costs for co-ordination do not increase equally with the increase of the number of actors involved. On the contrary, transaction costs increase exponentially. There are two main strategies to solve this dilemma. The first is limiting “the number of (autonomous) actors” that are involved. The second strategy is limiting the “interaction among actors”.¹⁰⁵ The first strategy is a solution that fits the Type I jurisdictions and the second strategy goes well with a Type II jurisdiction because it means making a task-specific division among jurisdictions. The result of such a division would be to reduce externalities and interdependence. Hooghe and Marks offer in their article five different theories and their way of looking at multi-level governance. One of them is federalism. A special mention is made of Oates and his Decentralization Theorem as an important source of inspiration.¹⁰⁶

Table 2.1- Types of Multi-level governance

Multi-level Governance	
Type I	Type II
- Designed around communities	- Designed around problems
- Bundled competencies	- Functionally specific
- Limited in number	- Unlimited in number
- Lasting	- Fluid

¹⁰¹ Hooghe and Marks (2003)

¹⁰² Ostrom and Ostrom (1999) in Hooghe and Marks (2003)

¹⁰³ Hooghe and Marks (2003)

¹⁰⁴ Hooghe and Marks (2003)

¹⁰⁵ Hooghe and Marks (2003)

¹⁰⁶ Hooghe and Marks (2003)

Table 2.2 Characteristics Fiscal Federalism and Multi-level governance

Fiscal Federalism	Multi-level governance
Government	Governance
Hierarchy	Networks

3. Urban Policy in the European Union

Multi-level governance in the European Union

At a European level, multi-level governance has become very important. Schmitter even states that it “has become the most omnipresent and acceptable label one can stick on the contemporary EU.”¹⁰⁷ while Keating and Hooghe claim that “the practice of multi-level policy-making seems now entrenched in European policy-making”.¹⁰⁸ Multi-level governance “can be defined as an arrangement for making binding decisions that engages a multiplicity of politically independent but otherwise interdependent actors – private and public – at different levels of territorial aggregation in more-or-less continuous negotiation/deliberation/implementation, and that does not assign exclusive policy *compétence* or assert a stable hierarchy of political authority to any of these levels.”¹⁰⁹ It is important to point out the “interconnection of multiple political arenas in the process of governing” or, as Lenschow puts it: “it treats the vertical levels of governance as interlinked and the multitude of political and societal actors as potential parts of a dynamic network”.¹¹⁰ The EU has to share power with the national and subnational levels of government.¹¹¹ The principle of subsidiarity is used as a guideline for the division of power among these levels: “the Union as a whole legislates only in areas (...) where policy problems cannot be solved at lower levels of government.”¹¹² Kleinman refers to Marks when stating that “it is a mistake to think in terms of a ‘fixed pie’ over which the EU institutions and the member states battle. Rather, there is a system of multi-level governance in which the national, the supranational, the regional and the local levels are all involved.”¹¹³ Marks argues that, as a consequence, future European integration is likely to be ‘messy’ and is “open-ended and uncertain”.¹¹⁴

The European Union and Federalism

When relating the EU to federalism, it is often stated that the European Union cannot be considered as ‘federal’ because it does not possess all the powers that a federal state has. Furthermore, the powers are often shared between different levels and not clearly separated from each other.¹¹⁵ Kleinman characterises a federal system as “one in which at least two levels of government – national and local – coexist with separate or shared powers, each having independent functions, but neither having supreme authority over the other.”¹¹⁶ Another difference is the position of the Member States in the European Union versus the states in the American federal system.¹¹⁷ Member States of the European Union have certain powers that American states do not have, such as making “treaties with other states or foreign nations” or “to maintain their own armies” as well as “operating their own tax systems”.¹¹⁸ That seems logical because “the capacity to tax and spend lies at the very heart of the political

¹⁰⁷ Schmitter in Wiener and Diez (2007)

¹⁰⁸ Keating and Hooghe in Richardson (2006)

¹⁰⁹ Schmitter in Wiener and Diez (2007)

¹¹⁰ Hooghe and Marks (2001) in Wiener and Diez (2007); Lenschow in Richardson (2006)

¹¹¹ Peterson in Wiener and Diez (2007); Loughlin (2004); Schobben (2000)

¹¹² Peterson in Wiener and Diez (2007); Neelen, Rutgers & Tuurenhout (1999)

¹¹³ Marks (1992) in Kleinman (2002)

¹¹⁴ Marks (1992) in Kleinman (2002)

¹¹⁵ Berry and Hargreaves (2007) The EU has exclusive powers in certain policy areas as does not have to share its powers with the member states in those policy areas.

¹¹⁶ Kleinman (2002)

¹¹⁷ Kleinman (2002); ‘American’ in this case refers to the United States, not to the North American continent.

¹¹⁸ Kleinman (2002)

authority of the state.”¹¹⁹ There are some similarities between the federal system and the EU institutions, in what they are as well as what they are not allowed to do (such as levying taxes).¹²⁰ Federal features of the EU are: “treaties and laws that are uniformly applicable throughout the European Union; in certain policy areas “EU law supersedes national law”; the European Parliament serves as a “directly elected representative legislature”; it has its own budget and thereby “an element of financial independence”; the European Commission is allowed to “oversee negotiations with third parties on behalf of all the member states”, and most member states of the EU have “their own currency”¹²¹ The EU is not considered a ‘state’ either because the EU does not possess two powers that are essential for a state to have: the power to use force and the power to tax.¹²² Berry and Hargreaves believe that the principle of subsidiarity could help to separate more clearly “the powers between the Community and the Member States”¹²³ Another important feature of the EU is that it is not a government. “There is not one single EU government that makes laws, no “formally acknowledged set of governing institutions”.¹²⁴ Instead there are several institutions that are involved in the law-making process, in co-operation with the member states and other actors. As a consequence, sovereignty is also shared between the EU institutions and the national governments.¹²⁵ Most of these member states are “highly centralized”. This qualification is based on the fact that most member states of the European Union are unitary states, in which the highest – or, in other words, central or national – level of government holds the most power. Lower or sub-national levels of government do not have any independent powers and have to answer to the central government. Functions that are usually exercised by lower levels of government are “land use planning, policing, local transport, schooling, public housing, refuse collection, road maintenance, and local services”.¹²⁶

All of this means that even though the national governments still hold a considerable amount of power and sovereignty, other levels of government have become more important in the legislation process. Before, national governments and their sub-national levels of government were the ones who ‘negotiated’ on legislation. In the end, the national government was the one who decided what would happen. Nowadays, the national governments’ position has changed because they are no longer the highest governing level involved in the legislation process. That position has been taken by the EU. Even when an intergovernmental approach is used in a certain policy area, meaning that it is the Member States themselves who are negotiating at a European level, their power is still weakened since they no longer decide by themselves and for themselves but with all Member States and for all Member States.¹²⁷ Furthermore, European legislation goes before national legislation. This limits the possibilities of national governments in making new legislation. After all, if it is not compatible with European legislation, it cannot be implemented. European legislation in a certain policy area therefore also influences national legislation in that policy area: European legislation has to be adopted and implemented at a national level and new national legislation has to be compatible with the existing European legislation.

¹¹⁹ Lee (2003)

¹²⁰ Kleinman (2002)

¹²¹ Kleinman (2002)

¹²² Berry and Hargreaves (2007); Genschel (2002); Laffin & Thomas (1999); Le Galès (2002); Weber (1978) in Wiener and Diez (2007) ‘Nation’ has the meaning of nation-state, not the meaning it has in the US federal system of government.

¹²³ Berry and Hargreaves (2007)

¹²⁴ Kleinman (2002); Le Galès (2002); Loughlin (2004)

¹²⁵ Kleinman (2002); Le Galès (2002); Loughlin (2004)

¹²⁶ Kleinman (2002)

¹²⁷ Le Galès (2002); Verhage (2005)

Urban Policy

When it comes to Urban Policy, the European Union lays the focus with the national and sub-national governments for the execution of this policy.¹²⁸ As the ministers that are responsible for urban development stated in their common declaration "Every level of government – local, regional, national and European – has a responsibility for the future of our cities" and "Urban development policy should be laid down at national level and the stimuli for innovative solutions should also be created at national level, as well as at other levels."¹²⁹ Van den Berg, Braun and Van der Meer argue that "the European Commission is not very comfortable dealing with urban issues. First, urban issues are generally the responsibility of national and local governments because of the subsidiarity principle. Second, European urban policies continue to balance between two objectives, economic competitiveness of urban areas and social solidarity, two objectives which, in practice have some difficulty going hand-in-hand."¹³⁰ The situation may differ considerably from city to city and therefore the European Commission thinks that these types of problems should not be intended to solve at a European level. "The intention is not to develop Europe wide urban policies for matters which are best dealt with at a local or regional scale."¹³¹ This not only goes for the problems that cities might be facing but also the institutional structure in which the local and regional authorities have to solve these problems. "cities are operating in different legal, institutional and financial systems in the various Member States."¹³² For those issues that many cities do have in common, they can use the networks and other tools that have been set up on a European level.¹³³ The EU's Urban Policy is part of its Regional and Cohesion Policy, which is aimed at "rectifying the territorial disparities produced by market integration and for achieving allocative efficiency".¹³⁴ It does so by providing the Member States with funds to set up projects to help the areas that are negatively affected by these so-called 'territorial disparities'. There are four main Structural Funds that are used to finance these types of projects¹³⁵:

- European Regional Development Fund;
- European Social Fund;
- European Agricultural Guidance and Guarantee Fund;
- Financial Instrument for Fisheries Guidance;

In urban areas, the latter two funds are not of importance since they tend to be relevant mostly in rural areas. The first two finance efforts to help people to increase their chances on the labour market by providing training, to help small and medium-sized enterprises, "the building of infrastructures", as well as promoting projects and investments that are aimed at creating more jobs.¹³⁶ The European Regional Development Fund was the first fund to be established, in 1975, with the aim of helping the poor regions in the European Union by transferring a part of the European Union's budget to them. In the late 1980s, the budget for the Structural Funds was increased considerably and 'cohesion' officially became one of the main objectives of the European Union by stating so in the Treaty of Maastricht, which entered into force in 1993.¹³⁷

The policy is still aimed more at the regions than at the cities, however. There is no urban policy as such on a European level: "regional policy clearly has priority over urban policy"

¹²⁸ Communication from the Commission (1997); Leipzig Charter on Sustainable European Cities (2007)

¹²⁹ European Ministers responsible for Urban Development (2007)

¹³⁰ Van den Berg, Braun and Van der Meer (2007)

¹³¹ European Commission (1997)

¹³² European Commission (1997); URBAN cities and players (2005)

¹³³ European Commission (1997)

¹³⁴ Keating and Hooghe in Richardson (2006); European Commission (1997)

¹³⁵ European Commission (2003)

¹³⁶ European Commission (2003)

¹³⁷ Van den Berg, Braun & Van der Meer (2007); Schobben (2000)

This position is likely to remain the same if the position of the Member States on an European urban policy does not change, since they seem to be the ones that are holding back the development of this policy field: in 1991, a proposal to give the European Commission competences in urban policy by means of a treaty amendment was rejected by the Member States. They feel it is "a national matter" and therefore "there is a lack of consensus among member states on the development of a European urban agenda". This means that the European Commission does not have a legal basis to act in the field of urban policy and it has to remain part of its regional policy. The European Commission therefore tried to address urban issues in a different way, by setting up different programs aimed specifically at urban areas. What seemed to look like the beginning of an urban policy slowly started to develop under the umbrella of regional and cohesion policy. Meanwhile, the budget for the Structural Funds was increased once again in 1993: the budget was almost doubled.¹³⁸

URBAN Community Initiative

An important program in trying to solve the problems in disadvantaged areas is the URBAN Community Initiative. The first URBAN Initiative was started in 1994 and ran for five years. In 2000, a second Initiative (URBAN II) was started for a period of six years, consisting of 70 URBAN II programs.¹³⁹ The difference between the two programs is the level of government that is in charge of executing the program. "one of the distinguishing features of URBAN II is the degree to which management is decentralised to the local authorities. (...) This is a significant change from URBAN I, where (...) the national authorities (or their local representatives) were responsible for all programmes."¹⁴⁰ Not only public local actors got more involved in the programs but also more private local actors were included, such as residents associations. In order to be able to compare the results of the different URBAN programs across the European Union, URBACT was set up. Via this network, the cities that are participating in the URBAN programs can exchange experiences and good practices. The Urban Audit contributes to this by collecting comparable data on more than 180 cities in the European Union. After the first Urban Audit in 1998 had proved successful, a second one was held in 2002.¹⁴¹ In relation to urban renewal in a cross-national perspective, Verhage signals two phenomena. "The first one is the uniqueness of each operation: each urban renewal project takes place in a particular constellation determined by the institutional, economic, social, cultural and geographical context. (...) The second phenomena that can be observed is a convergence: the transfer of knowledge in a globalised society, the culture of best practice which is enforced by European exchange programmes between cities, and the criteria for application to European Union funding, lead to a convergence of approaches to urban renewal."¹⁴²

The focus in European Urban Policy is clearly placed on the Member States: they know best what solution might work for their troubled areas. The networks and other policy instruments that have been set up at a European level serve mainly to exchange experiences and learn from each other's approaches to urban problems. Through the different structural funds, the EU creates the (financial) possibilities for member states to help to areas in their country that are 'lagging behind'. As urban policy initiatives developed, local actors have been given a more important role in the execution of these initiatives, such as the URBAN programs.¹⁴³ As

¹³⁸ Van den Berg, Braun & Van der Meer (2007); Le Galès (2002); Schobben (2000)

¹³⁹ European Commission (1997); European Commission (2003); Le Galès (2002); Van den Berg, Braun & Van der Meer (2007)

¹⁴⁰ European Commission (2003)

¹⁴¹ European Commission (2003); Le Galès (2002); Schobben (2000); Van den Berg, Braun & Van der Meer (2007)

¹⁴² Verhage (2005)

¹⁴³ European Commission (2003); URBAN cities and players (2005)

far as the European Commission is concerned, in the future, the Member States will continue to be the main forces behind urban policy in the European Union. "Member States have the primary responsibility in developing the urban policy for the next century."¹⁴⁴ It sees its own role as that of supporting the Member States in their role of main actor in developing urban policy. "The EU should play a complementary role in addressing urban issues as it has responsibility for policies in a number of sectors which have a direct bearing on the development and quality of life in urban areas."¹⁴⁵ Furthermore, it wants urban issues to play a more important part in structural policies as it recognises the important role of cities in national economies.¹⁴⁶

Table 3.1 The development of Urban Policy in the European Union

Development of Urban Policy in the European Union	
1975	First Structural Fund created: European Regional Development Fund
1980s	Increase in budget of the Structural Funds
1991	European Commission proposal for competencies in Urban Policy rejected by Member States
1993	Treaty of Maastricht: 'cohesion' officially an objective of the European Union
1993	Budget of the Structural Funds almost doubled
1994	Start URBAN
1998	Urban Audit
2000	Start URBAN II
2002	Second Urban Audit
2002	Start URBACT

¹⁴⁴ European Commission (1997)

¹⁴⁵ European Commission (1997)

¹⁴⁶ European Commission (1997); URBAN cities and players (2005)

4. France



Figure 4.1 France¹⁴⁷

Urban Policy

In 1990, the central government established the Ministry for Cities (Ministère du Logement et de la Ville) to deal with urban policy (Politique de la ville). The central government structure dealing with urban policy is completed with the Délégation Interministérielle à la Ville (Interministerial Delegation for Urban and Social Development), the Conseil National des Villes (National Council for Cities) and a Comité Interministeriel des Villes (Interministerial Committee for Cities). “Up to the mid-1990s, national urban policies have to be understood within the paradigm of the Paris-province debate. In that paradigm, national policies were conceived to reduce the economic importance of Paris in relation to other French urban areas, and notably the largest ones.”¹⁴⁸ “At the beginning of the twenty-first century, French urban areas continue to be plagued by serious economic and social problems.”¹⁴⁹ These problems have only got worse since then and have become an important issue for the sub-national governments to deal with. The main criticism on the existing policies was that they “focused mainly on neighbourhoods and municipalities instead of considering the urban area as a whole” and that they were “sectorally based instead of issue oriented”. In 1999, the Chèvenement Act was adopted which should solve this problem. The existing institutional system was too complex and should be replaced by a clearer system of “three new types of authority will gradually replace the present complex system.” This new system means that municipalities join forces to provide certain services. The intention of this act is to eventually create economies of scale and harmonise local taxes. Their power would apply to the following policy areas within their own jurisdiction: “economic, cultural and social development, territorial planning, social housing, urban policies for deprived areas, environment preservation, public networks (such as public transport), etc.” These powers are

¹⁴⁷ Europa (2008a)

¹⁴⁸ Van den Berg, Braun & Van der Meer (2007); European Urban Knowledge Network (2008b)

¹⁴⁹ Van den Berg, Braun & Van der Meer (2007)

transferred to them because they are considered to be of "community (area-wide) interest. However, this 'community interest' is not defined in the Act".¹⁵⁰

Fiscal decentralisation

In the 1980s, a process of decentralisation was started in France. Decentralisation Acts were adopted in 1982 and 1983. The sub-national governments took on many responsibilities that before belonged to the central government. The idea behind this decentralisation was a "block of competences" according to which each of the sub-national levels had its own specific functions for which they were responsible. Municipalities were now allowed to "grant direct or indirect aid to for the purpose of promoting economic development" and for "aiding companies in difficulties". France is still considered a highly centralised/unitary country, however.¹⁵¹ According to Rubin and Feeley, France is in fact "one of the world's most centralized nations".¹⁵²

Local taxes

The sub-national governments have considerable autonomy when it comes to taxes. They have the freedom to decide how to use their revenue, according to the French constitution. Due to this autonomy, there are considerable differences among the local governments' "fiscal capacity". In turn, these differences require efforts aimed at "fiscal equalisation" in the form of a grant system in which the central government makes transfers to the local governments to compensate for the differences.¹⁵³ "Taxation is the cornerstone of fiscal autonomy of the local governments. The communes, the departments and the regions all benefit from a substantial taxing power."¹⁵⁴ There are four different types of direct local taxes¹⁵⁵:

- Housing tax (taxe d'habitation);
- Tax on improved land (taxe foncière sur les propriétés bâties);
- Tax on unimproved land (taxe foncière sur les propriétés non bâties);
- Local business tax (taxe professionnelle);

Taxes make up half of the revenues of sub-national government. Grants from the central government account for another 35%.¹⁵⁶ The sub-national levels of government vote on the tax rates "directly".¹⁵⁷ This high level of autonomy only goes for the tax rate, not for the tax base. The sub-national governments are not allowed to create new tax bases or abolish a certain tax base. Only the Parliament has the power to do so. They are allowed to "exempt certain categories of taxpayers from property tax or business tax. They may also alter certain allowances in respect of residency tax."¹⁵⁸ In case the Parliament makes a decision on tax bases that consequently decreases the revenue of sub-national levels of government, then these sub-national governments will receive a "special transfer" to compensate for this.¹⁵⁹ These special transfers are paid for by the central government to the sub-national levels of

¹⁵⁰ Van den Berg, Braun & Van der Meer (2007); Office of the Deputy Prime Minister (2006a)

¹⁵¹ Bonneville (2005); Gilbert in Fossati and Panella (1999); Martin Harloff (1987); OECD (2007); Schobben (2000); Van den Berg, Braun & Van der Meer (2007)

¹⁵² Rubin and Feeley (2008)

¹⁵³ Gilbert in Fossati and Panella (1999); OECD (2007)

¹⁵⁴ Gilbert in Fossati and Panella (1999)

¹⁵⁵ Gilbert in Fossati and Panella (1999); Martin Karloff (1987); OECD (2007)

¹⁵⁶ OECD (2007). This percentage refers to the the year 2003.

¹⁵⁷ Gilbert in Fossati and Panella (1999); OECD (2007). There are conditions on how much the rate is allowed to increase relative to the previous year that limit the freedom of the sub-national levels of government to set a tax rate.

¹⁵⁸ Blöchliger and King in OECD (2007)

¹⁵⁹ Gilbert in Fossati and Panella (1999); OECD (2007)

government which means that taxpayers all over the country have to contribute to the compensation for the sub-national levels. When the Parliament decides to decrease local tax rates or bases, the sub-national levels of government will indirectly get their revenues from all the taxpayers in the country and not just those in their own jurisdiction. In other words, it created a situation where "the local tax burden transferred to the central level". Gilbert shows that this phenomenon has increased over the years and taken place especially in the case of local business tax. Not only does local business tax receive the biggest share of the total amount of compensations paid by the central government; its relative share has also increased. While housing tax compensations almost doubled and property taxes even saw a decrease in compensations from the central government, business tax compensations increased by almost 250% over the period 1987-1995.¹⁶⁰ He also shows that these types of transfers have taken up a larger part of the total expenditure of the central government and that the budgets of sub-national government have seen an increase due to the receipt of these transfers.¹⁶¹ "The business tax is the most important local tax."¹⁶² The transfer of the tax burden has negative consequences for the relationship between the sub-national governments and the central government. An example of this is possible "fiscal irresponsibility" of sub-national governments. Other negative consequences are the fact that sub-national governments can levy taxes over fewer tax bases, which decreases their fiscal autonomy, as well as the central government transferring less money to sub-national governments in other areas in to compensate the increased expenditures related to compensation for cuts in local tax bases.¹⁶³ The "fiscal irresponsibility" of sub-national governments could cause a 'bailout' problem for the central government.

Grants

There are five important types of transfers from the central government to the sub-national governments¹⁶⁴:

- Dotation Globale de Fonctionnement (DGF - Block grant for current expenditures)
- Dotation Globale d'Équipement (DGE - Block grant for capital expenditure)
- Fonds de Compensation pour la Taxe sur la Valeur Ajoutée (FCTVA - Refund of VAT charged on the capital expenses of local governments)
- Dotation Générale de Décentralisation (DGD - Block grant for the additional responsibilities transferred from central to local governments)
- Dotation de Compensation de la Taxe Professionnelle (DCTP - Equalisation grant for disparities in TC tax bases)

The DGF takes up the majority of the total amount of transfers made by the central government to the sub-national government and its importance only seems to increase: in 1999, Gilbert spoke of 40% while in 2007, this percentage has reached 60%, according to an OECD report. The DGD is given to sub-national governments when they take over responsibilities from the central government: they are not only given the responsibilities but also the funds to pay for the execution of these responsibilities.¹⁶⁵ The last-mentioned transfer is used in the situation where the central government limits the tax bases of sub-national governments and they suffer revenue losses, as described above. The reason for providing

¹⁶⁰ Gilbert in Fossati and Panella (1999)

¹⁶¹ Gilbert in Fossati and Panella (1999). This relates to the period 1985-1994.

¹⁶² Van den Berg, Braun & Van der Meer (2007)

¹⁶³ Gilbert in Fossati and Panella (1999). The period that is referred to comprises the period 1987-1995.

¹⁶⁴ Gilbert in Fossati and Panella (1999); INSEE (2008); Martin Kartoff (1987); OECD (2007); Van den Berg, Braun & Van der Meer (2007)

¹⁶⁵ Gilbert in Fossati and Panella (1999); OECD. The French constitution states that when the central government transfers powers to sub-national levels of government, it should also transfer the resources that are used to exercise these powers.

equalisation grants is to equalise “local differences in the purchasing power of the local tax bases in terms of local public services”¹⁶⁶

There are also indirect local taxes. The two most important indirect taxes are “real estate transaction taxes and the excise tax on petroleum products”. Sub-national governments have practically no power to influence the tax rates or bases of indirect local taxes.¹⁶⁷

Multiple office-holding and dual representation

Elected politicians at sub-national governments and those at the central government level may be the same people. This is because the French system allows one person to occupy several political – elected – functions at the same time, also called “multiple office-holding” or “cumul des mandats” in French. This situation may obviously cause a conflict of interest: local politicians can use their position in national politics to get plans approved that would be beneficial to their jurisdiction. On the other hand, the central government has sub-national divisions that are representations of the central government at a local level – the so-called “deconcentrated services” – and that way, national politicians can use their power at the national political level to ‘push through’ national plans that are unpopular at sub-national levels. This system is called “dual representation”: the sub-national levels of government have their own representation as well as a representation of the central government in their jurisdiction.¹⁶⁸ “The French administrative system follows the so-called Napoleonic model according to which the territorial division of the state apparatus matches the local government structure. Thus there is a regional division of the state headed by a Regional Prefect, (...) and the Mayor is at the same time the head of the municipality and the representative of the state at the municipal level.”¹⁶⁹ This is a unique feature of the French system. These many layers of government may lead to extra costs. After all, more layers of government require more staff – provided that no staff is transferred from one government level to another – and when several layers of government provide the same service(s), this increases the total costs for providing that particular service.¹⁷⁰

Indexation methods land value

The procedure that is used to establish the amount of tax that has to be paid on improved and unimproved land causes the situation where some people may have to pay too much taxes while others have to pay too little. The reason for this is that the amount of tax that is due is not based on the market value of the land, but on its administrative value. If this administrative value were indexed regularly, this would not necessarily be a problem. As this is not done regularly, due to the costs involved with the indexation process, the administrative value does not accurately represent the value of the land.¹⁷¹ The problems related to the local business tax have led the Council for Taxation as well as others to advise a reform of this tax. Some reforms are more drastic than others are but the solution that the Council for Taxation advised was the “compulsory mutualisation” method. This method has also been used in Britain to reform its business tax, to the liking of the Council for Taxation. The proposal entailed changing the tax rate to a uniform, national tax rate that is to be decided on by the Parliament. An alternative that has been tried by sub-national governments is “voluntary fiscal

¹⁶⁶ Gilbert in Fossati and Panella (1999); OECD (2007)

¹⁶⁷ Gilbert in Fossati and Panella (1999); OECD (2007)

¹⁶⁸ Gilbert in Fossati and Panella (1999); Loughlin (2004); Office of the Deputy Prime Minister (2006a); OECD (2007); Van den Berg, Braun & Van der Meer (2007)

¹⁶⁹ Van den Berg, Braun & Van der Meer (2007); Martin Karloff (1987); Schobben (2000)

¹⁷⁰ Gilbert in Fossati and Panella (1999); OECD (2007)

¹⁷¹ Gilbert in Fossati and Panella (1999)

cooperation” on business tax by merging their jurisdiction into a “larger institutional unit”. Several acts that were adopted in 1982 have created the possibility for sub-national governments of opting for this alternative. The French sub-national government system consists of 36,500 municipalities, 100 ‘départements’ and 26 regions. The central government has stimulated this development, not just in the area of taxes but also more generally. The different types of co-operation between sub-national levels of government serve to jointly provide certain services to the population of those jurisdictions, such as water or electricity. The most common form of co-operation is known as “intercommunality”. This form of co-operation is very popular among municipalities: 86,5% of the population lives in a municipality that co-operates with other municipalities through ‘intercommunality’.¹⁷² The main difference between the different types of co-operation – associations, communities, metropolitan communities and urban communities – is the total population size that is created by ‘merging’ the municipalities. The central government provides these ‘larger institutional units’ with subsidies as incentives to set up these types of co-operation among them. When co-operating in an association or community of municipalities, the municipalities transfer the powers they have in the particular field of co-operation to this association or community of municipalities. An important aspect of intercommunality is harmonisation. The newly formed institutional units have taxing power and the municipalities would therefore have to harmonise their business tax, in line with the proposal of the Council for Taxation. This business tax can be a substitutive or an additional tax. The subsidies of the central government are only directed at those forms of co-operation that choose a substitutive business tax, leading to the adoption of a single business tax for that particular institutional unit. However, in 1999, legislation was adopted that ordered the municipalities to harmonise their business tax rates by 2009. Due to the popularity of the method of intercommunality among municipalities, government expenditures have increased by means of the grants that are transferred. A solution might be to “make the intercommunality grant conditional on achieving economies of scale and to bolster controls on doing so.”¹⁷³ The fact that sub-national governments have the freedom to decide for themselves how to spend their revenues and not having to answer to the central government on what they spent their resources on creates a situation where the central government does not know exactly what is going on with the finances of the sub-national levels of government. Adding to this the fact that in the intercommunality method the councils of these forms of co-operation between municipalities are not elected but named by the councils of the particular municipalities, this creates an accountability problem with the electorate. Therefore, “an information system on all sub-national government expenditure and how it is financed, which citizens could access easily” should be set up.¹⁷⁴ Due to the increase in grants from the central government, sub-national governments have become more dependent on the central government for their resources. Even though the sub-national governments have the freedom to do what they want with their revenues and expenditure, the fact that they rely on the central government for 35% of their budget means they are more dependent on the central government than they were before. As the sub-national governments do not have to answer neither to the central government nor to the electorate on how it has spent the grants received from the central government, they have “no strong incentive to spend money most efficiently.”¹⁷⁵ The sub-national governments have, in short, lost “financial autonomy” which is measured “through the ratio of own resources to

¹⁷² OECD (2007). This percentage refers to the year 2006; Kortmann in Kortmann and Prakke (1993); Martin Karloff (1987); Van den Berg, Braun & Van der Meer (2007)

¹⁷³ Gilbert in Fossati and Panella (1999); Kortmann in Kortmann and Prakke (1993); Martin Karloff (1987); OECD (2007); Van den Berg, Braun & Van der Meer (2007)

¹⁷⁴ OECD (2007); Van den Berg, Braun & Van der Meer (2007)

¹⁷⁵ OECD (2007)

total resources.” In 2003, the municipalities and EPCI, as the institutional units that are created by methods like intercommunality are also called, had a financial autonomy ratio of 61%.¹⁷⁶

The Local Finance Committee, which is formed by “representatives of Parliament, local authorities, and the central government”, is very important when it comes to the finances of sub-national governments. It is here that the different members of this committee jointly decide on the transfers that are made from the central government to the sub-national governments. In matters that relate to the finances of sub-national governments, it is obligatory to consult this committee.¹⁷⁷

Second decentralisation process

In 2003, the newly elected central government took further steps in the decentralisation process. A revision of the French constitution resulted in the fact that it now states that “the French Republic is a decentralised country” although this is highly symbolic.¹⁷⁸ Sub-national governments were given the main responsibility in certain policy areas and the regions were officially recognised as government levels. The aim of this shift of responsibility was to “clarify the division of powers”. The ‘block of competences’ that was set up in 1999 did not have the intended effect because the different levels of sub-national government was still “getting involved in the competence of the other.”¹⁷⁹ While sub-nationals now enjoy the main responsibility for many policy areas, this does not mean that they have the sole responsibility. They share responsibility with the central government, which continues to have sole responsibility for certain policy areas typically managed by the central government such as “defense, foreign policy and pensions”. Due to the sharing and overlapping of responsibility, it is not clear who is responsible for policy success or failure. A clearer division of responsibility should therefore also make it easier to evaluate policy.¹⁸⁰ Further changes – besides the ones mentioned above – that should be implemented in order to make the decentralisation process successful, according to the OECD¹⁸¹, are:

- “Give sub-national governments a greater say in decisions that concern them.”
- Get rid of the ‘general authority clause’ or otherwise appoint a ‘lead manager’ in case several sub-national governments are involved in a certain policy area;
- Terminate the grants to sub-national governments relating to intercommunality, in order to stimulate them to harmonise their economies and create ‘economies of scale’;
- Eliminate the institutional units created by intercommunality in case they prove to be “redundant” or “a source of inefficiencies”;
- “Ensure that sub-national governments can use local tax revenues to finance functions over which they have full responsibility. Use grants to finance services over which the State retains substantial decision-making powers”.
- “Limit and gradually eliminate local tax reductions accorded by the State”.
- In case transfers are made to the sub-national governments, clear objectives should be set and the results should be evaluated. However, plans should be made to ensure that these transfers remain limited;
- “Make equalisation a more central objective of the transfers.

¹⁷⁶ OECD (2007). The financial autonomy ratio of the ‘départements’ was 63% in the same year, and that of the regions was 41%. “This ratio does not incorporate the loss of local autonomy triggered by the increase in State tax revenue for sub-national governments, to the detriment of local taxes” (OECD, 2007)

¹⁷⁷ OECD (2007)

¹⁷⁸ OECD (2007); Van den Berg, Braun & Van der Meer (2007)

¹⁷⁹ OECD (2007); Martin Karloff (1987); Van den Berg, Braun & Van der Meer (2007). The regions were public bodies since 1972, but were not official government levels at that time.

¹⁸⁰ OECD (2007); Van den Berg, Braun & Van der Meer (2007)

¹⁸¹ OECD (2007)

Van den Berg, Braun and Van der Meer conclude that “France has been very innovative in the last decade but in a very specific way which obviously relates to the national history and the role of the state in policy-making. Although the country has embarked on a significant decentralisation process since the last 20 years, innovation has mainly been produced by the state and as such has concerned the whole territory.”¹⁸²

¹⁸² Van den Berg, Braun & Van der Meer (2007)

5. The United Kingdom



Figure 5.1. United Kingdom.¹⁸³

Urban Policy

“The United Kingdom consists of four countries, each having its own traditions and style of local government. While local government has been part of the administrative system of the nation for many centuries, the concept of a comprehensive system of councils locally elected to manage various services provided for the benefit of the community was first incorporated in statute law in the late 19th century.”¹⁸⁴ Several important acts have been adopted in the different countries regarding local government: in 1963, the London Government Act was adopted which was followed in 1972, 1973 and 1974 by the Local Government Acts in Northern Ireland, Scotland and England (without the Greater London area) and Wales. In 1980, the Local Government, Planning and Land Act was adopted, which applies to both England and Wales. The structure of local government became generally the same in all the countries, with a few exceptions. England, Wales and Scotland all had a territory that was divided into county (councils) and district (councils). In Northern Ireland, there are only district(s) (councils). The rural areas in England additionally had parishes as the lowest levels of government, of which there are about 10,000. The islands that are part of the Scottish territory have “all-purpose authorities”, while the mainland of the Scottish territory was divided into regions, districts and local community councils which are similar to the parishes in England. In Wales community councils existed as well. The difference between the communities in Scotland with those in Wales and the parishes in England is that the communities in Scotland are not a third level of government like in Wales and England and they do not have any financial resources or powers. In 1986, the Greater London Council was abolished, as well as six other councils of metropolitan areas. The territory of England was divided into 39 counties, which were divided into 364 districts. 36 of them are metropolitan

¹⁸³Europa (2008b)

¹⁸⁴Martin Karloff (1987); King in Fossati and Panella (1999)

district councils and 32 of them make up the London boroughs.¹⁸⁵ "Local government in and around London has always differed from that in other parts of England." Besides the 32 boroughs, the Greater London area also consists of the City of London, which has its own form of government – a City Corporation – that has the same functions that the 32 boroughs perform. The tasks that were carried out by the Greater London Council before it was abolished, are now being carried out by either the boroughs or by 'joint boards'. These joint boards are "special one-function bodies run by representatives from each of the lower tier authorities". When the Local Government Act in Northern Ireland was adopted, this created "a single-tier structure of 26 district authorities". Responsibility for a lot of tasks was carried over to the central government, but the execution of these tasks was left to "local offices of the departments concerned or through area boards responsible to them."¹⁸⁶ These reforms were considered necessary due to the development of sub-national government in the past, which had caused gaps in the provision of services: certain areas were not 'covered' by an authority. Furthermore, the functions and responsibilities were divided among the different levels of sub-national government in such a way that it was difficult to solve problems in urban areas.¹⁸⁷ The relationship between the central government and the sub-national governments has been characterised by three important factors¹⁸⁸:

- The central government is very powerful, while the sub-national governments are weak;
- There are no metropolitan levels of government;
- In the large cities, there are many different actors involved which have very different functions, responsibilities and geographical territories in which they operate;

The sub-national governments are seen as weak because they have a very limited tax base and rely heavily on the central government for their income. Problems that extend beyond the city boundaries cannot be solved properly due to the lack of a metropolitan government level.¹⁸⁹

During the period that the Conservative Party was in office, from 1979 to 1997, there was a decline in public expenditure for cities and urban policy was more centralised. The focus changed from a regional to a more urban perspective: regional economic planning councils and other regional planning authorities were abolished and it became more difficult to obtain central government funding for regional projects as eligibility criteria were tightened. Meanwhile, at an urban level Urban Development Corporations were created with the 1980 Local Government, Planning and Land Act as a legal base. An increase in private investment in urban areas was also stimulated.¹⁹⁰ Since then, the Labour government that took over from the Conservatives in 1997 has turned this around. They increased the amount of money that was spent on cities. The intention was to increase government funding to sub-national governments by 25 per cent after ten years in office. The central government has also adopted other measures that are aimed at increasing "investment in cities including tax incentives and discounts to clean up contaminated land". Another thing that changed under the Labour government was the attitude of the central government towards European (structural) funds. The Labour government was more positive about these types of funds although it still does not like too much interference from the EU in its urban policy. An important reason for this is the strengthening of the position of the sub-national governments versus the central government as the sub-national governments now have other means of obtaining funds other

¹⁸⁵ Benyon (2000); Martin Karloff (1987); King in Fossati and Panella (1999); Loughlin (2004); Office of the Deputy Prime Minister (2006b); Prakke in Prakke and Kortmann (1993); Prestwich and Taylor (1990)

¹⁸⁶ Martin Karloff (1987); King in Fossati and Panella (1999); Loughlin (2004); Office of the Deputy Prime Minister (2006b); Prakke in Prakke and Kortmann (1993); Schobben (2000)

¹⁸⁷ King in Fossati and Panella (1999)

¹⁸⁸ Van den Berg, Braun & Van der Meer (2007)

¹⁸⁹ Van den Berg, Braun & Van der Meer (2007)

¹⁹⁰ Benyon (2000); Laffin and Thomas (1999); Prestwich and Taylor (1990)

than from the central government.¹⁹¹ In 1996, the central government decided to change to structure of sub-national governments again. These changes mainly affected the rural areas in Scotland and Wales. In Scotland, the sub-national structure on the mainland was replaced by a unitary structure, made up of 29 'unitary authorities'. A similar change was made in Wales, where 22 'unitary authorities' replaced the counties and districts. In England, a unitary authority structure was created for some areas but not throughout the entire country. However, with these changes the old problem of areas not being covered by authorities also resurfaced. Therefore, joint boards have been set up to be able to provide all the services.¹⁹²

In Northern Ireland and Ireland, a referendum was held on the Good Friday Agreement of 1998, that was signed between the parties in Northern Ireland, the Irish and the British government. In both territories the people voted in favour of the agreement and that resulted in a new Northern Ireland Assembly and a 'North-South ministerial council' that is made up of both ministers from the newly formed Northern Ireland Assembly and of the government of Ireland. The aim of these new institutions was to change the relationship between the signatory parties, which have been difficult since a long time. After elections for the Assembly in May 2008, it was not until the year 2000 that it took office, due to long and difficult negotiations between the parties involved on "the decommissioning of IRA weapons". During that time, an Assembly had already been formed and suspended again in 1999, before the final formation of the Assembly in 2000.¹⁹³

In 1999, the Greater London Assembly was created, after the population had voted in favour of its establishment in a referendum. This also meant that London would have a "separate directly-elected mayor". The responsibility of the assembly was to prepare "statutory strategies on transport, spatial development, economic development and the environment." The Greater London Assembly makes London the only city in England that has a city-region type of government.¹⁹⁴ In 2002, the Office of the Deputy Prime Minister was established. This department is responsible at a national level for urban policy.¹⁹⁵

Scotland and Wales

The Labour Party also had plans to make changes in the highest levels of government in Wales and Scotland. Scotland would get its own Parliament and Wales would get an Assembly. A condition for creating these government levels was a referendum in both countries. Due to lack of support from Welsh political parties, the proposal for Wales proposed the creation of an assembly instead of a parliament. With the adoption of the Scotland Act and the Government of Wales Act, the two government levels were officially created. The two government levels are only allowed to adopt secondary legislation since "sovereignty remains with the Westminster Parliament". This parliament can reverse or amend acts that have been adopted by the Scottish Parliament or the Welsh Assembly. The two government levels do not have the exact same functions or powers. The Scottish Parliament has more powers as it is allowed to "legislate on any matter which is not specifically reserved to the UK Parliament at Westminster" while the Welsh Assembly can only legislate in those areas that are specifically delegated to it by the Westminster government. Another power that the Scottish Parliament has which the Welsh Assembly does not have, is the power to tax, although its power is limited: it is allowed to "add or subtract up to 3 pence in the pound on income tax". Furthermore, it has the power to "make civil and

¹⁹¹ Laffin and Thomas (1999); Prestwich and Taylor (1990); Van den Berg, Braun & Van der Meer (2007)

¹⁹² King in Fossati and Panella (1999); Loughlin (2004)

¹⁹³ Loughlin (2004)

¹⁹⁴ Office of the Deputy Prime Minister (2006b); Loughlin (2004)

¹⁹⁵ Van den Berg, Braun & Van der Meer (2007)

criminal laws”¹⁹⁶ The policy areas that are at the core of the central government’s authority remain with the Westminster government, such as the defense policy or foreign affairs. England does not have a separate Parliament or Assembly for the English territory because the central (UK) government is already situated there and there is no uniform desire to create such a level of government for England for now. What has been created in England however is the Greater London Assembly, in 2000. A Joint Ministerial Committee is being used as a “forum for central-regional relations” and is made up of the “UK prime minister; the Scottish, Welsh and Northern Irish secretaries of state; and the Scottish, Welsh and Northern Irish first ministers, plus the relevant UK cabinet ministers.” Due to the differences in power and functions of the different members of this committee, Laffin and Thomas believe that it is very likely that the intergovernmental relations will take the form of bilateral relations between the “devolved administrations and the English departments.” A development that might reinforce this is the ‘concordants’ that are signed between the three ‘devolved administrations’ and the central government. These are agreements that serve as “expressions of worthy intent, and they depend on both sides’ willingness to be cooperative and make concessions to the other.”¹⁹⁷ Not only the Scottish Parliament or the Welsh Assembly have competencies only in those areas that have been allocated to them by the central government, but this also goes for the sub-central levels of government. The by-laws that are proposed by sub-central governments cannot be adopted unless they have been approved previously by the central government.¹⁹⁸

The United Kingdom does not have a written constitution. As more and more Community law had to be implemented in the UK, this started a “process of constitutional codification”. This process was started by the Labour government, which initiated a reform program of the constitutional structure by means of devolution. As a consequence, “the UK acquired more written elements into its constitution because the powers and responsibilities of governments are now codified to an unprecedented extent”.¹⁹⁹

The North-South divide

An important feature of Urban Policy in the United Kingdom is what is called the “North-South divide”. This refers to the fact that the south-east of England is much more affluent than the rest of the country (and Scotland and Wales). The prosperity in this region caused people to move to this region to find work there. The high level of unemployment in their region of origin was due to a changing economy that was driven by other types of industry than those in which the majority of the people were formerly employed, such as steel and mine industries. In order to be able to control and steer these movements, the central government adopted several acts that gave the government control over the development rights of undeveloped land and placed the decision-making in the hands of local governments. The plan was to create eight New Towns, in which people could live and work, thereby spreading the population over a bigger area instead of concentrating it in and around London. The execution of the development of these New Towns was left to development corporations. The government continued to actively steer urban development with the New Towns programs until 1978. The focus then shifted to the inner cities of the bigger cities with the Inner Urban Areas Act. According to Prestwich and Taylor, the government succeeded in spreading the population over a bigger area but it did not stop the movements of people from the North to the South. In the 1970s, the central government started adopting several acts that were aimed

¹⁹⁶ Benyon (2000); Laffin and Thomas (1999); Loughlin (2004); Prakke in Prakke and Kortmann (1993); Schobben (2000)

¹⁹⁷ Laffin and Thomas (1999)

¹⁹⁸ Prakke in Prakke and Kortmann (1993); Schobben (2000)

¹⁹⁹ Laffin and Thomas (1999); Le Galès (2002); Loughlin (2004); Prakke in Prakke and Kortmann (1993)

at the renewal of housing that was considered “unsatisfactory”. An example of this is the 1980 Housing Act, which set up a structure of three types of grants: improvement grants; intermediate grants; and repair grants. Since then, this system has been changed to a single grant structure and a decrease in the percentage of the total costs that the grant covers. An issue related to the migration to the south of England is the rise in housing prices. Housing prices rise faster in the south than in the rest of the country or in Scotland or Wales, which only increases the divide. A reason for the increase in housing prices is the fact that private investment in urban areas has increased, which was stimulated by the central government. Since the south-east of England is the region where the most important industries of the United Kingdom are located and people move there to find work, it seems no surprise that the British government used the Growth pole model by Francois Perroux to shape its regional planning policy. A ‘growth pole’ is ‘an industry (or a group of interrelated industries) which grows more quickly and to a larger size than other industries, and which, because of its strong linkages with other industries and sectors of the economy, has a propulsive impact on national growth.’ The consequence of the role of this industry is that the location of that particular industry becomes important because ‘much of the prosperity that it generates will be spatially restricted so that its local region may grow more rapidly than surrounding regions.’²⁰⁰ Myrdal’s ‘process of cumulative causation’ also seems to apply to the British situation in the sense that ‘the growth region will attract into it labour, capital and commodities from other regions, and its goods and services will out-compete the production in these other regions so that the latter slip even further behind.’ These are two models that are part of a group of so-called ‘centre-periphery models’. In these models, the centre is the prosperous area of a country and an important factor for the national economy, while the periphery are those other areas of the country that are doing less well and are trying to catch up. The centre-periphery models can all be placed under the heading of models of spatial inequality.²⁰¹

Closing the gap

In recent years, several institutions have been set up on a regional level to help decrease the North-South divide. In 1998, the Regional Development Agencies Act was adopted. This act has resulted in the establishment of eight Regional Development Agencies in England. The same act also provided for the creation of Regional Assemblies. An example is the North East Assembly that was created in 1999.²⁰² In 2004, the Northern Way was started. This is a partnership between three Regional Development Agencies in the north of England: Northwest Regional Development Agency, One Northwest and Yorkshire Forward. The aim of this partnership is to decrease the gap of the North-South divide through the execution of its Growth Strategy for the North of England. The Growth Strategy aims at increasing the economic output of Northern England, with the intention of creating equal levels of output throughout England in a period of 25 years.²⁰³

Financial decentralisation

Prestwich and Taylor argue that ‘to understand the resource allocation system of the city means to understand the values and goals held by the various urban managers. In the public sector, the colour of the government is a determinant factor’ but also that ‘whatever the political colour of the government, their policies will contain a social awareness, a realisation that resources should be directed towards a common good.’ These statements could easily be

²⁰⁰ Prestwich and Taylor (1990); King in Fossati and Panella (1999); Le Galès (2002)

²⁰¹ Prestwich and Taylor (1990)

²⁰² Benyon (2000); North East Assembly (2008); Schobben (2000)

²⁰³ The Northern Way (2008)

expanded to the higher levels of government.²⁰⁴ The different countries of the United Kingdom "are almost entirely financially dependent on the central government" and receive block grants. Scotland and Wales receive more of these grants than (certain parts of) England, as these areas are less prosperous than the south-east of England.²⁰⁵ The sub-national authorities do have other revenue sources. In England and in Wales, the local authorities have three main sources of income:²⁰⁶

- Government grants;
- Local 'rates' "which are paid by the occupiers of non-agricultural land and buildings";
- Other income;

Accounting for about 40% of the total income of local governments, government grants are the most important source of income. The examples that are given of other sources of income, which make up 30% of the total income, are "service charges and rents from houses and flats owned by the authorities". A problem with the local 'rates' is that they are based on the value of the property, which is not revaluated on a regular basis like it should be. That means that the amount of tax that is due is not based on the correct value of the property. On the other side of the balance sheet, staff costs explain for 70% of the total amount of expenditure. In some areas, the local authorities join forces to use their resources to provide services, although they normally take care of their own finances separately. This type of co-operation takes place from the economic point of view that it would be cheaper for the individual authorities to jointly provide these services.²⁰⁷ The councils usually appoint a finance committee that is in charge of controlling the local finances, although the council itself remains responsible for setting the overall budget and the level of the rates. In case a council does not fulfil its 'statutory duty' accordingly, the central government is able to intervene by "appointing commissioners or directing that it be carried out by another council".²⁰⁸

Local property tax

A poll tax was introduced in Scotland (1989), England and Wales (1990) which replaced the domestic property rates. This new poll tax was charged on every adult instead of per household, and consisted of a "flat rate tax on adults, with local authorities setting the tax per head in their areas." People with a low income received payments from the government in order to be able to pay this tax. This system was not received well with the public and it was already in 1992 that this tax was replaced again by another type of tax: the council tax.²⁰⁹ The council tax divides property values into eight 'bands', which are called "Band A to H". Band D is the standard and "local authorities set the rate of council tax in their own areas for properties in Band D." Properties in band A to C are charged a lower percentage of this amount, while the properties in bands E to H are charged more than the amount set by the local authorities for band D. That is because the value of the properties in bands A to C are lower than that in band D, while those in band E to H are higher. In 2005, another band was added for Wales: band I. As a consequence, "within any authority, the council tax bill sent to each home in each band is the same."²¹⁰ So-called 'one-adult households' are entitled to a 25 per cent discount on the bill. In this type of tax system, the value of the property is not revaluated on a regular basis; in fact it is not revaluated at all. The reason for this is the claim

²⁰⁴ Prestwich and Taylor (1990)

²⁰⁵ Laffin and Thomas (1999)

²⁰⁶ Martin Karloff (1987); King in Fossati and Panella (1999); Prakke in Prakke and Kortmann (1993). 'Rates' the name for the local property tax.

²⁰⁷ Martin Karloff (1987); King in Fossati and Panella (1999); Loughlin (2004)

²⁰⁸ Martin Karloff (1987)

²⁰⁹ King in Fossati and Panella (1999); Prakke in Prakke and Kortmann (1993)

²¹⁰ King in Fossati and Panella (1999); Valuation Office Agency (2008). The Valuation Office Agency sets the council tax band for homes in England and Wales.

that a lot of properties would be valued in the same band, thereby distorting the system. This does make it susceptible to the same value-indexing problem as in other systems.

Sub-national governments do not have as much freedom to set tax rates as they used to. In the 1980s, the central government introduced "capping" to limit public spending. The central government approves the budget proposals of the sub-national governments each year. If the central government orders the sub-national government in question to lower its budget, this means that the proposed tax rate will also have to be lowered.²¹¹

Local business tax is not levied directly by the sub-national governments, but is collected by the central government and is then distributed among the different areas. This means that there is one uniform tax rate for all jurisdictions.²¹²

Grants

In 1998, grants made up more than half of the total revenues of local governments. These grants can be divided into general and specific grants. "General grants to local authorities are paid on an equalisation grant scheme known as the revenue support grant (RSG) (. . .) The operation of the RSG has four steps, as follows."²¹³

- The central government decides how much money the sub-national governments need to provide their services;
- It then decides how much revenue the sub-national authorities could get from the different bands in the council tax system;
- Next, it calculates how much money the sub-national authorities will receive from their share of the business property tax;
- The amounts of money in step 2 and 3 are added up and deducted from the amount of money in step 1. The difference is then compensated by the central government by means of a grant: the Revenue Support Grant;²¹⁴

The amounts in step 1 are calculated by making the so-called Standard Spending Assessment (SSAs) which is a five-step procedure that generally follows the same lines as the four steps described above. The total amount of spending that the sub-national governments are allowed to do according to the central governments calculations is divided into seven groups of services. Per group, the central government calculates how much of the expenditure is covered by specific grants it provides to the sub-national governments and groups the rest of the expenditure under the heading 'control total'. The central government can influence the grants it has to pay "by changing the allocation". The most difficult part, as well as the most debated part, is calculating how much money the sub-national governments need to provide the different services. King explains that the amounts of money needed to provide a service might be higher in one jurisdiction than in another due to, for instance, differences in labour costs even though all the other factors are the same. This in turn would lead to a higher expenditure on this group of services than in other jurisdictions and they would need a higher grant from the central government. For this reason, it is important that the central government chooses the right method for measuring the necessary level of spending by the sub-national governments. A method that was used before was a "regression analysis with many independent variables". However, problems related to the use of that method meant that it "fell from favour". In case of high labour costs, the central government increases the SSA for that particular jurisdiction.²¹⁵ The SSA method was highly criticised and a proposal to reform the system was discussed in the House of Commons in 2002. The aim of the reform was to

²¹¹ King in Fossati and Panella (1999)

²¹² King in Fossati and Panella (1999)

²¹³ King in Fossati and Panella (1999); House of Commons Library (2002)

²¹⁴ King in Fossati and Panella (1999); House of Commons Library (2002)

²¹⁵ King in Fossati and Panella (1999); House of Commons Library (2002)

“increase the predictability and stability of local authority funding”. The proposal included the option of extending the annual assessment to a three-year assessment, thereby giving the local authorities more certainty. The existing formulae for calculating the RSG were considered to be unfair and difficult to comprehend.²¹⁶ The SSA was replaced by the Formula Spending Shares (FSS) in 2003/2004. In 2006/2007, this system was once again replaced by the ‘Local Government Finance Settlement’.²¹⁷

According to King, the reforms that have been implemented over the past few decades have weakened the position of sub-national governments. He gives three reasons for this:

- The structure of sub-national government is chaotic which makes it difficult for people to understand what the tasks of the sub-national government actually are;
- The structure of sub-national government does not allow them to ‘respond more effectively to varying preferences’;
- The single-tier structure of sub-national government requires the creation of ‘joint boards’. These boards are not accountable to the citizens of the jurisdictions in which they operate, thereby creating an accountability problem. Therefore, using a single-tier structure of sub-national government is questionable;²¹⁸

In addition, he mentions that there are two financial changes that have weakened the position of the sub-national governments: a decrease in the revenues from local taxes, and the use of capping, which has limited their freedom to decide on their expenditure and tax rates. Several reforms he suggests in order to strengthen the position of the sub-national governments are to:

- Replace the joint boards by directly elected authorities;
- Increase the tax-raising powers of sub-national governments;
- Create a local income tax;²¹⁹

²¹⁶ House of Commons Library (2002)

²¹⁷ Department for Communities and Local Government (2006)

²¹⁸ King in Fossati and Panella (1999)

²¹⁹ King in Fossati and Panella (1999)

6. The Netherlands



Figure 6.1 The Netherlands²²⁰

Urban Policy

The population growth of the big cities has seen some changes over the past few decades. Up to the 1960s, the cities grew due to the industrialisation process. In the 1970s people moved away from the cities – ‘deindustrialisation’ and ‘suburbanisation’ – only to move back again at the end of the decade into the 1980s – ‘re-urbanisation’. In the second half of the 1990s the country experienced economic growth but things turned around again at the turn of the century, which led to an increase in unemployment. A change in policy was made in the 1980s. Before then, cities were considered to be able to take care of themselves as they had an important role in the national economy and were doing well. Attention was therefore paid to the areas in the country that did not do as well and the policies tried to bring these areas up to the level of the big cities, according to the ‘principle of equity’. In the 1980s, more attention was given to the cities and several policies that affected cities were implemented, such as ‘spatial policy, housing policy, urban renewal policy, traffic and transport policy, and social renewal policy’ instead of focusing mainly on physical planning.²²¹

In 1994, the Dutch government launched a policy that was ‘explicitly concerned with typical large city problems.’ The aim of the central government is to ‘create the right conditions to enable local authorities to tackle the problems themselves.’ Its role is ‘a coordinating, and in some areas a controlling, part but the cities have to give substance to the policy.’ In 1998, a second term of this ‘major city policy’ was started, which is called ‘Grootstedelijk Beleid’ in Dutch. A third term has almost been completed and the fourth one will start in 2009. The initiative for this policy did not come from the government itself but from the four biggest cities in the country: Amsterdam, Rotterdam, The Hague and Utrecht, also known as the G4.

²²⁰ Europa (2008c)

²²¹ Van den Berg, Braun & Van der Meer (2007); Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2006); Ruimtelijk Planbureau (2007)

This policy meant that the individual cities made a "performance agreement" with the central government: a covenant. The performance agreement dealt with five topics:²²²

- Work and economy;
- Youth and safety;
- (Health) care;
- Quality of social and physical living environment;
- Education;

21 other big cities also signed a covenant with the central government, thereby extending the number of cities participating in this specific urban policy to 25. This number was later extended to include 31 cities. The cities then drew up an action plan that stated how they were going to reach the goals in these specific policy areas. These objectives were continued during the second term of this policy. There were some changes in other aspects of the second term of the policy, though, with respect to the first term. The objectives dealt with under the policy were divided into three pillars: an economic pillar, a physical pillar and a social pillar and the action plans were replaced with "long-term development programs". The funding system was also changed to fit the new long-term character of the programs. Funds were no longer given to the individual projects as was the case during the first term, but they were used to fund the long-term programs. The issues that were considered the most important and received the biggest part of the funds changed per term as well. When a new cabinet was formed in 2002, the attention for urban policy diminished and the policy was transferred to a different Ministry, halfway into the second term.²²³ Van den Berg, Braun and Van der Meer argue that it is difficult to conclude whether or not the execution of these long-term development programs was a success due to a lack of clarity of the goals as well as the fact that no measurements were made at the start of the programs so that is not possible to see how they have developed. As a result, they say, the development plans of the different cities looked very much alike, too much in fact.

Broad Special Purpose Grants

Another reason why the action plans and development programs have not been as successful, they believe, is because the "Broad Special Purpose Grants" (BSPG – Brede doeluitkeringen²²⁴) that were supposed to give the cities more freedom in spending the resources transferred to them from the central government, have not been created as much as was intended. In fact, they can name only one example of a BSPG that was created during the first and second term. The aim of the BSPG was a more integral approach to the policy, specifically of the allocation of the funds. Different problems that were related to each other could be dealt with at the same time by involving different policy areas. The reason for the lack of use of BSPG is that "participating ministries are reluctant to bundle their own special grants into broad purpose grants" and "each ministry has its own monitoring system". These last two problems were solved during the third term. The three-pillar structure that was abandoned halfway through the second term was re-introduced at the start of the third term. The BSPG system was adjusted to this pillar structure by setting up three BSPG, one for each pillar. The municipal authorities have more financial security as well, because the BSPG are allocated for a five-year period.²²⁵ The cities continued to draw up a "Long Term

²²² Van den Berg, Braun & Van der Meer (2007); Hendriks in Loughlin (2004); Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2004b); Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2006); Ruimtelijk Planbureau (2007)

²²³ Van den Berg, Braun & Van der Meer (2007); Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2006)

²²⁴ Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2004a)

²²⁵ Van den Berg, Braun & Van der Meer (2007); Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2004b)

Development Program' for their particular city to state their intentions for that coming term. This means that the cities can give more attention to a certain issue if that is a big problem in that city, while another issue might not be a problem at all and the city will not have to spend funds on that issue. The specific situation of each of the cities is more taken into account. The Ministry of the Interior and Kingdom Relations is responsible for the overall coordination of the policy "whilst for each BSPG one ministry has been designated as the co-ordinator." For the 'physical' BSPG, it is the Ministry of Housing, Spatial Planning and the Environment that is responsible. With regard to the 'economic' BSPG, the State Secretary for Economic Affairs is the coordinating authority. The Ministry of Government Reform and Kingdom Relations is occupied with the 'social' BSPG, which not only includes the social aspects but also integration and safety. Other ministries are involved in other areas of Urban Policy.²²⁶ The five main objectives of the third term are²²⁷:

- Improving objective and subjective safety;
- Improving quality of the living area;
- Improving 'societal quality';
- Attracting medium and high-income groups to the city;
- Stimulating economic growth;

The city council of Rotterdam, on behalf of the G4, has requested to the central government that it would give them more freedom and competencies to deal with problems in their cities, given their special position amongst the big cities. In 2004, the central government complied with this request by adopting the 'Umbrella and Exception Act (Verzamel- en Uitzonderingswet).²²⁸

The fourth term of Urban Policy

According to a study that was done by the Dutch Ministry of the Interior and Kingdom Relations, the current problems in the big cities will most likely only aggravate in the coming years. These problems include inequality and segregation between different population groups that live in the cities; a shortage of affordable housing; a stagnation of economic growth; an increase in differences between cities; and stagnation in population growth. The government therefore believes it should take action in the areas of 'learning', 'working', 'living' and 'safety'. In other words, making sure there is enough (affordable) housing, creating jobs, schooling people so that they have a good job perspective, and creating a safe environment for the people to live in.²²⁹ The Dutch Spatial Planning Agency argues in favour of more differentiation and selectivity for the fourth term that will start in 2009. This means that only the biggest problems will intend to be solved and each city should use an approach that works for that city instead of using the same approach for all cities. Also, the solution to problems should be looked for on a regional scale and not just on an urban scale. Another important suggestion they make is to regularly evaluate whether or not it is still necessary to run this policy program in all the cities that are participating in it. If the evaluation shows that in a certain city it is no longer necessary to run this program, than it should be terminated in that particular city. Differentiation and selectivity should also be applied when it comes to successful, prosperous areas. Other cities should try and find their own source of success instead of copying that of those successful cities because what worked for those cities may not

²²⁶ Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2004b)

²²⁷ Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2004b); Van den Berg, Braun & Van der Meer (2007)

²²⁸ Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2004b); Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2006); Van den Berg, Braun & Van der Meer (2007)

²²⁹ Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2006). These projections are made for the period 2009-2015.

work for them. The four biggest cities, the G4, have a special role in this policy because the problems in these cities also tend to be bigger.²³⁰ Judging from past experiences, it is not likely that a policy on a more regional scale will be received well among the population of the bigger cities. In the mid-1990s, the government came up with a proposal to create 'city-provinces' in Amsterdam and Rotterdam. A referendum was held in Amsterdam on the issue. The population voted massively against the creation of a 'city-province' in Amsterdam. The same occurred in Rotterdam. Still, the central government is now urging the authorities of the cities participating in the national urban policy program to take the 'regional scale' of their policies into account.²³¹

Administrative system

The legal structure of the Dutch administrative system is more than a century old, meaning that the sub-national levels of government "co-operate with the central government in the execution of legislation." An example of this would be the Law on Spatial Planning (Wet op de Ruimtelijke Ordening). This law stipulates that the municipalities have to draw up a plan for the spatial planning of their jurisdiction.²³² The Dutch administrative system is usually described as a 'decentralised unitary state'. It is made up of three layers: the central government and two sub-national layers of government, which are the 12 provinces and the municipalities. In other words, it has a three-tier structure. The relationship between the central government and the provinces and the municipalities is laid down in the Provincial Law (Provinciewet) and the Municipal Law (Gemeentewet). These laws also describe the composition and competences of these administrative bodies. The Municipal Law provides all the municipalities with the same legal base to operate. The municipalities are free to decide for themselves how to organise their administration. They do, however, have to execute legislation that has been adopted by the central government. This limited level of autonomy means that the municipalities can decide how to handle their own affairs within their jurisdiction and can decide "whether or not they want to perform a certain task" and how they would do this. As long as they "take account of legislation passed by higher authorities, they are free to do and allow anything that they consider necessary and useful". This means that municipalities – as well as the provinces – are allowed to set their own rules that are valid in their jurisdiction only. This situation leads to what Neelen, Rutgers and Tuurenhout call 'judicial pluralism'. These two features of the municipalities are laid down in the Dutch constitution and are typical of the Dutch administrative system. The relationship between the three levels of government is based on consensus between the parties involved and is a typical example of a 'consensus model of democracy' as defined by Lijphart. Two typical features of this model are power-sharing and decentralisation. This 'culture of dialogue' also extends to the social partners: the employer organisations and the labour unions. This form of cooperation and negotiation is also known as the 'polder model'.

The Municipal Law of 1851 was amended in 1994, which strengthened the position of the municipalities versus the central government, not just because of an expansion of rights and freedom of the municipalities but also because the central government had to comply with certain new obligations towards the municipalities. This law only sets main guidelines on the

²³⁰ Ruimtelijk Planbureau (2007); Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2006)

²³¹ Hendriks in Loughlin (2004); Office of the Deputy Prime Minister (2006a); Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2006); Van den Berg, Braun & Van der Berg (2007)

²³² Martin Karloff (1987); Hiemstra (1999). In Dutch, this type of co-operation is called 'medebewind'; Neelen, Rutgers & Tuurenhout (1999)

structure of the municipal administration and gives the municipalities a fair amount of freedom to shape their administration as they see fit.²³³

Organs of sub-central governments

Both the municipalities and the provinces have three main organs: an executive board, a council (in the case of a province it is called an assembly – Provinciale Staten), and a chief executive which is named a mayor (in municipalities) or a Queen's commissioner (in provinces). In the country's two biggest cities and municipalities – Amsterdam and Rotterdam – the municipal territory is divided into different areas and each area has its own council (deelraad). The mayor is appointed by the central government and is not elected by the public. In the larger cities it is quite common that the mayor is someone who has experience in national politics. The executive boards are responsible for the daily administration and draw up the budget. These budgets then have to be adopted by the council/assembly and approved by a higher level of government. In case of the municipalities, their budget has to be approved by the province. The provinces only have the central level of government above them, which is responsible for the approval of the provincial budget.²³⁴ The executive boards of the municipalities are made up of the mayor and aldermen, whose number depends on the size of the municipality. The mayor is responsible for public order in his municipality, while the aldermen are each responsible for one or more policy areas. The executive boards of the provinces are the 'main organ of co-administration of national law'²³⁵ and they have three special tasks:²³⁵

- supervision of municipal activities;
- supervision of water control works;
- resolving administrative differences in those cases provided by law;

One of the special tasks of the Provincial Assembly is to elect the members of the Dutch Senate, as they are not directly chosen by the public.²³⁶

The income of the provinces comes from four main sources:²³⁷

- a grant from the Provincial Fund;
- a central grant for roads;
- fees for provincial documents and services;
- income from provincial property;

The Queen's commissioner (Commissaris van de Koningin) has a dual role in that he is not just the chief executive of the province but also a representative of the central government at a provincial level. The emphasis is on his task as the chief executive of the province, however.²³⁸

Financial decentralisation

The budget of municipalities comes from a very big part from the central government: over 80-90% of their income is transferred from the central government, either directly or indirectly. The majority of this percentage comes from sums of money that was assigned to them by the Municipal Fund. This fund is made up of tax revenue from certain taxes that are collected by the central government. How much money each municipality will receive from this fund is established on an annual basis by the central government in conjunction with the

²³³ Martin Karloff (1987); Hendriks in Loughlin (2004); Hiemstra (1999); Neelen, Rutgers & Tuurenhout (1999); Schobben (2000); Van den Berg, Braun & Van der Meer (2007)

²³⁴ Hendriks in Loughlin (2004); Martin Karloff (1987); Neelen, Rutgers & Tuurenhout (1999); Van den Berg, Braun & Van der Meer (2007)

²³⁵ Hendriks in Loughlin (2004); Martin Karloff (1987); Neelen, Rutgers & Tuurenhout (1999)

²³⁶ Hendriks in Loughlin (2004); Neelen, Rutgers & Tuurenhout (1999)

²³⁷ Martin Karloff (1987)

²³⁸ Martin Karloff (1987); Neelen, Rutgers & Tuurenhout (1999)

national Parliament. Other sources of income for the municipalities include local taxes, municipal property as well as "grants for specific purposes" that are transferred to them by the central government. This system was altered in 1997. Before, the allocation of funds was based on the population size of the municipalities. The expenses of the municipalities did not play a role in this calculation. The changes that were made mean that now "half of the resources are dependent on the social structure (30 per cent) and the functioning as a regional centre (13 per cent)." This new system also made it easier to make transfers "from relatively rich to relatively poor municipalities (the large ones among them)."²³⁹ Nonetheless, "by international standards, Dutch local authorities have relatively limited own tax revenues. (...) On the other hand, total revenues are relatively high (...)" Due to the important role of co-government, there is an interdependent relationship between the municipalities and the central government: the central government needs the local governments to implement its policies and the local governments need the central government for a considerable portion of its local resources. That Dutch local authorities have relatively high total revenues means that they have a lot of money to spend "despite the fact that they have fewer of their own resources to spend."²⁴⁰

Municipal co-operation

When municipalities are unable to provide certain services themselves, they can co-operate with other municipalities, which will take the form of a corporate body or a joint arrangement. In case the co-operation deals with important tasks, the co-operation will take the form of a corporate body. A joint arrangement is made when it relates to tasks that are of lesser importance. The legal basis for these types of co-operation among municipalities is the Joint Provisions Act (*Wet Gemeenschappelijke Regeling*). In fact, the number of municipalities has decreased considerably in the 1990s, in order to "increase the scale and effectiveness of local government". Higher levels of government have control over the municipalities and provinces in two ways: 'repressive' and 'preventative'. An example of repressive control is when a decision by the municipal board is annulled because it is considered to be "illegal or not in the general interest". The higher levels of government exercise preventative control when they have to give their prior approval of, for instance, tax by-laws to the municipalities or provinces. Other examples of control of the central government over the municipalities, which also count for the provinces are the fact that it appoints the chairmen of both boards by royal decree and that it can alter the boundaries of the provinces or municipalities by law.²⁴¹

²³⁹ Hendriks in Loughlin (2004); Martin Karloff (1987); Van den Berg, Braun & Van der Meer (2007)

²⁴⁰ Hendriks in Loughlin (2004)

²⁴¹ Hendriks in Loughlin (2004); Martin Karloff (1987); Neelen, Rutgers & Tuurenhout (1999); Van den Berg, Braun & Van der Meer (2007)

7. Comparison and Conclusions

Comparison

Cities and the urban region in which they are situated are important factors in the regional and national economies and therefore, indirectly, of the European Union. On the downside, these cities are also facing the bigger problems related to traffic, crime, unemployment and the environment than the rest of the country. Since these problems could disrupt the contribution of these cities to the national economies, it is important to develop a policy that addresses these problems: an urban policy.²⁴² "The ultimate aim of regional and urban policy is to solve the problems of divergence that necessitated the policy in the first place – once the problems are solved there will be no further need of government assistance since convergence will have been achieved". This situation will never be achieved throughout the country though, because while problems may have been solved in one area, similar problems will arise in other areas. This is because "regional and urban disequilibria are economically and spatially endemic in the economic development process."²⁴³

Of the three countries that have been discussed, all are unitary states and only France has a strong intermediate level of government: the region. This means that France has four government levels, while The Netherlands has three and the United Kingdom has two.

Grants play a very important role in the finances of sub-central governments. It is generally agreed that grants from the central government to sub-central governments serve three purposes²⁴⁴:

- provide a balance between intermediate and local government revenue and expenditure responsibilities;
- equalise differences in fiscal capacities and/or expenditure needs;
- help modify the provision of social or public goods in accordance with external spillover effects;

Depending on the aim of the grant, the central government can provide the sub-national governments with different types of grants, such as block grants or specific grants. The sub-central governments may use block grants for whatever purpose they consider necessary, while specific grants – as the name of the grant implies – may only be used for that specific purpose that the central government has allocated. The specific grants are paid to those policy areas that are usually decentralised, such as education, transport, culture, housing and health and social services. These grants make the sub-central levels of government dependent to a certain extent on the central government for a part of their income. In order to give the sub-central governments more freedom in spending their resources, the central government can change the specific grants into block grants.²⁴⁵

In order to answer the sub-questions that were posed in the introduction of this thesis, the three countries that have been studied will be compared. Based on the answers to these questions, I will conclude whether or not the hypothesis "Decentralisation of governance of Urban Policy leads to more efficient governance of Urban Policy" holds true.

²⁴² Van den Berg, Braun & Van der Meer (2007)

²⁴³ Prestwich and Taylor (1990)

²⁴⁴ Fossati and Panella (1999)

²⁴⁵ Fossati and Panella (1999)

Sub-questions:

1. What developments can be identified at a European level when it comes to decentralisation of governance of urban policies?

Multi-level governance has become increasingly important in the European policy-making process. The 'old' national administrative structures have been complemented with a European level of policy-making, which means that the Member States are no longer the highest level of policy-making. With this development, they have also lost some power in this policy-making process. Even if they are still the ones who, using an intergovernmental policy-making approach, make the decisions and reach agreements in many policy areas, they have to share this role with their other European colleagues and are no longer able to decide purely for themselves. "Apart from the influence of national governments, EU cities are increasingly affected by supranational policy (. . .)" ²⁴⁶

The European Commission sees its role in urban policy as a supporting, complementary one to the Member States because it believes that the Member States have better understanding of what their problems are and what they need to solve them. The European Commission therefore prefers to limit its role to providing the Member States with the right tools to try to solve these problems. These tools come in the form of the URBAN program, the Structural Funds and forums for the exchange of experiences and best practices. The execution of these programs is left to the Member States, preferably to the lowest government level. As these programs have developed, they saw more involvement of private actors. The Member States actively pursued this type of involvement. Sub-central levels of government have picked up on this development and are trying to increase their influence on the policy-making process by establishing representational and lobbying offices in Brussels. They have also increased the exchange of information among them. Throughout the years, both the European level and the local authorities have become more important in the policy-making process, and so has the role of the private actors.

2. To what extent can we speak of a decentralised urban policy in France, The Netherlands and the United Kingdom?

What government level(s) is/are responsible for implementing urban policy?

In The Netherlands, urban policy is implemented by the Ministry of the Interior and Kingdom Relations. This ministry is responsible for the overall policy and the coherence between the three pillars of the policy. The ministers of the particular ministries that deal with policy areas that are part of the physical, economic and social pillar of the urban policy are responsible for that part of the policy. ²⁴⁷ A specific 'long-term development program' is drawn up for every city between that city's local authorities and the central government.

Due to the French practice of 'dual representation' and 'multiple office holding' the division of tasks is blurry. In many cases, tasks and responsibilities overlap. At a national level, however, it is the Ministry for Cities (Ministère du Logement et de la Ville) that is responsible for urban policy implementation. It is aided in this task by the Délégation Interministérielle à la Ville, the Comité Interministeriel des Villes and the Conseil National des Villes. ²⁴⁸

In the United Kingdom, it is the Office of the Deputy Prime Minister that is responsible for the implementation of urban policy. This department has been established in 2002, under the Labour government. ²⁴⁹

²⁴⁶ Van den Berg, Braun & Van der Meer (2007); Loughlin (2004)

²⁴⁷ European Urban Knowledge Network (2008a)

²⁴⁸ European Urban Knowledge Network (2008b); Van den Berg, Braun & Van der Meer (2007)

²⁴⁹ Van den Berg, Braun & Van der Meer (2007)

What government level(s) execute(s) urban policy?

The development at the European level of involving more local partners can also be seen in the United Kingdom. What is important to note about this development is that these local partners are private partners, which creates the so-called 'public-private partnerships'.²⁵⁰ In the Netherlands, the local authorities of the 31 cities that participate in Dutch urban policy are responsible for executing the policy, in collaboration with private partners.²⁵¹ The Dutch local governments have more freedom to do as they see fit than British and French local authorities do, as Dutch law gives them the right to operate in every policy area unless the policy area is the explicit competency of the central government. In the municipalities, the aldermen are the ones who are responsible for the different policy areas. In contrast, British local governments only have powers in those areas that are explicitly allocated to them by law. In the United Kingdom the local authorities are responsible for the execution of urban policy and seek the help from private partners in the form of public-private partnerships to do this.

What government level(s) take(s) the decisions on the allocation of financial resources for urban policy?

In the Netherlands, the municipalities are strongly dependent on the central government for their local revenue. The central government decides what share of the total amount of funds from the Municipal Fund is given to each municipality. Once the municipalities have obtained the funds, they are relatively free to decide what to spend it on. With the introduction of the Broad Special Purpose Grants and the wider application of them during the current term of urban policy, the freedom of the municipalities only increases.

In France, the central government has a large influence on the sub-national governments. The common practices of 'dual representation' and 'multiple office holding' are important causes for this situation. In France, in accordance with the constitution, the sub-national governments can decide for themselves what to spend their revenues on. They also have extensive autonomy on the setting of tax rates, on which they vote directly themselves. In case of intermunicipal co-operation, decisions are taken on that scale. The Local Finance Committee takes the decisions on transfers from the central government to the sub-national levels of government. This committee is made up of representatives from the Parliament, the central government and the local authorities.

England, Scotland, Wales and Northern Ireland are 'almost entirely' dependent on the UK government for their revenue and receive block grants from the central government. The method for calculating these grants has been changed two times in the past five years, in order to make the system more comprehensible and fair. This also goes for the tax on domestic property, which has been changed twice in just three years and is now known as council tax. Since the introduction in the 1980s of 'capping' of taxes in order to limit public spending, the sub-national governments have less freedom to set tax rates because the central government has to approve their budget proposal every year. This has weakened their position in relation to the central government. The local councils are responsible for setting the overall budget and the level of tax rates within their jurisdictions.

Do local governments have the authority to levy taxes or other financial competencies?

In all three countries the local governments have the authority to levy local taxes. The most important direct local tax they are authorised to levy is local property tax. In France, local authorities can levy a local business tax. There is a difference in whether or not local authorities are allowed to set the tax rates and tax bases. In France, the local authorities can

²⁵⁰ Van den Berg, Braun & Van der Meer (2007)

²⁵¹ European Urban Knowledge Network (2008a)

decide how to spend their revenues and can determine the local tax rates themselves²⁵², but the Parliament decides on the tax bases. When municipalities join forces through 'intercommunality' they have taxing power and additionally receive funds from the central government. They do not have to account for these funds to the central government, nor to the electorate. Local taxation accounts for about half of the income of local governments in France, while in The Netherlands and the United Kingdom only about 10 per cent comes from local tax revenue.²⁵³ France also has a strong intermediate level of government, the region, which also has extensive powers to levy taxes. The regions can levy housing tax, property tax on (non)-developed land, professional tax, tax on car licences, immatriculation certificates, tax on driving licences and additional tax on registration right. The lower levels of government can also levy housing tax, in addition to property tax on (non)-developed land and the *vignette automobile* property transfer tax.²⁵⁴ In The Netherlands, the local government can levy environmental taxes, a surtax on motor vehicles, broadcasting licence fees, tax on immovables, tax on benefits and tax on building sites. The local authorities in the United Kingdom can levy tax on property and the so-called council tax.²⁵⁵ The French sub-national governments clearly have a lot more sources of own income than their Dutch or UK counterparts do, which makes them less dependent on the central government, especially since it makes up a much bigger part of their total income than in the other two countries. Grants from the central government form an important source of revenues for the local governments, with a percentage of total local income ranging from about 35 per cent in France to 80-90 per cent in The Netherlands. The total income of Dutch local authorities is higher than that of British or French local authorities. They have more money to spend and have a more equal relationship with the central government than is the case in the other two countries. The latter is due to the practice of co-governance in the Netherlands, whereby the local authorities are largely responsible for implementing and executing central government policy.

3. What developments can be identified at a national level when it comes to decentralisation of governance of urban policies in France, The Netherlands and the United Kingdom?

Has there been a shift of tasks from one government level to another over the past few decades?

In 1985, the Joint Provisions Act was adopted, which enabled the Dutch municipalities to join forces to provide certain public services. In the following decade, the number of municipalities was reduced considerably, thereby increasing the scale, with the intention of making it more effective.

The city council of Rotterdam has initiated a proposal for more competencies for the four biggest cities in the country, known as the G4. When given these extra competencies, these cities have more tools to try to solve problems in their cities. In 2004, the central government adopted a law that was based on the proposal of the Rotterdam city council and the G4 have the extra competencies they have asked for in the proposal.

The Dutch Ministry of the Interior and Kingdom Relations has expressed the intention to use a more regional approach to urban issues during its fourth term of national urban policy.

²⁵² Subject to the restrictions mentioned in chapter 4.

²⁵³ Van den Berg, Braun & Van der Meer (2007). They note that when tax returns are higher, this does not automatically mean that they have more autonomy since taxes are sometimes collected for the central government at a local level.

²⁵⁴ Fossati and Panella (1999)

²⁵⁵ Fossati and Panella (1999)

Proposals in the past to create a city-province have not been successful, however. The regional approach should therefore be expressed through policy initiatives, not a change in the administrative structure.²⁵⁶

A decentralisation process in the 1980s in France resulted in the sub-national governments taking on responsibilities from the central government. The municipalities were given more competencies. In 1999, the Chèvenement Act was adopted to simplify the complex system and replace it by three layers. It also provided the municipalities with the possibility of joining forces to provide services that they could not provide individually with the aim of creating economies of scale and harmonise tax laws. During the second decentralisation process that started in 2003 the regions were officially recognised as government levels and were given the main responsibility in certain policy areas. The aim of this second decentralisation process was again to clarify the division of powers among the different government levels because the 1999 Chèvenement Act was considered to have been unable to accomplish this.

When the Local Government Acts of England, Wales, Scotland and Northern Ireland were adopted in the early 1970s this created a new government structure. This change was deemed necessary by the central government because the former division of powers and tasks was unclear and there were areas that were not 'covered by an authority'. In Northern Ireland the consequence was that it now had a single-tier structure of 26 district authorities and the central government took over the responsibility for many policy areas, although the execution of these tasks was left to 'local offices of the department concerned or through area boards responsible to them'. In London, the sub-national level of government has a different structure than in the rest of England or the other countries. When the Greater London Council was abolished in 1986, together with 6 metropolitan areas, there was no longer a metropolitan level of government in the United Kingdom. Joint boards were created to take over the tasks of the former Greater London Council. A similar development took place in Scotland, Wales and parts of England. A unitary structure with unitary authorities was set up in these countries as well and in England, there were once again 'gaps' in the provision of services by authorities. For those areas joint boards were set up with neighbouring jurisdictions for the provision of services.

Conservative governments in the United Kingdom have in the past adopted measures to centralise urban policy. Another change they made was to shift the focus of projects from a regional to an urban level. This change included the abolishment of regional planning authorities and the creation of urban planning authorities. Under the Labour government the regional aspect was recovered with the establishment of Regional Development Agencies as well as the reintroduction of metropolitan government in London with the establishment of the Greater London Assembly in 1999. Northern Ireland's situation also changed in 1998, after the creation of the North Irish Assembly and the North-South ministerial council. There was still considerable influence from the UK government in London and the Irish government through the North-South ministerial council, though. Especially since it is only allowed to pass secondary legislation and has very limited taxing powers. These limitations also apply to the Welsh Assembly and the sub-national governments.

Has there been a shift in allocation of financial resources over the past few decades?

In France, the sub-national revenues increased due to an increase in grants from the central government. These grants were transferred to the sub-national governments to compensate for the loss of tax bases based on a decision from the Parliament. Even though this gives the sub-national more revenues, it also makes them more dependent on the central government. Before, they would have an additional tax base for which they could set the tax rate

²⁵⁶ Hendriks in Loughlin (2004); Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2006); Office of the Deputy Prime Minister (2006b); Ruimtelijk Planbureau (2007); Van den Berg, Braun & Van der Meer (2007)

themselves. After the Parliament decided to cut that particular tax base, they received a compensation grant, but they have to negotiate these grants with the Parliament and the central government in the Local Finance Committee. Government changes in the 1990s also resulted in a change in the priorities for urban policy.²⁵⁷

In the Netherlands, there has been a shift in issues that were considered a priority within urban policy. During the first term of national urban policy, issues related to work and labour received the most attention. In the second term, the focus shifted to "improving the quality of the social and physical living environment of cities." In the current third term safety is the most important issue of the policy. The budget for urban policy has been lowered considerably after "the downturn of the Dutch economy since 2002"²⁵⁸ Less money is now spent on urban policy and the issue that the money is spent on has also changed throughout the years, depending on what issue was given priority.

It is clear that, in the United Kingdom, the colour of the political party that is in office influences the amount of money that is spent on urban policy. Conservative governments have decreased the budget for urban policy when they were in office during the period 1979-1997. It also became more difficult for sub-national governments to obtain funds from the central government for urban policy, as the criteria for being considered eligible for funding were changed. Additionally, the Conservatives encouraged more private investment in urban areas. Funding of urban projects therefore shifted from the public sphere to more private involvement. Starting in 1997, when the Labour government took over from the Conservatives, the budget for urban policy has been increased again, which has been supported by other measures to increase the investment in urban areas. This also means that the cities no longer have to compete as fiercely for central government funding.

Conclusion

What examples can be found in France and the United Kingdom that could serve as examples of 'best practices' for The Netherlands?

Both in France and in the United Kingdom, the structure of government has been changed in order to clarify the division of tasks and powers between the central government and the sub-national levels of government. In both cases, the number of sub-national levels of government was reduced. In France, the reason for the changes that were made was an overlap in tasks and responsibilities between the different levels of government. In the United Kingdom this also played a role, but additionally, it faced the problem of 'gaps' in the provision of services to citizens. In both countries the municipalities have used the legal possibility to join forces in order to provide services that they would not be able to provide to the citizens of their jurisdictions by themselves, or at a much higher cost. This is an option that is also available and used a lot by Dutch municipalities. This shows that jurisdictions do not necessarily operate most effectively when they are smaller but should be big enough and should have enough financial resources for them to provide the services to its inhabitants.

Even though co-legislation is an important feature of policy implementation in the Netherlands, this does not seem to cause the same problems with an unclear division of tasks as in France or the United Kingdom. This might be due to the strong culture of dialogue and consensus between the government levels in the Netherlands. The importance of the role of the Dutch local governments has already proven itself with the initiatives that were taken by the four biggest municipalities that lead to the adoption of legislation on urban policy. As is stated in the introduction, the Dutch municipalities are seeking more freedom to govern the urban policy. Freedom to govern in this case means they want to be able to decide what to

²⁵⁷ Van den Berg, Braun & Van der Meer (2007)

²⁵⁸ Van den Berg, Braun & Van der Meer (2007)

spend their resources for urban policy on. In the current term of Dutch urban policy this development could already be noted and is likely to continue in the next term, which starts in 2009. A more city-specific approach is also intended by the central government, which means that it is likely that the wishes of the Dutch municipalities will be incorporated into the new term of urban policy.

The developments over the past few decades in France shows that a clear division of tasks and responsibilities is very important and also less costly. The importance of own resources for local governments is also an issue that becomes clear when looking at the French case. When sub-national governments are too dependent on the central government through grants, this may have serious financial consequences for taxpayers on a national scale.

The case of the United Kingdom shows that the reforms that have been implemented have weakened the sub-national governments due to an unclear division of tasks as well as a decrease in its own resources resulting in an increasing dependency on the central government through grants. Urban policy cannot be implemented and executed effectively when it is unclear what is expected of the sub-national governments and they do not have own resources to execute the policy.

The principle of subsidiarity that plays an important role at a European level of policy-making also has consequences for policy-making within the Member States. Policy should be implemented and executed at the lowest possible level, which would mean that if possible, the municipalities should implement and execute urban policy. In all three countries considered here, one or more ministries of the national government are responsible for the implementation of urban policy, while the local governments are responsible for the execution of the policy, in co-operation with private (local) partners. When it comes to the projects that are funded by the EU's Cohesion Funds, the emphasis on implementation and execution at a local level, with public-private partnerships, is more visible since it is a requirement for obtaining these funds.

The two characteristics of multi-level governance – the central government is no longer the central actor in policy-making and private actors are becoming more important – can also be seen in all three countries to a certain degree. In all three countries, private actors are indeed becoming more important and are more involved in policy-making as well as the execution of the policy. When it comes to policy-making, the central governments do still play an important role in maintaining the coherence between the different elements of the policy and transferring grants to the sub-national governments. It is especially this latter role of the central government that creates a dependency among the sub-national governments towards the central governments.

Of course, the Netherlands could also learn from its own history of urban policy and decentralisation. Proposals to change the administrative structure – such as the city-province – have failed, while changes in the policy priorities in the different terms of national urban policy have been less difficult to implement.

Changes in policy are less definite than changes in administrative structure therefore it would be better to make changes in the government's urban policy approach than in the administrative structure. As shown by the cases of France and the United Kingdom, a clear division of tasks is important for an effective implementation and execution of urban policy. In accordance with Oates and King, policy can only be decentralised effectively when the jurisdiction has sufficient own financial resources (and staff) to execute that policy. Therefore, provided that the division of tasks between the central and the sub-national governments is clearly defined and the sub-national governments have enough own financial resources, it can be said that: **Decentralisation of governance of Urban Policy leads to more efficient governance of Urban Policy.**

8. Literature

Books

- Benyon, J. (2000), *Urban Policy and Politics in Britain*, Hampshire: Macmillan Press Ltd.
- Berg, L. van den, Braun, E., Meer, J. van der, eds. (2007), *National Policy Responses to Urban Challenges in Europe*, Ashgate
- Berry, E. and Hargreaves, S. (2007), *European Union Law*, New York: Oxford University Press (2nd edition)
- Fossati, A. & Panella, G., eds. (1999), *Fiscal Federalism in the European Union*, London: Routledge, (1st edition)
- Galès, P. le (2002), *European Cities. Social Conflicts and Governance*, Oxford: Oxford University Press
- Grix, J. (2004), *The Foundations of Research*, Hampshire: Palgrave MacMillan
- Hiemstra, J. (1999), *Het Besturen van Grote Gemeenten. Vier Varianten en een Toekomstperspectief*, Alphen aan den Rijn: Samsom
- Kleinman, M. (2002), *A European Welfare State? European Union Social Policy in Context*, Hampshire: Palgrave
- Loughlin, J., ed. (2004), *Subnational Democracy in the European Union*, Oxford: Oxford University Press (1st edition paperback; 1st edition hardcover: 2001)
- Martin Harloff, E. (1987), *The Structure of Local Government in Europe*, Den Haag: International Union of Local Authorities
- Neelen, G.H.J.M., Rutgers, M.R. & Tuurenhout, M.E., eds. (1999), *De Bestuurlijke Kaart van Nederland. Het Openbaar Bestuur en zijn Omgeving in Nationaal en Internationaal Perspectief*, Bussum: Uitgeverij Coutinho (1st edition)
- Prakke, L. and Kortmann, C.A.J.M., eds. (1993), *Het Staatsrecht van de Landen van de Europese Gemeenschappen*, Deventer: Kluwer (4th edition; 1st edition: 1981)
- Prestwich, R. & Taylor, P. (1990), *Introduction to Regional and Urban Policy in the United Kingdom*, Essex: Longman
- Punch, K. F. (2000), *Developing Effective Research Proposals*, London: SAGE Publications
- Richardson, J., ed. (2006), *European Union. Power and Policy-making*, Oxon: Routledge (3rd edition)
- Schobben, R.J.P. (2000), *Politieke Regio en Europese Unie*, Delft: Uitgeverij Eburon

- Wiener, A. and Diez, T. (2007), *European Integration Theory*, New York: Oxford University Press (2nd edition)

Articles

- Bonneville, M. (2005), "The Ambiguity of Urban Renewal in France. Between Continuity and Rupture", *Journal of Housing and the Built Environment*, Vol. 20, pp.229-242
- Buettner, T. and Wildasin, D.E. (2007), "Symposium on New Directions in Fiscal Federalism: An Introduction", *CESifo Economic Studies*, Vol. 53, No. 4, pp.491-494
- Common Declaration of URBAN cities and players at the European Conference "URBAN Future" on June 8th and 9th, 2005 in Saarbrücken (Germany) (2005), "The 'Acquis URBAN' Using Cities' Best Practices for European Cohesion Policy"
- Communication from the Commission (1997), "Towards an Urban Agenda in the European Union", *COM(97)197 final*
- Department for Communities and Local Government (2006), "Distribution of Formula Grant to Local Authorities", *Department for Communities and Local Government, Local Government Finance - Grant Distribution Division*
- European Commission (2003), "Partnership with the Cities. The URBAN Community Initiative", *European Commission Directorate General - Regional Policy Brochure 2003 EN*
- European Ministers responsible for Urban Development (2007), "Leipzig Charter on Sustainable European Cities"
- Groenendijk, N. (2003), "Fiscal Federalism Theory", *CES/UT*
- Hooghe, L. and Marks, G. (2003), "Unraveling the Central State, but How? Types of Multi-level Governance", *American Political Science Review*, Vol. 97, No.2, pp.233-243
- House of Commons Library (2002), "Local Government Finance in England: Replacing the Standard Spending Assessment", *Research Paper 02/56*, 11 October 2002
- Krane, D., Ebdou, C. and Bartle, J. (2004), "Devolution, Fiscal Federalism, and Changing Patterns of Municipal Revenues: The Mismatch between Theory and Reality", *Journal of Public Administration Research and Theory*, Vol. 14, No. 4, pp.513-533
- Lallia, M. and Thomas, A. (1999), "The United Kingdom: Federalism in Denial?", *The Journal of Federalism*, Vol. 29, No. 3, pp.89-107
- Lee, S. (2003), "The Governance of Fiscal Policy in the United Kingdom and Canada", *Journal of Comparative Policy Analysis: Research and Practice*, Vol. 5, pp.167-187

- Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2004a), "Samenwerken aan de Krachtige Stad. Uitwerking van het Stelsel Grotestedenbeleid 2004-2009 (GSB III)", *Ministerie van Binnenlandse Zaken en Koninkrijksrelaties*
- Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2004b), "Working Together on the Strength of the City. Urban Policy III 2005-2009", *Ministerie van Binnenlandse Zaken en Koninkrijksrelaties, Urban Policy and Inter-administrative Relations Directorate*
- Ministerie van Binnenlandse Zaken en Koninkrijksrelaties (2006), "Steden van Morgen. Keuzes voor Vandaag. Over de Toekomst van de Stad en Stedelijk Beleid", *Ministerie van Binnenlandse Zaken en Koninkrijksrelaties*
- Oates, W. E. (2005), "Toward A Second-Generation Theory of Fiscal Federalism", *International Tax and Public Finance*, Vol. 12, pp.349-373
- Office of the Deputy Prime Minister (2006a), "A Framework for City-Regions. Working Paper 2: City Regions: Policy and Practice. Lessons from France, Germany and the Netherlands", *Office of the Deputy Prime Minister*
- Office of the Deputy Prime Minister (2006b), "A Framework for City-Regions. Working Paper 3: City Regions: Why, Where Are We Now, And How Far Would We Need To Travel?", *Office of the Deputy Prime Minister*
- OECD (2007), "Meeting the Challenges of Decentralisation in France". *Economics Department Working Papers No. 571*, ECO/WKP(2007)31
- Rubin, E. L. & Feeley, M. M. (2008), "Federalism and Interpretation", *The Journal of Federalism*, Vol. 38, No. 2, pp.167-191
- Ruimtelijk Planbureau (2007), "Een nieuwe stedelijke agenda. Overwegingen voor een toekomstig grotestedenbeleid", *Ruimtelijk Planbureau*
- Verhage, R. (2005), "Renewing Urban Renewal in France, the UK and the Netherlands: Introduction", *Journal of Housing and the Built Environment*, Vol. 20, pp.215-227

Internet sources

- Council of European Municipalities and Regions (CEMR) (2008), "Urban and rural policies". http://www.ccre.org/champs_activites_liste_news_en.htm?ID=3116 website visited on 10 March, 2008
- Europa (2008a), "Europa, the EU at a glance". http://europa.eu/abc/maps/members/france_en.htm website visited on 27 July, 2008
- Europa (2008b), "Europa, the EU at a glance". http://europa.eu/abc/maps/members/uk_en.htm website visited on 27 July, 2008
- Europa (2008c), "Europa, the EU at a glance". http://europa.eu/abc/maps/members/neth_en.htm website visited on 27 July, 2008

- European Urban Knowledge Network (2008a), "National Urban Policy of the Netherlands", <http://www.eukn.org/netherlands/urban/index.html> website visited on 26 July, 2008
- European Urban Knowledge Network (2008b), "National Urban Policy of France", <http://www.eukn.org/france/frenchurbanpolicy/index.html> website visited on 26 July, 2008
- INSEE (Institut National de la Statistique et des Études Économiques) (2008), "Définitions", http://www.insee.fr/fr/methodes/default.asp?page=definitions/liste-definitions.htm#def_D website visited on 24 July 2008
- Nicis Institute (2007a), "Het Grotestedenbeleid wordt vernieuwd doorgezet", http://www.nicis.nl/nicis/dossiers/Bestuurenorganisatie/Grotestedenbeleid/Minister-Vogelaar-G27-jaarconferentie_1085.html website visited on 10 March, 2008
- Nicis Institute (2007b), "Grotestedenbeleid na 2009: gedifferentieerder en selectiever", http://www.nicis.nl/nicis/dossiers/Bestuurenorganisatie/Grotestedenbeleid/rpb-stedelijke-agenda_1092.html website visited on 10 March, 2008
- North East Assembly (2008), "What is the NEA?", <http://www.northeastassembly.gov.uk/page.asp?id=63> website visited on 26 July, 2008
- The Northern Way (2008), "Moving Forward. The Northern Way", <http://www.thenorthernway.co.uk> website visited on 26 July, 2008
- Valuation Office Agency (2008), "Council Tax Bands", http://www.voa.gov.uk/council_tax/bands_england_wales.htm website visited on 26 July, 2008
- Vereniging van Nederlandse Gemeenten (2008), www.vng.nl website visited on 10 March, 2008