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Territorial solidarity: the role regions can play

Governance Committee

Rapporteur:¹ Harald SONDEREGGER, Austria (R, EPP/CCE)

Resolution 469 (2021).....	2
Recommendation 457 (2021).....	4
Explanatory memorandum	6

Summary

States are facing different challenges of a social, economic and environmental nature which are affecting the traditional economic and social ties between and within regions. The COVID-19 pandemic has exacerbated many of these challenges impacting many European regions and their subdivisions unequally.

The need for better territorial cohesion policy and greater territorial solidarity is therefore becoming more critical than ever. While national governments have seen their scope of action limited due to economic difficulties, the increasing role of the EU and decentralisation, the redistribution of services and financial resources between regions can contribute to territorial development. In order to tackle the new challenges, it is necessary to promote new methods, by redefining the core sovereign powers of states, by strengthening their role in areas such as security and financial equalisation, while at the same time expanding the role of regional and local authorities in grassroots policy areas such as transport, healthcare, education and the environment.

In this context, regions play a crucial role as the intermediary between national and local levels in reducing territorial disparities by pursuing a wide range of (re-)distributive policies in interaction with various players at the sub-state and supra-national levels. While using new instruments of equalisation, the regional powers can effectively address the challenges that different territories are facing today in order to ensure a greater level of territorial solidarity.

1 L: Chamber of Local Authorities / R: Chamber of Regions
 EPP/CCE: European People's Party Group in the Congress
 SOC/G/PD: Group of Socialists, Greens and Progressive Democrats
 ILDG: Independent Liberal and Democrat Group
 ECR: European Conservatives and Reformists Group
 NR: Members not belonging to a Political Group of the Congress.

RESOLUTION 469 (2021)²

1. The Congress of Local and Regional Authorities of the Council of Europe (hereinafter “the Congress”) refers to:

a. Article 9 (and in particular its paragraph 5), Article 3.1, and Article 4.6. of the European Charter of Local Self-government (hereinafter “the Charter”);

b. the Contemporary Commentary by the Congress on the Explanatory Report to the European Charter of Local Self-government adopted on 7 December 2020 by the Statutory Forum;

c. Congress Recommendation 455 (2021) on Recurring Issues Based on Assessments Resulting from Congress Monitoring and Election Observation Missions (Reference Period 2017-2020);

d. the Priorities of the Congress 2021-2026, in particular Priority a: Resilient societies: Effective local and regional responses to public health crises; and Priority c: Cohesive societies: Reducing inequalities in the field;

e. Recommendation Rec(2005)1 of the Committee of Ministers to member States on the financial resources of local and regional authorities;

f. Recommendation CM/Rec(2011)11 of the Committee of Ministers to member States on the funding by higher-level authorities of new competences for local authorities;

g. Congress Recommendation 362 (2014) on Adequate financial resources for local authorities;

h. Congress Recommendation 427 (2018) on Coping with the debt burden: local authorities in financial difficulty;

i. Congress Recommendation 438 (2019) on Fair distribution of taxes in transfrontier areas: Potential conflicts and possibilities for compromise;

j. the United Nations Agenda 2030 for Sustainable Development, in particular Goal 10: Reduce inequalities within and among countries; and Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

2. The Congress points out that:

a. States are facing different challenges of a social, economic and environmental nature which are affecting the traditional economic and social ties between and within regions. The COVID-19 pandemic has exacerbated many of these challenges, particularly with regard to public health care systems with economic repercussions impacting many European regions and their subdivisions unequally. The need for better territorial cohesion policy and greater territorial solidarity is therefore becoming more critical than ever, most notably between the central and peripheral regions;

b. While national governments have seen their scope of action limited due to economic difficulties, the increasing role of the EU and decentralisation, the redistribution of services and financial resources between regions can contribute to territorial development. In order to tackle the new challenges, it is necessary to promote new methods, by redefining the core sovereign powers of states, by strengthening their role in areas such as security and financial equalisation, while at the same time expanding the role of regional and local authorities in grassroots policy areas such as transport, healthcare, education and the environment;

c. In this context, regions play a crucial role as the intermediary between national and local levels in reducing territorial disparities by pursuing a wide range of (re-)distributive policies in interaction with various players at the sub-state and supra-national levels. While using new instruments of equalisation, the regional powers can effectively address the challenges that different territories are facing today in order to ensure a greater level of territorial solidarity within the regions.

² Debated by the Chamber of Regions on 16 June 2021 and adopted by the Congress on 17 June 2021, 3rd sitting (see Document CPR(2021)40-05), rapporteur: Harald SONDEREGGER, Austria (R, EPP/CCE).

3. In light of the above, the Congress invites the local and regional authorities of Council of Europe member States to:

a. identify and develop a common vision of solidarity policies within and between territories, through inclusive consultation and cooperation processes involving various actors concerned, to bridge gaps in wealth and accessibility to public services and to ensure a sustainable development;

b. strengthen regional capacities to coordinate and implement territorial solidarity policies, supporting territorial alliances united around a common vision and action of territorial solidarity;

c. ensure that the topic of financial equalisation is part of the discussion with the government in the framework of the consultation process that is required by Article 4.6 and Article 9.6 of the Charter;

d. promote sharing of best practices of territorial solidarity policies.

4. The Congress calls on the local and regional authorities and their national associations to take account of this resolution and the explanatory memorandum, on this specific issue.

5. The Congress asks its Monitoring Committee to take into account the present resolution and recommendation in the framework of the monitoring activities on the application of the Charter.

RECOMMENDATION 457 (2021)³

1. the Congress of Local and Regional Authorities of the Council of Europe (hereinafter “the Congress”) refers to:

a. Article 9 (and in particular its paragraph.5), Article 3.1, and Article 4.6. of the European Charter of Local Self-government (hereinafter “the Charter”);

b. the Contemporary Commentary by the Congress on the Explanatory Report to the European Charter of Local Self-government adopted on 7 December 2020 by the Statutory Forum;

c. Congress Recommendation 455 (2021) on Recurring Issues Based on Assessments Resulting from Congress Monitoring and Election Observation Missions (Reference Period 2017-2020);

d. the Priorities of the Congress 2021-2026, in particular Priority a: Resilient societies: Effective local and regional responses to public health crises; and Priority c: Cohesive societies: Reducing inequalities in the field;

e. Recommendation Rec(2005)1 of the Committee of Ministers to member States on the financial resources of local and regional authorities;

f. Recommendation CM/Rec(2011)11 of the Committee of Ministers to member States on the funding by higher-level authorities of new competences for local authorities;

g. Congress Recommendation 362 (2014) on Adequate financial resources for local authorities;

h. Congress Recommendation 427 (2018) on Coping with the debt burden: local authorities in financial difficulty;

i. Congress Recommendation 438 (2019) on Fair distribution of taxes in transfrontier areas: Potential conflicts and possibilities for compromise;

j. the United Nations Agenda 2030 for Sustainable Development, in particular Goal 10: Reduce inequalities within and among countries; and Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

2. The Congress points out that:

a. States are facing different challenges of a social, economic and environmental nature which are affecting the traditional economic and social ties between and within regions. The COVID-19 pandemic has exacerbated many of these challenges, particularly with regard to public health care systems and economic repercussions impacting many European regions and their subdivisions unequally. The need for better territorial cohesion policy and greater territorial solidarity is therefore becoming more critical than ever, most notably between the central and peripheral regions;

b. while national governments have seen their scope of action limited due to economic difficulties, the increasing role of the EU and decentralisation, the redistribution of services and financial resources between regions can contribute to territorial development. In order to tackle the new challenges, it is necessary to promote new methods, by redefining the core sovereign powers of states, by strengthening their role in areas such as security and financial equalisation, while at the same time expanding the role of regional and local authorities in grassroots policy areas such as transport, healthcare, education and the environment;

c. in this context, regions play a crucial role as the intermediary between national and local levels in reducing territorial disparities by pursuing a wide range of (re-)distributive policies in interaction with various players at the sub-state and supra-national levels. While using new instruments of equalisation, the regional powers can effectively address the challenges that different territories are facing today in order to ensure a greater level of territorial solidarity within the regions.

³ See footnote 2.

3. In light of the above, the Congress requests that the Committee of Ministers invite the respective national authorities of member States of the Council of Europe to:
 - a. involve regions in the policies of territorial solidarity by delegating part of the competencies to the regional authorities in order to implement tailored financial equalisation procedures or equivalent measures as the conventional method of assistance for weaker territories, in line with the European Charter of Local Self-government and notably the provisions contained in Article 9;
 - b. protect financially weaker territories by introducing a system of financial support for specific local and regional authorities under certain conditions, through financial equalisation procedures based on clear and transparent criteria as provided by Article 9.5 of the Charter;
 - c. promote policies of territorial solidarity by consulting with local and regional authorities, as provided by Article 4.6 of the Charter in conjunction with Article 9.6, namely on common visions of territorial solidarity and the best strategies of achieving greater territorial solidarity between and within regions, putting into perspective interdependence and cooperation between the various territories;
 - d. support the strengthening of regional capacities to devise and implement territorial solidarity measures to bridge gaps in wealth and access to public services between and within territories, thus laying the basis for a sustainable model of development;
 - e. call on member States that made a reservation to Article 9.5 to ratify this provision where its application is relevant.
4. The Congress calls on the Committee of Ministers and the Parliamentary Assembly of the Council of Europe to take account of this recommendation and the explanatory memorandum in their activities relating to Council of Europe member States.

EXPLANATORY MEMORANDUM

1. Introduction⁴

1. Council of Europe member States are facing different challenges of a social, economic and environmental nature which are affecting also the traditional economic and social ties between and within regions. The COVID-19 pandemic has exacerbated many of these challenges, particularly with regard to public health care systems and economic repercussions impacting many European states and their subdivisions unequally. The need for a better territorial cohesion policy and greater territorial solidarity is therefore becoming more critical than ever, most notably between the central and peripheral regions of member States.

2. The redistribution of services and financial resources between regions can contribute to territorial development. However, after playing a key role until the 1980s, national governments have seen their scope of action limited by economic difficulties, the increasing role of the European Union and by decentralisation. In order to tackle the new challenges, it is necessary to promote new methods, by redefining the core sovereign powers of states, by strengthening their role in areas such as security and financial equalisation, while at the same time, expanding the role of regional and local authorities in grassroots policy areas such as transport, healthcare, education and the environment.

3. In this context, European regions play a crucial role as the intermediary between national and local levels in reducing territorial disparities by pursuing a wide range of (re-)distributive policies in interaction with various players at the sub-state and supranational levels. While using new instruments of equalisation, the regional powers can effectively address the challenges that different territories are facing today in order to ensure a greater level of territorial solidarity within the regions. However, in understanding the role regions can play in ensuring territorial solidarity, divisions exist between those who advocate for a rapid adaptation of territorial organisation in the light of the metropolisation of economic activities and employment, and those who decry the abandonment of rural territories and public services.

4. In approaching this topic, it needs to be acknowledged that there is no truly established definition of territorial solidarity. The definition adopted in this report refers to a balanced territorial development and the reduction of gaps in wealth and accessibility of public services between and within regions. This covers a broad range of public policies that evolve in line with economic, political and social developments. In this context, the Article 9.5 of the European Charter of Local Self-government puts a great emphasis on policies of financial equalisation between local and regional authorities within a state: “The protection of financially weaker local authorities calls for the institution of financial equalisation procedures or equivalent measures which are designed to correct the effects of the unequal distribution of potential sources of finance and of the financial burden they must support.”

5. In this report, territorial solidarity is considered from the viewpoint of regions and their capacity to strengthen social, economic and environmental cohesion on their territory. Two main points are thereby addressed: 1) the decline of the role of the state under the impact of economic globalisation and European integration, resulting in a reactivation of the centre-periphery divide, developing gradually over the last fifty years; 2) the rise of the regions in pursuing solidarity and territorial justice policies, which must be analysed taking into account very different models of territorial organisation and very disparate regional policy capacities. In addressing these issues, the report will first map out current context and challenges revolving around territorial solidarity and then will move on to identifying the role that regions are nowadays best suited to play in ensuring territorial solidarity.

2. Territorial solidarity: current context and challenges

From guardian state to multilevel governance

6. To better understand the challenges regions currently face in ensuring territorial solidarity, one needs to briefly explore the historical context of territorial solidarity within states. Throughout the history, four different types of public policies pursued by states have evolved (see Table 1 below). The typology reveals several ways in which the methods of state legitimisation have been transformed with regards to the ensuring of solidarity within the state. It shows that the state had gradually expanded its fields of

⁴ Report prepared with the contribution of Romain PASQUIER, Director of Research at the *Institut d'études Politiques, CNRS-Sciences Po Rennes*, France

action, adopting various profiles over the centuries and acting as the main guarantor of solidarity within its borders.

Table 1: *Typology of public policy, state system and method of legitimisation*

Type of public policy	State system	Predominant method of legitimisation
Regulatory	Guardian state <i>(until 18th century)</i>	Maintaining law and order
Direct intervention (public administration, education, networks)	Nation state <i>(19th century)</i>	Collective values (national identity)
Redistributive (health, social)	Welfare state <i>(from end of 19th century)</i>	Assumption of collective risks
Direct intervention (economic)	Producer state <i>(after the Second World War)</i>	Economic well-being (growth and full employment)
Incentive-based (tax incentives, information, evaluation, best practice standards, etc.) Procedural (conventions and deliberative instruments)	Regulating state	Democratic efficiency

7. However, since the end of 1970s, the state has been in crisis as a result of the development of new modes of regulation at both local and supranational level. At sub-national level, the processes of devolution/regionalisation/federalisation have granted increasing autonomy to local stakeholders. At supranational level, the process of EU integration has accelerated transfers of sovereignty from states to this supranational political order, particularly since the completion of the single market and the establishment of a common monetary policy. The national interventionism of the state is therefore strongly called into question, leading to a greater emphasis on constituent policies.

8. In the last few decades, the figure of the state as guarantor of territorial solidarity has been profoundly challenged especially in the countries where national planning and regional development have been major tools of economic and social modernisation. Sweeping economic changes and political transformations (European integration and devolution) have shifted the parameters of governance in Europe, leading to multi-level governance and an increased role that regions play in ensuring territorial solidarity.

EU integration and territorial cohesion

9. The European Union integration is an important parameter of change that directly contributes to a shift in the scale of territorial solidarity away from central governments. It can be seen as a new source of opportunity, providing a new seam of resources enabling territorial stakeholders to strengthen their positions vis-à-vis the central authorities. This phenomenon is observed in four main trends: the EU strategy of building a space for political action for the regions; the implementation of regional policy; institutionalising territorial representation at EU level; and, finally, furthering regions' transnational activity.

10. The EU seeks to involve the regions to an ever-increasing extent. From the end of the 1980s onwards, the regional policy was developed and implemented on a partnership basis, involving the European Commission and both national and regional administrations at all stages of this policy. This partnership-based approach sought to reshape the interactions between public and private stakeholders at regional level by establishing new, non-hierarchical relationships between them, independently, to a greater or lesser extent, of the existing political powers. Accordingly, through the scheduling of the Structural Funds, the European Commission has become an essential institutional partner for EU regions and cities.

11. This regional policy indisputably increased the regionalisation of public action issues in sectors as varied as economic development, research, environment, local development and tourism. As such, the EU's territorial cohesion policy helped bringing about the regionalisation of territorial solidarity policies. This is especially so as the process of European integration brought with it an increase in the transnational activity of European regions through the opening of liaison and information offices in Brussels, and the creation of inter-regional co-operation associations and networks.

12. Consequently, like central governments, the EU regions tended to adjust their behaviour to the new national and international challenges insofar as many public policy sectors (the environment, transport, regional/spatial planning and culture) were increasingly dependent on the EU, in particular via the structural funds of the cohesion policy.

13. The economic crisis of 2008-2010 transformed the role of the European Union, with direct effects on the capacity of regional players to deliver territorial solidarity policies. The period was indeed marked by stronger financial integration between EU member states between 2009 and 2014. The economic governance of the EU, and more particularly that of the Eurozone, has grown, not without problems, with the European Commission's capacity to monitor national budgets reinforcing the EU's control over the continent's banks.

14. In turn, many competences managed by national, regional and local authorities are in play, particularly in the fields of infrastructure and long-term investments such as road construction, urban transport and education. As a result, many EU regions are gradually seeing their financial capacities limited by increasing EU control over national public finances.

Regional economic divide

15. The territorialisation of the economy through the concentration of the wealth and the revenues it produces as well as the disparities it generates, is proving to be a powerful driver for the structuring of territorial systems. A country's industrial history, the territorial planning policies pursued, the corporate growth strategies and the new rules of the international economy are all decisive factors in the reshaping of the economic geography of territories in Europe. The processes of concentration and de-concentration of wealth are sending shockwaves through the hierarchies of states, regions and other large metropolitan areas.

16. The resulting territorial disparities have a direct impact on the functioning of European political systems. Chronic economic under-development and, at the other end of the scale, economic success both provide a springboard for challenging the central government's role and demanding from it compensation policies and/or greater political autonomy for the regions.

17. The new economic order of globalisation radically transforms Europe's economic geography by subjecting regions and cities to contradictory challenges of competitiveness and new solidarity. As growth increasingly takes place around large metropolitan areas, we see increasing inequalities which are to the advantage of the richest regions and cities. Economic globalisation provides new political resources to regions and cities capable of embodying this new modernity of international competition.

18. In Europe, a new economic geography has taken shape over the past three decades. This competition between territories has become even more intense in recent years with the concentration of economic activities in metropolitan areas. Investments are now going to the richest European regions. Territorial attractiveness therefore seems to have supplanted planning. As a result, the territorial systems are subject to growing economic tensions between those areas that are expanding and those that are becoming marginalised. Addressing these tensions between winners and losers has become a major political issue between central governments and local and regional authorities.

Growing territorial tensions

19. In part as a result of growing regional economic divide, territorial disparities (re-)emerge between and within states and regions, having a direct impact on the functioning of political systems. Indeed, the crisis effect seems to reactivate tensions between the centre and the periphery. Consequently, the territorial systems in Europe have had to deal with identity-related claims built on political, cultural and economic tensions. This reaffirmation of the territorial divide is illustrated by the electoral successes of separatist or nationalist parties in many European countries. These movements claiming to campaign for defending and/or enhancing a collective identity, not only challenge existing territorial systems but also force central governments to make power adjustments (transfer of competences, greater fiscal autonomy)

and to recognise sub-state linguistic and cultural identities. Sometimes these movements threaten the survival of the state itself.

20. Some examples of territorial tensions in Europe seem to show a hardening of relations between the centre and the periphery. Those include the crisis in Spain where a unilateral declaration of independence in Catalonia was followed by a suspension of regional autonomy status. Belgium, for its part, seems to be locked in linguistic tensions between the Flemish and Walloon communities, the outcome of which directly challenges the institutional future of the country. In the United Kingdom, following the Brexit vote, the Scottish First Minister, has sought to lay the groundwork for a second referendum on Scottish independence. In Italy, in late October 2017, the regions of Lombardy and Veneto held two consultative referendums to demand more powers and greater fiscal autonomy from the central authorities in Rome. In Corsica (France), following their victory in the 2017 parliamentary and local and regional elections, the nationalist political forces have been engaged in a power struggle with central government in the hope of a new stage towards the island's independence. More generally, also the "yellow jackets" movement has highlighted many territorial differences in France.

21. The challenges of territorial solidarity therefore lie closer to the heart of European political agendas than ever before in a context of rising populism in a variety of forms.

COVID-19 pandemic amplifying the territorial divide

22. The COVID-19 pandemic has caused a major sanitary, social, economic, and political crisis at different levels, including at the regional level, amplifying the territorial divide. The pandemic has aggravated pre-existing inequalities between and within territories regarding access to healthcare, economic support, more generally, to prosperity. The most vulnerable and marginalised territories have been affected harder. The need for better territorial cohesion policy and greater territorial solidarity is therefore becoming more critical than ever.

3. Territorial solidarity: a more prominent role for regions?

23. As the current context and challenges show, redistributive solidarity between territories is a complex issue, which raises many political and technical problems. It is therefore important to take stock of what is at stake in territorial solidarity policies at regional level. These policies are part of highly differentiated models of territorial organisation. Regional power is viewed here as the political capacity of regions to guide the principal sequences of public action in conjunction with the economic, social or cultural development of their territory. This capacity can potentially yield a real shared vision of the territory and a development strategy that is tailored to the variable challenges of territorial solidarity.

Different models of territorial organisation and impact on territorial solidarity policies

24. The role of regions in territorial solidarity policies is directly affected by the specific model of institutional organisation. There are various models of territorial administration in Europe. Public administration structures are highly differentiated. Historical legacies, cultural divides, administrative models and the dynamics of public action have painted a broad kaleidoscope of territorial realities. Reflecting different realities, the models existing in Europe can be divided into federal and unitary states, although, there are notable exceptions that do not easily fit into these categories.

25. A federal state is a grouping of states which are granted a degree of political autonomy while nevertheless recognising a common higher authority, the central federal government structure. Moreover, federated states share sovereignty with the federal government, their areas of responsibility are accordingly laid down in the Constitution and they are involved in the drafting of federal legislation through the upper house of the federal parliament. The examples of federal states include Austria, Belgium, Germany and Switzerland. In states with a federal tradition, a significant proportion of the legal and financial resources of the municipalities or provinces is dependent on the regional level.

26. As a result, federalism is able to offer more instruments to regionalise territorial solidarity policies. However, the federal models in Europe are regulated by highly differentiated political and institutional dynamics. The German co-operative federalism is an interesting example. It comprises a close interdependence of levels of administration, a shared mode of management, fairly strict financial control by the federal government over Länder expenditure (combined with financial equalisation), intergovernmental ministerial conferences and permanent influence of the Länder over the legislative process via their right of veto in the upper chamber, the Bundesrat.

27. Conversely, Belgian federalism does not operate in the same way. It is a federal system in which two categories of federated entities cohabit with the federal structure, the linguistic communities, of which there are three (French, Flemish and German-speaking) and three regions (Brussels-Capital, Flanders and Wallonia). The Belgian model gives each region almost exclusive management of its area of responsibility. This institutional architecture is a way of ensuring the coexistence of communities within the same state, in the context of growing competitive pressures between Flanders and Wallonia.

28. In Europe, the unitary form is the most widespread state model. France embodies this model which has spread throughout Western Europe (Greece, Netherlands and Portugal), Central and Eastern Europe (Bulgaria, the Czech Republic, Poland and Romania) and the Scandinavian countries (Finland and Sweden). Unlike federal or pluri-national states, sovereignty is not shared. All citizens are subject to the same, sole authority. The unitary state is in theory centralised, with the management of public services and the administration of sub-state entities being directed from the centre.

29. In a unitary state, local and regional authorities are established and abolished by the government and/or parliament at central level, at its discretion. Although political power in this type of state may be delegated to local authorities by law, the central power remains the supreme power, which may repeal the acts of devolved governments and reduce or extend their powers. Territorial solidarity policies are theoretically ensured by the central authorities, but here again the trend is towards devolution, even though the extent of powers devolved to the regional level is more variable.

30. In France and Poland there are regional councils with powers of action in terms of territorial solidarity (economic development, vocational training, transport, regional/spatial planning) but without legislative or regulatory powers, or any supervisory powers over other local authorities. However, in many European countries, regions are either non-existent or have residual powers. This is particularly true in states where local government is traditionally strong: as in the Netherlands and the Scandinavian countries. The same is true in some other countries such as Portugal, Greece and Ireland where there is still a tradition of centralisation.

31. Lastly, it should be pointed out that several European states do not fit into the federal/unitary state distinction. What they have in common is the recognition of regional autonomy in line with asymmetrical organisational arrangements based on the recognition of specific cultural and political rights. On the other hand, they differ from the federal form either by the lack of any detailed description of responsibilities in the Constitution (United Kingdom), or by limiting their power of self-organisation and participation in the national legislative process (Spain). Regional policies, including policies of territorial solidarity, are therefore deployed in very different national contexts of action, which is why it is so important to take account of regional models of public action.

Identifying the most appropriate regional policies for territorial solidarity

32. In Europe, regions are essentially developing two types of territorial solidarity policies: financial redistribution policies between territories and distributive spatial development and infrastructure policies. Indeed, of major relevance here is Article 9.5 of the European Charter of Local Self-Government guaranteeing the protection of financially weaker local authorities, inter alia, by the instrument of financial equalisation procedures or equivalent measures.

33. Here we can refer to the Contemporary Commentary by the Congress on the Explanatory Report to the European Charter of Local Self-government which provides an important insight on the Article 9.5 of the Charter. The Commentary explains not only the purpose of financial equalisation but also the particular forms it can take. Surprisingly enough, in the current version of the Explanatory Report to the Charter there is no detailed explanation of Article 9.5 and therefore the Commentary comes useful in filling the gap. The Contemporary Commentary draws on the general picture the Congress has gained through its monitoring reports from the 47 Council of Europe member States. This overview provides valuable indications on how the financial equalisation mechanisms have been implemented in the member States and how the Congress has assessed the various practices in this regard. Based on this, the Contemporary Commentary provides criteria on the implementation of Article 9.5. (and Article 9 in general) of the Charter as outlined in the following paragraphs.

34. Article 9.5. addresses the question of the financial situation of municipalities that are financially disadvantaged due to their being located in economically or geographically weak areas (transition, mountain or island regions), or simply because they are too small to obtain the amount of resources needed to perform their tasks. Asymmetries between the tasks and abilities of some municipalities are greater when the administrative arrangements in a given country are characterised by extreme differences in the size of municipalities, especially when local authorities of different sizes and abilities

are required to carry out the same tasks. A system of financial equalisation for the benefit of financially weaker authorities is therefore necessary in all countries and is certainly essential in those where there are extreme asymmetries between local authorities.

35. In this context, Article 9.5 introduces a rule for the protection of financially weaker local authorities. The Charter mentions financial equalisation as the conventional method of assistance for weaker local authorities, as this is a well-known redistribution mechanism in the context of fiscal federalism. According to the OECD, “fiscal equalization is a transfer of fiscal resources across jurisdictions with the aim of offsetting differences in revenue raising capacity or public service cost.” Fiscal equalisation is country-specific since it is shaped by the wider institutional framework such as the size, number and geographical distribution of local governments and the responsibilities and fiscal resources allocated to each type of authority. Some equalisation arrangements involve the simple redistribution of fiscal resources while others help central governments closely shape and adapt public service delivery at the local level. The Charter therefore uses the term “financial equalisation procedures or equivalent measures”, with the aim of including a range of different institutions, mechanisms and arrangements designed to redress the effects of the uneven distribution of funding.

36. Financial equalisation may take different forms, usually involving a system of transfers to the poorer authorities. A system of polynomial calculation is usually employed, under which different variables and quantitative and statistical data are harmonised. For the purpose of reducing financial disparities between local authorities, the Charter also calls for transparent and predictable financial equalisation mechanisms that must respond to changes in the economic climate. Monitoring reports have, however, often pointed out a lack of transparent and predictable financial equalisation mechanisms.

37. Fiscal equalisation is a redistributive mechanism that must comply with a number of principles, such as fairness, stability, efficiency and transparency. In this context, arrangements tend to be complex. At the same time, the Charter stresses that equalisation procedures or equivalent measures should not “diminish the discretion local authorities may exercise within their own sphere of responsibilities”. This means that equalisation should not be subject to the same conditions as earmarked grants or produce the same effects, ultimately reducing the discretion that can be exercised by the receiving local authorities.

38. Article 9.5 is closely linked to Article 3.1. Given the need for the corresponding “effective capacity” of local authorities, it is therefore necessary for State authorities not only to encourage local entities to fully exploit their own resources but also to provide those bodies with the funds they need, which includes setting up a financial equalisation system. In this regard, Article 9.5 provides a supplementary safeguard for the “ability” to carry out local government functions referred to in Article 3.1. Article 9.5 aims to ensure sufficient financial resources, allowing local authorities not only to cover the expenses relating to their own and delegated functions but also those relating to the political and administrative apparatus necessary to carry out the tasks assigned to them. Without a sound financial base, the provisions of Article 3 of the Charter would be meaningless.

39. Finally, with reference to the opening words of Article 9.1 of the Charter, equalisation transfers must be regarded as local authorities’ own resources, “of which they may freely dispose in the exercise of their powers”. Although the methods in domestic legislation for calculating financial equalisation frequently employ expenditure parameters in specific sectors (for example, educational needs and environmental liabilities), municipalities must be free to use them according to their own discretion (see also Article 9.5). Classifying equalisation transfers as “own resources” implies that these funds cover only the costs incurred in performing local and mandatory tasks; they do not cover those incurred in the exercise of delegated powers. For these delegated tasks, a separate – vertical – mechanism for transferring funds must be put in place in accordance with Article 9.2.

40. It is also worth recalling that the European Charter of Local Self-government has been ratified by all 47 Council of Europe member States, most of whom have ratified Article 9.5, while some member States made reservations. As an international treaty, the Charter is a binding instrument on the signatory States which should make sure that the relevant provisions are duly implemented. This means that all member States which have ratified Article 9.5 shall implement a financial equalisation mechanism to correct the effects of an unequal distribution of potential sources of finances.

41. Against this background, Switzerland, provides a showcase example with its financial equalisation system between the Cantons. This is one of the most impressive examples of territorial solidarity between richer and poorer regions in Europe. Financial equalisation is essential for the autonomy of the cantons. Without it, some of them might no longer be able to carry out their responsibilities under federal law, and their existence would be threatened. For example, the Canton of Jura relies on financial equalisation for

nearly a fifth of its revenue. Equalisation of resources is based not on actual tax revenue but on potential tax revenues, in other words the creation of value they are able to exploit from a tax perspective. This potential is based on the total taxable income and wealth of private individuals and taxable corporate profits. The actual fiscal policy of a canton therefore has no direct influence over the financial transfers to or from that canton in the context of financial equalisation, and fiscal autonomy is thus guaranteed. Financial equalisation is co-funded by the Confederation (vertical equalisation) and the cantons with high revenue potential (horizontal equalisation), of which there are currently six. In this way, the Confederation and financially strong cantons allocate resources to the weak cantons, which are then free to use the resources as they see fit. By virtue of the federal law on financial equalisation and compensation for expenditure, after financial equalisation each canton must have a level of resources per inhabitant equivalent to at least 85% of the Swiss average.

42. Generally speaking, indicators often pose difficulties. Depending on whether one places the emphasis on inhabitants' income or territorial taxation, the results can sometimes vary considerably. Territorial tax wealth does not always coincide with social wealth. In other words, at regional level, as at national level, municipalities whose inhabitants have incomes below the median may have a corporate tax base that is higher than the regional average. Consequently, redistribution, whether horizontal or vertical, between local authorities calls for the implementation of complex mechanisms, themselves based on composite indices. It is therefore both a necessary and very complex task to design effective mechanisms for financial solidarity between territories.

43. Regions can also put in place distributive policies in the form of contracts geared towards municipalities, inter-municipal bodies or départements/provinces. These contractual policies are intended to ensure, if not redistribution, at least affirmative action. Several regions have therefore devised contract-based territorial policies that are delivered via a single point of contact, itself structured according to a set of criteria that incorporate this redistributive dimension. For example, in France, the Brittany Region has drawn up a contractual programme, which has been running for more than two decades, and has been gradually refined, in particular by incorporating European funds since 2015. It comprises a drawing right which is reserved for large inter-municipal authorities according to a distribution scheme which combines median per-capita income and level of taxation.

44. In fact, most of the time, the contractual packages provided by the regions are in practice intended for small municipalities and communities of rural municipalities. This is an almost automatic service, which provides investment aid in a relatively indiscriminating way. It is possible to speak of solidarity in this context; one may also speak of ordinary support for municipal or inter-municipal responsibilities (renovation and extension of schools, creation of cultural and sports facilities, church repairs, creation of playgrounds, opening of a crèche, etc.).

45. The funds distributed have a significant impact in small municipalities or rural inter-municipal authorities. However, they are sometimes limited in view of the differences in resources and, above all, the diverse challenges urban and rural areas are facing. Everything also depends on regional financial capacity, their powers and their ability to enlist a range of operators to implement contractual solidarity policies. All this has become more evident against the backdrop of the ongoing COVID-19 pandemic. Notably, the pandemic has deteriorated existing recurring issues in the application of the Charter, and in particular Article 9, as has been highlighted in the adopted Congress report on "Ensuring the respect of the European Charter of Local Self-government in major crisis situations".⁵ The impact of the crisis may affect the financial equalisation systems already in place or it may pose challenges to their implementation in countries where the mechanisms are being considered. It is precisely in situations of major crisis that the financial equalisation systems prove to be efficient in supporting regional and local development.

Strengthening regional capacities for territorial solidarity

46. Regional financial capacities have become tight in the era of major public administration reforms. Many European countries have introduced measures to reduce public expenditure by reducing the size of the civil service, privatising certain public services and reorganising state administrations. However, converging economic pressures rarely produce identical results.

47. Depending on the states concerned, the economic contexts and the powers of regional authorities, while they may be faced with similar challenges, regions do not have the same political-organisational capacities to respond to these challenges. In several European countries, for example, there has been a

5 https://search.coe.int/congress/pages/result_details.aspx?ObjectId=0900001680a19f64

recentralisation of local and regional finances, although this does not mean that central governments are able to control public spending. In France and Spain, central governments have tried to regain control over the financial systems of the regions and autonomous communities.

48. Central government transfers have become an increasing part of local authority budgets, combined with new controls and instruments for monitoring expenditure. In France, the business tax reform of 2010 introduced a much more centralised method of calculating and collecting business tax. In Spain, despite the devolution of many powers to the autonomous communities, around 80% of financial resources are transferred by, or shared with central government. Also in the United Kingdom public finance remains a highly centralised area. While the so-called Barnett mechanism ensures a globalised endowment from central government to the devolved governments, and while this mechanism ensures a high degree of autonomy in practice, the Welsh (and even Scottish) governments have very little fiscal autonomy.

49. Where territorial solidarity is concerned, the needs of territories differ. Strengthened regional capacity must make it possible to frame tailored territorial solidarity policies in a complex context of multi-level governance. In particular, territorial identities can be used to fuel innovative and experimental development strategies. The real challenge is to strengthen regional autonomy as the organising force behind local territorial solidarity policies in conjunction with local authorities. This is not about denying the importance of the state in its capacity to ensure equalisation, particularly in fiscal matters, but rather giving regions the means to devise and implement territorial solidarity policies that are better tailored to the variety of territorial configurations, indeed, in line with the European Charter of Local Self-government and notably the provisions contained in Article 9.

50. In order to devise and implement territorial solidarity policies, a key political capacity is required on the side of regions: the capacity of stakeholders to produce visions of the territory and its development, and the capacity that they then have to form territorial coalitions and produce public action mechanisms to address major issues of regional development. Six parameters are instrumental in the construction of this capacity: (1) institutional resources, (2) economic resources, (3) patterns of identification, (4) the territorial narrative, (5) the relationship with the state and (6) political leadership. Table 2 below provides an overview of how the six parameters complement the two dimensions of territorial political capacity.

Table 2: *The parameters of territorial political capacity*

The 6 parameters	Beliefs	Coalition
Institutional resources		Financial and legal prerogatives
Economic resources		Relative wealth of private and public stakeholders
Pattern of identification	Self-representation and feeling of belonging	
Territorial narrative	Narrative of the territory's history and its future	
Relations with the government		Relative co-operation
Political leadership		Stability and access to decision-making of the coalition

51. The overview shows that political capacity is not just a matter of institutional resources but also involves the construction of forms of co-operation between various institutions and players in a well-planned and locally rooted environment. In this respect, an overly narrow understanding of solidarity has to be abolished for regions to become fully effective by forging new alliances between dynamic territories and those that are less so, or at least, differently so.

52. Territorial solidarity policies must move away from an overly mechanistic vision of spatial redistribution of amenities or infrastructure. The latter may have potentially negative effects by throwing the doors wide open, through the combined interaction of accessibility and the land market, to increasing urban sprawl. Certain redistributive regional policies are necessary, but so is the political capacity of the regions to produce shared spatial perceptions and to reduce gaps in wealth and in accessibility of public services, laying basis for a sustainable model of development.

53. It seems that the core challenge of regional solidarity policies is based on putting into perspective the interdependence between the various territories and on ensuring co-operation in the development of territorial solidarity policies, preventing the emergence of competition between (sub-) regional territories which is harmful for territorial solidarity.

54. In times of crisis in particular, as shown during the COVID-19 pandemic, the regions have a key role in coping with the according challenges and ensuring better territorial cohesion policy, greater territorial solidarity and promoting the balance between the three dimensions of sustainable development: social, economic, and environmental.

4. Conclusions

55. The definition of territorial solidarity adopted in this report refers to balanced development and the reduction of gaps in wealth and accessibility to public services between territories. This report shows that economic globalisation increased the territorial inequalities in many European countries. The current COVID-19 crisis has particularly highlighted these territorial inequalities in terms of access to healthcare and economic support, generally speaking, better living conditions. This issue producing potential political tensions and conflicts can represent a major risk for the cohesion of states.

56. While the capacity of states to effectively ensure territorial solidarity has been declining for decades, regions have gradually become better equipped to implement solidarity policies on their territories. However, the regions are confronted with multiple challenges such as growing territorial fractures, mainly due to the metropolisation of economic activities, and lack of key political capacities for fulfilling their role, in particular, the ability to develop common visions within territories and the ability to form territorial coalitions to produce public action.

57. In practice, some states and regions of Europe have overcome existing challenges and taken the issue of territorial solidarity seriously. They have implemented very effective territorial solidarity policies. In this respect, the Swiss policy of financial equalisation between cantons can be an inspiring example. Regional financial autonomy and financial equalisation are the two pillars in order to promote territorial solidarity. Such examples show that it can be rewarding for states giving regions the means to devise and implement territorial solidarity policies that are adequately tailored to specific territorial configurations. In this context, horizontal transparent and predictable equalisation mechanisms are of utmost importance.

58. However, territorial solidarity does not mean providing all territories with the same levels of amenities and infrastructure but providing framework condition for long-term equity and co-operation. Regional territorial solidarity policies must therefore be based on an understanding of the necessary interaction and alliances between the various territories that make up the region. This presupposes political co-ordination of all the territorial solidarity measures implemented at regional level.

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