



VISIT TO BILBAO AND BIZKAIA, 17-19 OCTOBER 2005

Why we went

Three members of the Centre for Cities team – Dermot Finch, Adam Marshall, and Chris Urwin – visited Bilbao on 17-19 October, at the invitation of the provincial government of Bizkaia.

Bilbao is a well-known regeneration success story. Our visit focused on the unique financial and governance arrangements that have made Bilbao's economic renaissance possible, plus the impact of the Guggenheim and culture-led regeneration.

The Centre for Cities will host a follow-up seminar in London, on 17 November. A high-level delegation from Bizkaia will discuss the links between financial autonomy and regeneration with a number of UK stakeholders – including our partners in the *City Leadership* project from Birmingham, Liverpool and Barnsley. Our *City Leadership* report will be published in February 2006, and will feed into the Lyons Inquiry into Local Government.

What we found

- *The Guggenheim is only part of a larger story.* The museum is a high-profile and important part of Bilbao's transformation – but it's only part of a bigger story of devolution, branding and investment.
- *Bilbao has a unique system of financial devolution.* This is the key to Bilbao's turnaround. There is a three-tier distribution of functions and finance between the Basque government, the province of Bizkaia and the city of Bilbao. Together, all three levels raise all their own taxes and control most of their own spending decisions. For example, Bizkaia – basically the Bilbao city-region – has formal control over transport and economic development.
- *City-regional arrangements play a critical role.* Bizkaia is able to take strategic decisions that affect the wider economy in and around Bilbao.
- *Investment in public transport and connectivity pays off.* All tiers of government in Bizkaia have contributed to huge infrastructure projects, which have played a major role in the area's economic turnaround. A new Metro system, trains, tramway and roads connect the city to outlying areas – and a new airport provides a gateway to the rest of Europe.
- *Land assets have been leveraged dramatically.* Brownfield land assets have been pooled by a wide range of public sector partners, and used to attract massive, high-quality regeneration investment. Innovative public-public and public-private cooperation models have delivered transformative change.
- *But the system is complicated.* The main downside is the complexity of the governance and finance arrangements, for example decision-making and revenue-collection.
- *And we didn't see the whole picture.* We didn't see everything on our visit – for example, we didn't meet the Mayor of Bilbao, and we didn't explore skills and training issues.

Lessons

- We can't fully transfer Bilbao's experience over here – its economy and financial powers are unique. However, there are lessons that British cities can learn from Bilbao:
 - Powers and funding – not directly-elected mayors or endless governance reforms – are the key drivers of local economic change. Investment resources and economic development powers need to sit at the right scale to be effective.
 - The Basque tax system ensures that returns on regeneration investment are captured locally – creating a virtuous circle that incentivises continued investment over time.
 - Strategic decision making powers at the city-regional level can spur innovative regeneration – the Guggenheim, Metro and tram are highly visible examples.
 - Culture-led regeneration can work, but needs to be tied to broader strategic investment. It's not all about iconic buildings – other investment, especially in transport, is critically important.

The Lyons Inquiry is now considering local government's functions and financial arrangements. Bilbao/Bizkaia is an example of how autonomous policy-making and financial devolution can create the conditions for city-regions to design and deliver their own economic development strategies. This is a clear contrast to the experience of most UK cities and towns, which have little power to respond to economic transition.

About Bilbao and Bizkaia

Bilbao (pop. 350,000) is the economic and cultural heart of the province of Bizkaia, which has 1.2 million people. Bizkaia is divided into over 100 municipalities.

Ship-building and heavy industry were the mainstays of the local economy until the economic downturn of the 1970s and 1980s – leaving the area in search of a new economic role. This situation is similar to that faced by many UK cities and towns today, although greater Bilbao has benefited from a stronger overall economic base than places like Liverpool or Newcastle.

Despite its economic difficulties, Bilbao and its conurbation have turned the corner, thanks in part to an ambitious array of flagship projects and investment in high quality public spaces. This investment has helped to develop a new economic base for the city. Spurred by the development of a new Metro system, public spaces and the Guggenheim Museum in the late 1990s, Bilbao has become a well-known symbol of regeneration.

Governance

The Basque Country has a high level of autonomy from the Spanish state, as well as unique financial powers. This autonomy is a product of history, as the Basque provinces have had special political and financial arrangements since the 16th century.

There are three principal levels of government in the Basque Country – the Basque government, the three provinces (*diputaciones*), and municipalities. The competencies of each level, as well as the financial settlement, were developed in the early 1980s following the restoration of democracy in Spain.

The provinces are the tax collectors – they are responsible for gathering in all major taxes and redistributing them. A formula-based amount, known as the *cupo*, is sent to Madrid for national functions. The remainder of the tax take is distributed between the Basque Government, the province, and the municipalities:

GOVERNMENT	EXAMPLE	COMPETENCIES INCLUDE	FINANCIAL POWERS	SPENDING SOURCES
<i>Regional Government</i>	Basque Government	Many social services, e.g. education, health; inward investment	No direct tax raising powers	About 70% of tax following the payment of the <i>cupo</i> is 'devolved up' to this level
<i>Provinces (Diputaciones)</i>	Bizkaia	Transport, culture, innovation and R&D, economic promotion, training	Gather all major taxes – including income tax, corporation tax, and VAT	Directly spend about 15% of the taxes they collect, after payment of the <i>cupo</i>
<i>Municipalities (Ayuntamientos)</i>	Bilbao	Urban planning, some housing	Property taxes Smaller taxes	Local taxes About 15% of tax following the payment of the <i>cupo</i> is 'devolved down' to this level

What makes the Basque Country unique is the fact that nearly all taxes are raised at provincial level. Money is 'devolved up' to the Basque Government to deliver specified functions, and to the Spanish Government in Madrid for national issues (e.g. defence and foreign affairs). Some money is also given to municipalities, to deliver day-to-day local services.

This sounds extremely complicated – and it is. But how does it all work? An economic agreement – *concierto económico* – was painstakingly negotiated between the levels of government to deliver services and outcomes, based on the revenues raised by the *diputaciones*.

The system has both benefits and risks. Provincial control of revenue-raising powers has allowed places like Bizkaia to design a tax system that promotes investment and responds to economic changes. And since these taxes are raised and spent locally, economic development projects need not wait on central government approval.

However, local leaders have to take tough spending decisions, and they are not insulated from economic shocks by central government safety nets. Investing in the Guggenheim and Metro meant cuts to other budget areas – such as highways and agriculture. The system is hugely complex, with many trade-offs, compromises, tough negotiation processes, and transparency issues.

We can't come close to replicating the Basque system of devolved finance in Britain – but there are instructive lessons about long-term economic agreements, locally-controlled revenue streams and local decision-making that we should take on board.

Economic Development – Case Studies

The Guggenheim Museum

The museum opened in 1997 as a joint venture of the Guggenheim Foundation, the *Diputación* of Bizkaia, and the Basque Government. The *Diputación* and the Basque administration jointly financed the project, as both have relevant competencies in the area of culture.

The Museum was driven by the *Diputación*, which used its tax collection resources to finance half of the Guggenheim's cost. The *Diputación* has revenue shares that enable it to undertake this sort of transformative investment. Political freedom means that it can prioritise resources in a manner that best benefits the province's citizens.

Furthermore, the Guggenheim investment has created a virtuous circle. The tax system ensures that some of the additional revenues generated by the Guggenheim have come back into the local economy. This ensured that the Museum 'paid for itself' – within a few years of opening.

Bilbao Ría 2000

Brownfield ex-industrial land around the conurbation has been concentrated and used to maximum effect. The foundation of the public-public Bilbao Ría 2000 partnership is a case in point. The organisation, controlled 50% by local and provincial government, and 50% by Spanish central government agencies, had only €1m of seed investment – but has gained control over huge brownfield sites across the city-region. Bilbao Ría 2000 does not have planning powers, but the planning authorities (municipalities and *diputación*) are shareholders in the company – and they have the ability to 're-classify' or re-zone land to promote innovative, mixed-use regeneration projects. This set-up has propelled a series of transformative projects forward – including whole neighbourhoods master-planned by world-renowned architects Cesar Pelli and Zaha Hadid.

Bilbao Ría 2000 is presently managing over €83m of development on sites across Bizkaia – in addition to projects completed in central Bilbao (including Abandoibarra, the area around the Guggenheim and the waterfront), and the suburb of Barrakaldo.

Regeneration by the Municipality of Bilbao – beyond the big projects

According to local daily newspaper *El Correo* on 19 October 2005, there is €450m worth of regeneration currently being spearheaded by the Municipality of Bilbao, spread across 100 projects of varying sizes. This headline figure is bigger than the municipality's €415m annual budget for 2005!

The Mayor is using the municipality's power to exploit land assets to lever in private finance for public works, parks, car parking, and neighbourhood housing. The municipal government's proactive use of its powers to bring in private investment complement the huge publicly-funded projects being run by the *Diputación* and the Basque Government.

Adam Marshall, Chris Urwin and Dermot Finch

24 October 2005