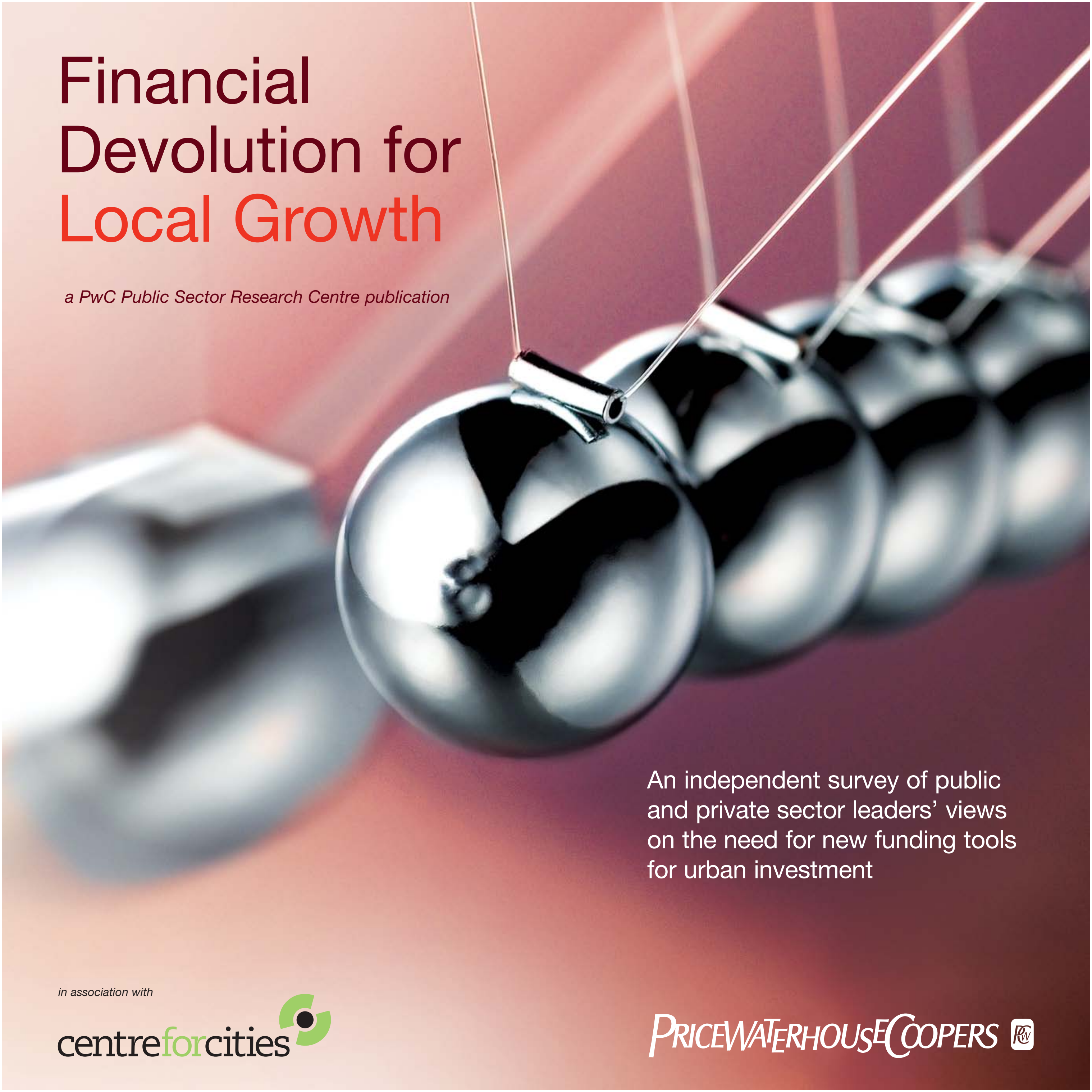
Financial Devolution for Local Growth

a PwC Public Sector Research Centre publication



An independent survey of public and private sector leaders' views on the need for new funding tools for urban investment

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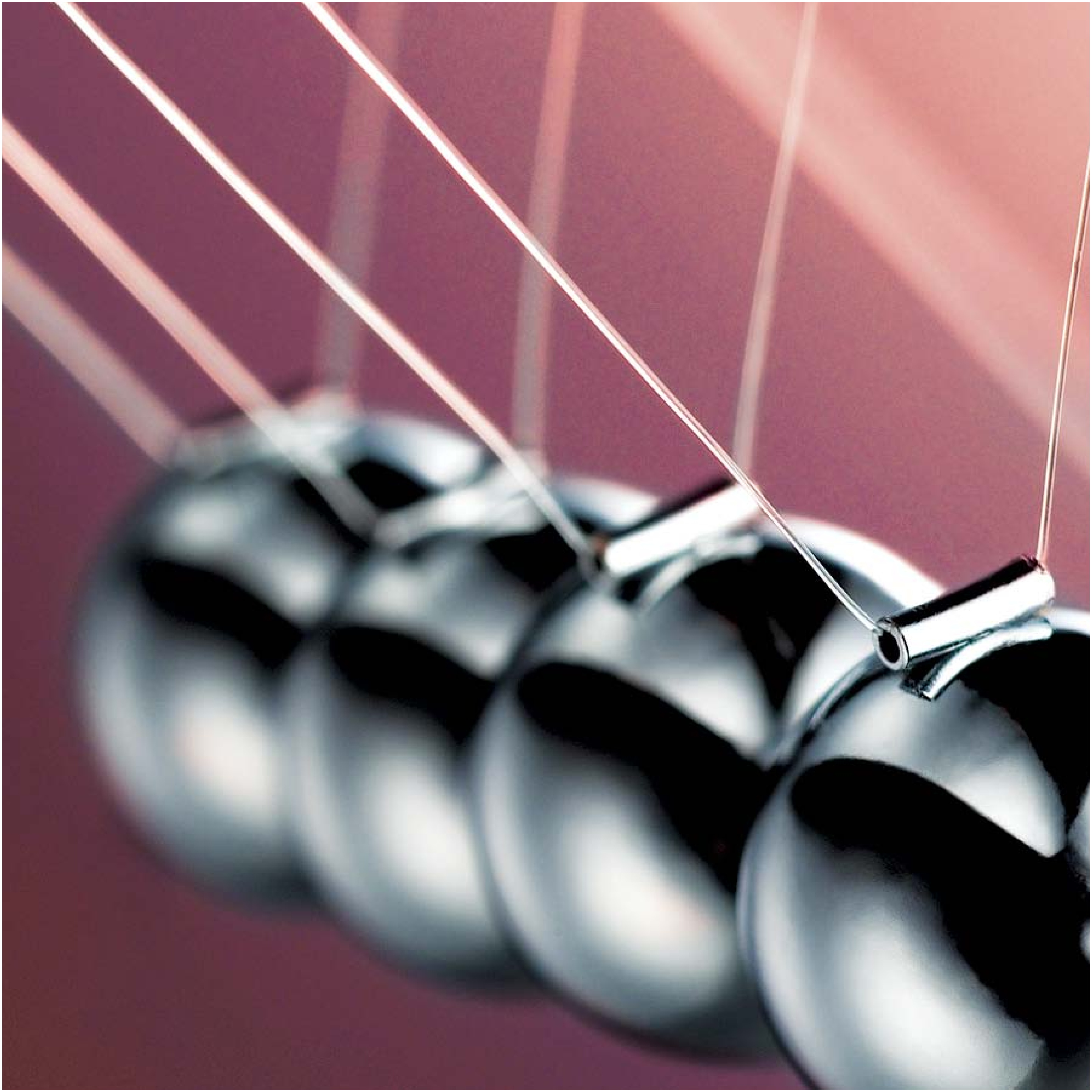
PRICEWATERHOUSECOOPERS

Contents



Foreword

The Government has high aspirations for England's cities and towns, and has recently set ambitious housing and growth targets, including reducing the gap in growth rates between the regions and providing 3 million new homes by 2020. To achieve these aims a step change is needed in levels of urban investment, especially in areas where new housing requires major improvements in the local infrastructure.

The Government recognises the demand for extra investment and proposed a range of new local financing tools in last year's Sub-National Review of Economic Development and Regeneration and Comprehensive Spending Review, such as Roof Tariffs and Business Rate Supplements. These new financial tools represent a significant departure from the conventional top-down approach to financing major infrastructure and regeneration projects, and place a premium on local innovation and initiative.

However, tighter public spending and growing macro-economic uncertainty will test the viability and appetite for these new funding innovations. Local authorities and public agencies will need to make full use of their new financial powers, which requires strong leadership, consensus-building, a willingness to take risks, and long-term commitments.

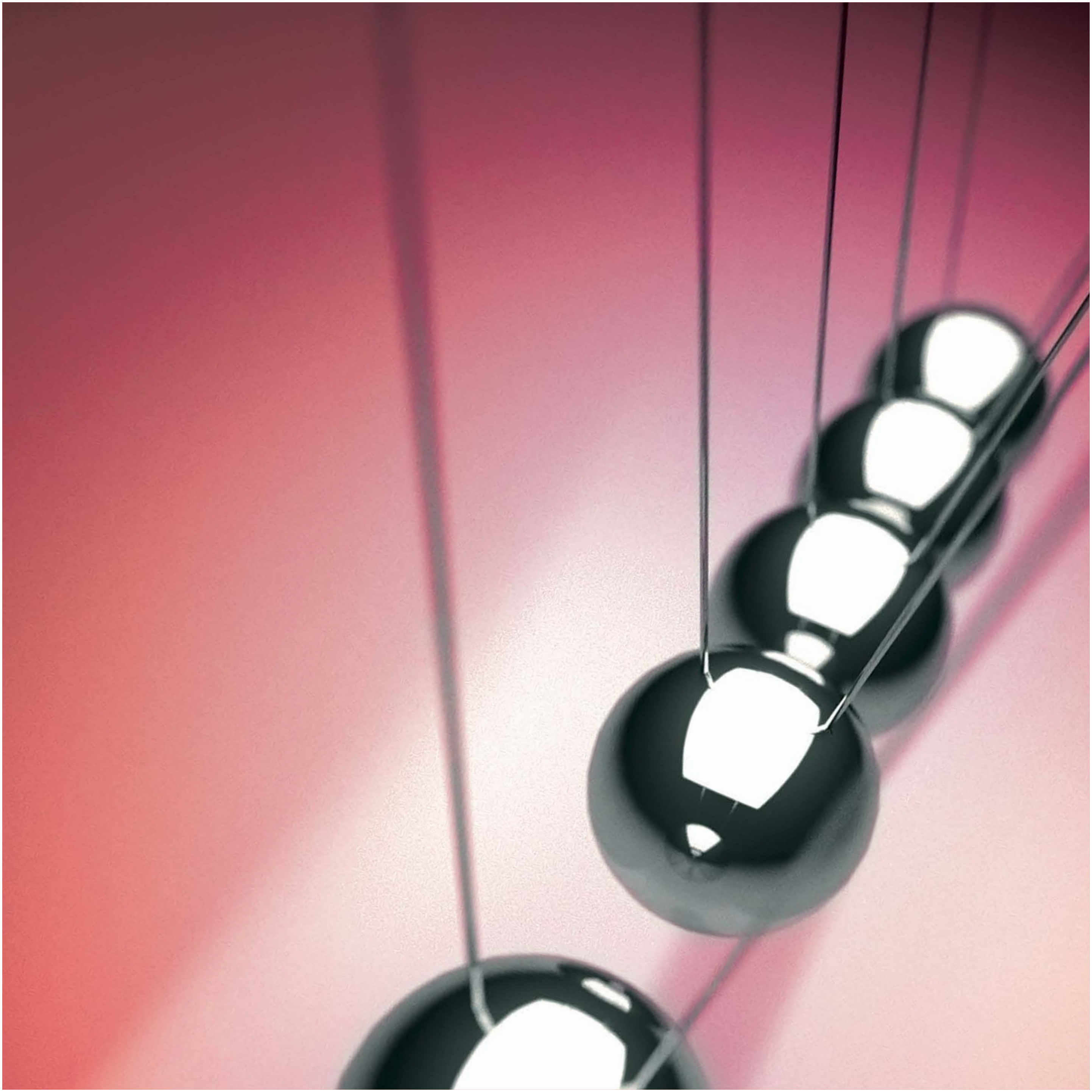
PricewaterhouseCoopers' Public Sector Research Centre (PSRC), together with the Centre for Cities, has been exploring how new financial tools can help unlock greater infrastructure investment, which is critical to securing sustainable growth in our cities and towns. Through a joint initiative – *'City Solutions: financing local growth'* – we have hosted a series of roundtable policy debates around financial devolution with local and national stakeholders, published a series of reports on new funding tools, and played a key role in the Government's decision to press ahead with local Business Rate Supplements.

This initiative culminated in a comprehensive survey in October/November 2007 of local government, business and third sector leaders to capture views and attitudes toward greater financial devolution for funding local infrastructure and urban renewal. The research findings give a clear indication of the growing demand for greater infrastructure investment – and more local revenue-raising powers – in England's cities and towns. Most strikingly, it shows overwhelming support for greater local financial powers, across all sectors and all regions.

Ray Mills
PricewaterhouseCoopers

Dermot Finch
Centre for Cities

February 2008



Executive Summary

PricewaterhouseCoopers commissioned Opinion Leader to conduct an independent survey of 122 public and private sector leaders in England's cities and towns to better understand local views on the use of new financial tools for growth.

The survey highlighted a very positive attitude amongst key stakeholders in every region in England towards greater financial devolution, and showed strong support for the Government's new proposals for funding local infrastructure and for more local innovation.

81% of local authority, local business and third sector respondents believe there is an urgent need for increased investment in local infrastructure (especially local transport), with only 10% supporting maintenance of the status quo on current funding arrangements. 86% are in favour of using new local funding tools, such as Business Rate Supplements and Roof Tariffs, to help bridge the investment gap.

Main findings

- Financial devolution: local leaders are confident that their cities can grow and develop over the next decade, but 98% say that infrastructure issues are preventing their area from achieving its full potential. 63% are dissatisfied with the way infrastructure is currently funded.
- Business Rate Supplements (BRS): many respondents (69%) feel that their city/town is likely to try out these new 'top-up' rates, with business respondents most likely to believe BRS would be taken up (81%). But 88% of all respondents feel that the views of local businesses must be taken into account before BRS is introduced – though only 55% think a majority vote is needed (76% of business participants). Over 85% agree that any revenues derived from BRS should be ring-fenced to support local economic growth, and 91% say BRS would not be supported in their area unless existing funding was maintained.
- Roof Tariffs (Community Infrastructure Levies): Two thirds (68%) believe that Roof Tariffs should be used to deliver local infrastructure and 67% believe their local authority would adopt such Tariffs for housing related development (with most agreeing that they are better suited in London and the South). 77% think they should be set locally.
- Local Asset-Backed Vehicles (LABVs): Over half of all respondents (52%) feel that LABVs, which bring together public-sector land and private-sector capital, would help councils to make better use of their assets – and deliver local growth. Half (51%) believe that private investors are likely to invest in a LABV established by their local authority.
- Borrowing powers: 63% of respondents agreed that councils should have greater flexibility to borrow funds to support infrastructure investments, and 69% agree that local authority borrowing powers are too restrictive. Half (50%) were concerned that councils would find it difficult to use any expanded borrowing powers. 73% of businesses wanted councils to have more borrowing power.

Survey Objectives

PricewaterhouseCoopers is actively engaged in supporting public-private partnerships in housing, regeneration and infrastructure, and we wanted to explore local opinions on the use of new investment tools and powers to support local growth.

Against the background of recent Government proposals for new local funding tools, such as Business Rate Supplements and Community Infrastructure Levies, PwC considered it worthwhile to gauge in more detail the levels of awareness and demand on the ground for such new tools.

This survey was therefore commissioned to inform the public policy debate and provide a better understanding of:

- The extent of support and consensus amongst key stakeholders for greater local power and flexibility to invest in local growth and renewal;
- Attitudes towards the current investment regime, and in particular, views on investment in local and regional infrastructure;
- Levels of awareness and appetite for greater financial devolution; and
- Opinions towards new financial tools for growth, such as the potential for Business Rate Supplements, Roof Tariffs (Community Infrastructure Levies), Local Asset-Backed Vehicles and greater borrowing powers.

Views on the Status Quo

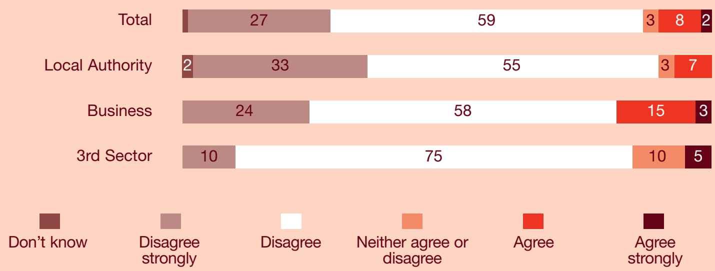
We asked respondents for their views on the way in which their local infrastructure is currently funded. The results show a strong appetite for change in local funding arrangements, with 86% of respondents across all sectors arguing that current funding regimes were not flexible enough to meet local infrastructure needs.

When asked the main reasons for supporting change, respondents cited a need for more autonomy and decision making for local authorities (42%), and inadequate funding or not enough funding (37%).

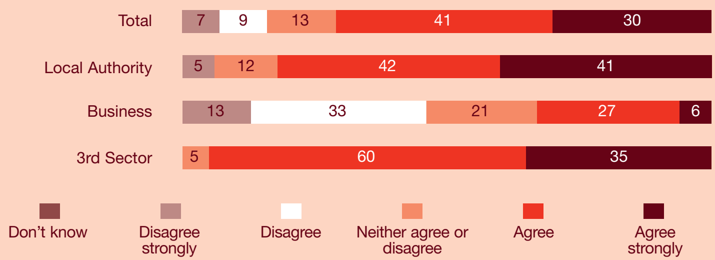
On the specific issue of whether local authorities should be given more freedom and flexibility to raise extra capital through taxation for major projects, the survey found the strongest support amongst local authorities (83%) and the third sector (95%). Business demonstrated the least support but less than half disagreed or strongly disagreed, perhaps indicating a willingness to explore this option.

> *The status quo clearly cannot deliver the level of funding needed.*

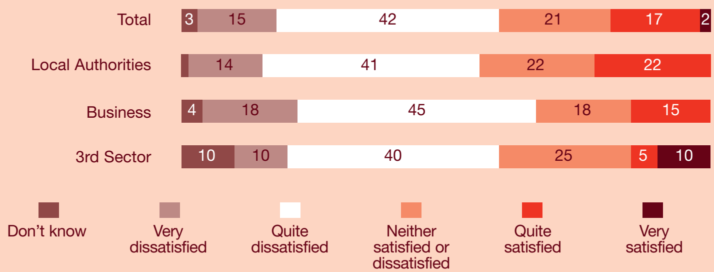
How far would you agree or disagree with the following statement: I am in favour of maintaining the status quo on local infrastructure funding (%)



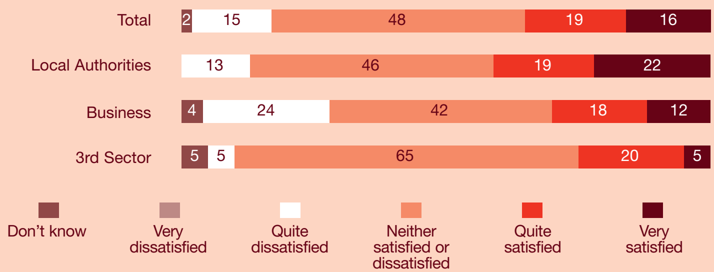
How far would you agree or disagree with the following statement: Local authorities should be given more freedom and flexibility to raise extra capital through taxation for major projects. (%)



Thinking about how cities and towns in England currently raise finance for new capital infrastructure developments, how satisfied or dissatisfied are you with the current arrangements? (%)



Thinking about how **your** city/town currently raises finance for new capital infrastructure developments, how satisfied or dissatisfied are you with the current arrangements? (%)



> *"…there needs to be more certainty about such funding going forward and there needs to be more flexibility on how the funding is used to maximise the benefits."*

More than half of respondents (57%) are dissatisfied with the current arrangements for raising finance for capital infrastructure development, with business respondents more dissatisfied (64%) than other groups. Amongst the regions, London (68%) and Yorkshire & the Humber (67%) are most dissatisfied, with the North East (33%) the least dissatisfied.

Dissatisfaction increases (to 63%) when our respondents were asked about their own city or town – with third sector respondents the most dissatisfied (70%), followed closely by business (67%). London is the least dissatisfied (55%) amongst regions, with the East of England (85%) the most dissatisfied.

Views on Infrastructure Investment

The survey shows that the business community, local authorities and the third sector acknowledge the economic benefits of greater infrastructure investment. For example, 94% thought that it was important that the business community can see the economic benefits of infrastructure investment.

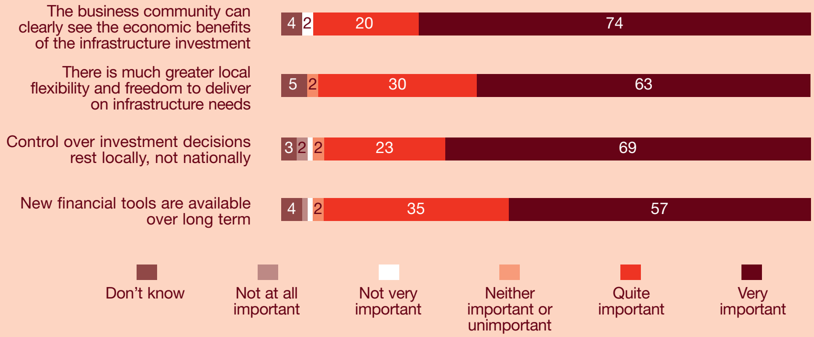
Almost all believe that the key factors to enabling such investment are:

- Greater local flexibility and freedom to deliver on infrastructure needs (93%)
- Local, rather than national, control over investment decisions (92%)
- Local funding tools that are available over the long term (92%)

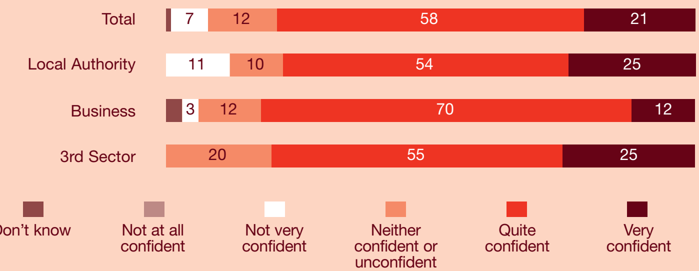
> *We need to find more innovative ways of getting money into new projects, whether public or private.*

80% of respondents said they are confident their city/town could achieve its potential for economic growth and prosperity over the next 10 years, with business showing the most confidence. However, nearly all (98%) agree that infrastructure issues are currently preventing their city from achieving its full potential. Furthermore, there is across-the-board confidence (95%) that increased investment in infrastructure would deliver real economic benefits.

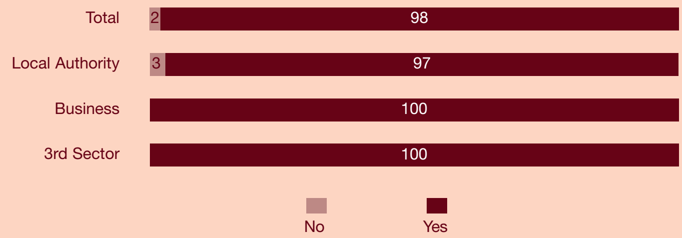
Still thinking about how the way cities and towns raise finance for infrastructure developments how important are the following factors in any new arrangements that are made?



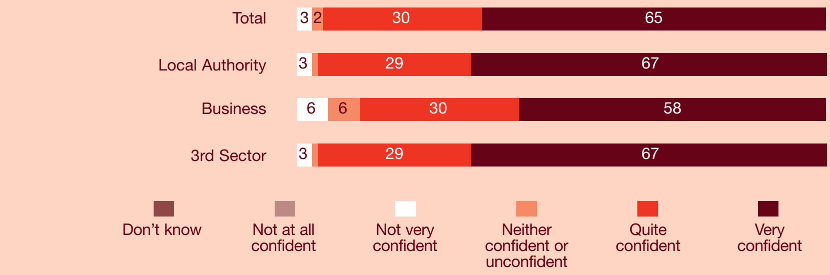
How confident are you that your city/town can achieve its potential for economic growth and prosperity over the next 10 years? (%)



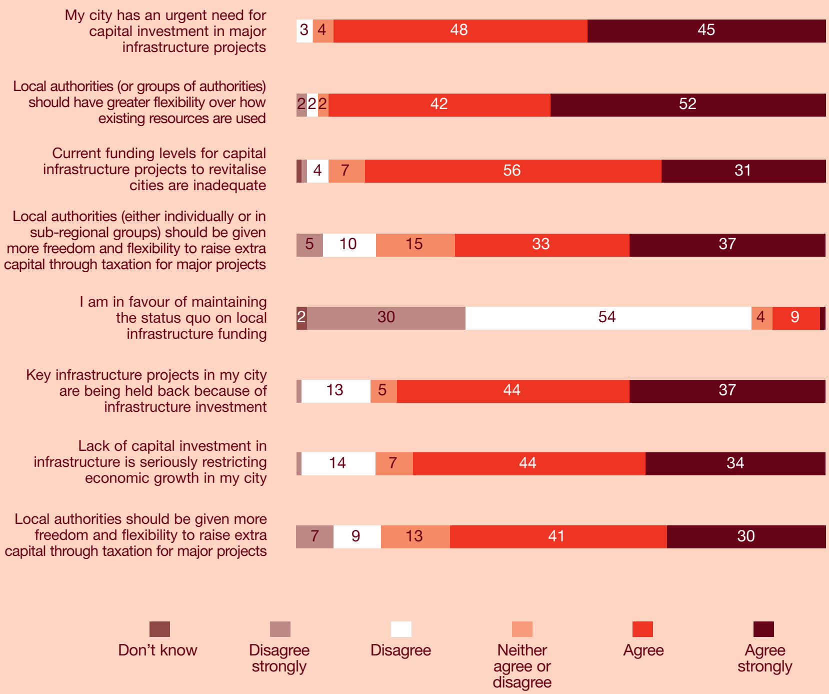
Are there any infrastructure issues that are preventing your city/town from achieving this potential? (%)



How confident are you that an increase in investment in key infrastructure would deliver real economic benefits to your city or town? (%)



How far would you agree or disagree with the following statements:



> *"Funding is skewed towards the South East and London because the Treasury is London-centric and always looks for short term gain rather than medium to long term investment gain."*

There are high levels of overall demand for capital investment in major infrastructure projects (93%), particularly amongst the business community and especially in the South East and East Midlands.

Four-fifths (81%) think a lack of investment is seriously restricting economic growth in their city or towns, with business respondents most strongly agreeing.

Most respondents identified housing and infrastructure as the main barriers to growth. Transport is of most concern to more than half (55%) of respondents, with others also citing roads and highways (25%), rail connections (20%), public transport (20%) and traffic congestion (13%).

> *"…this government (or any government) is going to have to address the imbalance of funding for transport infrastructure."*

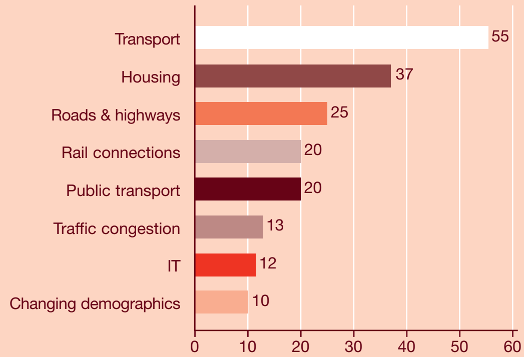
Housing is the second most significant concern (37%), especially to business respondents. Other infrastructure issues include information technology and a lack of broadband provision (11%), and changing demographics and an ageing population (10%).

Nearly all respondents identified specific infrastructure projects in their area that were in urgent need of funding, with 90% of respondents citing local public transport infrastructure as the most urgent, followed closely (86%) by road network investment.

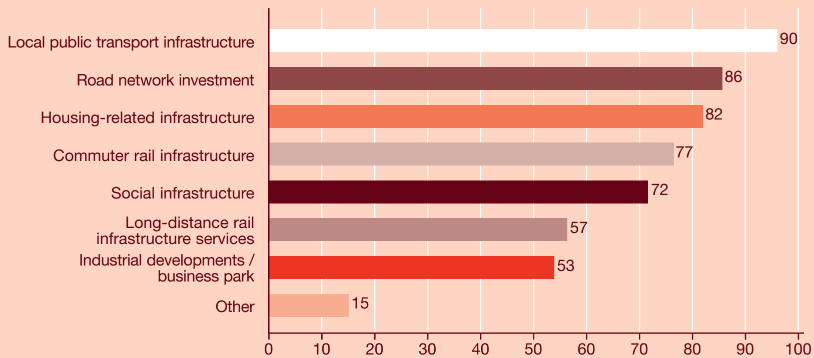
> *…we need a properly integrated transport system which promotes green travel initiatives… also, with housing, we need to make sure that the spatial strategy is aligned with the economic strategy for the region.*

> *I think there should be more freedom to operate independently from central government. I think there are also constraints in place on this city by the Government – which if released, would allow the market to get more closely involved.*

What are the major barriers to growth? (%)



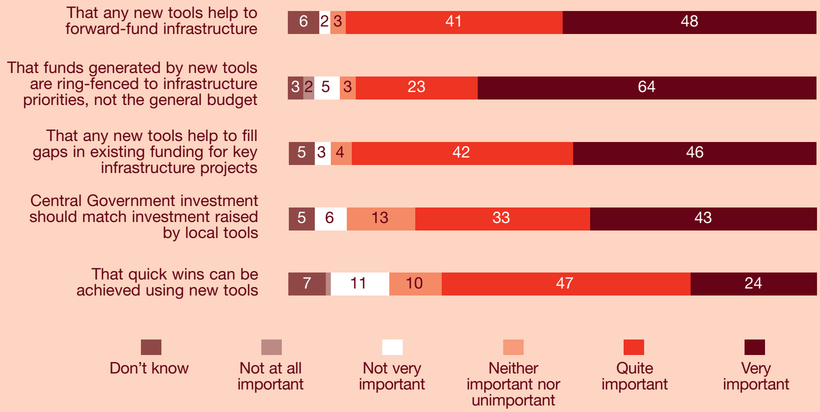
Which, if any, of the following types of economic infrastructure projects do you feel that your city or town is in urgent need of funding? (%)



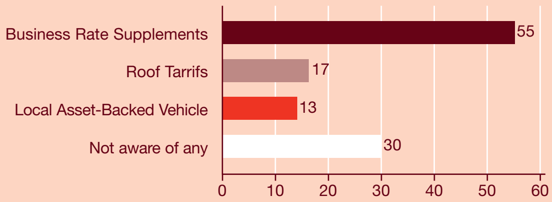
> *I would like to work with other local authorities on joint projects. I would like to use a bond issue to raise capital, and I would like the Government to remove less money from local authorities from the sale of council housing.*

New Funding Tools

Still thinking about how the way cities and towns raise finance for infrastructure developments how important are the following factors in any new arrangements that are made?



A number of new funding mechanisms or tools are being proposed and developed that might provide new ways of raising finance for capital infrastructure developments in English cities and towns. What, if any, new funding tools or arrangements are you aware of? (%)



The survey showed that there is widespread interest in new funding tools to boost investment in urban regeneration projects, especially transport schemes. Virtually all agreed that such tools should be available over the long term with investment decisions resting locally, not nationally.

Around 90% of all respondents also believe that the following are important factors in respect of new funding tools:

- That any new tools help to forward-fund infrastructure (89%)
- Funds generated by new tools are ring-fenced to infrastructure priority projects (87%)
- That any new tools help to fill gaps in existing funding for key infrastructure projects (88%)

Over 70% also feel that central government investment should match investment raised by local tools, and that 'quick wins' can be achieved using new tools.

The survey went on to explore attitudes towards three specific local funding tools:

- Business Rate Supplements (BRS)
- Roof Tariffs (Community Infrastructure Levies)
- Local Asset-Backed Vehicles (LABVs)

Each might be used to finance (and co-finance) major capital projects, specifically those related to infrastructure, housing or large-scale urban regeneration.

When asked if they were aware of any new tools for financing local growth, over half of respondents (55%) were aware of BRS - with business respondents (61%) and those based in London (91%) showing the highest levels of awareness. Far fewer respondents were aware of Roof Tariffs (17%) and LABVs (13%), with the East of England and London having the highest levels of awareness of Roof Tariffs on a regional basis (38% and 32% respectively), and those based in London most aware of LABVs (23%).

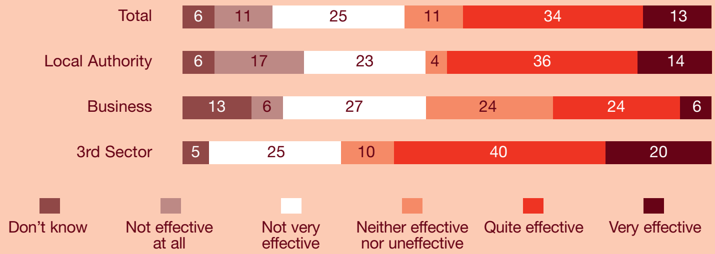
Around a quarter (26%) of respondents spontaneously mentioned other tools, including Business Improvement Districts (9%); the Local Authority Business Growth Initiative scheme (8%); and bond finance (6%).

Views on Business Rate Supplements

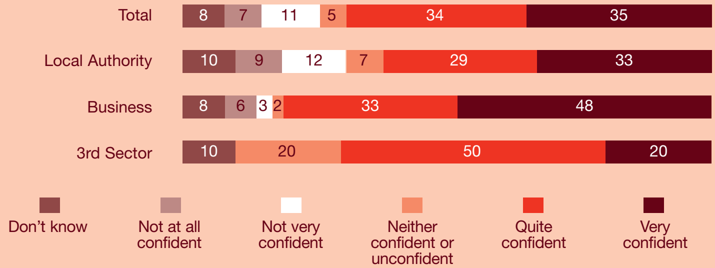
Endorsed by the Lyons Review of Local Government, Business Rate Supplements (also called Supplementary Business Rates – SBR) would give local authorities the power to levy an additional supplement on the national business rate within their area. Funds generated by BRS could be used to underpin prudential borrowing and other forms of capital financing.

The government has recently released a White Paper on BRS, promoting them as a tool that offers additional flexibility to support economic development and growth. The Greater London Authority has since announced that it intends to levy a BRS to help fund the Crossrail project.

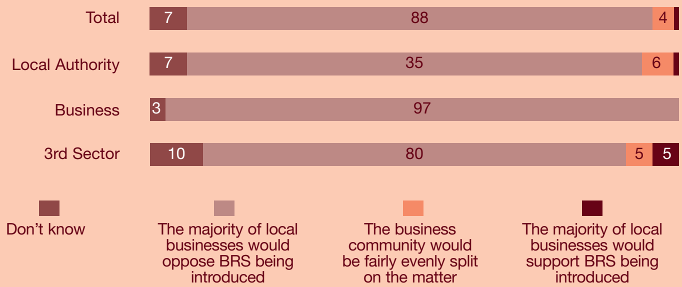
How effective do you feel BRS would be in helping to bring in additional funds – and meet the current needs for capital infrastructure investment in your city/town? (%)



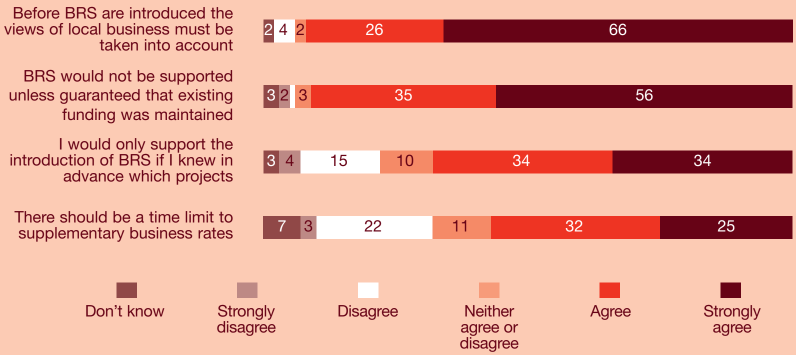
If available for infrastructure-related investment, how confident are you that the local authority would take up this option for raising capital? (%)



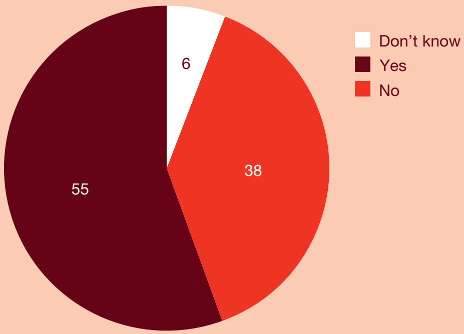
What proportion of local business leaders would support the introduction of Business Rate Supplements, if BRS revenues were not reserved or ring-fenced – i.e. if they went into the general local budget pot? (%)



How far would you agree or disagree with the following statements concerning Business Rate Supplements:



You said that you agree with the statement "before Business Rate Supplements are introduced the views of local business must be taken into account". Do you think that a majority vote of businesses should be required?



Nearly half (47%) believe BRS will be effective in bringing in additional funds for capital investments, with the highest support in the third sector (60%).

Over two-thirds (69%) believe that their local authority would take up BRS if they were available for infrastructure investment. Business participants are more likely to feel this way (81%), with the majority of local authorities saying they would adopt BRS (62%). However, over 80% believe that local businesses would not support BRS if the funds generated were not ring-fenced for projects supporting local economic growth.

The survey showed that under certain conditions BRS would be widely supported. A significant majority of all respondents (92%) felt that the views of local businesses should be taken into account, with 97% of business respondents feeling most strongly about this. Other conditions of support include:

- Guarantees that existing funding would be maintained (91%)
- Funds ring-fenced for specific infrastructure projects (68%)
- limits to the BRS (57%)

Over half (55%) of all participants think a majority vote should be required for BRS, with business most supportive of a vote (76%). Local authority and third sector respondents were the least likely to think a majority vote should be required (47%).

Views on Roof Tariffs

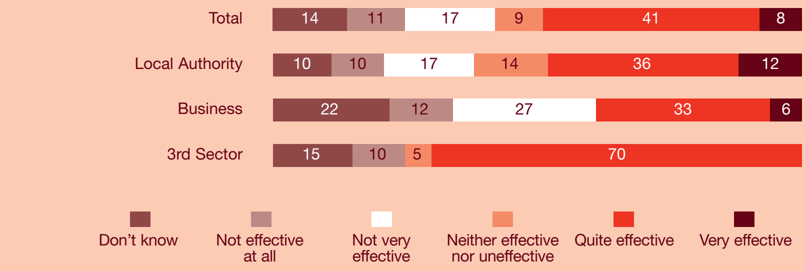
The recently introduced Planning Reform Bill includes a provision for local councils to introduce ‘Community Infrastructure Levies’ – variants of the Roof Tariff model – to fund infrastructure for residential and commercial developments. Many councils are now investigating whether these levies, or some other form of fixed planning charge, such as Roof Tariffs, will help them to deliver the supporting infrastructure needed to underpin housing-related growth. The largest and most well-known Roof Tariff is in Milton Keynes.

Just under half (49%) of respondents feel that Roof Tariffs will be effective in bringing in additional funds for capital investment, although there is a high degree of neutrality and uncertainty. Those in the South (56%) are more likely to consider Roof Tariffs effective compared to those in the North (37%) – with one-fifth (21%) of business participants saying they don’t know.

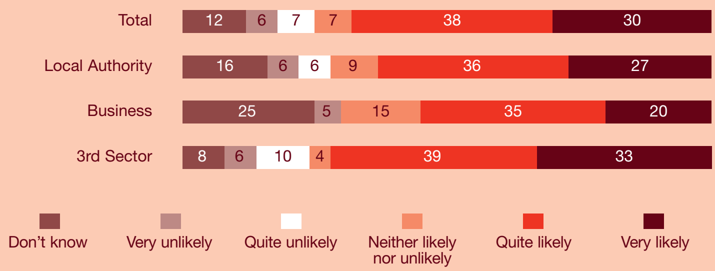
Two-thirds (67%) believe that their local authority would adopt Roof Tariffs if they were available for housing development. Those in the South (73%), particularly those in London (86%), are more likely to feel this way compared to those in the North (57%). One-quarter (25%) of third sector participants say they don’t know.

Overall, 68% of respondents feel that their local authority would be likely to adopt a roof tariff if available to fund housing-related infrastructure, with almost three-quarters of local authorities (74%) and 63% of businesses in favour. However, over three-quarters (77%) believe that Roof Tariffs should be set locally,

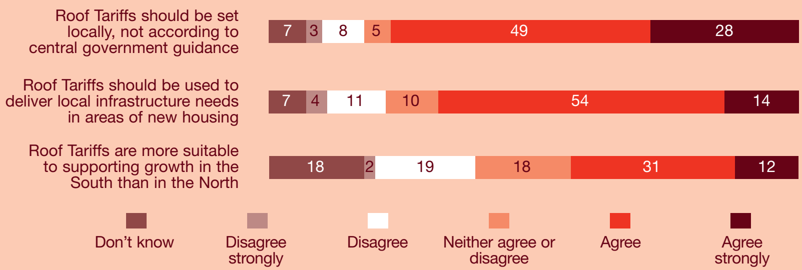
How effective do you feel Roof Tariffs would be in helping to bring in additional funds – and meet the current needs for capital infrastructure investment in your city? (%)



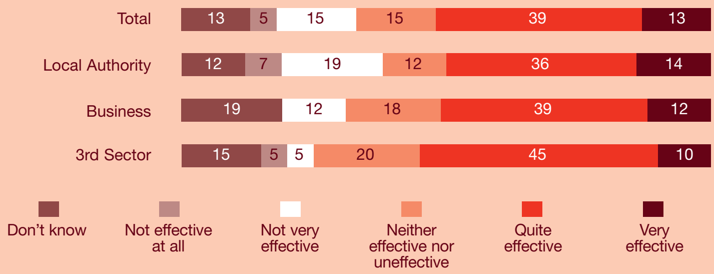
If available to fund housing-related infrastructure, how likely is the local authority in your city or town to take up this option for raising capital? (%)



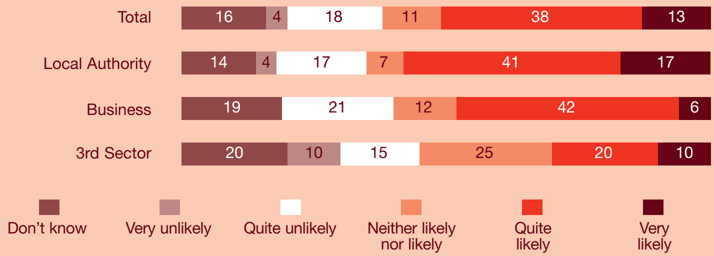
How far would you agree or disagree with the following statements concerning Roof Tariffs: (%)



How effective do you think Local Asset-Backed Vehicles (LABV) would be in meeting the current needs for capital infrastructure investment in your city or town? (%)



If your local authority establishes a Local Asset-Backed Vehicle (LABV), how likely do you think it is that private investors will invest in it? (%)



and not according to central government guidance. Less than half (43%) feel that Roof Tariffs are more suitable for development in the South, as opposed to the North. However, only a fifth (20%) disagree and nearly one-third are neutral or uncertain.

Views on Local Asset-Backed Vehicles

Local Asset-Backed Vehicles (LABVs) are arrangements where local authority assets are combined with private-sector investment to deliver a stream of development projects. They are designed to bring together a range of public and private sector partners in order to pool finance, land, planning powers and expertise; ensure an acceptable balance of risk and return for all partners; and allow cities to plan and deliver projects more strategically. LABVs are already operational at the regional level, including in the East Midlands and the North East.

Over half of all survey respondents (52%) feel that LABVs will be effective in bringing in additional funds for capital investment, and that private investors would be likely to invest in a LABV if established by their Local Authority. Participants from local authorities are more optimistic, with 58% saying that private investment is likely compared to 48% of business participants.

Views on Additional Borrowing Powers

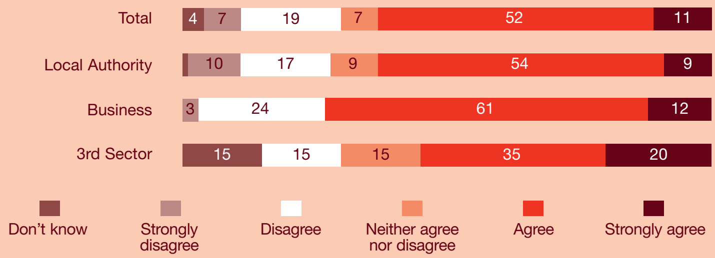
The financial tools mentioned in this survey have the potential to provide local authorities with new revenue streams to underpin capital investment. Alone, however, these will not be sufficient to provide the scale of investment required in most cities and towns. Councils and local delivery vehicles would need to borrow against the income that these revenue tools generate to unlock the necessary capital investment. Cities and towns currently have some flexibility in this regard under the reformed prudential borrowing regime. However, most local stakeholders believe that even greater borrowing flexibility would help boost investment in key local infrastructure projects.

Two-thirds (63%) of respondents agree that more local authority borrowing is a viable option to help solve local investment problems, with business participants and those from London (73%) more likely to feel this way.

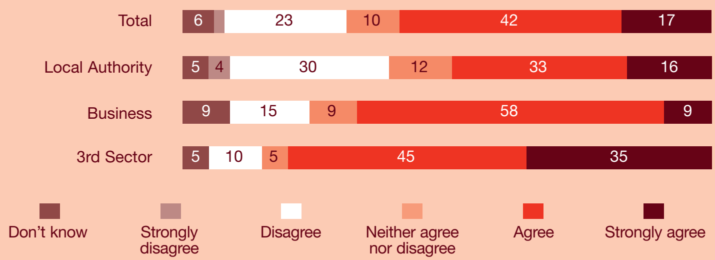
Over two-thirds (69%) agree that the current local authority borrowing powers are too restrictive. Interestingly, under half of local authority respondents agreed (49%), compared with 67% amongst businesses and 80% amongst those from the third sector.

Furthermore, the survey revealed that fully half of respondents (50%) feel that borrowing is risky, and that councils may find it difficult to take advantage of expanded borrowing powers. Business participants were most likely to hold this view (64%), with local authority participants least likely to agree (43%).

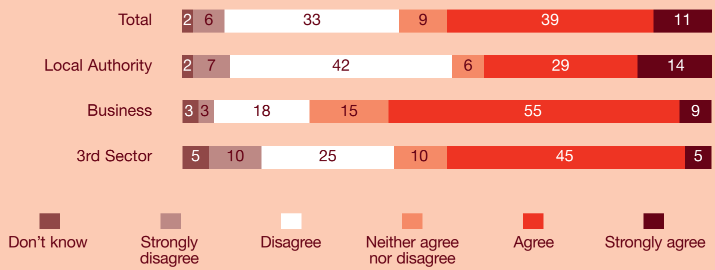
Thinking about extra borrowing powers for local authorities more generally, how far would you agree or disagree with the statement: Is more local authority borrowing a viable option to help solve local investment issues? (%)



How far do you agree or disagree with the statement: Are local authority borrowing powers currently too restrictive? (%)



How far do you agree or disagree with the statement: Borrowing is risky and councils may find it difficult to use expanded borrowing powers. (%)



Conclusion

The survey demonstrates the high levels of confidence that England's cities and towns have regarding their capability for achieving sustained growth. However, there is also a wide consensus across the country that current investment levels in infrastructure are insufficient and that new innovations in local funding are needed.

Although many respondents have limited knowledge and experience of new financial tools, the survey demonstrates that there is an appetite for greater local control over the means to raise new (and additional) finance for housing and transport related infrastructure. This seems to reflect dissatisfaction with the current funding and borrowing regimes, alongside a broadly positive response to the Government's recent proposals for Business Rate Supplements and Roof Tariffs (Community Infrastructure Levies).

The survey shows overwhelming support for locally-led funding solutions – with respondents in all regions favouring greater financial devolution and more inclusive decision-making. There is also strong support that more local authority borrowing (linked to new financial tools) is a viable option to help solve local investment problems. In the vast majority of cases the demand is for new tools to fund local transport projects, which are viewed as crucial to achieving sustainable growth.

However, respondents want the economic costs and benefits of any new financial tool to be clearly demonstrated and locally determined. The survey also shows a preference for tools that offer long-term funding to support local growth, with support for new funding tools strongest in the South.

The survey does not contend that these new revenue raising mechanisms will be enough on their own for cities and towns to meet their infrastructure challenges in the years ahead. Their purpose is to help bridge the growing gaps in local investment need, and enable "forward-funding" – so that infrastructure can be effectively planned and synchronised with future demand.

The survey suggests that the status quo on local investment funding is unsustainable and that local authorities could quickly start utilising a portfolio of tools to deliver local growth. Although there are technical and cultural barriers to overcome, the survey implies that there is a market for tools like Business Rate Supplements, Local Asset-Backed Vehicles and Roof Tariffs. The general view amongst local stakeholders seems to be that these new instruments offer a viable addition to mainstream funding.

The survey highlights the enormous potential for new funding instruments. It shows that both public and private sector leaders believe that such tools would be useful, especially in regard to new local transport projects. The next phase is perhaps to ask what policy changes and what new regulations and incentives are needed to ensure that local financing has a significant and lasting impact.

About the Survey

This survey was conducted in October and November 2007 under the strict confidentiality guidelines of the Market Research Society Code of Conduct by Opinion Leader, a research-based consultancy offering a range of qualitative, quantitative, deliberative and collaborative methods (www.opinionleader.co.uk). 122 leading professionals and opinion formers (mostly chief executives and directors of local authorities, local business leaders and chairs of Local Strategic Partnerships and other third sector bodies) participated via a telephone interview.

The survey completes the joint PwC and Centre for Cities initiative *'City Solutions: financing local growth'*, which includes reports on Business Rate Supplements and Local Asset-Backed Vehicles. These reports can be downloaded from either www.psrc-pwc.com or www.centreforcities.org

For more information on the survey or on the PwC/Centre for Cities initiative, please contact:

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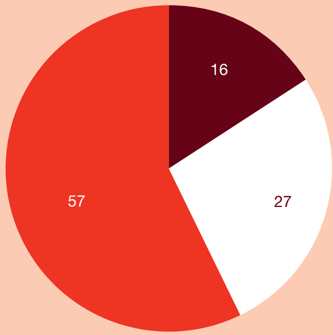
Who we spoke to: Audiences (Total respondents: 122)



Local authorities (LA's)

- Leader/mayor
- Chief Executive
- Financial Director/Treasurer
- Other
- Regional government representative

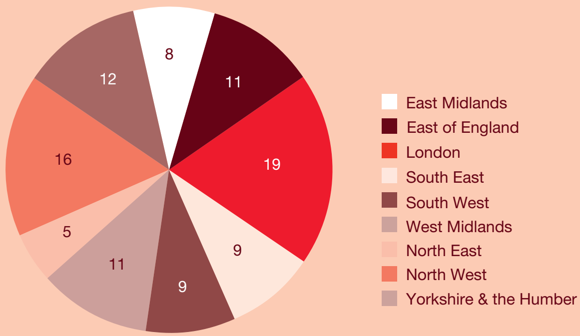
Business

- Head of Chamber of Commerce
- CBI representative
- Local business figure

Third sector

- Local Strategic Partnership (LSP) Chair
- LSP Vice-Chair
- LSP Other
- Other third sector

Who we spoke to: Regions (Total respondents: 122)



About PricewaterhouseCoopers

PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 140,000 people in 149 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

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About PwC Public Sector Research Centre

PricewaterhouseCoopers' Public Sector Research Centre (www.psrc-pwc.com) provides insight and research into views and attitudes as well as best practice in government and public sector organisations – including the interface between the public and private sectors – throughout the world. We draw on the thinking and perspectives of these organisations themselves, our own global network, and leading think tanks and academies to enable a collaborative exchange on the most pressing issues and challenges facing governments and the public sector.

About Centre for Cities

The Centre for Cities (www.centreforcities.org) is an independent urban policy research unit.
It is a registered charity (No 1119841) and a company limited by guarantee registered in England (No 6215397). Following a successful start-up phase at the Institute for Public Policy Research (ippr), the Centre became fully independent in October 2007. Its mission is to understand how and why economic growth and change takes place in Britain's cities, and to help cities improve their economic performance. Through its unique focus on the economic drivers of urban success, the Centre is building up a strong track record of research on the economic performance of UK cities.

www.pwc.co.uk