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Investing in Growth Cities

Fulfilling the economic potential of the **Greater South East cities**

Tom Bolton & Zach Wilcox, December 2011

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We are a charity that works with cities, business and Whitehall to develop and implement policy that supports the performance of urban economies. We do this through impartial research and knowledge exchange."

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Investing in Growth Cities: Introduction

The dominant political discussion in the UK is about how to stimulate the economy and create jobs, and the Chancellor's 2011 Autumn Statement delivered particularly gloomy news with the Office of Budget Responsibility substantially downgrading its growth forecasts. Although growth remains elusive, it is cities that represent the economic future, and they are the places from which recovery will emerge. The concentration in cities of people, economic activity, productivity, innovation and enterprise equips them with the greatest potential to generate growth and jobs.

But not all cities are equally well-placed to grow. Some are struggling with long-term economic restructuring and need to replace lost jobs before they can reach a position from which they can grow their economies. In 2010 Centre for Cities published a report, *Private Sector Cities*,[1] which looked at private sector jobs growth in cities between 1998 and 2008 and ranked cities as buoyant, stable or struggling based on their performance. It concluded that, while private sector jobs grew in cities across the country, the largest grouping of buoyant cities over that period, with growing economies and new private sector employment, was in the Greater South East (GSE). The Greater South East cities created approximately 338,000 private sector jobs in the 10 years prior to the recession, 27 percent of England's total private sector jobs growth.[2]

1. Webber C & Swinney P (2010) *Private Sector Cities*, London: Centre for Cities
2. Webber C & Swinney P (2010) *Private Sector Cities*, London: Centre for Cities

This suggests that the future performance of GSE cities will be fundamental to the UK's future growth prospects. Yet investors and developers have a surprisingly low awareness of their potential. There is clear benefit for investors and developers in having a greater understanding of what buoyant cities have to offer. Equally, GSE cities will not fulfill their potential unless they are better equipped to make the most of current and future policy initiatives in order to work with the private sector. The Government's devolution agenda is providing cities with a range of new incentives and policies – New Homes Bonus, Community Infrastructure levy, business rate retention – with which to promote both residential and commercial development in their area. It is important that GSE cities know how to use these tools to attract investment.

The research recommends that cities need to concentrate on two areas if they are to build more effective relationships with the private sector and attract the investment they need to fulfill their growth potential:

- **Adopt a pro-growth attitude** - selling their cities to investors, making a realistic case for investment based on detailed knowledge of their strengths and weaknesses;
- **Be growth-ready** – ensuring they are prepared to work with the private sector by reducing risks and removing barriers that deter investors.

Cities need to concentrate on two areas if they are to build more effective relationships with the private sector: Adopt a pro-growth attitude & be growth ready

Whilst the GSE contains three of the country's strongest growth hubs – Cambridge, Milton Keynes and Reading – cities within the GSE also face challenges that could undermine their future growth potential. A lack of housing supply is a significant barrier to their growth, with a shortage of sites for new housing pushing prices up and workers out, as well as preventing workers from moving to the GSE from other parts of the country. Congestion is also a problem for many GSE cities, on the roads, railways and on the runways. All GSE cities also contain, to varying degrees, persistent pockets of deprivation.

Facing common challenges, GSE cities recognise the need to work together. This report aims to help them engage as effectively as possible with private sector investors and realise the potential indicated by their economic strengths. It also aims to help cities understand how they can use their strengths to attract investors; what they need to know to prepare for and make deals; and how to work most effectively with the private sector.

The report draws on insights and examples gathered through an extensive set of interviews and a series of roundtables with senior figures in local and national government, development, finance and infrastructure. To understand the economic strengths and weaknesses within the GSE better, the report analyses a set of core variables for GSE towns and cities.

1. Why invest in the Greater South East?

The GSE cities and their economies

This report analyses a selection of "growth cities" which includes members of the Regional Cities East (RCE) alliance: Colchester, Ipswich, Luton, Norwich, Peterborough and Southend-on-Sea as well as Basingstoke, Brighton and Hove, Crawley, the Medway towns (Chatham, Gillingham and Rochester), Milton Keynes, Oxford, Portsmouth, Reading and Southampton.[3] Together, these growth cities are keen to explore the most effective ways to attract private sector investors to back the physical development that can help them realise their potential.

3. Cambridge, although part of the GSE, is not a Regional Cities East member because it sees its growth as influenced by the international links to its university and hi-tech research facilities, rather than the regional economy.

Figure 1: The Growth Cities of the Greater South East

Gauging investment potential

Which factors are most important to investors and developers when they consider which medium-sized towns and cities to invest in? Table 1 sets out the performance of the GSE cities against a common set of indicators that inform the investment and development decisions of the private sector.

Different types of investors and developers attach varying significance to these indicators. Housing developers will place more importance on housing market characteristics and employment and population growth. Retail developers, on the other hand, use industrial structure to gauge market saturation, and commercial property rents levels and GVA or wages to gauge the buying power of the market.

Table 1: Factors that influence investment potential in small and medium-sized cities[4]

Economic performance characteristics	Why does this matter to an investor?
Commercial Property Market	Commercial property rents and values signal demand and indicate the likely level of return to investors.
Employment Growth (Private sector)	Employment growth is a sign of business success and economic health. As employment grows in a city, so will the need for commercial space.
Company Size	The size of individual businesses will determine the scale at which development can take place, and the viability of certain schemes with higher profit margins.
GVA Growth	This is the crucial measure of economic growth (and market potential) for a city. Investors need to know that a place is growing and therefore has the potential to attract long-term, successful tenants.
Housing Market	House prices, sales and rents indicate potential returns on development by demonstrating likely levels of demand, and the attractiveness of a place to businesses wishing to hire workers. Affordability is also a significant factor affecting the extent to which a city can house its workforce.
Industrial Structure	The relative sizes of different business sectors send signals to investors and developers about the types of developments likely to be successful.
Population Growth	People are attracted to successful places, and this is a positive signal of future economic performance. Population growth creates demand, justifying development.
Public Sector Reliance	Over-reliance on public sector employment is now a negative signal to investors. As public sector employment shrinks, existing office space is likely to become vacant thus reducing demand for new space.
Skills Base	Areas with higher-skilled workers are more likely to see economic growth.

4. Centre for Cities interviews

Table 2: Key variables for determining investment potential in the Greater South East cities

	Growth	Demography	Skills	Employment		Property Markets		
	Real GVA Growth 1998-2008	Population Growth 2000-2010	Proportion of Workforce with NVQ4+ 2010	Employment Rate 2010	Ratio of Public:Private Employment 2010	Average House Price 2010 Q2	Average Rateable Office Value 2008	Average Rateable Retail Value 2008
Basingstoke*	-	8%	35%	76.5%	0.37	£242,500	£85	£164
Brighton & Hove	35%	4%	44%	71.8%	0.48	£273,200	£101	£148
Colchester**	-	17%	28%	72.9%	0.64	£204,800	£97	£131
Crawley	43%	9%	32%	76.7%	0.34	£306,700	£148	£159
Ipswich	44%	10%	29%	71.8%	0.55	£144,700	£70	£104
Luton	41%	7%	23%	68.3%	0.41	£164,700	£94	£132
Medway	32%	3%	23%	68.3%	0.47	£171,500	£80	£105
Milton Keynes	50%	15 %	33%	73.5%	0.35	£208,500	£92	£179
Norwich***	28%	12%	34%	72.3%	0.52	£184,100	£82	£136
Oxford	44%	13%	54%	69.7%	1.09	£317,200	£127	£195
Peterborough	53%	11%	23%	68.4%	0.46	£149,900	£86	£144
Portsmouth	44%	6%	26%	73.9%	0.57	£190,900	£91	£110
Reading	51%	8%	40%	76.9%	0.37	£266,400	£108	£150
Southampton	31%	9%	30%	70.2%	0.51	£192,300	£98	£128
Southend-on-Sea	28%	4%	21%	73.7%	0.54	£218,200	£72	£102
England	**38%**	**6%**	**31%**	**70.4%**	**0.44**	**£156,000****	**£121**	**£130**

	Industrial Structure, 2010			Business Demographics: Size, 2010		Turnover, 2009
	Manufacturing	Retail, Distribution & Hotels	Financial & Business Services	% employees working in firms with: < 50 employees	>300 employees	Churn Rate
Basingstoke	11%	25%	27%	42%	28%	-1.4
Brighton & Hove	4%	25%	26%	52%	20%	-2.8
Colchester	8%	26%	19%	52%	16%	-2.4
Crawley	7%	23%	26%	35%	31%	-1
Ipswich	5%	23%	26%	38%	28%	-1.7
Luton	13%	20%	22%	34%	33%	-1.2
Medway	10%	25%	16%	47%	16%	-2
Milton Keynes	8%	26%	30%	38%	29%	-1.3
Norwich***	9%	25%	25%	44%	28%	-1.2
Oxford	8%	17%	19%	31%	43%	0.3
Peterborough	12%	24%	28%	34%	38%	-1.7
Portsmouth	11%	24%	21%	43%	29%	-2.9
Reading	5%	24%	36%	38%	33%	-1.4
Southampton	8%	24%	25%	41%	28%	-4
Southend-on-Sea	8%	25%	22%	54%	17%	-3.2
England	**10%**	**24%**	**23%**	**45%**	**25%**	**-1.9**

* Real GVA growth not available for Basingstoke
** Real GVA growth not available for Colchester
*** Political leaders and local organisations in Norwich have argued for some time that their political boundaries under-bound the city and do not offer the most accurate representation of their residents or business base. While Centre for Cities recognises these arguments we have, for the purposes of consistency, used DCLG's definitions to gather data for each GSE city.
**** English city median

Growth and employment

All GSE cities experienced real growth in their GVA during the decade prior to the recession. Figure 2 shows the relationship between GVA growth before the recession and employment change before and after the recession. It is noticeable that a number of cities that experienced slower GVA growth before the recession - Brighton and Hove, Norwich, Southampton and Southend-on-Sea – have subsequently demonstrated greater resilience with a smaller employment downturn than the national average. City economies that balance growth and resilience are attractive to investors, so both are important for demonstrating investment potential.

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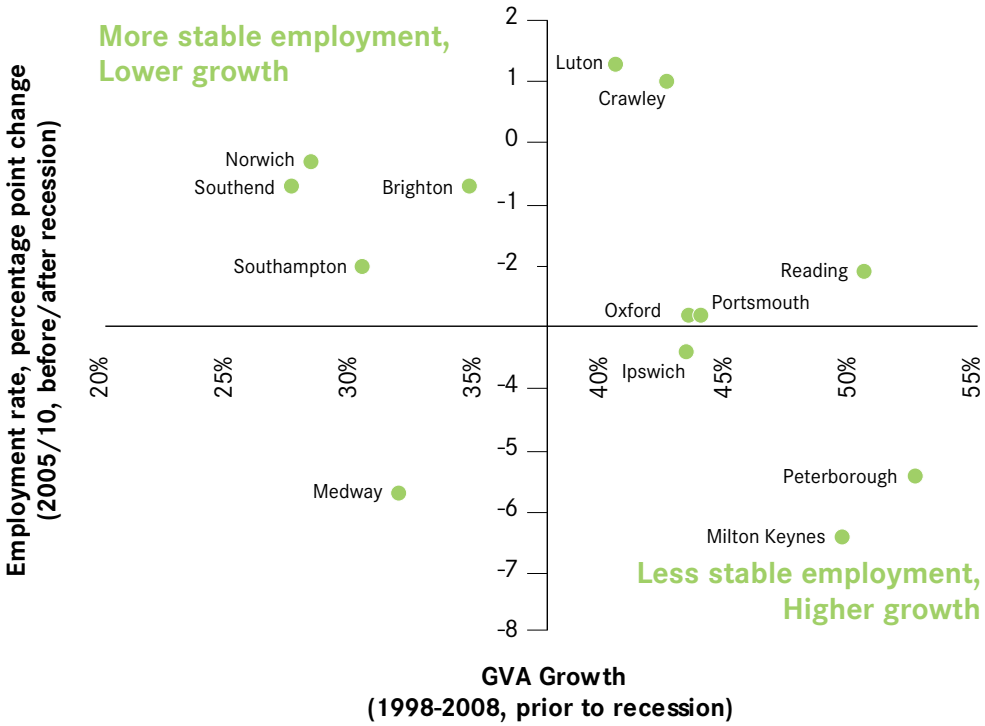
Figure 2: GVA change 1998 to 2008 and employment change 2005 to 2010 in Greater South East cities

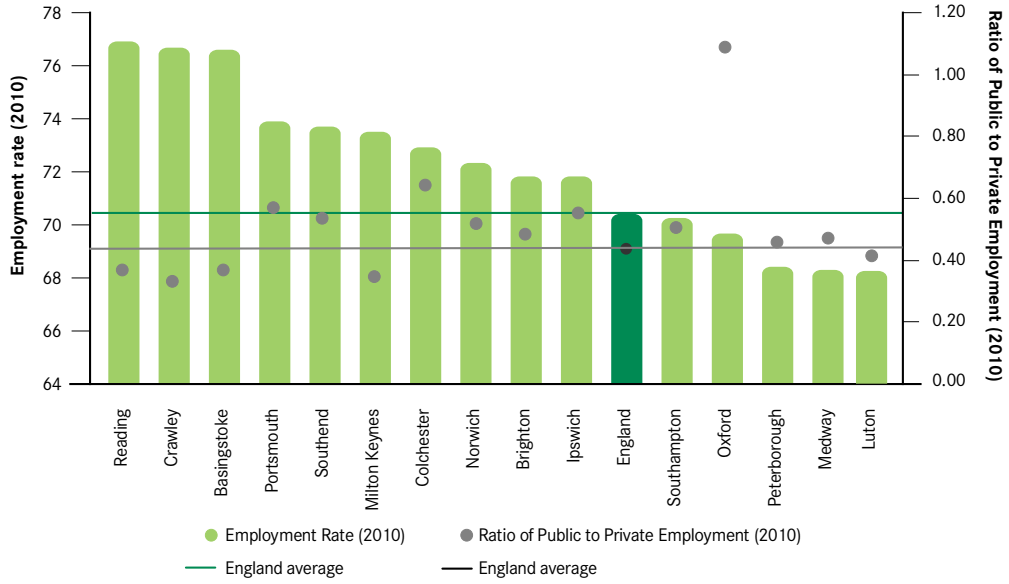


Source: GVA data from ONS; Employment data from NOMIS

Employment strengths and weaknesses

The majority of Greater South East cities have employment rates above the national average, maintained in part through high proportions of public sector employment. Whilst private sector job growth was strong in the GSE cities in the decade prior to the recession, since 2008 it has declined in line with the UK trend. Figure 3 shows both employment rates and ratio of public to private sector jobs. In the next decade GSE cities will not be able to rely on public sector jobs to stimulate new development.

Figure 3: Employment rates and ratio of private to public jobs in Greater South East cities

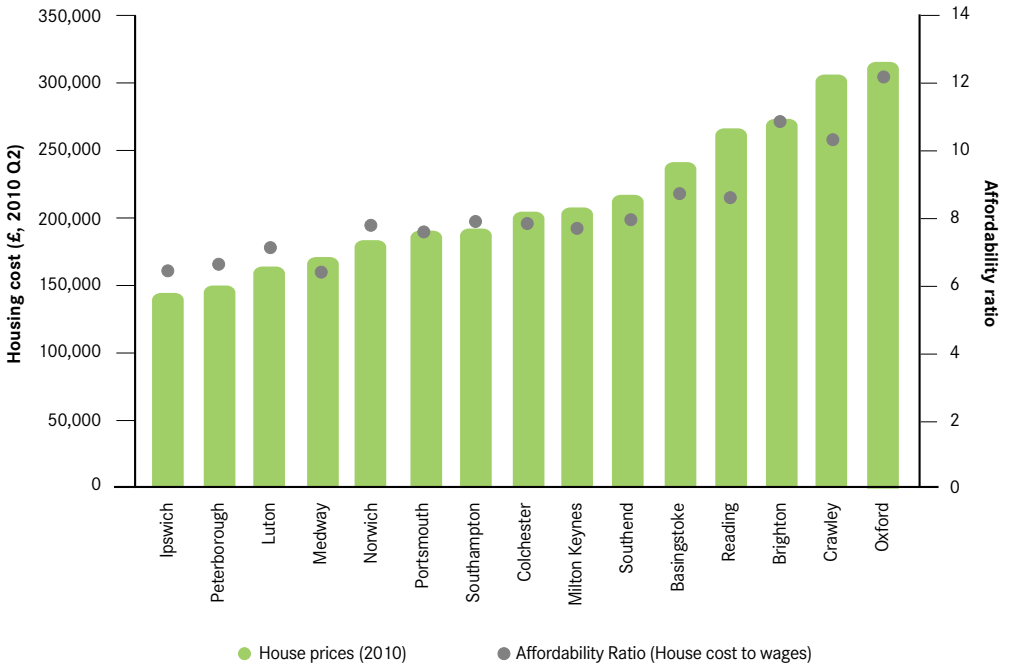


Source: NOMIS: Annual Population Survey, 2010
Note: A higher ratio of public to private employment means a city has relatively high public employment compared to private.

Housing prices and affordability

Cities within the Greater South East have contrasting residential property markets. Figure 4 shows 2010 house prices for the GSE cities and affordability, measured by the ratio of average house prices to wages.

Figure 4: Average house prices and affordability in the Greater South East cities



Source: House Prices: Department for Communities and Local Government, Housing live tables
Wage data: NOMIS, Annual Survey of Hours and Earnings, resident analysis

Those cities with high property prices, suggesting high levels of demand, offer a clear attraction for potential developers although supply constraints may restrict the amount of any new development. In contrast, cities with lower house prices have more favourable affordability ratios, putting them in a better position to attract workers. Each city should make the case to investors based on an understanding of how the characteristics of their residential property market are likely to attract investors.

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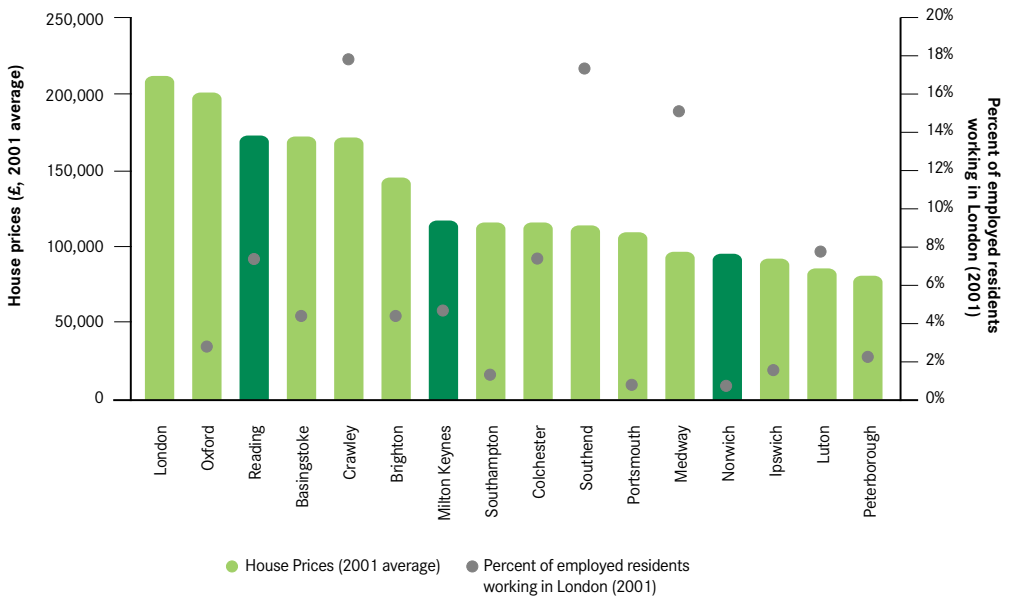
The attraction of GSE cities as places to live for those working in London is, of course, determined by many factors in addition to house prices, with transport links high on the list. Figure 5 shows both average house prices and the percentage of workers living in each city but working in London. Commuting levels are highly variable with three places – Crawley, Southend-on-Sea and the Medway towns – having significantly higher proportions of commuters than the rest of the group.

Figure 5: Average house prices and percentage of employed residents working in London in the Greater South East cities



Source: House Price Data from DCLG live tables; commuting data from 2001 census
Note: Percentage of employed residents working in London may be underestimated for Brighton and Portsmouth due to gaps in the original data set.

Summary

What do the Greater South East Cities have in common?

The GSE cities share growing populations, strong employment rates, and high demand for commercial and residential property. These strengths should be used not only to demonstrate the investment potential of individual cities, but also to raise the profile of the growth potential of the broader region. Box 1 highlights the shared strengths and weaknesses of the GSE cities. Both need to be clearly understood and communicated as part of open discussions with investors and developers.

Box 1: Strengths and Weaknesses of Greater South East cities

Strengths

Demographics

- The majority of GSE cities experienced population growth well beyond the English average for 1991 to 2010.

Employment

- Almost all the GSE cities have employment rates higher than the English average.

Economic Structure

- Employment within large firms (greater than 300 employees) is more prevalent within the GSE cities, and employment within small firms is less common than the English average.
- Many GSE cities have a higher proportion of employment in financial and business services than the English average.

Built Environment

- Average housing prices are higher, for the most part, than in other English cities.
- For commercial property, retail space is more expensive than the national average, offering good returns to developers.

Weaknesses

Public Sector Employment

- Almost two-thirds of the GSE cities have higher proportions of their workforce employed in the public sector than the national average.

Built Environment

- House prices are higher for GSE cities, while wages are fairly constant. This can be a weakness as well as a strength. Housing affordability is low for some cities, which may dampen demand in the buying market and push toward renting.
- For commercial property, the cost of office space tends to be lower for the GSE cities than the national average, meaning lower returns per m^2 for investors.

However, it is not just the economic characteristics of these cities which will define their investment attractiveness. Their ability to understand, utilise and leverage the financial mechanisms discussed in the next section will also influence future growth.

2. Local mechanisms for public finance

The Government is in the process of making further financial levers available to cities as part of its devolution agenda. It aims to provide cities with greater incentives to encourage physical and business growth. Previously, the financial benefits of growth have gone to central government, while the costs of servicing an increased population and business base have remained with cities. There has been little direct advantage to cities in encouraging development.

However, the policy options are complex and the way in which some will be implemented has not yet been decided. Cities report that a lack of capacity is preventing them from assessing how they might benefit from the new mechanisms on offer. This section examines the financing and assembly mechanisms available, looks at their advantages and disadvantages and assesses how cities might apply them.

5. Department for Communities and Local Government (2011) *Local Government Resource Review: Proposals for Business Rates Retention*, London: DCLG
6. Larkin K, Wilcox Z & Gailey C (2011) *Room for Improvement*, London: Centre for Cities

1. Business rate retention: potential for rates growth

Status: *In Consultation* ***Investment Potential:*** *High*

The Government proposes to allow cities to retain a proportion of their business rates from 2012/13.[5] The proposed retention system is expected to use a baseline to prevent those cities that are net recipients of business rates revenues from being disadvantaged. However, after the first year of the new system authorities bringing forward more development will benefit from retaining more of their business rate growth. The exact proportion of rates that will be retained locally is yet to be determined, but Centre for Cities has argued that 40-60 percent would be preferable.[6]

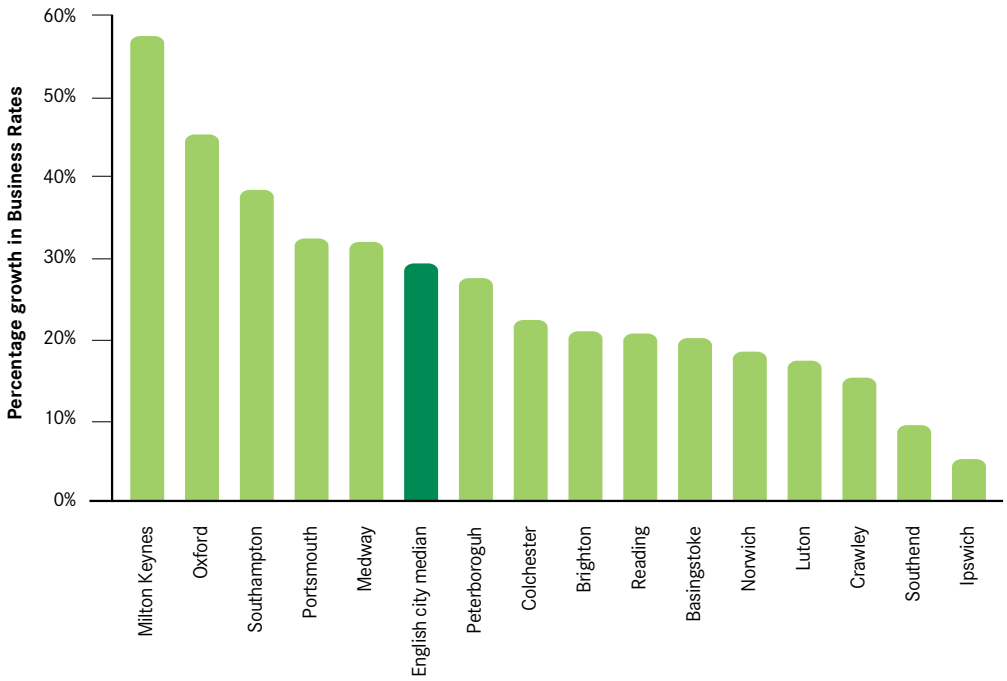
Box 2: How are business rates used and how may that change?

Business rates (or nationally-set non-domestic rates - NNDR) are a locally collected, national form of taxation. In 2010/11 business rates generated £23.8 billion - four percent of UK tax revenues. The current system of business rates was introduced in 1990. The tax is collected by lower tier authorities (district or unitary), then redistributed at national level on a needs basis to local authorities (and police and fire districts). It is topped up with the Revenue Support Grant to form the local authority Formula Grant. The rate of taxation (or the uniform business rate multiplier) is also set nationally. Currently, businesses are liable to pay a tax of around 40 percent on their property costs.

Alongside council tax, redistributed business rates account for a major proportion of local government revenues. There is a great deal of variation across the country in the revenues raised from business rates. In 2010/11, 27 percent of business rates revenues were raised in London. Excluding education, business rates and council tax accounted for 38 percent of total local authority revenues in 2009/10.

How will this affect GSE cities? Figure 6 shows the extent to which GSE cities have seen their business rates grow between 2000 and 2010 compared to the average English city. Two cities, Milton Keynes and Oxford, stand out because of the particularly strong growth in their business rate receipts, while Ipswich and Southend-on-Sea have only seen growth of below 10 percent. Those cities that currently fall below the English average for business rate growth have a further clear incentive to change this situation and retain more business rates.

Figure 6: Business rate revenue growth, 2000 to 2010



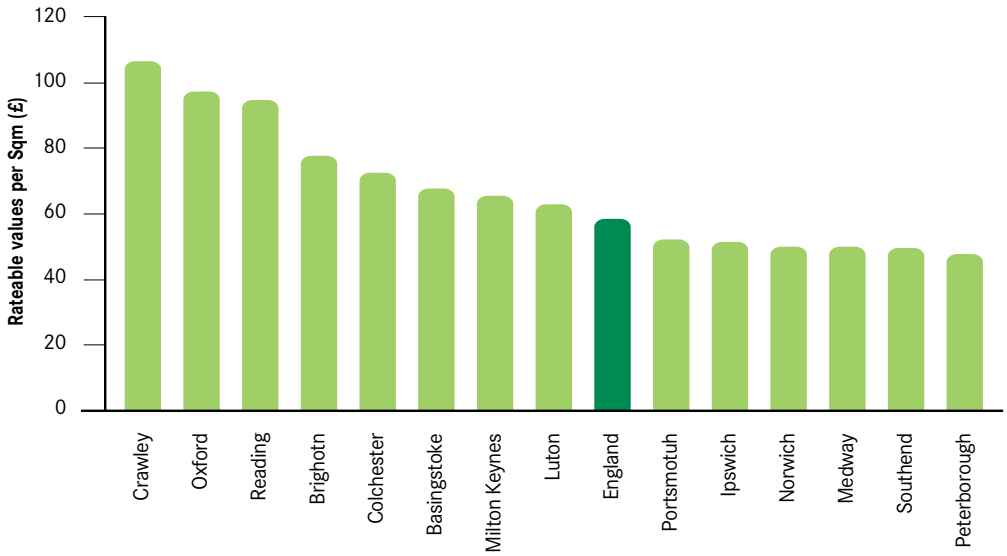
Source: Business Rates revenue growth: Department for Communities and Local Government

Cities aiming to increase their business rate revenues should work to raise the amount and quality of business space to increase provision and rateable value. Figure 7 shows that eight of the 15 GSE cities have a higher rateable value than the English average for commercial space per m^2. Floorspace growth reflects not only the market's appetite for development, but also the collective approach to development of a planning authority, elected members and residents. Business rates growth also reflects the strength of a city's business environment, and more firms will want to invest in cities which are seen as places of growth.

Currently, the Government proposes to return only a proportion of the increase in rateable value of existing business stock to cities. This will dampen the incentive for cities to provide the public services and amenities needed to improve property values.[7] Places like Milton Keynes, Brighton and Hove and Oxford have higher property values due, at least in part, to having an attractive public realm. The new business rates retention system should reward cities for their efforts to improve their overall business environments.

7. Bannister D (2007) 'Quantification of the non-transport benefits resulting from rail investment'. *Transport Studies Unit Working Paper No 1029* Oxford University Centre for Environment

Figure 7: Rateable Value of Commercial Property



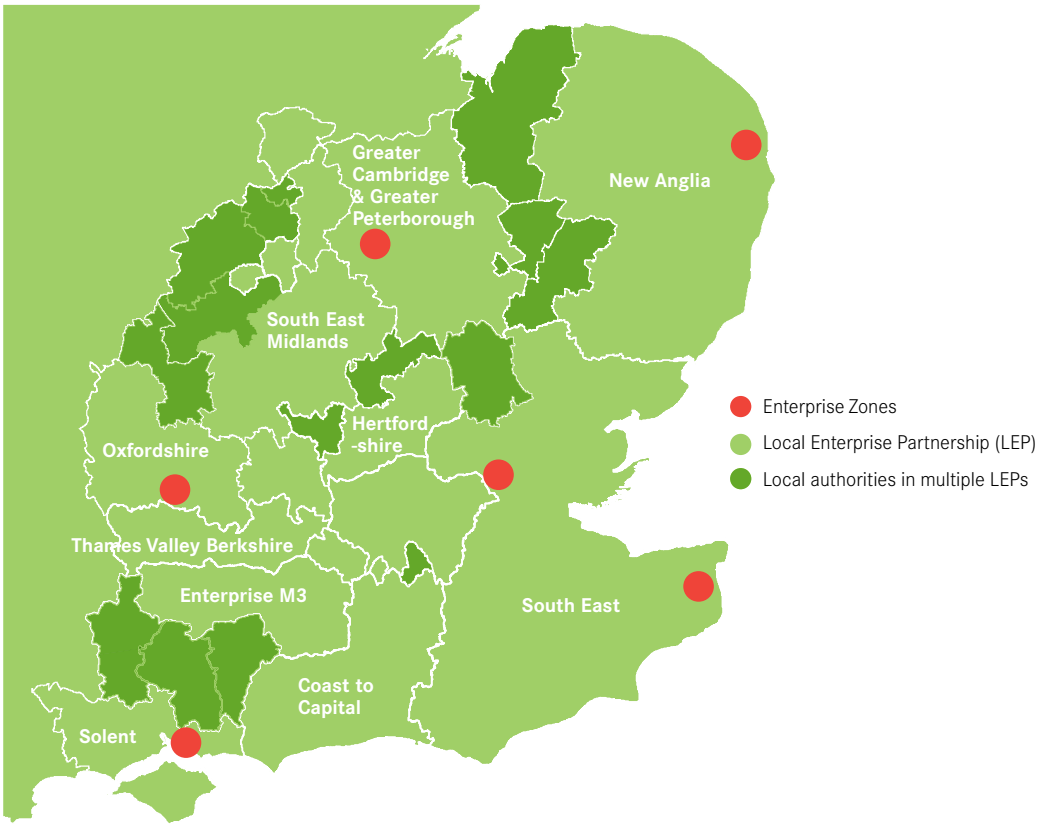
Source: Accessed from Gavurin, Valuation Office Agency (VOA) data

2. Income from business rate uplift in Enterprise Zones

Status: *Approved (begins 2012)* ***Investment Potential:*** *Medium*

Enterprise Zones (EZs) provide incentives for development within a defined area, providing businesses with discounted business rates, streamlined planning and superfast broadband. The key benefit of an EZ for a city is that it allows the Local Enterprise Partnership (LEP) to retain the business rates paid by new businesses locating there over a 25 year period. Income can be invested outside the boundaries of the EZ itself, anywhere within the area covered by its host LEP. The retention of these funds provides a new, relatively certain and long-lasting revenue stream that cities can use to directly fund additional projects and services, or to leverage further finance through bonds and other mechanisms.

Figure 8: Enterprise Zones designated in the Greater South East



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8. Greater London Authority. www.london.gov.uk/crossrail-brs

3. Supplementary Business Rates

Status: *In Use* ***Investment Potential:*** *Medium*

Supplementary Business Rates (SBR) powers were granted by Government to the Greater London Authority and to upper-tier authorities, commencing in 2010. Under this power, those authorities can levy an extra tax of up to two pence on the pound above the nationally-set rate on business properties with rateable values over £50,000. The monies generated by the SBR are raised locally and retained within the upper-tier authority, meaning that local businesses should see direct benefits from paying additional tax. When the revenue from the SBR funds more than one third of the cost of a project, the contributors (SBR payees) vote on the projects and how to use the funds.

The best known example of the use of SBR has been in London. In 2010, the Mayor introduced the 2p tax on all properties with a rateable value over £55,000 across London, specifically to fund the Crossrail scheme. Approximately £4 billion was raised towards the total £16 billion cost of Crossrail, but funding also came from Section 106 agreements, a DfT grant and borrowing from TfL. This is an example of leveraging SBR to fund a project which will have important transport implications for the whole of a functional economic area.[8]

Given the right market, GSE cities could levy an SBR to fund specific projects. However, careful viability testing would need to be undertaken with the business community to ensure the tax would not place an undue burden on businesses and would create net additional benefit for the wider economy.

All GSE cities need to ensure they are committed to their LEPs, and that they influence the way any LEP funds are prioritised and spent

4. Local Enterprise Partnerships

Status: *In Use* ***Investment Potential:*** *High*

The newly established Local Enterprise Partnerships (LEPs) are operating in a fast changing and uncertain environment and have made varied progress in their development. It is important that GSE cities establish a strong relationship with their respective LEP. Those LEPs that have been granted an Enterprise Zone (EZ) will play a significant role in distributing EZ income. All LEPs have also received an indicative grant funding allocation from the Growing Places Fund with, potentially, other grant funding sources available in future.
All GSE cities need to ensure they are committed to their LEPs, and that they influence the way any LEP funds are prioritised and spent. They may also need to work with other LEPs to ensure funding is applied at the most effective spatial scale to benefit local economies.

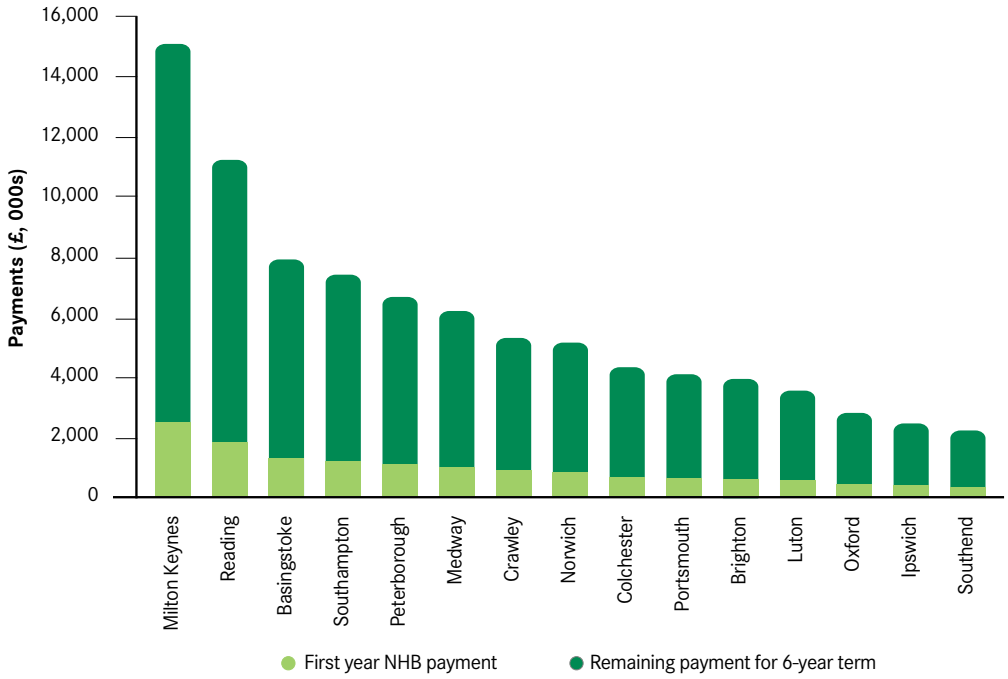
5. New Homes Bonus

Status: *In Use* ***Investment Potential:*** *Low*

Government policy aims to reform and boost housing supply in England. Alongside the abolition of regional housing targets and extensive planning reform, a key policy change is the introduction of the New Homes Bonus (NHB), a fiscal incentive for cities to encourage development. The NHB is designed to correct the disincentive for new housing development inherent in the local government finance system.

Income from the NHB is not ring-fenced, and can be spent as cities wish such as funding existing or new services. It could also be used in conjunction with other revenue sources (such as CIL) to fund larger projects. However, as Figure 9 shows, the relatively small size of the NHB (with first-year payments in the GSE cities ranging from around £400,000 to just over £2.5 million) may restrict the potential for this incentive to fund major infrastructure and public works projects.

Figure 9: Payments for the New Homes Bonus in Greater South East cities, 2011/12



Source: Department for Communities and Local Government, New Homes Bonus Calculator

To maximise the impact of the NHB, authorities should consider it as a longer-term income stream rather than as annual one-off payments. For example, over the six years the first year of building could provide £2.4 million in Southend-on-Sea and £15 million in Milton Keynes. If authorities can use this money to leverage private sector investment, this could represent a significant source of funding for investment.

6. Tax increment financing

Status: *In Consultation* ***Investment Potential:*** *High*

Tax increment financing (TIF) is a funding mechanism, originally developed in the USA, for financing new infrastructure and regeneration projects. The key idea behind TIF is to capitalise on the fact that public investments support additional business activity, generating extra tax receipts over the longer term.

Allowing cities to use anticipated future tax revenue growth can unlock finance for upfront infrastructure costs, enabling additional business activity to take place and delivering a range of social and economic benefits in the long run. Under some circumstances appropriate public investments could pay for themselves.

TIF represents an important development for the financing of new infrastructure in UK cities. However, there are reasons to be cautious about TIF, as it will not provide an appropriate solution for all cities. Firstly, a lack of infrastructure is not the primary barrier to growth in all places. Secondly, TIF will only work if there is clear demand from the private sector and a reasonably buoyant local tax base.

9. © Copyright 2011 CB Richard Ellis

TIF is therefore only viable in places which will see strong business rates growth and have an "infrastructure deficit". While all cities in the GSE saw growth in the decade prior to the recession (see Table 2), the South East region only saw a 0.1 percent increase in office rents from Q2 2010 to Q2 2011 and the East of England region saw a 2.8 percent growth.[9] The variance in rates revenues stability within the GSE and for each city may dampen the potential of TIF for some places. TIF is particularly well suited to situations where infrastructure investment is needed to unlock economic potential. Authorities will need to identify specific places and make a case for providing infrastructure to unlock growth to make TIF viable. Edinburgh City Council currently has the UK's most advanced TIF plans:

Case study: ***Edinburgh City Council Tax Increment Financing Scheme***

Edinburgh City Council provides a good example of how to plan and implement a TIF scheme. The Council engaged in a detailed process to determine whether TIF provided the best option for their investment needs. They researched TIF, looking at where it had been most successful and where it had encountered problems. They concluded that TIF is most successful when it is used incrementally and in places with economic opportunity, rather than in a regeneration context. As a result they set up sites that represented attractive areas for growth, including brownfield areas as well as those with new development nearby.

Their prioritised 'Infrastructure Investment Plan' focuses on those projects most likely to attract private sector investment. The Council's business case was consistently revised during the economic downturn, and they ensured that, no matter what, infrastructure investment was closely linked to attracting new development. The City Council acknowledges that it bears most of the risk in the deal and will therefore take phased steps towards development.

Overall, the City Council has demonstrated to lenders, investors and developers that they understand their risk profile and how to best capitalise on their current portfolio of assets. They are focused on building infrastructure that will attract private investment and yield the most returns. Lastly, they are working with developers and investors in a phased approach - where the success of previous steps leads to the next phase becoming feasible. This practice helps mitigate private sector risk, build confidence, and increases chances of long-term success.

7. Bond financing

Status: *Exploratory* ***Investment Potential:*** *Medium*

Municipal bonds have been issued by local governments in the USA since the early 1800s, and have become a distinguishing feature of local government finance there. The Chairman of the US Securities and Exchange Commission estimates that there was $2.9 trillion worth of municipal bonds outstanding in 2010.[10]

Case study: *Bond Financing in Wandsworth*

To date the best known example of an authority that explored bond financing is the London Borough of Wandsworth, which is looking at the viability of public and privately held bonds to finance either their potential buy-out of the Housing Revenue Account subsidy system or the Northern Line Extension. Other councils, including a group of six in Essex, are also considering using bonds to finance their Housing Revenue Account. While this is still in an exploratory stage, the authority has called in the use of external consultants and expertise to gauge the viability of issuing bonds and the best methods for doing so.[11]

Whilst there is potential for authorities to use bonds to finance specific projects, especially in the context of increased Project Works Loan Board costs for borrowing, the main barrier to the use of bonds by GSE cities is scale. Bonds need to be a minimum size of around £250 million to be attractive, and only the largest UK cities are likely to require investment on that level. Aggregated bonds are a potential solution, and are currently being explored by the Local Government Association (LGA).[12] Their proposal would involve a central bond fund, held by the LGA, which cities could buy into. The fund would be large enough to be commercially viable, while serving the borrowing needs of smaller cities. GSE cities should closely monitor the development of this thinking, as they are likely to be the obvious beneficiaries, and LEPs could take a direct role in co-ordinating a group approach to bonds.

8. Community Infrastructure Levy (CIL)

Status: *In Use (limited)* ***Investment Potential:*** *Low*

The Community Infrastructure Levy (CIL) is being introduced to replace Section 106 funding for community infrastructure (although Section 106 agreements will continue fund site-specific measures). It will be available to all cities from April 2014 and it will be up to them how and when they apply it.

10. www.citymayors.com/finance/bonds.html
11. Wandsworth Borough Council, Finance and Corporate Resources Overview and Scrutiny Committee. Paper No. 11-396. ww3.wandsworth.gov.uk/moderngov/mgConvert2PDF.aspx?ID=13817
12. www.insidehousing.co.uk/finance/lga-in-%C2%A35bn-bond-venture/6516543.article

GSE cities are among the first in the country to publish draft CIL charging schedules. Across the country, there has been considerable variation in the approaches adopted, and the level at which charges are set. It is important the cities are realistic in the CIL charges they levy, as regulatory costs can price out investors if they are set too high.

Birmingham City Council has used CIL in some areas, and operates a split payment scheme where developers pay 50 percent of their CIL obligations prior to building and the other half upon completion. Splitting the payments reduces the up-front costs to developers and forward-funds part of the needed infrastructure. This highlights the conundrum that cities face with CIL: how to balance maximising their income with not creating barriers to development.

Both Section 106 and the Community Infrastructure Levy (CIL) are concerns for developers because they front-load cost, which can overwhelm development cash flow. From 2014, CIL charges will have a significant influence on the attractiveness of individual cities to the private sector. GSE cities should be sure they know how the charges they agree will impact on the viability of future development. It may therefore be better to negotiate CIL on a case-by-case basis, rather setting a fixed levy at a level which is too high and prevents development. A viability test should be carried out for each site, making a CIL assessment on a basis everyone can understand. Negotiation and mutual understanding is the basis for the Milton Keynes Tariff, a similar approach to CIL:

Case study: ***Milton Keynes Infrastructure Tariff***

In Milton Keynes, an innovative tariff is used to fund infrastructure for new development. Operated by the Milton Keynes Partnership, which brings together Milton Keynes Council, the Homes and Communities Agency and the Local Strategic Partnership, the Tariff was set up in 2005. It means that the infrastructure needed to support planned growth in designated areas of Milton Keynes can be funded upfront by the HCA through unlocking part of the uplift in value created by granting planning permission. The HCA's investment is then recovered through a Tariff, agreed with developers, of £18,500 per dwelling and £260,000 per hectare of employment space.[13]

13. www.miltonkeynespartnership.info/DocLibrary/MKPTariffBrochure.pdf

Although Milton Keynes' new town status means that the HCA owns significant amounts of land and is therefore able and willing to act as an infrastructure bank, principles from this approach are applicable elsewhere. The Tariff, operated with the full support of developers, depends on long-term, constructive working relationships between public and private sectors. In other cities a similar arrangement could be funded in different ways, for example by using land currently owned by the Regional Development Agencies. GSE cities should explore the potential of a Tariff approach to enable development in their own places.

9. Investment Funds

Status: *In Use (limited)* ***Investment Potential:*** *High*

A new development financing model that has emerged recently is the investment fund. The best known example is the Evergreen Fund, launched in the North West in 2010. Set up in co-operation between local authorities in the region, the fund combines contributions from local pension and property funds with assets from the North West Development Agency. It aims to make loans to bridge viability gaps on developments in the area, with contributions from developers, and will begin to deliver a return within ten years.

This model is being replicated by the Kent and Medway Investment Fund which offers an approach with potential for smaller cities.[14] Medway Council aims to release surplus land to enable joint ventures with developers, removing the cost of acquiring land for the private sector and therefore making developments viable. This approach could be used by cities to ensure mutually beneficial developments go ahead, and obtain a commercial return in the medium-term. Progress on this model should be followed closely by GSE cities, which could consider a fund of their own.

10. Regional Growth Fund

Status: *Two award rounds announced* ***Investment Potential:*** *Medium*

The Regional Growth Fund (RGF) is a £1.4 billion fund to support projects and programmes that leverage private sector investment creating economic growth and employment. The Fund runs from 2011 to 2014, and aims particularly to help areas which are more reliant on the public sector to help them make the transition to sustainable private sector-led growth.

Rounds 1 and 2 of RGF awards have been made, a pre-due diligence total of 164 awards with a combined total value of £1.4 billion.[15] Eight Regional Growth Fund bids from the Greater South East were successful in Rounds 1 and 2, with awards made to bids from both private firms and local authorities. Based on the information available it is notable that the majority of awards were either made to support manufacturing businesses or to help cities build infrastructure. In preparation for Round 3 anticipated during 2012, cities should therefore ensure they work as a group and with their LEPs to establish the joint strategic investment priorities that are likely to attract RGF funds.

14. www.out-law.com/en/articles/2011/october/kent-investment-fund-set-up-to-boost-housebuilding/
15. www.bis.gov.uk/news/topstories/2011/Oct/950-million-investment-to-boost-local-economies-and-jobs

11. Growing Places Fund

Status: *Awards expected in January 2012* ***Investment Potential:*** *Medium*

The Growing Places Fund has allocated funds to every LEP in England, the level gauged in proportion to population growth and average income. The Fund, totalling £500 million this year, will distribute money before the end of the 2011/12 financial year on the basis of applications submitted by each LEP. Indicative allocations to Greater South East LEPs amount to over £130 million, with £32.5 million for the South East, £15 million for Coast to Capital, £14.4 million for Enterprise M3, £13.1 million for South East Midlands, £12 million for New Anglia, £12 million for Solent, £10.6m for Greater Cambridge & Greater Peterborough, £10 million for Hertfordshire, £10.6 million for Thames Valley Berkshire, £5.9 million for Oxford City Region and £4.1 million for Buckinghamshire. Awards are intended to fund infrastructure projects needed for housing development to go ahead, covering a range of possible applications from road building to land decontamination.

The Growing Places Fund offers a clear incentive for cities to work closely with their LEP to agree priorities for their area. The Government is encouraging LEPs to use the grant to set up revolving funds, levering in private sector investment over time. To be awarded the indicative funding, cities will need to demonstrate through their LEP that they have the capacity to manage and deliver projects. This is another example of the growing importance of a strong working relationship between cities and LEPs in maximising opportunities to attract funding and investment.

3. Cities and the investment process

Investor and developer roles

Public and private sectors will have different, potentially conflicting requirements from working in partnership. To engage more effectively with the private sector, cities need to understand what different investors and developers aim to achieve from a deal, and what type of business will therefore be interested.

Investors can be private, public or a combination of both. Private investors include banks, pension funds, sovereign wealth funds, and companies investing from their own balance sheets. Their prime concern is to ensure that the risk reward ratios are appropriate so they make an acceptable return on their investment. They are therefore more likely to invest with partners and in locations where their preferred rate of return can be achieved most easily.

Traditional private sector developers describe their approach to development as a five-step process:[16]

- Buy land
- Build on the land
- Sell or rent the buildings
- Bank a profit on the transaction
- Reinvest or distribute the profit

However, there are many variations within this approach reflecting the wide range of company types involved. For example, many commercial developers and volume housebuilders will sell once developments are completed, their interest ending with the sale. Others will rely on selling each completed phase within a large development to finance building of the next phase. Other developers retain a longer-term interest post-development completion. Registered Social Landlords (RSLs) form part of this category. Developer-Manager companies such as Igloo, seek to manage risk and protect their investment through developing long-term partnerships with cities.

Irrespective of the type of investor or developer, they all look for the following:[17]

- Opportunities to share and manage risk flexibly by building long-term relationships with partners.
- As much information as possible, from both formal and informal sources, on which to base their investment decisions.
- Distinctive developments that can generate added value.
- Deliverable projects, free from obvious stumbling blocks.
- Smaller projects, involving less risk.
- Engagement with local communities, to build support.

16. Centre for Cities stakeholder interviews and roundtables
17. Centre for Cities stakeholder interviews and roundtables

And they avoid investing and developing if:[18]

- Occupier demand is uncertain.
- Projects are on a pre-recession scale, with large volumes carrying greater risk.
- Development terms and charges are set at a pre-recession levels.
- A city cannot offer a reliable, efficient planning service.
- A city is not united behind a project, making political or public opposition likely.

18. Centre for Cities stakeholder interviews and roundtables

Understanding the different priorities and motivations of the actors in the development process is crucial to reaching a successful deal. Cities need to be aware of the range of players and their respective operating conditions and expectations, and be prepared to find creative ways to help them deliver the right return for deals to go ahead. In certain circumstances, this might involve cities taking an active role as developers; or selling land to the private sector with an overage, thus accepting a proportion of the developer's profit above an agreed threshold; or, retaining land ownership while licensing development; or establishing a joint venture asset-backed vehicle.

Understanding the development players and process

Four key players determine the success of public-private partnerships: the local authority, the landowner, the investor and the developer. Each role may involve more than one player, while more than one role may also be taken by a single player. Table 3 sets out the different roles, priorities and concerns for the range of actors potentially involved in a development.

Table 3: Roles, priorities and concerns of development stakeholders

Actor	Role	Core tasks	Main issues
City	Developer (full land ownership)	Determine suitable development types; use ownership as catalyst for development; maximise social and financial benefit.	Balancing financial benefit with social benefit; achieving political support for plans; securing financiers and developers.
City	Developer-partner (partial land ownership)	Assemble land; co-ordinate other landowners to maximise returns (more emphasis on financial than social); provide catalyst for development through land or equity.	Determining extent of trade-off between social and financial returns; securing political support for plans; achieving optimal assembly of land to provide developer returns.
City	Co-ordinator and facilitator	Supervise assembling of land between private parties; provide catalyst for development, through equity if possible; take a hands-on or hands-off role.	Getting buy-in from landowners and community; applying local plan policy; making brownfield land economically viable, for example by funding enabling infrastructure.

Actor	Role	Core tasks	Main issues
City	Regulator	Minimum level of involvement, fulfilling statutory duties and planning role.	Applying local plan policy; working to deliver maximum public benefit from development.
Land Owners	Whole	Maximise uplift (return) on property.	Market is currently at a lull; land may have been bought at the top of the market; long-term, highest return may not be compatible with development acceptable to planning authority; may need to renegotiate existing development terms to ensure viability.
Land Owners	Partial	Collaborate to maximise uplift (return) on sale of land.	Currently, market in lull; gaining local buy-in and building trust while maximising return; possible need to renegotiate to ensure viability.
Developers	Sole	Securing land, funding and planning permission; legal compliance; fair timelines; ensuring city buy-in.	Land may need to be assembled; funding is currently scarce and expensive, especially without pre-let; planning permission takes too long to obtain, is vulnerable to political change, and open to challenge; planning reform has created transitional uncertainty; meeting planning and legal compliance requirements is difficult and costly; timelines are often too long and uncertain; city buy-in can be difficult to obtain and is open to local political challenge.
Developers	Shared	Co-ordinating with development partners to secure land, funding and planning permission; legal compliance, fair timelines, and ensuring city buy-in.	Same as above, but with the additional need to co-ordinate interests and share risk and return appropriately with partners.
Investors	Sole	Maximise return on investment (ROI) - min 15-20 percent - in short-term.	Current slow demand for non-pre-let commercial space; high uncertainty on development timelines; due to less funding available, need to be absolutely certain of higher ROI compared to other investments.
Investors	Public-Public	Maximise ROI (min 15-20 percent) in short-term.	As above, but with the additional need to manage added co-ordination risk.
Investors	Public-Private	Maximise ROI, but compromise some return in turn for risk share.	As above, but with the additional need to ensure public sector commitment.

4. Attracting private sector investment

Section 3 analysed the roles and motivations of the public and private sectors. When they conflict, these motivations can form barriers to progress. This section assesses potential barriers and recommends ways they can be overcome. The analysis is directed primarily at cities with the aim of helping them to be as effective as possible in attracting and managing private sector investment.

To attract investment a city needs a convincing but also, crucially, a realistic vision for its future development

Cities wanting to attract development need to clearly demonstrate two attributes to potential investors and developers. Firstly, they must be pro-growth, which means they must know their strengths; decide what they want to achieve based on realistic ambitions; and actively sell their city to potential investors. Secondly cities must be growth-ready, which means reducing the barriers that could prevent development from happening; managing and reducing risk; being creative and flexible to ensure deals are viable; and putting resources behind partnerships to make sure they work.

Pro-Growth Cities

1. Develop a realistic vision

Every city has strengths it can use to attract investors, but some will have to work harder than others to convince investors of what they have to offer. To attract investment a city needs a convincing but also, crucially, a realistic vision for its future development. This should be based on an assessment of its economic strengths and a frank appreciation of weaknesses. Data on indicators such as GVA, population and employment growth and property market performance, help the private sector assess supply and demand.

A clear, coherent development strategy shows that a city means what it says, and has done the work to build political support for a deliverable plan. Birmingham's Big City Plan is an example of a clear vision showing early signs of attracting investment:

19. Centre for Cities interviews and http://bigcityplan.birmingham.gov.uk/

Case study: ***Birmingham Big City Plan***

Birmingham has recently completed a city masterplan, known as The Big City Plan. The Council decided to use its own in-house staff, rather than external consultants, to develop a masterplan over a short, intensive six-month period, consulting closely with business. This approach was chosen as an alternative to the lengthy process of developing and adopting a Core Strategy.

The Big City Plan process has succeeded in generating international profile, attracting the interest of sovereign wealth fund investors who were made aware of the city's ambition and potential, which would otherwise have remained obscured within planning documents. The plan was entered into a variety of international masterplanning competitions to raise profile, resulting in investment negotiations with various countries, and a memorandum of understanding with Abu Dhabi. Although it is still early days, their government is looking at investment opportunities in Birmingham, while Birmingham advises them on municipal management.[19]

It is also important that a vision for development is produced at the right strategic scale, covering the functional economic area of a city rather than the boundaries of a single local authority. The draft National Planning Policy Framework's duty to co-operate may help in catalysing this co-operation to ensure strategic planning takes place at the right scale. The aim should be to produce a local plan that prioritises investment between cities and gives business confidence that it is practical and deliverable.

2. Sell the city

City marketing can be effective if it is used to provide investors with essential information. A city should be clear about what it wants to achieve by working with a private sector partner; what it can offer to ensure a partnership can happen; and why investing in that particular place presents a distinctive and attractive investment prospect. It should also ensure that is does not compete with neighbours, but makes difficult choices about what it will aim to achieve and what is realistically better left for neighbours. This is the basis on which successful cities, both in the UK and globally, approach investors.

20. Centre for Cities interviews and www.edinburgh-inspiringcapital.com/default.aspx

Presenting a projected development pipeline helps to attract the right partners for the right sites, and helps to reduce perceived risk. Edinburgh City Council is an example of an authority with a well developed approach to communicating with investors.

Case study: *Invest in Edinburgh*

Edinburgh City Council has prioritised four areas of the city by establishing Strategic Investment Zones. With reduced private sector investment available, they aim to focus investment where it will have the maximum positive impact for the city. This focus also helps use Council resources efficiently to manage relations with investors.

The zones are defined geographically, each with its own business plan and rationale for investment. These seek to demonstrate and exploit existing strengths to attract investment from particular sectors. For example, the South East Edinburgh zone has a clear focus on life and biological sciences.

Ultimately, a single publicly owned company will control all physical development supported by the Council and will manage performance in each of the investment zones. The overall targets for the investment strategy across all four zones are to attract £500 million new private sector investment and £100 million additional commercial investment between 2009 and 2012. Tax Increment Financing will be used to enable development in certain zones (see case study above). The city is on track to meet both targets.[20]

3. Make information available

Investors often base decisions about where they choose to invest on existing knowledge and relationships to a significant extent.[21] It is also much easier for the investors and developers to access information on market conditions in London and other large cities than in smaller cities, where the data is often unavailable. This means new places and opportunities are, by definition, often not considered.

Cities wanting to attract investment therefore need to provide information on the opportunities available in their city. They should aim to make it easy for private sector companies to see which sites are identified as priorities for development, view projected timetables, see what land a city can offer, and understand which developments are likely to match their particular requirements.

Development pipeline information should be backed with transparent data sources, so developers can inspect the evidence base that underpins a city's development vision. Oxford City Council demonstrates how this information can be made available to potential investors:

Case study: *The Oxfordshire Data Observatory*

The Oxfordshire Data Observatory is a good example of accessible, comprehensive data about the city, made easily available online by a partnership between the city, county and district councils and an array of public, private and third sector partners.[22] A dedicated website provides statistical profiles for place, and themed briefings on key indicators. Cities in the Greater South East should consider working together to provide combined data sources for groups of cities, which could raise profile and help convince investors.

4. Think globally

All cities, whether or not they choose to, now compete globally for investment and therefore need to get their message across to international investors.

Many LEPs are taking up the challenge of co-ordinating inward investment marketing activities. For example, the Solent LEP has prioritised engagement with new markets in India, building on existing links. Cities sharing common characteristics, such as those in the Greater South East, are well-placed to work together. This could involve working with UK Trade and Investment and multi-national property agents to attract inward investors.

As appropriate GSE cities should put collective resources behind attracting inward investment rather than competing with each other. The experience of Greater Manchester shows how a group of local authorities can work together to draw in global investment.

21. Centre for Cities roundtables and interviews
22. www.oxfordshireobservatory.info/wps/portal/dataobservatory

Case study: *Manchester Investment Development Service (MIDAS)*

MIDAS is the inward investment agency for Manchester, working on behalf of the ten local authorities that make up the combined Manchester authority, AGMA. MIDAS promotes the city as a location for business, aiming to attract national and international companies to relocate there. They provide various forms of practical assistance to enable relocation, including finding sites for companies and helping them to recruit staff.

MIDAS recently reached an agreement with UK Trade and Investment (UKTI) to act as the sole point of contact for Foreign Direct Investment in Manchester, ensuring its efforts are co-ordinated with those of the national body to attract investment to the UK.[23]

23. Centre for Cities interviews and www.investinmanchester.com

5. Provide consistent leadership

An effective city needs stable, confident leadership. A leader who sets out a clear set of priorities, takes a proactive approach to enabling development and has the power to actively reduce risk for a developer.

Whilst political change is a fact of life for most cities, leadership which involves the combined efforts of elected and executive leaders can overcome this. Continuity and stability of executive leadership can help reassure investors that any change of political regime will not result in drastic changes in a city's development vision. Manchester and Cambridge offer good examples of the benefits of this combined leadership and continuous vision approach.

Growth-Ready Cities

1. Understand risk and return

To be growth-ready, cities need to carry out their own viability assessments on the propositions they bring to the market. This requires cities to assess the risks attached to individual deals, work to reduce them as far as possible, and decide how flexible they can be in accepting risk in exchange for a greater share of return.

Four different types of risk are important for cities to consider when aiming to attract investors:

- **Financial:** does the risk and return equation add up for both parties?
- **Operational:** can commitments be delivered once a development is underway?
- **External:** for example, will the private sector partner be taken over, or will the council's political composition change?
- **Reputational:** is either party likely to suffer as a result of the above or other potential partnership problems?[24]

Cities need to use a risk management approach to identify and then manage these different risks at the start of a partnership process.

The nature of the development and the way the deal is structured will also determine the type of investor it can attract. It is therefore important that the public sector soft-market tests any proposed development before issuing a formal proposal to understand which companies will be in a position to invest on those terms.

Case study: *Homes and Communities Agency Area-Wide Viability Assessments*

The Homes and Communities Agency provides tools available free to all cities, with additional support and advice available on request, to help them choose viable options for housing delivery. The Area-Wide Viability Assessment considers the circumstances around each type of potential housing supply, and assesses the extent to which planning obligations can be levied and the case for public investment. Setting area-wide assumptions informs a city's investment and planning strategies (including CIL charge setting), and allows them to send clear signals to the market about the type of development that will be permitted. Using this model creates transparency around those assumptions, which helps to generate confidence among prospective partners.[25]

In the current economic climate cities need to consider a wider range of options and take a longer-term view of the benefits they could gain from developments. For example, a city could defer payments to reduce upfront costs for developers,

24. Centre for Cities roundtables and stakeholder interviews
25. www.pas.gov.uk/pas/aio/756349 and Centre for Cities interviews

in exchange for a longer-term return from their equity contribution (usually in the form of land). Cities may be able to pump-prime development funding or provide infrastructure improvements where it will allow a development to go ahead, creating jobs and economic benefit which would otherwise be lost.

Local Asset Backed Vehicles (LABVs) have potential to help cities lever investment from the private sector. LABVs are relatively new and are not yet used widely. One of the central requirements is that a city brings significant land assets to the table to make the proposal attractive to private sector investors. Many cities are deterred from using them because of their potential complexity, but they can be beneficial to long-term development prospects. Cities in the Greater South East should consider combining resources to set up a joint centre of expertise on LABVs.

26. Report to Scrutiny and Overview Committee, Croydon Council (16 November 2010) 'Annual report 2009', CCURV (2010)

Case study: ***Croydon Council Urban Regeneration Vehicle (CCURV)***

In 2007 Croydon Council conducted a review of its strategic objectives for the borough. The review highlighted the key issues of delivering regeneration and much needed new civic office buildings, and suggested the Council should set up an urban regeneration vehicle to drive regeneration and gain value from the Council's estate.

In order to attract private equity for the initiative the Council offered land assets in return for a matched funding commitment. John Laing Plc was selected through competitive dialogue as the Council's funding and development partner, and formed a £450 million 50:50 limited liability partnership with Croydon Council. CCURV was the first Local Asset Backed Vehicle set up by a UK city. The main aim of the 28-year deal is to regenerate a number of sites across the borough. One of the sites, on which work began in 2010, is a new Public Service Delivery Hub, providing accommodation for Croydon Council and other public sector providers.[26]

2. Understand timescales

Developers and public authorities are often driven by very different timescales and ways of working which can cause problems if they are not identified and managed. For example, some developers are driven by the reporting requirements of being a PLC, and need to demonstrate regular returns on short timescales in order to generate more capital. Cities on the other hand need to balance political and public benefit issues which can slow down proceedings.

Various approaches can be used to reconcile conflicting timescales. Developers are often attracted to cities that take measures to avoid silo-working. Ipswich Borough Council, for example, uses a development team model for partnership working, ensuring all the relevant officers work together to provide a single, co-ordinated response to a developer.

It is also important to consider the structuring of developments. If a city is able to accept a more flexible schedule of development that creates an acceptable cash flow, developers are likely to share more risk and provide greater returns to the city. For example a portfolio approach to site development means investors can make short-term above average returns whilst also being in a position to commit to more challenging developments. Short-term leases can also be used to generate income from SME tenants; or "meanwhile" uses can deliver short-term financial and social benefits within a longer-term development.

Case study: *Igloo's Port Teigr Development, Cardiff*

Port Teigr is a joint venture between developers, Igloo, and the Welsh Assembly Government, set up in 2005 to develop 38 acres of land on Cardiff Bay. It is a large mixed use scheme that will deliver nearly 100,000 m^2 of commercial space and 1000 homes around the new BBC Roath Lock Studios. However, while the housing market remains at a low ebb, Igloo has (as part of a "meanwhile" use strategy) agreed to allow temporary use of the land for the BBC's Doctor Who Experience, at a peppercorn rent for five years. This will ensure the site remains available for the proposed housing development in the medium term; prevent it from remaining unused in the interim; and generate extra value for the City Council and the Welsh Government.[27]

Schemes that stalled during the recession are a major concern for many cities. First of all, cities need to understand why schemes have stalled. In some cases developers can no longer access finance from banks, which are still operating much more restrictive lending policies than was the case pre-2008. Timescales may need to be adjusted, as deals made before the recession will often not proceed unless they are renegotiated. Re-phasing a development to ensure the first phase delivers high returns may also help to generate viability. It may also be appropriate for the public sector to take a more active role, as it will require a lower level of return than the private sector and may be in a better position to make a development viable. This could involve using compulsory purchase powers to acquire sites.

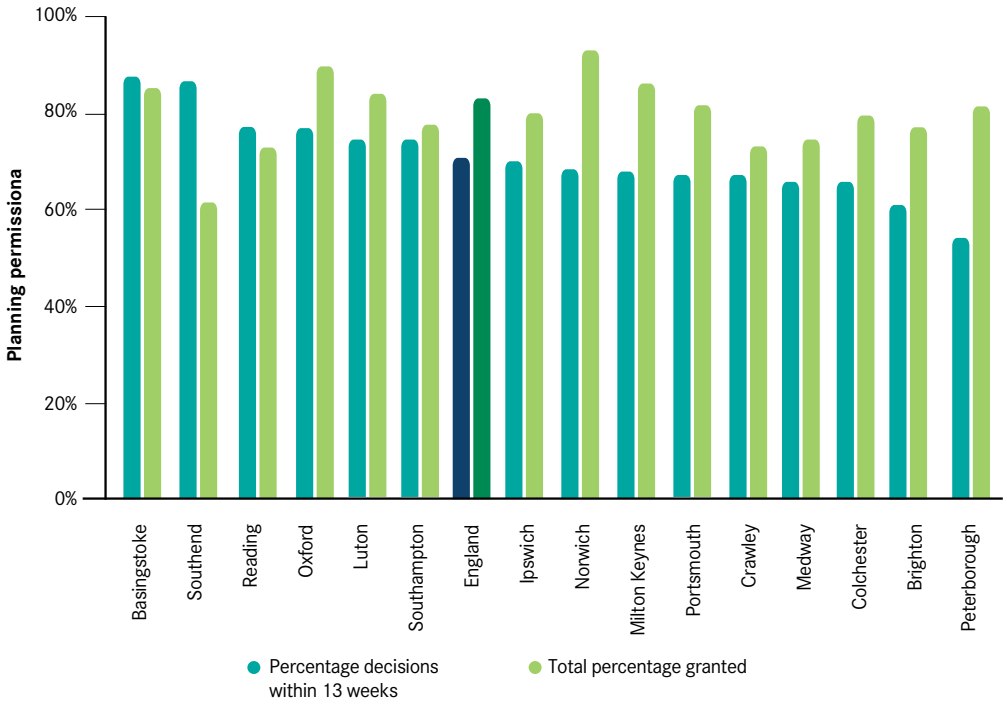
27. www.igloo.uk.net/projects/cardiff-tiger-bay

3. Reduce planning risk

The planning process is the most time consuming aspect of development, and investors are therefore concerned to know that a city has an efficient planning department; is able to prioritise major applications; can guarantee minimum turnaround times for planning applications; and can deliver on its planning commitments. Developers also wish to see their development integrated as a local planning policy objective.

Planning performance can be a decisive issue, so planning efficiency is an area where cities can directly influence their prospects of attracting investment. Figure 10 below shows that the speed at which planning decisions are taken varies across the GSE cities, from just over 50 percent processed within 13 weeks to almost 90 percent in the best performing. On average, the GSE cities are slower at processing applications within the prescribed 13-week period than the English average, and nine of the 15 GSE cities granted a smaller proportion of approvals for major decisions than the English average.

Figure 10: Percentage of planning applications determined and granted within 13 weeks, year ending 2011



Source: Department for Communities and Local Government

Beyond the speed at which applications are processed, there are other planning system factors on which cities should aim to reassure the private sector:

- That a city has an evidenced local plan in place, allocating land for development.
- That there will be early engagement to discuss expectations and requirements.

- That a city understands the dynamics of the development, and what the developer needs to maintain viability.
- That city attitudes to development will not change, creating unexpected obstacles.[28]

28. Centre for Cities stakeholder interviews and roundtables
29. Centre for Cities interviews

Cities can also consider more radical approaches to financing their planning service to provide greater certainty to developers.

Case study: *City of Westminster Planning Charges*

Currently, those authorities dealing with the highest volume of applications are unable to set planning fees to recover the true cost of processing applications. In Westminster, this resource squeeze has been recognised by developers who have volunteered to pay £26,000 to enter into a planning performance agreement (PPA) for each large application. The PPA is not a guarantee of permission, but it does set out the responsibilities and expectations of the applicant and the Council; and provides a clear timetable for processing and determination.

Councils are not currently permitted to determine their own planning charges; Westminster's is a voluntary agreement. Allowing councils to charge in proportion to the scale of development, for the planning service they provide would allow them to offer a more consistent, higher quality planning service in return, for example offering guaranteed minimum turnaround times on planning applications. The Government should now move ahead with allowing councils to adopt this model.

Although smaller cities may not experience a sufficient level of demand to recover costs, they will be able in future to negotiate fees with developers to ensure planning risk does not undermine development viability.[29]

4. Organise the public sector

Private sector investors and developers are clear that unity of purpose is an important consideration in development deals.[30] Cities can help to reduce risk by working to actively co-ordinate the public sector bodies involved in development, anticipating and planning for potential delays.

Political unity can be a particular problem in two-tier areas of the country, and where cities are under-bounded. The relationship between the city and county or neighbouring district councils is often crucial to the viability of significant expansion. In both Cambridgeshire and Hampshire the problem has been addressed by the use of place-based asset management approaches to create a shared understanding of the role councils at both tiers can play in enabling development.

Lack of co-ordination between public bodies can also create delay and uncertainty. Statutory consultees can create barriers to development, introducing delays by prioritising their objectives over the wider economic benefits on offer. The Highways Agency, for example, can prevent a development that requires motorway junction improvements to make it viable from going ahead even if the economic case is strong.

The Government needs to move fast on implementing the recommendations of the Penfold and Killian Pretty Reviews. These aim to make it easier for cities to work with consultees in the planning process, improving the clarity and consistency of the advice provided by non-statutory consultees such as the Highways Agency.

5. Address skills and capacity issues

Individual cities, particularly smaller ones, often lack the skills to deal with technical financing and procurement issues, or to scope and use new financial mechanisms. It is difficult for cities to retain skilled capacity while reigning in their spending, and the perception that private sector employment is a more prestigious option adds to the problem.

Many GSE cities, are tackling skills and capacity problems by sharing expertise with neighbouring authorities in areas such as planning, urban design and project management. In the Thames Valley, for example, much of the local authority transport expertise resides within Reading Borough Council rather than neighbouring authorities, so councils work in partnership to make best use of Reading's expertise.

The private sector should also play a role by working more collaboratively with cities. As development and financing options become more complex, investors and developers need to spend more time working with cities to ensure they have access to the information they need about relevant options. In some cases, the private sector has taken a direct role in delivering council services.

30. Centre for Cities stakeholder interviews and roundtables

Case study: *Urban Vision Salford and Capita Symonds*

In 2005 a public-private partnership between Salford City Council, Capita Symonds and Morrison Highway Maintenance was formed to provide council services including planning and building control, architecture and landscape design and highway maintenance. The Council remained responsible for planning policy and decisions on planning applications.

Outsourcing the Council's built environment functions has been generally regarded as a success. Private sector firms have provided access to additional expertise and significant cost savings have been made estimated at £13 million over the partnership's 15 year lifespan.[31] The joint venture has also reduced the time taken to process planning applications. In 2011, 73 percent of major applications granted were granted within 13 weeks.[32] The venture has also benefitted local authorities beyond Salford. Craven District Council, for instance, has appointed Urban Vision to handle a large application for new offices. The ability to work outside Salford has also allowed Urban Vision to better distribute and manage workloads and retain key skills.[33]

31. Planning pp20-21 29 July 2011 Service Delivery Man
32. Department for Communities and Local Government, year ending March 2011
33. Planning pp20-21 29 July 2011 Service Delivery Man. Audit Commission (2006) *The planning system matching expectations and capacity* London: Audit Commission. The MJ 2007 achievement awards entry submission for the private public partnership achievement January 2007

6. Test the market

Some private sector companies are looking for short-term contracts with less risk; others prefer long-term projects with more risk and more reward. Small and medium-sized cities are less visible to investors, and need to take a realistic view of their capabilities by market testing what they have to offer with different partners. Soft-market testing is an important part of the process, including talking to the private sector about their requirements to understand how deals can be better structured to be competitive and viable. Other options include marketing sites through an arms length city development company. Liverpool Vision is an example of an approach that has proved effective.

Case study: *Liverpool Vision*

Set up in 1999 as the first Urban Development Company, Liverpool Vision has become a single economic development company for Liverpool. It has three aims: to provide a business plan for the city; to support business; and to promote the city as a place to invest. The Liverpool Vision Business Plan identifies priority areas of the city for investment, and it also provides a property search database. Liverpool Vision has played a role in a series of high profile developments in the city, including the £130 million Prinovis printing plant at Speke. The German firm's investment in the site followed a co-ordinated marketing exercise to convince managers that Liverpool could offer the right combination of land, transport links and workforce skills.[34]

34. www.liverpoolvision.co.uk
35. Centre for Cities interviews

The first contact between developers and cities is often at the point when a scheme is brought to the market, too late for informal discussions. Earlier discussions and soft market-testing should be encouraged because they can lead to crucial beneficial changes, for example a more viable project scope; the consideration of models such as joint ventures; or an adjusted timescale that will make a scheme more attractive.

7. Map and use public sector assets

A partner who can bring equity to the table is high on the wish list of any developer. Public sector property can be used creatively as a catalyst for development. Cities are often asset-rich, with substantial property holdings, significant sources of equity which can be used to broker deals. Reliable information is a pre-requisite for making best use of public sector assets, but city ownership records are often poor or incomplete. For example, they may not include information on the lease arrangements or tenant obligations for buildings rented out.[35] It is crucial for a city to map and categorise its asset base if it wants to maximise its potential.

Cities would benefit from looking at their assets as the private sector would, by judging their value as tools as catalysts and incentives for investment. There are good examples in the Greater South East of how this can be done:

Case study: *Making Assets Count, Capital and Assets Pathfinder, Cambridgeshire*

In 2008 Cambridgeshire County Council initiated a programme to re-examine its property assets and move towards more strategic and rationalised management. When the "Making Assets Count" project was launched in 2010, this was extended across the county's entire public estate. Cambridgeshire was designated one of the Government's capital and asset pathfinders: projects seeking to bring together public sector bodies across an area to make better use of their combined estates, improve services and achieve savings.

In Cambridgeshire the County Council has entered into partnership with district councils, the primary care trust, the police, fire service and others bringing together 1,799 buildings and total assets worth £1.53 billion. The principal aims of the project are to consolidate the estate; to reduce operating costs; to improve partnership working and service delivery; to maximise investment potential; and to align capital budgets.

A key challenge was to better understand what was owned and by whom. One of the first exercises involved mapping and gathering information in one place on all publicly owned assets in the county. Further steps include devising a joint asset management strategy and investigating the feasibility of setting up a county-wide public sector property management company.

An early example of the successful rationalisation of the estate is a project to relocate several vehicle depots from in and around Cambridge onto a single site. It is anticipated that this will achieve significant efficiencies whilst also freeing up land on valuable vacated sites.[36]

36. 'A shared approach to management and use of public sector assets' presentation, Tobin Stephenson – Cambridgeshire Horizons (2011); 'Leaner and greener: delivering effective estate management', Westminster Sustainable Business Forum (2010)

8. Package sites for investment

The private sector often expects a city to contribute money to a deal, but this is increasingly impossible. However, cities can help to attract investors by packaging sites that they own. Working with other public agencies can provide the organisational capability and funding to make deals viable.

Norwich City Council's partnership with the Homes and Communities Agency is an example of where this approach is proving effective:

Case study: Norwich City Council and the Homes and Communities Agency

Norwich City Council owns a range of sites on which it aims to deliver new housing and development. However, the economic downturn had meant that private sector investment to develop the sites was hard to come by.

It was decided that the best way to attract investment would be to package various sites as a single asset. In September 2009 Norwich became the first local authority to enter into a Collaboration and Investment Agreement with the Homes and Communities Agency (HCA) investing £8 million for a variety of regeneration projects, while the Council contributed development sites.

One of the largest projects developed under the partnership is the Three Score development at Bowthorpe. This will deliver 1,200 new homes, a third of which will be affordable housing. The procurement process was speeded up by selecting the developer, Taylor Wimpey, from the HCA's Delivery Partner Panel. Another project saw the Council package together a disparate group of former garage sites across the city. These will now be developed by Orwell Housing Association and ISG Jackson to provide over 100 new affordable and sustainable homes.

The ten-year programme has a range of objectives including increasing the supply of affordable and private housing, making improvements to existing housing, generating employment and supporting sustainable communities. The long-term plan is to reinvest profits from future development – which could reach £80 million – in further housing and regeneration.[37]

9. Actively manage procurement

The private sector regards public sector procurement as a major barrier, which can be a decisive factor if developers judge that procurement will create more risks and costs than they cannot afford. As well as ensuring accountability, public sector procurement needs to be as competitive as possible, to add value and to improve decision-making and outcomes.

Cities should work to improve procurement conditions and be pragmatic about how to best assist investors. The London Borough of Newham, for example, made a commitment to partners that it would work as fast as it responsibly could to develop specifications for projects.[38] Partnership contracts, allowing a private sector partner to be selected before a detailed proposal is developed, can also help by reducing the cost of bidding for a project.

The Homes and Communities Agency's Delivery Partner Panel is available to all cities, regardless of whether HCA land is involved in a development. GSE cities should make use of this facility, or consider joining forces to set up a more focused development panel or panels based on the HCA's model to serve local needs. Panels would give access to a pool of contractors at all stages of the procurement process, from soft-market testing through to construction. Investment in setting up a panel would also raise the profile of those cities involved, and generate significant time and cost savings over the medium to long-term.

37. Report to executive, Norwich City Council (29 September 2010); 'Case study: Single Conversation, Norwich, Norfolk', HCA (2010); 'Unlocking regeneration through a "single conversation" for the City of Norwich, EC Harris (2010); 'Work starts on innovative new housing project for Norwich', HCA press release (3 June 2011)
38. Centre for Cities interviews

Conclusions

For growth cities

It is crucial for the UK economy that cities with growth potential become as adept as possible at attracting development to catalyse growth. The cities in the Greater South East have significant advantages that they can use to attract investment: growing economies and populations and particular strengths in their property markets and business bases. These advantages should be used to raise their profile with the private sector and attract investors, both individually and as a group.

- **Cities should produce a vision for development**, based on an assessment of their strengths and weaknesses, to show the private sector that they know both what they want and how they intend to make it happen.
- Cities need **strong, stable leadership** to reduce risk and create confidence in their investment ambitions.
- Cities should be **confident and proactive** in approaching the private sector to discuss how best to deliver their vision.
- Cities should **pool resources** and look at innovative approaches to access skills and resources they need to deal effectively with the private sector.
- Cities need to think creatively about how they can enable deals by **playing an active role in facilitating development.**
- Cities should work to **reduce procurement costs**, delays and risks.
- Cities should ensure they engage with their **Local Enterprise Partnership** to realise potential to access funding, co-ordinate investment across functional economic areas, and promote cities to investors.
- Cities should work together where they can be **more effective and efficient as a group**, including on joint promotion and profile-raising; provision of data about their cities; packaging development sites across cities; establishing joint expertise on local asset backed vehicles; and setting up procurement panels.
- Cities should pool resources and knowledge to make sure they understand how they **benefit from new financial mechanisms**.

For investors and developers

The private sector's reduced appetite for risk in uncertain economic times can result in missed opportunities, with investment limited to the largest UK cities. Development is crucial to generating growth and jobs, and private sector firms should look at all cities with buoyant economies and growth potential, including the Greater South East.

- Investors and developers should look for **opportunities beyond familiar locations**, and ensure they are fully informed about growth potential in a wider range of UK cities.

It is crucial for the UK economy that cities with growth potential become as adept as possible at attracting development to catalyse growth

- **Communication and conversation** needs to improve between cities and the private sector, and investors and developers should look beyond established networks for information about investment opportunities.
- Investors and developers should **give cities more information** about what they require. As development models have become more technically complex, cities understand them less.
- The private sector needs to be more willing to commit to **long-term investment in quality developments** to give cities the long-term commitment and investment they need.
- The private sector should offer cities a **greater share of the reward** as an incentive for taking on greater levels of development risk.

For government

Although localism reforms are intended to give cities greater control over their own economic destinies, the Government still has an important enabling role to play in making sure cities are freed from unnecessary constraints and enabled to attract investment.

- The Government should ensure the devolution agenda announced for the core cities in "Unlocking Growth in Cities" is extended to the rest of the UK's cities as quickly as possible.[39]
- The Government should give cities a more **active role in managing and developing ex-Regional Development Agency assets.**
- The Government should **provide support to Local Enterprise Partnerships** to ensure they are equipped to fulfil their roles as **strategic decision-makers** distributing funding streams and grants.
- The Government should ensure the **duty to co-operate** on planning is implemented across local authority boundaries.
- The Government should move fast to implement the recommendations of the **Killian-Pretty and Penfold Reviews** to help public agencies enable development most effectively.
- The Government should implement plans to **devolve responsibility to cities** for setting planning fee levels.
- The Government should ensure that the reforms to the local government finance system provide a **clear financial incentive for cities to permit development,** allowing cities to retain between 40-60 percent of additional growth for at least 10 years.

39. HM Government (2011) *Unlocking Growth in Cities* London: HM Government

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All views expressed in this report are those of the Centre for Cities and do not necessarily represent the views of those we interviewed. All mistakes are the authors' own.

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