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Funding and financing inclusive growth in cities

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Executive summary

Cities have a crucial role to play in supporting inclusive growth. They are home to 54 per cent of the population, and 60 per cent of jobs. Cities are where people try to find new work, training or support to progress. And cities have a central role to play in creating an environment to enable this. But with few powers to control or raise taxes locally and after nearly a decade of spending cuts from central government, it is becoming increasingly difficult for authorities to fund these activities.

While governments have been able to boast of record rates of employment in recent years, wages have stagnated and the levels of in-work poverty now exceed those of out-of-work poverty. This disconnection, with economic growth failing to translate into fewer people living in poverty, has driven inclusive growth up both the political and economic agendas.

In this context, it is important that cities find ways to increase revenues, leverage returns on their investment, encourage investment from other stakeholders, and coordinate the spend of organisations within cities to support better outcomes for residents at all levels of the income distribution.

This report explores the funding and finance options available to cities, and considers what types of approach are likely to be most appropriate. There are four approaches that cities could potentially take to fund and finance inclusive growth policy:

1. **Taxes and fees** – raising or retaining income from taxes, charges and fees
2. **Partnerships with financial intermediaries** – entering into financial partnerships to support inclusive growth and generate revenue streams
3. **Asset and property management** – ways of leveraging investment from the private sector to support economic regeneration
4. **Convening private investors** – maximising collective spend within cities and city-regions, and leverage further co-investment

A long list of options in each of these areas were reviewed in turn with consideration for how they link to inclusive growth; how feasible or deliverable mechanisms are likely to be in the UK context and in different cities; and the scale of funds or leverage potential associated with different approaches.

It also examines the ways in which national government can help widen cities' access to funding and finance to support better outcomes for their communities.

Every city should establish an Inclusive Growth Investment Commission.

Cities should establish Inclusive Growth Investment Commissions with three main objectives: 1) identify barriers to achieving inclusive growth, 2) develop financial mechanisms to address inclusive growth priorities, and 3) coordinate spend within the city or combined authority.

The Commissions should explore ways to raise revenue through the introduction or retention of taxes and fees. Cities are currently relatively limited in their ability to do this and many of the potential options would require a change in legislation. One of the most feasible options with a clear link to inclusive growth is the Workplace Parking Levy (WPL).

- Cities where applicable, should consider how the introduction of a WPL could help to fund and lever in additional investment for public transport.

The Commissions should also find ways to lever investment through financial instruments, land and assets, and their convening powers.

- Cities should consider supporting Responsible Finance providers with grant funding or capital lending to help fill the finance gap for businesses in need.
- Cities, particularly those with less buoyant economies, should consider how LABVs can be used to develop key sites to support economic growth.
- Cities should work with intermediary organisations to convene investors and donors to create place-based funds for inclusive growth policies.

These innovations cannot make up for the cuts in national government funding, lack of fiscal autonomy at the local level or the need for public service reform. It is also likely to remain far easier for cities with more buoyant economies to access funds and investment than less buoyant ones. The decisions made by national government continue to have a fundamental bearing on the ability of city authorities to fund policies that support better outcomes at the local level.

Government should:

- Allow cities to introduce a hotel tax as part of a broader set of measures to devolve more tax-raising powers to cities.
- Work with local authorities to pilot different forms of 'welfare earn-back' to enable public service reform.
- Abolish stamp duty on asset transfers between public sector organisations within a city or city region.
- Allow all cities to purchase land through Compulsory Purchase Orders (CPOs) at existing use value.
- Support city funds by creating additional incentives for donors and investors, through providing match funding and widening eligibility for existing tax reliefs.

Introduction

The disconnection between economic growth, employment and poverty has driven inclusive growth up political and economic agendas. While governments have been able to point to record rates of employment and continuing economic growth both before the financial crisis and since, for many people this has not translated into their everyday experience. Stagnant wages, rising costs of living and cuts to in-work benefits – such as Child Tax Credits and Housing Benefit – have seen real incomes decline for many people and levels of in-work poverty exceed out-of-work poverty. Many people are stuck on low wages and for some groups rates of progression out of low pay have fallen.[1]

Cities support inclusive growth in a variety of ways. On the demand side, cities invest to create environments that support businesses to thrive. On the supply side, cities invest in skills and training provision as well as transport and housing to ensure that residents are better able to access opportunities. Changes to local government funding mean that city authorities also have greater financial incentive to support inclusive growth in order to grow their tax base and reduce demand for services. And the new metro mayors have a democratic mandate to use their powers to support inclusive growth and deliver better outcomes for the communities they serve.

Yet, with unprecedented pressure on local budgets, funding these activities is becoming more difficult. With revenue streams under pressure, it is increasingly difficult for local authorities to fund mainstream activities and many discretionary services have been cut. Spending power has reduced most in cities where deprivation and need is highest.[2] In addition, at national level as more is being spent on health and social care, relatively less is being spent on policy areas – namely education and economic affairs – that play a fundamental role in supporting inclusive growth.[3]

There are three broad ways in which revenue gaps in cities can be plugged:

1. Influencing national borrowing and spending decisions;
2. Public service reform to maximise impact of existing spend and reduce demand on services;
3. Unlocking and coordinating sources of funding and finance at city level.

This report focuses on how city and combined authorities can unlock and coordinate sources of funding and finance. It explores the options available to city and combined authorities, and considers what types of approach are likely to be most appropriate. There are several examples of cities, both in the UK and internationally, utilising different forms of funding and financing for inclusive growth which can be replicated within the current operating context in the UK. Others require further devolution or the introduction of new financial mechanisms to enable cities to make use of them. To this end, the report also

1 D'Arcy C (2017) Low Pay Britain London: Resolution Foundation
2 Innes D & Tetlow G (2015) Central cuts, local decision-making: changes in local government spending and revenues in England, 2009-10 to 2014-15 London: Institute for Fiscal Studies
3 Source: Public Spending Statistics November 2017, HM Treasury

examines the ways in which national government can help widen cities' access to funding and finance to support better outcomes for their communities.

Box 1: Defining inclusive growth in UK cities

Inclusive growth is a broad term which can be interpreted in different ways, but at a minimum it requires that economic growth supports higher levels of employment and rising wages for people across the income distribution. For some, achieving inclusive growth means making relatively minor tweaks of the current economic system in order to connect people to growth. For others, much deeper reform of the economic model is required with inclusion viewed more highly in its own right.[4]

The OECD defines inclusive growth as: 'economic growth that creates opportunity for all segments of the population and distributes the dividends of increased prosperity, both in monetary and non-monetary terms, fairly across society'.

For the purposes of this report, supporting inclusive growth in cities is taken to mean designing and delivering a mix of policies that supports businesses to create more jobs and offer higher wages, and supports people from all backgrounds to access these opportunities.

4 Towards Inclusive Growth in Greater Manchester (2016) Manchester: Inclusive Growth Analysis Unit

Supporting inclusive growth in UK cities

Cities face a number of challenges with regard to supporting more inclusive growth.

- Firstly, at a time when there is growing demand for services and investment, continued austerity means that local authority budgets are under unprecedented pressure.
- Secondly, it can be difficult to operationalise inclusive growth as it can have different meanings to different people and institutions, and encompasses a broad range of policy areas.
- Thirdly, cities are relatively restricted in their ability to integrate and align different investment streams for more effective, tailored intervention.
- Fourth, a range of different organisations contribute to the delivery of inclusive growth in cities but this activity is often fragmented and uncoordinated.

This section explores these challenges and sets out the implications for cities.

Pressures on local authority budgets

Many of the local policies that support inclusive growth are delivered through a mix of capital (investment in physical assets such as roads and buildings) and revenue expenditure (day-to-day management of services and operations). The two, in interaction with one another, support the development of the physical and social infrastructure required to achieve better outcomes for local businesses and communities.

Revenue spending (funded through business rates, government grant and council tax) by local authorities in England has fallen across all service areas as budgets have been squeezed. Councils' revenue spending power fell by 26 per cent in real terms between 2009/10 and 2016/17, from £59 billion to £44 billion (excluding grants for education, police and fire services). Within this, funding from grants and retained business rates is 38 per cent lower than grant funding in 2009/10 and council tax revenues have fallen by 8 per cent.[5] Draw down from council reserves has meant that **local authorities' total spending power has reduced by an average of 23 per cent over the last seven years.** These cuts have been larger in more deprived parts of the country.[6]

In contrast, capital expenditure by local authorities in England increased. Capital spending can be funded by capital receipts, central grants, borrowing and finance, and minor sources such as the lottery. In 2015 prices, the amount of capital spending declined from £24.2 billion in 2009-10 to £19.8 billion in 2012/13, but has increased since then to £23.4 billion in 2016/17. Capital spending funded by borrowing followed a similar pattern, dipping from £5 billion to £4.4 billion before increasing to £6.8 billion

5 Amin-Smith N et al (2016) A Time of Revolution? British Local Government Finance in the 2010s London:The IFS
6 The most deprived tenth of councils saw spending cuts of 28 per cent per person, while the least deprived tenth cut spending by 16 per cent per person.

in 2016/17.[7] Minimising the revenue costs of servicing debt, which accounted for 7.8 per cent of revenue spend in 2014/15, is one of key challenges facing local authorities.[8]

Local authorities in Scotland and Wales have seen smaller but still significant reductions in spending power. Between 2009/10 and 2016/17, the overall cut to council revenues in Scotland was 8.5 per cent (or 10.3 per cent if education funding is stripped out) and in Wales was 9.6 per cent.[9] Northern Ireland's system of funding local government is very different to the rest of the United Kingdom, and is not covered in this report.[10]

The removal of EU funding also poses a challenge to certain local authorities. While the Government has guaranteed to replace the funds, the UK's exit from the EU opens up a potential funding gap of £8.4 billion for local authorities based on the last six-year allocation.[11] While accounting for a relatively small proportion of total spending on local economic development, it is an important source of funding for inclusive growth policies.

Making inclusive growth work in practice

Inclusive growth is a broad concept that means different things to different people and places, which can make it difficult to operationalise. All inclusive growth strategies need to connect economic and social policy, seeing one as a driver of the other. But variation in socio-economic outcomes across different cities demands a variety of policy responses from local government. Employment and skills policies will play a fundamental role in supporting business growth and better outcomes across the distribution in all cities, helping to support those out of work to access opportunities and those in work into better jobs and higher wages.

But the appropriate scale and nature of intervention relative to other policies is likely to vary between cities. From a built environment perspective, in Sunderland, a policy to develop Grade A office space in the city centre, cross-subsidised by the private sale of high-quality apartments on the seafront is an appropriate policy response to the particular challenge of weak private demand in the local economy. But similar policies in Cambridge, while likely to have a greater impact on local and national growth, are unlikely to be felt by local residents at the lower end of the income distribution. This is because more high quality jobs, not matched by a commensurate increase in housing supply can reduce the disposable income and quality of life of those in private rented accommodation.[12]

7 Sources: Local Authority Capital Expenditure and Receipts, England: 2016-17 Final Outturn Capital Expenditure and Receipts, 2016-17 Final Outturn (2017) DCLG; and Local Authority Capital Expenditure and Receipts, England: 2013-14 Final Outturn (Revised) (2015) DCLG

8 Source: (2016) Financial sustainability of local authorities: capital expenditure and resourcing National Audit Office

9 Amin-Smith N et al (2016) A Time of Revolution? British Local Government Finance in the 2010s, London: The IFS

10 In summary more services are provided at the 'national' level and councils retain more of their local tax base. An introduction can be found here https://www.communities-ni.gov.uk/articles/funding

11 Based on the current ESIF programme, England and the devolved administrations are set to receive a total of €10.5 billion (£8.4 billion) from the period 2014-20

12 Kemeny, T and Osman, T (2017) The Wider Impacts of High-Technology Employment: Evidence from U.S. Cities London: London School of Economics

Ability to integrate and align relevant investment streams

Due to budget silos and short-term funding cycles, services tend not to be joined-up in a way that best addresses the needs of communities, particularly individuals and households with complex needs. Community Budgets were introduced by the 2010-2015 Coalition Government in an attempt to shift the focus of spending on to people and places through an outcome-based approach, and demonstrated the potential of place-based public sector reform to deliver improved outcomes. But more substantial and systemic reform to existing delivery models is required to enable cities to integrate and align relevant investment streams over the long term.

Fragmentation among investors and delivery agencies

Difficulties in defining inclusive growth are compounded by fragmentation between the range of organisations funding and delivering inclusive growth interventions in a city. In any one city there will be multiple organisations funding and delivering interventions that have an impact on socio-economic outcomes. These include: different departments within local authorities; national departments and agencies; education and training providers; foundations and community-based organisations; and the private sector. These interventions can be complementary, act in isolation, or work against each other.

Many firms' activities in a city pursue inclusive growth. This activity is done not only out of civic duty but also in the interests of good business: a better educated young population, a more pleasant city to live in, and greater demand in the local economy are good for cities and firms. A mental health charity focused on ensuring that people have the support to look after themselves independently, and find and keep a job, is good not only for a person's wellbeing but also the local economy. There are numerous different actors supporting inclusive growth in a city, whether conscious of their position in the wider system or not.

Cities have an important role to play in coordinating different organisations, providing strategic oversight and aligning investment for maximum impact.

Implications for cities

It is in this context that cities are exploring alternative funding and financing options. For example, the West Midlands Combined Authority (WMCA) has established a 'Funding for Growth' commission to explore all the options available to them, and Bristol Mayor Marvin Rees is working with partners to establish a series of 'civic-led, business-focused Strategic City Funds' to support the city's inclusive growth strategy. Both involve attempts to raise revenue and coordinate existing spend. The London Finance Commission convened international experts to explore ways to improve the capital's fiscal position and made a number of calls for fiscal devolution.

It is increasingly important that city and combined authorities find ways to increase revenues, leverage returns on their investment, encourage investment from other stakeholders, and coordinate spend of organisations within cities. While these innovations cannot make up for the cuts in national government funding, restrictions on increasing council tax or lack of wider public service reform,[13] policy innovations can make cities more attractive for private investment and/or help populations with particular needs.

The next section explores the options available to city and combined authorities.

13 Public service reform, as discussed, is fundamental to achieving more inclusive growth but is not in the scope of this report.

Reviewing the funding and finance options available to city and combined authorities

The starting point for any city or combined authority considering the options laid out in this report is to ensure there is clarity about what types of policy are going to most effectively support inclusive growth. While it is not within the scope of this report to define which policies are most effective, there is a growing body of evidence on the socio-economic impacts of different types of policy. Cities should focus on initiatives that maximise inclusivity and local growth with the help of organisations like the What Works Centre for Local Economic Growth, the Education Endowment Foundation,[14] Joseph Rowntree Foundation's Cities, Growth and Poverty programme, and the RSA Inclusive Growth Commission.

Any new approach to unlocking funding and finance needs to be considered in light of inclusive growth priorities and the local financial context. There is variation within the UK, partly because the funding levers made available through devolution deals were tailored to individual local areas, and because the economic scale and nature of cities varies. For example, larger and more wealthy cities are more likely to have a range of funders and financers that they can draw together to co-invest in projects as well as the institutional structures to enable this activity.

There are also differences between the devolved administrations. For example, it is not yet legal to introduce Workplace Parking Levies (WPLs) in Scotland. Local authority spending power has not fallen as sharply in Scotland and Wales compared to England. Each city and combined authority needs an approach and a set of instruments adapted to its own situation.

Recommendation: Every city should establish an Inclusive Growth Investment Commission.

Cities should establish Inclusive Growth Investment Commissions. The scale and nature of the commissions will vary according to city size and local context but all should have three main objectives: 1) identify inclusive growth priorities, 2) develop financial mechanisms to address inclusive growth priorities, and 3) coordinate spend within the city or combined authority.

There are four different types of approach that city and combined authorities could potentially take to fund and finance inclusive growth policy. The four pillars are:

1. **Taxes and fees** – raising or retaining income from taxes, charges and fees
2. **Partnerships with financial intermediaries** – entering into financial partnerships to support inclusive growth and generate revenue streams

14 See http://www.whatworksgrowth.org/ and https://educationendowmentfoundation.org.uk/ for further information

3. **Asset and property management** – ways of leveraging investment from the private sector to support economic regeneration
4. **Convening private investors** – maximising collective spend within cities and city regions, and leverage further co-investment

The long list of options in each of these areas were reviewed in turn with consideration for how they link to inclusive growth; how feasible or deliverable mechanisms are likely to be in the UK context and in different cities; and the scale of funds or leverage potential associated with different approaches (Box 2). Evidence of policy effectiveness of these mechanisms is also an important consideration.

The options that score most highly on these criteria are discussed in the following sections. Each section includes:

- A brief review of the options within each pillar
- A key recommendation for cities to consider
- Other potential mechanisms that cities may consider
- Recommendations for national government

Box 2: Criteria for assessing new approaches

Seven criteria have been applied to assess how appropriate different options are likely to be for city and combined authorities.

1. **Link to inclusive growth** – Is there a clear link between the mechanism and policies to support inclusive growth?
2. **Legal feasibility** – Can cities introduce the mechanism immediately, or would it require a change in government legislation?
3. **Political feasibility** – Would the mechanism be popular, or require the sacrifice of significant political capital?
4. **Operationally feasible** – Would the mechanism successfully deliver increased investment or revenues, and inclusive growth?
5. **Sufficient scale** – Will the mechanism raise sufficient revenue to support change that leads to more inclusive growth?
6. **Timescale** – Will this generate income over the short or long term, or both?
7. **Level of risk** – What level of financial risk is involved and how does this weigh up against the potential rewards?

All seven of these criteria need to be considered in relation to the others. For instance, a policy which does not require politically costly reform but which raises a relatively small amount of revenue is a less attractive policy than one which is somewhat controversial but has the potential to unlock millions of pounds in funding.

1. Raising revenues to invest in inclusive growth

Introducing new taxes and fees, and raising or retaining existing ones, can help city authorities fund initiatives that support inclusive growth. Yet UK cities are relatively restricted in their ability to raise additional revenue through taxation, as they have far less fiscal autonomy compared to international counterparts.[15]

Central government has a significant degree of control over cities' largest sources of income – business rates and council tax. The previous Government committed to allowing local authorities to retain 100 per cent of business rates raised locally but the Local Government Finance Bill has not been reintroduced since the general election. Meanwhile council tax remains the only localised tax stream but local authorities are limited in their ability to increase it[16] and it has not been re-banded in England o Scotland since 1991 and in Wales since 2003.

It is illegal for local authorities in the UK to introduce new taxes and fees unless that power has been explicitly granted by Parliament. The powers that international cities have to raise revenue, such as New York's proposed soda tax or Frankfurt's dog tax, are unavailable to cities in Great Britain.

One of the areas where cities do have the power to raise taxes to fund inclusive growth is from fees around road transport, including emissions zones or Clean Air Zones, congestion charging and WPLs. Of these, WPLs represent the most viable option in terms of generating additional revenues to support inclusive growth.

Clean Air Zones will be implemented in some British cities as part of the Government's Air Quality Plan[17] but cities are being encouraged to consider alternative options to charging and any revenues generated will need to be allocated to supporting the transition away from the most polluting vehicles. Congestion charges represent an efficient way to raise funding to finance inclusive growth, but will either have to be delivered by referendum or a manifesto promise in order to be politically viable.

WPLs, on the other hand, are legal and politically feasible, can raise (and leverage in) significant revenue and can support more inclusive growth by providing investment for public transport. The WPL took almost a decade to introduce in Nottingham, but it now raises £9 million a year for Nottingham City Council. Now that the levy has been introduced in one city, it could be implemented elsewhere in three to five years. Cambridge and Oxford are both in the process of introducing a WPL and Leeds is currently consulting on a WPL.

> *Recommendation: Cities should consider how the introduction of a Workplace Parking Levy could help to fund, and lever in additional investment for, public transport.*

15 Slack, E (2016) International Comparison on Global City Financing: A report for the London Finance Commission, University of Toronto
16 With some exceptions for funding allocated for social care, increases above 5 per cent for unitary authorities and 2 per cent for district councils need approval by local referendums
17 Source: Department for Environment, Food and Rural Affairs (2017) UK plan for tackling roadside nitrogen dioxide concentrations

Using a Workplace Parking Levy to support investment in public transport

Overview and link to inclusive growth

The Transport Act 2000 allows local authorities, with sign off from the Secretary of State, to introduce a parking levy licensing scheme on employers, with the condition that revenues are spent on transport. This aims to reduce congestion by increasing the cost of road use for drivers, and encouraging workers onto other forms of transport. It also has the potential to raise revenue for transport budgets.

Using the revenues generated from the WPL to invest in public transport, particularly bus services, helps to improve access to job opportunities for those on low incomes who are less likely to own a car.[18] It can also have wider economic benefits through the reduction of congestion and journey times, and health benefits through decreases in pollution, as evidenced in Nottingham (Case Study 1).

Assessment criteria	Workplace Parking Levy
Link to inclusive growth	Reducing congestion drives economic growth and makes it easier for firms to do business. Investment can be funnelled into expanding public transport networks and subsidising bus transport. Cutting congestion also reduces pollution, which is disproportionately experienced by low income households that are less likely to drive.
Legal feasibility	Needs sign off from the Secretary of State but currently legal.
Political feasibility	Viewed as less contentious than the congestion charge. Succeeded in Nottingham but requires strong and consistent leadership.
Operationally feasible	Works in Nottingham and met the expectations of their model.
Sufficient scale	Raises £9 million per year in Nottingham, and for every £1 raised £3 of other funding is levered in.
Timescale	Can be established in three to five years and raises revenue consistently from that period onwards.
Level of risk	Upfront and ongoing costs are low (£300k and £500k respectively in Nottingham).

Note: Barnes J and Chatterton T (2017) An Environmental Justice Analysis of Exposure to Traffic-Related Pollutants in England and Wales WIT Transactions on Ecology and the Environment 210, no. 12: WIT Press

Case study 1: Nottingham Workplace Parking Levy

Nottingham City Council is the only local authority to have used the powers granted to them in the Transport Act 2000 to establish a levy on workplace parking spaces to date.

The WPL was introduced in 2012 and applies to the administrative area of Nottingham City Council. The levy is an annual charge of £387 per parking place for employers with 11 or more spaces for 2017-18. Every workplace parking space is licensed, and employers with 10 or fewer spaces receive a 100 per cent exemption, creating a complete database of parking spaces in the city. Annual increases in the charge are linked to increases in inflation. Disabled parking spaces and 'blue light' services are exempt.

18 Source: Department for Transport (2017) National Travel Survey

Revenue generation and investment

- The levy raises £9 million a year which is used to fund improvement to public transport in the city and costs around £500,000 a year to run.
- It achieves 99 per cent compliance from employers[19] and about half of firms pass the costs of the levy down to their employees.[20]
- All funds are ring-fenced for transport improvements, including the tram and bus network and the redevelopment of Nottingham Rail Station.
- The city has used the money to bid for other sources of match funding in investment into the city: for every £1 raised, £3-4 of other funding is levered in. The Department for Transport (DfT) matched £221 million of local funding that included the WPL with £432 million for the extension of the city's tram network.[21]

Impacts

Public transport usage is now among the highest of any city in the UK.[22] This partly results from a local culture and policy of municipal public transport (Nottingham City Council retains majority ownership of the local bus company), which has been supported by the WPL. Nottingham was the only Core City in England to see congestion fall on A-roads in the morning rush hour from 2012, when the levy was introduced.[23] CO_2 also fell 33 per cent across the city (albeit not just because of the levy).[24]

There is little evidence that it has had a negative effect on the city's business stock.[25] A longer term impact will be that the land previously used for parking will be converted to the public realm, and residential and commercial uses. For example, the University of Nottingham has expanded onto land that was previously used for university car parking before the levy was introduced.

Estimated impact in other cities

Cambridge is in the process of introducing a WPL. The city estimates that it has 41,100 car parking spaces in sites with more than 10 spaces (including a few car parks located outside city limits such as in the Science Park) and that demand for spaces was roughly 24,000.[26] Cambridge expects that after firms remove unnecessary spaces, there will be between 20-30,000 spaces subject to the levy. As the levy is charged on spaces rather than users, the city could expect to raise with an annual levy of £375 between £7-11 million a year.[27]

19 Hallam N (2016) Workplace Parking Levy, Nottingham, UK WWF Scotland https://www.wwf.org.uk/sites/default/files/2016-12/nottingham%20case%20study%20-%20 Workplace%20parking%20levy.pdf

20 Nottingham City Council (2017) Council Tax Annual Report 2017/18 https://www.nottinghamcity.gov.uk/council-tax/how-council-tax-is-calculated-and-used/; documents.nottinghamcity.gov.uk/download/2629.

21 Hallam N and Gibbons A A winning policy: Nottingham's Workplace Parking Levy accessed November 13, 2017 http://www.bettertransport.org.uk/blog/better-transport/winning-policy-nottinghams-workplace-parking-levy

22 Source: Centre for Cities Data Tool, ONS Census 2011 http://www.centreforcities.org/data-tool/#graph=bar&city=show-all&indicator=commuting-by-bus-train-or-metro\\single\\2011&sortOrder=high

23 Dale S, Work Place Parking Levy - Nottingham City Council accessed November 13, 2017 https://www.local.gov.uk/work-place-parking-levy-nottingham-city-council

24 Deakin L Nottingham sees 33% reduction in CO2 emissions accessed on November 13, 2017 https://www.airqualitynews.com/2016/08/18/nottingham-sees-33-reduction-co2-emissions/

25 Joseph S Using Parking Policy and Parking Levies to Tackle Transport and Environmental Issues accessed November 13, 2017, http://www.aparking.co.uk/wp-content/uploads/2015/12/Stephen-Joseph-Powerpoint.pdf

26 Mott McDonald (November 2016) Cambridge Private Non- Residential Parking Study Cambridgeshire County Council https://citydeal-live.storage.googleapis.com/upload/www.greatercambridge.org.uk/transport/transport-projects/Cambridge Private Non-Residential Parking Study.pdf

27 Mott McDonald (May 2016) Cambridge Access Study Cambridgeshire County Council https://citydeal-live.storage.googleapis.com/upload/www.greatercambridge.org.uk/transport/transport-projects/City Access Short List Report.pdf

Issues for cities to consider

- **The WPL cannot be implemented by combined authorities or Scottish local authorities.** The introduction of WPLs is legal in England and Wales, but not Scotland. Combined Authorities are not able to introduce WPLs (it would need to be transferred from districts by affirmative order from the DfT Secretary of State) but they can help local authorities within the Combined Authority area to implement and manage a joint WPL scheme.
- **The 11+ threshold reduces costs for the smallest businesses and local authorities.** All workplace parking spaces are included in a database to ensure it is complete, and firms with 10 spaces or fewer are given a 100 per cent exemption from the fee. In Nottingham's case, this reduced the amount of spaces they were levying from 50,000 to 25,000, but also reduced the administrative burden from 3,000 firms to 500.
- **The WPL is likely to work best in cities that are relatively contained and well-bounded.** There is less likelihood of businesses relocating just over the city boundaries to avoid the levy in areas where the administrative boundary matches the functional economic area. Large urban areas encompassing multiple local authorities can solve this by establishing a joint WPL with neighbouring councils.
- **The introduction of a WPL is likely to be more feasible in cities where there is relatively high public transport usage.** It may be easier to build a business case and public support for the scheme in cities such as Cardiff, Liverpool, Reading and Sheffield where public transport usage is already relatively high.
- **It could take several years to implement a WPL.** It took Nottingham City Council from 2000 to 2009 to get the WPL Scheme order approved before charging commenced in 2012. The city took a risk in being the first to introduce a WPL and had to employ lawyers to write the secondary legislation themselves. Nottingham has established a workable scheme and is willing to support other cities in implementation.[28] Cambridge is currently in the process of implementing a WPL and estimates it will take three to five years.
- **Longer term trends in transport could affect the effectiveness of WPL – and other road charging schemes – in the future.** Any review of transportation fees must take into account the changes taking place in road transport, from changes in delivery patterns to more radical transformation related to autonomous vehicles and car ownership. The increasing popularity of electric vehicles raises the prospect of future declines in fuel duty. And cities should be thinking now about how they will manage congestion and pay for transport infrastructure in an era when the traditional link between increases in road use and fuel duty revenues will weaken.

28 Hallam N & Gibbons A, A winning policy: Nottingham's Workplace Parking Levy accessed November 13, 2017 http://www.bettertransport.org.uk/blog/better-transport/winning-policy-nottinghams-workplace-parking-levy.

Next steps for cities

- **Develop a clear understanding of how the WPL relates to the Local Transport Plan – and inclusive growth strategies.** Plans to introduce a WPL must emerge from a local transport plan and should ultimately lead to improvements in public transport. Cities should consider how the WPL could be used in combination with the powers introduced through the Bus Services Act to improve local bus service provision. Consideration should also be given to how transport strategies can support more inclusive growth by improving the provision of public transport between deprived neighbourhoods and centres of economic activity.
- **Gather evidence to inform decision making.** This should include: understanding traffic flows, who and where would be affected, modelling revenue (see Box 1) and behavioural shifts at difference price points and geographies.
- **Prepare a business case and engagement plan that sets out a clear narrative of the positive impacts a WPL can have.** Local authorities must also demonstrate that they have consulted local businesses and addressed their concerns to achieve scheme approval. Bristol nearly implemented a WPL that would have raised £27 million, but abandoned it due to opposition from local businesses. To ensure the business case is as strong as possible city authorities should allocate some of the spending to meeting specific transport concerns of local businesses, and seek out external match funding from central Government.

Other potential revenue-raising measures

The WPL may be less efficient at raising revenue, or reducing congestion, compared to a model similar to London's Congestion Charge (see Case study 2), particularly in larger cities. A London-style Congestion Charge is, however, more politically contentious and more expensive to establish with set-up costs running to £175 million.[29] As road transport changes through technological change, dynamic road pricing or other methods may end up being more appropriate than a congestion charge.

Case study 2: Congestion charging in London

Taxing congestion raises revenues for London while changing behaviour, making it an efficient form of taxation, and one ideal for large cities.

London's Congestion Charge (CC) is an £11.50 daily charge for driving a vehicle within the central London charging zone between 07:00 and 18:00, Monday to Friday. There is an ongoing debate about extension of London's congestion charge and ways to improve it.[30]

Revenue generation and investment[31]

- The CC will raise £174 million net in 2017/18 – 3 per cent of Transport for London's (TfL) operating income, and 21 per cent of non-fares operating income. This does not include the revenue raised by encouraging people to ride public transport.
- £75 million (43 per cent of revenue from the CC) is spent on TfL's bus network.

29 Blow L, Leicester A, and Smith Z, (2003) London's Congestion Charge London: The IFS
30 For example, Quilter-Pinner H and Laybourn-Langton L, (2016) Lethal and Illegal – London's Air Pollution Crisis London: Institute for Public Policy Research
31 Transport for London (2016) TfL Mayor's Budget 2017/18

Impacts

- The CC raises most of its revenue from individuals in the richest quintile, who are more likely to commute by car. The overall impact is disproportionately progressive as it expanded and subsidises public transport used most by low income residents.[32]
- Traffic fell by 21 per cent between 2002 and 2008, while delays fell by 30 per cent and public transport usage increased 18 per cent over the same period.[33]
- Environmental benefits included a 16.4 per cent decrease in CO_2 and 13.4 per cent decrease in NOx in the first year.[34]

Public support was initially low and declined prior to introduction of the CC, but rose following its implementation (a pattern also seen in international cities with road pricing). The percentage of Londoners opposed to it fell from 72 per cent to 36 per cent five years after its introduction.[35]

National government's role

As discussed, there are a number of taxes that local government in the UK does not have any control over or the power to implement. There are strong arguments from the perspective of local government funding for increasing city autonomy with regards to taxation, such as allowing cities with large tourism industries to introduce a hotel tax or levy.[36] Allowing cities to introduce new taxes or retain existing ones would enable cities to better respond to their unique circumstances and deliver better outcomes for local businesses and communities.

> *Recommendation: National government should allow cities to introduce a hotel tax as part of broader devolution of more tax-raising powers to cities.*

A hotel tax or levy would require tourists to pay a duty for every night they spend in a hotel. This could either be on top of VAT or as a slice of current VAT on hotel rooms (20 per cent). The rational is that tourists enjoy cultural attractions and many public goods (parks, policing, transport) without bearing the same costs as UK or city taxpayers, and impose costs through increased pollution and congestion. Any proposal for a hotel tax would need to consider how sensitive hotel demand is to price changes which can vary across different markets.[37] London modelled that a 5 per cent tax would raise £240 million in the capital. Edinburgh has also developed proposals as part of its devolution negotiations to raise £15 million from hotel taxes. This revenue could be used to fund free entry to cultural institutions that also have an educational purpose, public infrastructure or training programmes to help young people to access employment opportunities in the tourism and hospitality sectors.

32 Blow L, Leicester A, and Smith Z, (2003) London's Congestion Charge London: The IFS
33 Asian Development Bank and Deutsche GIZ (2015) Introduction to Congestion Charging - A Guide for Practitioners in Developing Cities
34 Transport for London (2006) Impacts Monitoring - Central London Congestion Charging
35 Asian Development Bank and Deutsche GIZ (2015) Introduction to Congestion Charging - A Guide for Practitioners in Developing Cities
36 For example Travers T (2017) Devolution: A Capital Idea London Finance Commission
37 Daley, M (2017) Options for a tourism levy for London: a publication for the London Finance Commission, GLA Economics

2. Using financial intermediaries to invest in inclusive growth

Financial intermediaries can be used in a variety of ways to support inclusive growth. Many local authorities use financial intermediaries, such as the Public Works Loan Board (PWLB), to access finance as cheaply as possible. This helps to reduce the cost of existing debt – easing pressure on skills and business support budgets, for example – and to support capital spending that will increase revenues or reduce other outgoings. This includes investment in new infrastructure and the purchase of assets by the city as part of their delivery of public services or economic development strategy. They can also be used to leverage investment on top of local authority funding and save local authorities money over the longer term.

Cities are increasingly using mechanisms such as municipal bonds and social impact bonds to deliver a range of economic and social outcomes. Some of these have been combined into complete strategies, such as Greater Manchester Pension Fund's investment into Bridge Ventures, which went on to provide finance for a social impact bond (the 'Teens and Toddlers' scheme in Liverpool).[38]

Yet because cities can borrow from the PWLB at low interest rates, uptake of more innovative financial instruments has been relatively low in the UK. Over three quarters (76 per cent) of all external borrowing by local authorities is from the PWLB.[39] While more recently there have been some notable examples where bonds have beaten the PWLB rate, such as the 'Brummie Bond' launched in 2017 to increase the rate of housebuilding in Birmingham, local authorities did not engage in any major bond issues between 1994 and 2010.[40] As borrowing increases and revenue incomes fall, servicing debts is becoming more difficult for cities, meaning that demand for more innovative approaches is likely to rise.

Social impact bonds (SIBs) are popular but their design – borrowing to achieve social outcomes and only repaying to investors if certain targets are met – is difficult to scale, and riskier than most bonds which can expect very stable returns. A successful initiative in Peterborough to reduce reoffending shows SIBs can be used to finance successful initiatives.[41] However it did not provide evidence that the SIB, as opposed to other financial mechanisms, was critical to its success.

Responsible Finance providers (RFPs) are financial intermediaries that can be used to leverage investment that supports inclusive growth by improving businesses' access to finance. It can also provide a financial return to cities that can be used to support further inclusive growth policies. Unlike the concept of regional banks, enterprise-lending RFPs offer an additional service, and are not competing with banks, due to their focus on specific area of market failure. This is the paradox: viable SMEs often struggle to access external financing to improve their capital stock because they do not have enough capital to use as collateral for secured lending.

> *Recommendation: Cities should consider supporting Responsible Finance providers with existing grant funding or capital lending to help fill the finance gap for businesses in need.*

38 'Bridges launches new 'Evergreen' permanent capital vehicle for mission led business' accessed November 13, 2017 http://www.bridgesfundmanagement.com/bridges-launches-new-evergreen-permanent-capital-vehicle-mission-led-businesses/
39 National Audit Office Local authority capital expenditure and resourcing Accessed on November 13, 2017 https://www.nao.org.uk/tableau-local-authority-capital-expenditure-and-resourcing/
40 Aisbett A (2016) A New Dawn for Municipal Financing Instruments? Berwin Leighton Paisner
41 Ministry of Justice (2017) Peterborough social impact bond: background

Investing in Responsible Finance providers to support local businesses

Overview and link to inclusive growth

Responsible Finance providers (RFPs), formerly known as Community Development Finance Institutions (CDFIs), are a type of non-profit lender focused on lending to credit-worthy firms, social enterprises and individuals who are unable to access finance from high street banks (see Case study 3). Significant funding is available from national government to support RFPs and those investing in them in the form of tax incentives and guarantees.

Individuals who are financially excluded and unable to access credit can find it difficult to sustain employment or participate in training. Almost 100,000 small businesses and approximately £4 billion worth of applications for debt are rejected each year.[42] Size, rather than their ability to service debt, is a major obstacle for businesses trying to access loans, alongside a lack of collateral or a track record of repayment. Business lending is also unregulated and as a result the credit on offer to businesses may be very expensive. Without access to finance, small businesses may struggle to grow or may be forced to close, limiting the range of economic opportunities available to individuals within a city.

RFPs help to solve an important market failure and support inclusive growth. They provided 47,500 loans in 2016 worth a total value of £242 million. These loans are often made in areas of high deprivation and lower volumes of bank lending.[43] These institutions could have a more significant impact but they often struggle to access the capital to scale up their lending activity. Cities could help resolve this problem either by providing first loss grants or capital lending.

Assessment criteria	Investing in Responsible Finance Providers (RFPs)
Link to inclusive growth	Helps under-served businesses and individuals to access finance, supporting business growth and social inclusion
Legal feasibility	Birmingham City Council and a number of other local authorities have provided financial assistance to RFPs
Political feasibility	Many city authorities already provide business support and grants
Operationally feasible	Relies on the performance of individual RFPs. This form of business support should be more efficient than measures such as business rates relief.
Sufficient scale	Using 'first loss' mechanisms, effective RFPs aim with every £1 to guarantee and leverage in £4-5 of external finance
Timescale	Investment in businesses will take time to feed back through higher business rates and other forms of local taxation. Financial returns from capital lending can be realised within three years, but more normally five.
Level of risk	Some risk, but methods such as guaranteeing loans rather than upfront investment in RFPs can minimise exposure of the local/combined authority while facilitating additional investment

42 BBRC Continental (2016) SME Finance Monitor Q2 2016
43 Responsible Finance (2017) Lending maps

Role for cities

Cities can provide financial support to RFPs in three ways:

1. **First loss grant** – Cities can provide RFPs with 'first loss' funding. RFPs can then leverage that investment to allow them to expand lending activity. Here local authorities would agree to bear first losses in an investment in order to catalyse the participation of co-investors that otherwise would not have entered the deal. The aim is to use RFPs as a financial instrument to support business and job growth in the local area rather than achieve a direct financial return.
2. **Capital lending** – a number of local authorities have provided capital lending to RFPs, typically with a return between 0.5 and 2 per cent for three to five years.
3. **Encouraging others to invest and widening reach of RFPs** - In addition to first loss grants and capital lending, there are other ways cities can help. Cities can encourage investment in RFPs operating in their areas, by promoting the improvements in risk/reward ratios offered by recent changes to allow the Enterprise Finance Guarantee (see below) and the Community Investment Tax Relief to be used in combination.[44] They can also help to widen RFPs' reach through referrals and information provision. Councils also have large amounts of data on local businesses which can help give RFPs a better understanding of the area they are trying to serve.

Investing in RFPs is a more efficient way of supporting businesses compared to grants to support overhead and outreach. RFPs' pursuit of returns across its loanbook allows them to manage this considered risk and recycle the same funds multiple times in a way that it would be impossible and unreasonable to expect from a local authority. The Enterprise Finance Guarantee (EFG), a government loan guarantee scheme, also helps to reduce the risk of investing in RFPs. The EFG can be used to cover up to 75 per cent of a loan to an SME in case of default, up to 15 per cent of the total portfolio of the lender if the RFP is an accredited lender. This is intended to act as a substitute for the collateral that SMEs can struggle to raise even if they are viable firms.

As cities' financial autonomy increases with business rates devolution, they will have to keep better track of how private investment into the local economy feeds back into business rates and funding for local services.[45] Partnering with RFPs to understand the role they play in sustaining businesses that support local public services will be increasingly important for cities.

44 The CITR allows investors to claim 5 per cent in tax relief every year for five years – so for example, a £50,000 investment in an RFP would reduce the income/corporate tax liability for the investor by £12,500 over that period. (See: https://www.gov.uk/hmrc-internal-manuals/community-investment-tax-relief-manual/citm9900) By combining this with the EFG, the risk of investing in RFPs is reduced, meaning RFPs can attract more private investment into local businesses.

45 For more information see the new Bessis H (2017) Business Rates: Maximising the Growth Incentive across the Country London: Centre for CIties

Case Study 3: ART Business Loans, West Midlands

ART is an RFP that specialises in solving the market and public policy failure of credit-worthy SMEs in the West Midlands unable to access their full requirement from high-street lenders. Firms at this point in their growth need capital to fund their expansion, but also need collateral to guarantee their loans to conventional lenders, which they do not have as they have not yet expanded. RFPs specialise in lending to this group.

ART began in the 1990s lending out £2,000-40,000 for a planned first year loanbook of £200,000, starting with a grant of £40,000 from Barrow Cadbury.

Now, ART has a loan book of £5.6 million, lends £3 million a year, has access to a £4.5 million line of credit from Unity Trust Bank and has used first loss funding provided by local, regional and national sources as leverage. These have included Birmingham City Council, Advantage West Midlands (AWM, the former Regional Development Agency), Phoenix Fund and Regional Growth Fund. ART now has an operating profit of £91,000 in 2017, which is used to write-down bad debts due to its status as a non-profit.[46]

Importantly, the money is recirculated, allowing much larger scale than grants. The aim is for SMEs to graduate out of needing to use RFPs, and this is achieved by the pursuit of high returns while accepting losses.

Firms lent to include local service providers, such as cafes and caterers, to high-tech firms, including Syntax (cloud-based spreadsheet solutions), Aceon Technology (exporting portable solar technology), Reynolds Engineering (high-value cycling components) and KPM Marine (marine engineering).

Estimated impact in other cities

If a city gave a £500,000 loan to an RFP aiming for a return of 2 per cent over five years, the city would be able to expect a return of £510,000 at the end of that period. If the RFP was able to effectively use every £1 of that financing to leverage in an additional £5 of finance, a total of £2.5 million in private investment could be leveraged into the city.

Issues for cities to consider

- **Different cities will have different RFPs with different goals, methods and viabilities**. It may be appropriate to form an agreement for the provision of services with providers based outside the city or combined authority boundaries.
- **There are likely to be lower levels of risk involved in investing in RFPs that have achieved scale (operating at the city region level, for example)**. Like other financial institutions, RFPs spread risk across a portfolio of clients. By operating across a larger area with a greater number of firms such as a city region, RFPs will be able to reduce their risk and offer more competitive rates to businesses and investors, while still concentrating investment within city economies.
- **Other public bodies may be also be investing in local RFPs.** National funds distributed by the British Business Bank such as the Northern Powerhouse Investment Fund and the Midlands Engine Fund have close links with RFPs, such as Finance for Enterprise in Doncaster. It is important that cities consider how their investment may interact with others in order to maximise returns.

46 Venning N and Walker S (2017) ART Business Loans Annual Report 2017 ART Business Loans

Other potential measures

RFPs are one of a number of instruments available to cities when thinking about improving inclusive growth. Municipal bonds, involving cities borrowing from private capital markets as opposed to from banks or the PWLB, have experienced a small resurgence in recent years. These allow cities to free up revenue spending originally earmarked to service debt for use on social services and inclusive growth. PWLB rates track the Government's borrowing rate and will therefore normally remain competitive. Yet recent increases by the Government to the PWLB rate mean that private capital is in some circumstances able to offer a cheaper rate to local authorities,[47] as in the case of the municipal bonds used by Birmingham and Warrington (see Case Study 4). If private capital could be used to secure cheaper borrowing for cities than the PWLB can provide, then this would reduce debt repayments for cities and free up money for revenue spending in the medium term.

Case study 4: Use of municipal bonds in Birmingham and Warrington

Municipal bonds are a common tool to finance capital spending in international cities but their use is uncommon in the UK.

Birmingham City Council's municipal bond, known as the 'Brummie Bond', was launched in April 2017 to finance investment in housing in the city. Phoenix Life (based in Birmingham) agreed to lend £45 million to the council in three tranches of £15 million at an average rate of 2.3 per cent, with 18, 20 and 24 year durations. The Council claims the deal makes a saving of £1.4 million in revenue spend on interest over the life of the bond.[48] The same amount from the Public Works Loan Board would be charged at 2.75 per cent.

The deal is still relatively new but it already shows importance of:

- Beating the PWLB rate – if private borrowing can only provide borrowing at a more expensive rate than the PWLB, then the PWLB is the more attractive option
- Providing right incentives to private investors – Phoenix Life are a pension fund looking for a steady return over a long time frame to make their asset portfolio stable

Similarly, Warrington issued a £150 million bond linked to inflation and capped at 3.8 per cent that saves £12 million in total compared to the PWLB in 2015, which was the first in over a decade.[49] This allowed Warrington not just a cheaper rate than the PWLB, but it also gives the council flexibility about when it can access future tranches of financing. This was after a process of acquiring a credit rating, updating auditors, and taking the time to risk assess each offer and confirm the viability of the final bond offer.[50]

Local government pension schemes (LGPSs) have also been identified as a potential source of finance for cities. Pension funds' primary objective is to achieve a return on their investment, although LGPSs have merged in recent years and have billions of pounds in assets under management. Pensions funds have a responsibility to their members and cannot over-expose themselves to particular geographies, but there is scope to increase investment in their domestic cities when investment is presently very low.

Moderate approaches such as Greater Manchester's Pension Fund's investment in the North West (see Case Study 7) are achievable in other cities and city regions. For instance, Mayor Andy Street has

47 Aisbett A (2016) A New Dawn for Municipal Financing Instruments? Berwin Leighton Paisner
48 Lloyds Bank Commercial Banking facilitates first £45m 'Brummie Bond' for Birmingham City Council accessed November 13, 2017 https://www.lloydsbank.com/assets/media/pdfs/press-releases/2017/170512-lloyds-bank-brummie-bond-press-release.pdf
49 Warrington Council issues £150m bond deal accessed November 13, 2017 https://www.localgov.co.uk/Warrington-Council-issues-150m-bond-deal/39296
50 Mather D, Warrington's bond journey accessed November 13, 2017 http://www.room151.co.uk/treasury/warringtons-bond-journey/

identified that the West Midlands' local government pension fund does not invest in the West Midlands and is exploring how the combined authority might secure investment from the fund.

Case Study 5: Greater Manchester Pension Fund

Greater Manchester Pension Fund (GMPF) is the largest local government pension scheme (LGPS) in the country, with more than 350,000 members from 470 different employers across the 10 Greater Manchester boroughs and the nationwide probation service. It has £17.3 billion in assets under management.

Investing locally is part of its strategy with the 'twin aims of securing commercial returns and supporting the area'. Local investment is limited to 5 per cent of main fund value, and is currently stands at around 1-2 per cent.[51] Several different strands of investment activity fall within this:

- £50 million is committed through banks for lending and equity to SMEs in North West.
- A £1.3 billion joint venture with LGPSs in London, Lancashire, Merseyside, and West Yorkshire to invest directly in infrastructure.[52]
- The Greater Manchester Property Venture Fund (GMPVF) will reach up to £450 million. £12 million from the GMPVF enabled Urban Splash to start construction on 44 new family homes at New Islington,[53] in addition to 164 apartments at Pomona Island in partnership with the Manchester Housing Investment Fund, the £300 million GMCA fund now under the mayor's control.[54]

National government's role

> *Recommendation: National government should work with cities to pilot different forms of 'welfare earn-back' to enable public service reform.*

If a city successfully embarks on public service reform that achieves social goals while reducing expenditure, under normal conditions those savings would mostly accrue to central government. Earn-back schemes, covering areas like housing and welfare, aim to fix this by splitting any savings from reform between local and central government, creating an incentive for local government to reform.

There are some limitations to them: they are complex in design, and setting specific targets can create perverse incentives. However, although we are still at an early stage in the schemes that are running, first signs are promising as they chime with the Government's agenda and have a large scale.[55] Government should work with local and combined authorities to design and test different forms of 'welfare earn-back' across the country.

51 Bounds A, Manchester leads way with local investment accessed November 13, 2017 https://www.ft.com/content/75efe33c-832d-11e1-9f9a-00144feab49a
52 Plimmer G, and Cumbo J, UK infrastructure set for £1.3bn pension fund boost accessed November 13, 2017https://www.ft.com/content/991f22f6-c120-11e6-9bca-2b93a6856354
53 Begum S, Urban Splash agrees funding for its latest development accessed November 13, 2017 http://www.manchestereveningnews.co.uk/business/property/urban-splash-agrees-funding-latest-10683743
54 Fitzgerald T, Plans for 3,000 new flats on Pomona Island gather pace after next 750 advertised accessed November 13, 2017 http://www.manchestereveningnews.co.uk/news/greater-manchester-news/pomona-island-new-flats-plan-12174451
55 Carey H, Garner C, and Walne D, (2016) Financial Incentives and Their Potential To Drive Inclusive Growth Joseph Rowntree Foundation

3. Leveraging investment through land and assets for inclusive growth

Every city has land and assets which can be used in different ways to fund and finance inclusive growth. Nearly 15 per cent of land in urban local authorities is owned by the public sector, and two-thirds of that by local authorities.[56] While much of this land is in use and required to deliver public services and amenities, it also gives cities the means, through direct land ownership, partnership with other land owners, planning rules and persuasion, to support inclusive growth through property-related development.

The variation in land values across the country reflects variation in local economic performance and levels of demand which means different approaches needs to be taken. Land values are higher in cities with strong economies and lower in cities with struggling economies. This difference in land values means that cities need to take different approaches to land and asset management.

There are a number of mechanisms available to cities to enable them to capture social or economic returns from property-related development. The primary ones are Section 106 (s106) contributions and the Community Infrastructure Levy (CIL) ahead of development, and ongoing returns from council tax and business rates once completed. S106 is mainly delivered in the form of affordable housing and only applicable on schemes of 10 homes or more. CIL is a levy on all development to pay for the roads, schools, doctors' surgeries and other infrastructure that communities need to maintain quality of life as the local population grows.

Yet s106 and CIL do not always deliver in the ways in which they were designed to and tend to be less effective in areas where development is less viable. Some cities have used s106 contributions in innovative ways to fund inclusive growth. Doncaster took advantage of the development of an Amazon warehouse to fund skills and training support, for example. Since its introduction in 1990, s106 has funded a significant proportion of the affordable housing built in England and Wales, although the amount has varied widely over time and across the country.[57] But more widely, these schemes are viewed as not quite raising the funds, easing and unlocking development or delivering the social aims they were designed to achieve.[58] And in less economically buoyant cities where development is less viable, developers can negotiate not to meet s106 obligations.

For cities where development tends to be less viable, the challenge is how to expedite development rather than how to capture value from existing developments. Tax Increment Financing has been used extensively in Enterprise Zones[59] to support local economic growth but is reliant on anticipated increases in tax revenues and tends to work better in more buoyant economies.

Local Asset Backed Vehicles (LABVs) are an achievable means of raising funding and finance for, and delivering, inclusive growth in areas where there is a narrow tax base. And in the context of cuts to local authority planning and development budgets,[60] LABVs offer a means for cities to facilitate the delivery of key sites and harness public assets.

56 Telereal Trillium (2016) New Homes on Public Sector Land: Accelerating Delivery
57 Brownill S et al (2015) Rethinking planning obligations: balancing numbers and affordability Joseph Rowntree Foundation
58 CIL Review Team (2016) A New Approach to Developer Contributions
59 DCLG, Millions of pounds to be invested in local infrastructure thanks to enterprise zones accessed November 27, 2017 https://www.gov.uk/government/news/millions-of-pounds-to-be-invested-in-local-infrastructure-thanks-to-enterprise-zones
60 Local authorities in England have had to cut to planning and development budgets by nearly 60 per cent since 2010 against cuts to total local government services spending of around a quarter. Amin-Smith N et al (2016) A Time of Revolution? British Local Government Finance in the 2010s London:The IFS

> *Recommendation: Cities, particularly those with less buoyant economies, should consider how LABVs can be used to develop key sites within the city to support economic growth.*

Using Local Asset Back Vehicles (LABVs) to attract private sector investment

Overview and link to inclusive growth

Local Asset Backed Vehicles (LABVs), when designed well, are a useful and underused mechanism for less economically buoyant cities to finance and fund development to support economic growth, the first order in these areas looking to support inclusive growth. For high growth cities, LABVs can provide a means for the public sector to shape and capture some of the gains from growth in order to achieve and fund more inclusive growth.

LABVs are arrangements between local authorities and the private sector for economic infrastructure projects like commercial property development or strategic housing delivery. Typically, the local authority will provide land, property and possibly co-financing to lever long-term commitment from the private sector in the form of finance, professional expertise and capacity for one or more development projects.

In cities with struggling economies, the expectation that local demand will remain low reduces the appetite of the private sector to invest relative to those cities with a more buoyant economy. By putting its assets into the LABV, a local authority reduces the level of risk for the private sector. LABVs thereby help to bring in investment that would otherwise not happen at all or speed up the development of planned sites. At the same time, by retaining ownership and control, the LABV can deliver financial benefit to the procuring authority which can be used to either fund other inclusive growth policies or retained within the LABV fund further development.

By mixing attractive and profitable sites in a portfolio with more difficult or speculative sites, an LABV can cross-subsidise profits from executive housing development, for example, into the high quality city centre office space and public realm that can attract or retain firms in struggling cities (see Case Study 5).

Every LABV is different, and the aims of each will vary according to what a city is trying to achieve, its economic circumstances, assets available and the partner it procures. LABVs range from joint ventures across different types of development and several sites, such as Siglion in Sunderland and Slough Urban Renewal, to those with a narrower focus on single development site or specific type of development. Despite widespread support, use of LABVs designed to deliver economic regeneration and commercial development remains relatively subdued in the UK.[61]

It is difficult to assess LABVs' track record in performance due to the long term nature of both partnerships and the challenges that LABVs aim to address. Yet LABVs have proved successful in attracting private sector investment and catalysing development. Cities considering entering into a joint venture should learn from other local authorities who have already established LABVs to mitigate the costs and complexity involved, by sharing knowledge, lessons learnt and contract documentation.

61 Greenhalgh P and Purewal B (2014) Challenging the Myths: an investigation of the barriers to wider use of Local Asset Backed Vehicles in the UK, Northumbria University

Assessment criteria	Local asset backed vehicles (LABVs)
Link to inclusive growth	Mechanism to lever in investment that would not otherwise take place to the same extent or same terms, with a degree of control and financial benefit retained by local authority.
Legal feasibility	Legally feasible for local authorities.
Political feasibility	Quality and nature of the partnership with private sector is essential to the political viability of schemes. Broad cross-party consensus required. Will vary according to type of assets put into vehicle – i.e. existing housing against brownfield.
Operationally feasible	Around 20 LABVs have been established in the UK.
Sufficient scale	Forecast values of existing LABVs range from £25 million to £500 million.
Timescale	10-30 year duration with first developments completed and revenues generated within three to four years.
Level of risk	Moderate upfront costs and loss of full control of assets. Procurement of private partner can be slow or unsuccessful. Risk is shared between partners. Risk of deadlock on failure to agree business plan.

Case study 6: Siglion, Sunderland

Siglion is a £100 million regeneration programme delivered through a Local Asset-Backed Vehicle (LABV) formed between Sunderland City Council and Carillion Developments, and managed by Igloo Regeneration. The initiative represents Sunderland's "largest ever regeneration project" and is designed to "generate social, economic and environmental benefits within a commercial framework".[62] Within this, there is a focus on city centre development as part of the city's long term economic strategy to support the growth of more high value jobs.

Structure of the LABV

Sunderland City Council and Carillion (Maple Oak) Limited formed a Limited Liability Partnership (LLP) (Siglion) with both parties owning 50 per cent. Igloo provides development, asset and fund management.

Financial agreement

- The Council transferred the majority of its commercial investment property portfolio and a number of development sites into Siglion. This investment portfolio includes 100 industrial, retail and office properties with around 700 tenancies. It received loan notes totalling £23.5 million[63] for the assets transferred into the LABV that will be repaid over the term of the LABV agreement.[64]
- The Council has a £5 million equity share and it is exposed to any variation arising from the movement in the price of these shares.

62 Shaping Sunderland: About accessed on November 27, 2017 https://shapingsunderland.com/
63 These are split between Loan Note A (£5m) which is non-interest bearing and Loan Note B (£18.5m), which is interest bearing, with interest payable quarterly. Loan Note A is not anticipated to be repaid until Siglion is wound up, whilst Loan Note B is similarly not anticipated to be repaid until Siglion is wound up but may be repaid time as investment properties are disposed of.
64 Sunderland City Council (2017) Statement of Accounts 2015/2016

- The Council expects to receive £0.35 million from the group's net profit of £0.98 million before taxation between 2016 and 2017. The overall net worth of the group was £13.87 million in 2017.

Key developments

The first phase of the LABV is the development of a 60,000 sq ft office building at the former Vaux Brewery site in the city centre, to be opened in June 2018. The development aims to address the lack of Grade A office accommodation in the city centre to help to attract firms and workers to a recognisable business district in Sunderland. Some of the space at the new site will be dedicated to local social enterprises.

New homes will also be built at Seaburn on the seafront to "establish it as a genuine destination and a place that helps to retain wealth in the city"[65] so that those working in higher value jobs have access to higher quality housing and amenities in the city.

Issues for cities to consider

- **There needs to be a clear understanding of principal economic aspirations for use of assets within an economic vision.** Long-term inclusive growth should be priorities over narrow financial returns.
- **LABVs require a willingness of local authorities to give up full control of their land assets.** This can bring political risks, although some authorities may wish to create distance from decision making to ensure tough decisions are made. LABVs should be considered alongside alternative approaches including direct development by the local authority (in which the authority tenders for a development manager not an investment partner) Urban Regeneration Companies, Urban Development Corporations, City Development Companies, Development Agreement, joint venture company, Public Private Partnerships.
- **There may be potential for combining other financial tools alongside LABVs.** Consideration should be given as to how LABVs may be employed in combination with other funding sources such as revolving loan funding, business rates retention and development levies or incentives.
- **LABVs require in-depth project appraisal, feasibility studies and master planning, which demands significant financial and time commitments from local authorities.** The local authority must be capable of conducting robust commercial negotiations in order to secure the type of private sector investment that will maximise economic, social and financial returns.
- **Stable public and cross-party political support is required because LABVs are likely to outlive the lifetime of any individual local administration.** The London Borough of Croydon, having established the first local authority LABV in 2008, recently terminated its vehicle nine years into the 25-year partnership after control of the council changed in 2014. There should be a wide-ranging consultation and engagement with the public on the purpose and impacts of any major economic regeneration programme through a LABV. In particular, any residents expected to be most affected should be aware and involved from the earliest stages of the process.

65 Seaburn set for regeneration after Siglion gets the green light accessed November 27th, 2017 http://siglion.co.uk/2017/06/29/seaburn-set-for-regeneration-after-siglion-plan-gets-green-light/

- **Partners attracted by short term financial returns limit the potential that the assets under their control could realise.** Any city establishing a LABV should collaborate with organisations that share the city authority's ambitions for a place and its economic prosperity over the full life of the LABV.

Other potential mechanisms

An alternative option to establishing a LABV is to set up a wholly-owned company (WOC) or a local authority trading company (LATC). WOCs and LACTs are private companies set up under the sole ownership of the local authority. Many of the Local Housing Companies (LHC) set up by local authorities in recent years are WOCs. Use of LHCs has become significantly more widespread over recent years, with around 150 already in place and more local authorities considering using them to drive housing delivery or capture some of the gains of a buoyant housing market.

WOCs which focus on developing assets, such as Barking & Dagenham Council's new development and regeneration company, Be First,[66] can bring forward sites for development. As an external organisation to the council, they can also offer wages and working conditions competitive with the private sector. This gives the council access to the skills and capacity to manage its own development, while retaining full control of how assets are developed.

Compared to a LABV, development through a WOC sees local authorities take on more risk but also capture more of the gains. It can reduce its risk profile by procuring a development manager on aligned terms. Cities with more buoyant economies, where land and assets are of a higher value and expected to rise, may be more comfortable and better placed to set up a WOC. WOCs do face certain state aid restrictions, which a local authority must bear in mind when considering the most appropriate model for development.

National government's role

> *Recommendation: National government should abolish stamp duty on asset transfers between public sector organisations within a city or city region.*

Government could help improve the viability of LABVs by abolishing Stamp Duty on the transfer of public assets into partnership vehicles. This would mean lower upfront costs when local authority assets are moved into the LABV and allow the wider public estate to more easily engage with the LABV and put surplus or underused public assets into more productive use.

Stamp Duty on non-residential land worth over £250,000 is 5 per cent and applies for most assets transfers between public bodies with a few exceptions. A local authority placing £10 million of assets into a LABV, for example, would incur a tax bill of nearly £500,000. Removing this would help the public sector to use assets more effectively, through LABVs and other forms of asset management, to improve services and drive inclusive growth.

> *Recommendation: National government should allow all cities to purchase land through Compulsory Purchase Orders at existing use value.*

To help local authorities make the most of land and assets within a city and provide a revenue stream for inclusive growth, the Government should change the rules on Compulsory Purchase Orders (CPO). A CPO is a legal function that allows public bodies to obtain land or property without permission of the owner if given sign-off from the appropriate Government minister. Currently local authorities must pay for the

66 For further information see Be First – council accelerates plans for growth https://www.lbbd.gov.uk/news/first-council-accelerates-plans-growth/

land acquired through CPO at 'hope value' i.e. the value if there was a change in use or development to or around the site. The difference between this lower existing use value and higher 'hope value' would reduce risk and allow cities to capture more of the value created through development.

By reducing the cost of land to local authorities, reformed CPO powers increase the viability of economic regeneration projects. It would enable cities to fund public sector-led development through land value uplift as opposed to taxpayers. Reformed CPO would also encourage landowners of important sites which are not being used to their full economic potential, to invest in those sites to capture the uplift of that investment rather than wait for a 'hope value' sale.

As the DCLG consults on land value capture mechanisms they will need to reflect on how the models and tax incentives can work flexibly in different cities due to the variation in land value across the UK.

4. Coordinating spend and attracting additional investment

City leaders are increasingly using their convening powers to coordinate investment and lever in additional investment from a range of different actors. This activity takes different forms from small, focused partnerships to city-wide funds.

A growing number of city authorities or place-based organisations are using crowdfunding to fund specific projects. For example, Brighton and Hove City Council are crowdfunding for £430,000 for the repair of Madeira Terrace along the seafront,[67] and in Manchester £360,000 has been raised to redevelop the Ancoats Dispensary into a community centre.[68] This is an emerging area with limited international evidence, and many of the funds tend to be relatively small-scale and focused on public realm and aesthetic projects rather than inclusive growth. The approach may also be less successful in less affluent parts of the country where there are lower levels of disposable income.

Mayors have also established city-based funds, including the Mayor's Fund for London to improve the life chances of children and young people from disadvantaged backgrounds,[69] and Andy Burnham's Mayor's Fund for Homelessness to tackle rough sleeping in Manchester.[70] There are also examples of individual local authorities working with philanthropic organisations on specific projects. This includes the £6.4 million Every One Every Day initiative in Barking and Dagenham, supported by the Esmée Fairbairn Foundation, Big Lottery Fund, City Bridge Trust and the council, and designed to deliver inclusive neighbourhood regeneration and business growth.[71]

There is potential for some of this activity to be scaled up by wider strategic attempts to bring public, private and philanthropic investment together through the creation of city funds and collective impact models. These models offer the potential to attract investment from external sources and to maximise the impact of existing funding streams.

67 Brighton and Hove City Council Madeira Terrace and Madeira Drive accessed November 27th, 2017 https://www.brighton-hove.gov.uk/content/leisure-and-libraries/seafront/madeira-terrace-and-madeira-drive

68 Save the Ancoats Dispensary accessed November 27th, 2017 https://www.spacehive.com/thebeatingheartofancoats

69 Income for 2016 totalled £2.1m with 92 per cent from donations and legacies. See Mayor's Fund for London (2017) Report and financial statements for year ended 31 December 2016, Charity Commission

70 The Mayor of Greater Manchester's Homelessness Fund raised £50,000 with more than 500 individual pledges and donations from local people and organisations between in Mayor Andy Burnham's first three months in office (Greater Manchester Combined Authority, 2017).

71 For further information see Participatory City http://www.participatorycity.org/

Recommendation: Cities should establish city funds to coordinate investment and lever in additional funding.

Establishing city funds

A city fund is an institution set up to convene investors, manage funds and invest in projects for specific impacts. City funds serve most successfully as a catalyst for change through experimentation and innovation, or to enhance existing services. They cannot replace public spending; any attempt to do so is likely to be met with resistance from potentials donors and investors, and the profile and scale of philanthropic funding is different from public funding.[72] The Library of Birmingham Trust Fund, for example, was created as independent charity to maximise the potential of the library by providing supplementary funding. It was disbanded in 2016 as it struggled to fundraise after re-orientating its mission towards raising funds for at-risk services due to local authority spending cuts.[73]

Foundations, trusts and private sector organisations are actively investing in UK cities and there is potential to create a more joined-up system to maximise the impact of these investments and to create propositions for investors to encourage more investment into the city (see Case Study 7).

Assessment criteria	Establishing City Funds
Link to inclusive growth	Governing bodies set inclusive growth strategy and annual priorities for investment
Legal feasibility	Fund should be managed by an independent party
Political feasibility	Needs to be a clear separation from core public service provision.
Operationally feasible	Only proven on a relatively small scale in the UK. Mayor's funds have raised between £500,000 and £2.1 million.
Sufficient scale	Scale is dependent on investment activity in city and ability of leader(s) to convene
Timescale	Should be established to operate over the long term (20 to 30 years). Planning phase likely to take at least a year.
Level of risk	Success of fund reliant on leadership and investment-decisions made by governing body.

Case study 7: Bristol's City Funds

Mayor Marvin Rees formed a strategic partnership with Bristol and Bath Regional Capital (BBRC),[74] Quartet[75] and other stakeholders in the city to establish 'City Funds' to mobilise local investment into the priority areas, such as housing and employment, as part of the City Council's inclusive growth strategy.

The City's emerging One City Plan, including 20 to 30 priorities for achieving inclusive growth, will form the business plan for the City Funds. Three to four of the priorities per year will be selected for investment either through financing or grant funding. The governing body for the City Funds – with representation from the Mayor's Office, the voluntary and community sector, education and training,

72 Individual giving totalled £9.7bn in 2016 compared to total government spending of £782bn in 2016
73 Library of Birmingham Trust (2016) Report of the trustees and financial statements for the year ended 31 March 2015, Companies House
74 Bristol and Bath Regional Capital CIC (Community Interest Company) (BBRC) describes itself as "a public benefit investment company that provides civic-led, commercially-focused and innovative investment solutions that catalyse regional change". It was founded with support from Bristol City Council and Business West. It recycles all profits for further investment and invests in projects that are commercially viable and deliver public benefit. For further information see http://www.bab-rc.uk/
75 Quartet is a Community Foundation that matches those who want to give money locally with those organisations and charities working to improve local communities. For further information see http://quartetcf.org.uk/

and professional organisations[76] – will have responsibility for reviewing the plan and selecting annual investment priorities. Decisions will be guided by what falls into the "zone of innovation" where the intervention is "different and additional to current activity."[77]

Once the investment priorities have been agreed on, 'Task and Finish' groups will be formed of the relevant experts and stakeholders. These groups will have responsibility for monitoring progress against the objectives as set out in the One City Plan and identifying the limiting factors, if expected progress is not made.

Role of the Mayor and City Council

The City Funds are managed independently of the City Council in part as the political cycle (four to five years) is not likely to align with the investment timeframe (which may be 10 years, for example). The City Council has no contractual responsibility or rights with regards to the City Funds. Instead, the organisations managing the funds, BBRC and Quartet, will hold contractual responsibility. This is to instil confidence in potential investors change in political leadership is not going to result in funding cuts to a particular investment area.

The role of the Mayor and the City Council is to champion and promote investment into the City Funds. A representative from the Mayor's Office will also sit on the governing body. The Council also allow the Funds to use the City Council's branding and will use powers to remove any blockages to investment and intervention. A number of partners have been willing to collaborate to help establish the Funds due to the permission and backing given from the Mayor.

Attracting investors

Partners have set a hard target to raise around £10 million of additional funding to invest in these areas and are seeking match funding partners to help achieve this aim. Partners are seeking to raise this money from a combination of repayable finance and grant funding, and are scoping out potential funders. Within this, partners are also exploring which funders are likely to invest in 'backbone support' for the Funds. To date, the Fund has been reliant on partners contributing their time on top of doing their day job.

Part of the Funds' longer term ambition is to attract the private sector to donate a proportion of their corporate social responsibility (CSR) budget. The Mayor and partners are asking for around 10 per cent of businesses' CSR or marketing budgets, in return for match funding and better coordination of spending in the city for improved outcomes. Their pitch to business is that inclusive growth is good for the bottom line, attracts staff and creates a resilient customer base. Partners are keen to establish a strong narrative and clarity on the intended impacts to avoid viewing it another form of tax.

The Fund is also targeting national organisations, such as the Big Society Capital, Power to Change, Esmée Fairbairn and the Big Lottery Fund.

76 Fund managers, including Bristol and Bath Regional Capital (BBRC) and Quartet, will only sit on the governing board if it can be proven that there is no conflict of interest.
77 Centre for Cities interview

Issues for cities to consider

- **Partners need a clear investment plan with criteria linked to inclusive growth priorities for the city or combined authority.** The design and operation of city funds is likely to vary by city. But the starting point for all cities is to ensure there is a clear strategy for supporting inclusive growth, accompanied by an investment plan. Partners need to agree clear investment criteria, which are linked to broader inclusive growth policy objectives.
- **Funders want to see a clear investment proposition.** Cities seeking to establish a city fund need to ensure there is a strong proposition for investors and funders. This requires clarity about the nature of the intended impacts, how the intervention will deliver better outcomes than past attempts and knowledge of potential investors and their interests.
- **Leadership plays a vital role in convening partners and establishing city-wide collaboration.** It is important that city leaders, particularly city and metro mayors, use their soft powers to engage CEO-level leaders from across the private and third sectors. In this sense, the success of a City Fund will be highly dependent on the nature of personalities among the city leadership.
- **Looking beyond the city to national funders is likely to be particularly important in less affluent cities.** There is a large variation in wealth and philanthropic giving across the country. London accounted for 29 per cent (£5.6 billion) of all cash giving in the UK in 2015,[78] for example, and the West London Zone (see Case Study 8) contains pockets of high deprivation but is also richly endowed with charitable organisations.
- **Working with existing institutions and infrastructure to establish and manage funds is likely to be a more efficient way of establishing a city fund.** While new institutions can be created to manage the funds, it is likely to be more cost effective to work with an existing organisation(s), particularly in the short term. Cities should audit existing infrastructure to assess which organisations could potentially play a managing and coordinating role. For instance, there are 46 Community Foundations across the UK, with collective control of over £500 million in assets and giving grants of over £65 million per year. They may be able to assist in the practical aspects of establishing a fund and would have a good understanding of potential donors.
- **Working closely with governing bodies and fund managers helps to ensure the Fund has a wider catalytic impact.** Any institution managing funds needs to work closely with local authorities and agencies in the city to coordinate and embed lessons learnt and institutionalise ways of working. Keeping the fund at arm's length from short-term political influence helps to ensure that funds are sustainable over the longer term.
- **There are a variety of tax reliefs available to individuals and corporates to incentivise charitable giving and social investment.** Partners should consider what tools can be used to encourage investment. These include charitable legacy and payroll giving schemes, the Community Investment Tax Relief (CITR), and Social Investment Tax Relief (SITR) (see Box 3).

78 Pharaoh C, and Walker C, (2015) More To Give: London Millennials NETWORKING Towards A Better World http://www.cityphilanthropy.org.uk/sites/default/files/user-uploads/mtg-2_final_spreads_30.10.15.pdf City Philanthopy

Box 3: Tools to promote investment – Social Investment Tax Relief

The Social Investment Tax Relief (SITR) was launched in April 2014 with the aim of encouraging individuals to support social enterprises (that have a 'defined and regulated' social purpose) through income tax and capital gains tax relief. SITRs also lower the cost of finance for social enterprises.

Several place-based SITR funds have been established to promote investment in specific city-regions:

- The Resonance Bristol SITR fund provides unsecured loans to social enterprises in the city with an expected return of 7-8 per cent post tax relief
- The Young London Today (YLT) SITR aims to lend to Community Interest Companies providing specialist services to young adolescences leaving Local Authority care with a similar expected return to investors
- Social Investment Scotland uses SITR to invest in social enterprises with financial and strategic support provided by the Scottish Government

The SITR has recently been reformed to enlarge the scheme and increase the amount of investment that social enterprises can raise to £1.5 million over its lifetime. While there is scope for government to further expand the scheme, city and combined authorities can promote investment in their localities by raising awareness of the tax relief.

Intervention level coordination

Partnership working in US cities has progressed to take the form of 'collective impact', which brings together actors from multiple sectors in a highly structured way to affect significant social change. Collective impact models have been used to address a range of issues: economic development, workforce development, education and youth, homelessness and environment. Numerous collective impact models have been established in US cities. Among the most well-known is Strive in Cincinnati, which aims to improve educational outcomes of children in the city.[79] To date, there are limited examples of collective impact in the UK, and the West London Zone represents one of the first (see Case Study 8).

Cities should first assess whether the problem the fund aims to address requires a collective impact approach. Funders must be willing to invest sufficient resources in the facilitation, coordination, and measurement required for organisations to work together in this way. This 'backbone support' could be provided by the organisation managing and administering the city fund or by another intermediary in the city or city region. Data also plays a critical role in demonstrating the significance of an issue, galvanising support, informing policy design and monitoring and evaluating impact.

Case study 8: Collective impact in the UK – The West London Zone

The West London Zone aims to help support students to remain engaged and motivated through their education – and promote inclusive growth through the prevention of exclusion. It originated from the idea that it is possible to create 'civic zones' and focus resources on a particular area or around a specific place-based initiative. The Zone brings together multiple commissioners to support a broad range of positive outcomes for children and young people, having established that multiple organisations were providing support but that it was not sufficiently coordinated.

79 For further information see Strive Partnership http://www.strivepartnership.org/

Financial model

The WLZ was initially piloted with £600,000 of support from a group of six foundations/trusts with additional support from Big Lottery Fund for pilot phase.

The WLZ's financial model is now based on payment-by-results, allowing local authorities to fund the initiative based on outcomes for student; if the WLZ achieves successful outcomes for 300 pupils that will unlock £3 million of funding. WLZ has used local authority investment to leverage funding from other stakeholders. Local authorities and schools both provide a third of WLZ funding, the philanthropic sector provides a fifth, while central government and the Big Lottery Fund make it the remainder. The collective impact bond is underwritten by the City Bridge Trust/Bridge Fund Management.

National government's role

> *Recommendation: National government should find ways to support city funds by creating additional incentives for donors and investors, through providing match funding and widening eligibility for existing tax reliefs.*

The Government should explore how it might help support the establishment of city funds by creating match funding and widening eligibility for existing tax reliefs. For example, the National Council for Voluntary Organisations (NCVO) developed a proposal for the government to use dormant assets (totalling approximately £1-2 billion) as match funding to incentivise further donations from philanthropists.[80] Within this, City Funds could act as intermediaries that use the match funding to promote investment in local charities and social enterprises. There have also been long running calls for the Government to more proactively raise awareness of tax relief schemes and to widen eligibility of the SITR and CITR. The Government should also consider introducing tax benefits for corporate organisations investing in City Funds.

80 See NCVO: Boost small charities with dormant assets funding for further information https://www.ncvo.org.uk/about-us/media-centre/press-releases/1834-ncvo-boost-small-charities-with-dormant-assets-funding for further information.

Conclusion and recommendations

Cities have a crucial role to play in supporting inclusive growth in order to tackle rising inequalities and help drive up living standards. Within the context of local authority budget cuts, it is increasingly important that city and combined authorities find ways to increase revenues, leverage returns on their investment, encourage investment from other stakeholders, and coordinate spend of organisations within cities to support better outcomes. Policy innovation can make cities more attractive for private investment and/or help populations with particular needs.

Recommendations for cities

Every city or combined authority should establish an Inclusive Growth Investment Commission. These Commissions should have three main objectives: 1) identify inclusive growth priorities, 2) develop financial mechanisms to address inclusive growth priorities, and 3) coordinate spend within the city or combined authority.

The Commissions should explore ways to raise revenue through the introduction or retention of taxes and fees. Cities are currently relatively limited in their ability to do this and many of the potential options would require a change in legislation. One of the most feasible options with a clear link to inclusive growth is the Workplace Parking Levy.

- Cities should consider how the introduction of a Workplace Parking Levy (WPL) could help to fund, and lever in additional investment for, public transport.

The Commissions should also find ways to leverage investment through financial instruments, land and assets, and their convening powers.

- Cities should consider supporting Responsible Finance providers with grant funding or capital lending to help fill the finance gap for businesses in need.
- Cities, particularly those with less buoyant economies, should consider how LABVs can be used to develop key sites within the city to support economic growth.
- Cities should work with intermediary organisations to convene investors and donors to create place-based funds for inclusive growth policies.

These innovations cannot make up for the cuts in national government funding, lack of fiscal autonomy at the local level or public service reform. It is also likely to remain far easier for cities with more buoyant economies to access funds and investment than less buoyant ones. The decisions made by national government continue to have a fundamental bearing on the ability of city authorities to fund policies that support better outcomes at the local level.

Recommendations for national government

- Government should allow cities to introduce a hotel tax as part of a broader set of measures to devolve more tax-raising powers to cities.
- Government should work with local authorities to pilot different forms of 'welfare earn-back' to enable public service reform.
- Government should abolish stamp duty on asset transfers between public sector organisations within a city or city region.
- Government should allow all cities to purchase land through Compulsory Purchase Orders (CPOs) at market rates.
- Government should support city funds by creating additional incentives for donors and investors, through providing match funding and widening eligibility for existing tax reliefs.

Appendix 1 : Taxes and fees

Scheme	Description	Policy area	Capital/ revenue	Ringfencing?	Possible without devolution?	Geography	Scale per City	Timeframe	Pros	Cons
Congestion Charge (CC) or Low Emission Zone CC	A daily charge for driving a vehicle within a city. LEZs charge only the most polluting vehicles and raise smaller amounts of funding than CCs	Transport	Any	Yes	Yes	City region	London - £174m net pa	Short-term	Tackles traffic, pollution, progressive	Tension between raising revenue and reducing congestion, large upfront costs, technological change could damage this model
Workplace Parking Levy	Car parking spaces held by employers are taxed to reduce congestion, encourage a shift to public transport and promote efficient use of land	Transport	Any	Yes	Yes, for English local authorities	Any	Nottingham - £9m pa	Short-term	Tackles traffic and pollution, progressive tax, releases land for other uses	Tension between raising money and reducing congestion, lower revenues than congestion charge, technological change could damage this model
Localise Fuel Duty	Additional pennies on duty in city; or devolution of % of duty	Transport	Revenue	Yes	Requires devolution	City region	Unclear	Short-term	Simple mechanism	Arbitrage across city boundaries; does not address congestion; likely to decline in long term, tension between reducing pollution and raising revenue
Retain Stamp Duty	Devolution of stamp duty to fund more housebuilding where affordability is lowest	Housing	Revenue	Yes	Requires devolution	Any	UK - £10bn pa nation-wide	Medium-term	Direct link between amount of revenues raised for new housing and cities where need for new housing is greatest	Loss of large amount revenue to the Treasury, unequal effect nationally
Air Passenger Duty (APD)	Devolution of Air Passenger Duty to cities	Transport	Revenue	Yes	Requires devolution	Any	APD raises £3.2bn nationally pa	Short-term	Tackles climate change, doesn't directly tax locals, progressive	Needs a busy airport to be viable
Hotel Duty	A nightly tax paid by hotel occupants which could be used to fund infrastructure and tourism promotion	Economic development	Revenue	Yes	Requires devolution	Any	London – 5% levy would generate £240m pa	Short-term	Doesn't directly tax locals, progressive	Needs tourism, Airbnb and similar firms complicate this model
Pay-as-you-throw	Charges households for how much black bin rubbish they throw away	Environment	Revenue	Yes	Requires devolution	Any	Waterville, Maine - Raises $430k pa (pop. 15k)	Short-term	Economically efficient, good evidence base, encourages recycling	Tension between revenue and reducing trash, free rider problems in multi-occupancy

Scheme	Description	Policy area	Capital/ revenue	Ringfencing?	Possible without devolution?	Geography	Scale per City	Timeframe	Pros	Cons
Business rates	Pilots of full retention of growth in business rates	Any	Revenue	No	Yes	City region	Varies across cities and growth in rates revenue	Medium-term	Already on the table, captures local value	National imbalances, pilots only retain growth in rates rather than all revenues
Dog tax	A tax on dogs	Environment	Revenue	Yes	Requires devolution	Any	Belfast - £5 a dog (not increased for 25 years) raises £56,000 pa with 50% compliance	Short-term	Environmentally friendly	Ring-fenced for parks, animal control and clean up of dog fouling
Gambling fees	Tax on casinos, gambling	Economic development	Revenue	No	Requires devolution	Any	Varies depending on tax rate and role of gambling in local economy	Short-term	Straightforwardly inclusive	Internet gambling may reduce revenues over long term, creates incentives to grow not-inclusive gambling industry
Golf tax	A charge every golf session, to compensate for the land used by golf courses. Driving ranges may be included.	Housing	Revenue	No	Requires devolution	Any	Japan - £300m pa for local government in Japan - 30% of city of Kasagi's revenue	Short-term	Progressive, effectively a wealth tax	Unpopular among golfers
Soda/Salt/ Fat tax	Tax on unhealthy foods - also known as the 'VAT on Fat'. Would include devolution of incoming soda tax.	Health	Revenue	Yes	Requires devolution	Any	Berkeley CA - $1.5m pa ($12 per capita)	Short-term	Positive for public health, soda tax already exists in UK	Regressive
Right to Buy Receipts	The local authority ensures surplus RTB receipts are spent on replacement social housing, instead of defaulting to the Treasury	Housing	Revenue	Yes	Yes	City	Croydon - £25m in total retained through a charity	Long-term	Can be used to make RTB inclusive; £1bn in gross sales annually	Would be focused in London and other unaffordable cities due to structure of RTB sales, needs more devolution
Soda/Salt/ Fat Tax	Tax on unhealthy foods - also known as the "VAT on Fat". Would include devolution of incoming soda tax.	Health	Revenue	Yes	Requires devolution	Any	Berkeley CA - $1.5m ($12 per capita)	Short-term	Positive for public health, soda tax already exists in UK	Regressive
Right to Buy Receipts	The local authority ensures surplus RTB receipts are spent on replacement social housing, instead of defaulting to the Treasury	Housing	Revenue	Yes	Yes	City	Croydon - £25m retained through a charity	Long-term	Can be used to make RTB inclusive; £1bn in gross sales annually	Would be focused in London and other unaffordable cities due to structure of RTB sales, needs more devolution
Nudge Theory	Designing policy with nudge theory principles in mind	Any	Revenue	No	Yes	Any	Unknown	Short-term	Internal practices, short-term	Difficult after long period of austerity

Appendix 2: Financial Instruments and Intermediaries

Scheme	Description	Policy area	Capital/ revenue	Ringfencing?	Possible without devolution?	Geography	Scale per City	Timeframe	Pros	Cons
Social Impact Bonds	Investors lend to the city, or a service provider, to achieve specific outcomes with the investors making a return if the outcomes are met	Any	Any	No	Yes	City	Peterborough - £5m in one bond	Medium-term	Government is keen, clear link to inclusivity, facilitates innovation	Complex and technical mechanisms, limited evidence, differences between outcomes/ outputs
Municipal Bonds	Public borrowing from private capital markets, but for local government rather than just central government.	Any	Capital	No	Yes	Any	Birmingham - £45m, repaid until 2041 Warrington - £150m repaid until 2055	Long-term	Conceptually straightforward	Unnecessary in the UK at present due to PWLB and low interest rates
Payment by results	Providers paid according to if they succeed in improving outcomes	Any	Any	Yes	Yes	Any	Varies	Medium-term	Already common	Poor evidence base according to NAO, not always appropriate, 'winner's curse' of over-optimistic bidders collapsing
Crowdfunding	The city matches donations towards a specific charitable project, typically from a number of small donors, and promotes and runs the scheme	Public realm	Any	No	Yes	Any	Brighton - £460k in under a year	Short-term	Displays interest, low upfront costs	Risky, democratic implications, less viable in poor areas, appears to be most successful with aesthetic projects
Responsible Finance Providers (RFPs)	Financing of place-based lenders to small businesses that tackle market failure of low UK lending to them, and leverage in more investment	Economic development	Capital	Yes	Yes	City region	West Midlands - ART loans £3m pa to expanding small firms	Long-term	Already exists, driven by pursuit of returns and economic growth, targeted, 6-8 strong case studies	Political independence, long tail of underperforming RFPs
Capitalisation	Turning capital spending into revenue spending	Any	Revenue	No	Yes	Any	Varies	Short-term	Access to capital is easier than it is to revenue	Legal restrictions mean it is only used in special circumstances
Welfare earn-back	Treasury deal to realign incentives such that returns from investment by cities flow in part to local government rather than just central government	Any	Revenue	No	Yes	City region	Greater Manchester - £270m over 5 years	Medium-term	Aligns incentives for local government more closely with economic growth while achieving equitable outcomes	Conditional on city deals, central government needs to sign off, complex to design, not transparent to voters

Scheme	Description	Policy area	Capital/ revenue	Ringfencing?	Possible without devolution?	Geography	Scale per City	Timeframe	Pros	Cons
Tax Increment Financing	Future tax revenues surrendered to fund present development	Economic development	Capital	No	Yes	City	North Lanarkshire - £73m over 30 years	Short-term	Already exists, Pay by Result is a variant of this	Long term liabilities, poor evidence base
Welfare earn-back	Treasury deal to realign incentives such that returns from investment by cities flow in part to local government rather than just central government	Any	Revenue	No	Yes	City region	Greater Manchester - £270m over 5 years	Medium-term	Aligns incentives for local government more closely with economic growth while achieving equitable outcomes	Conditional on city deals, central government needs to sign off, complex to design, not transparent to voters
Local Govt Pension funds	Local government pension funds make a commitment to invest some of their assets locally, on the basis that their members' wellbeing depends in part on the economic health of the city	Any	Capital	No	Yes	City region	Greater Manchester - Manchester pension fund currently at about £170m worth of investment, with a long term goal to increase this to £800m	Long-term	Large scale, possibility of different kinds of investment	Very long-term, pension funds need to diversify their assets to reduce risk and therefore cannot invest a large percentage of their assets locally

Appendix 3: Land and assets

Scheme	Description	Policy area	Capital/ revenue	Ringfencing?	Possible without devolution?	Geography	Scale per City	Timeframe	Pros	Cons
Wholly Owned Companies	A firm owned by the council that can build housing with more flexibility than the local authority - used to build housing for rent and sale to cross subsidise new sub-market rent housing (and increase gross council tax revenues)	Housing	Capital	Yes	Yes	Any	Barking and Dagenham LBC - delivering 1,000 homes between November 2017 and March 2018	Long-term	Supplies new housing for those with specific needs, grows tax base, profits go into council treasury or housing for those with low incomes	Cannot solve housing crisis alone despite high expectations, Right to Buy will eventually consume social rented homes
Local Asset Backed Vehicles (LABVs)	City assets are transferred to, or shared with, a private developer who manages them to introduce investment to the city	Economic development	Capital	Yes	Yes	Any	Sunderland - £100m over decades	Long-term	Small upfront and revenue costs, can transform rundown areas	Risk of political interference, risk of underperformance as with all private investments
Urban wealth fund	Sovereign Wealth Fund but for cities	Any	Capital	No	Yes	Any	Unknown	Long-term	Sustainable, independent from political choices	Long term, high initial investment
Land Value Capture	Funding development through uplift to land prices from said development	Housing	Capital	Yes	Yes	Any	Hong Kong - $13.8bn over 25 year period in revenue, plus housing, plus new transport infrastructure	Long-term	Subsidises initial public investment, and can be used long term to fund revenue spending (eg cheaper public transport fares)	Restricted to infrastructure, weakness of CPO system in UK makes this less powerful than in other countries
S106	Normally invoked for affordable housing, can be used for skills when housing is in low demand	Not housing	Capital	No	Yes	Any	Doncaster - £600k for training and skills from a logistical depot for Amazon	Short-term	Appropriate for areas without a housing shortage	Complex negotiations, asymmetry on 'viability', impact fee may deter investment where it is needed

Scheme	Description	Policy area	Capital/ revenue	Ringfencing?	Possible without devolution?	Geography	Scale per City	Timeframe	Pros	Cons
Housing loans	Loan to developers to facilitate housebuilding	Housing	Capital	Yes	Yes	Any	Manchester - £300m fund to build 4,400 homes over two and a half years	Long-term	Goes with the grain of government thinking, recoup investment	Financial risk, linked to devo deals
Data as an Asset	Understanding value of and treating data as an asset	Any	Any	No	Yes	Any	Unknown	Medium term	Potentially brand new source of revenue, nurtures tech sector, improves efficiency in local government from data sharing	Unpredictable, reliant on existing IT sector

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