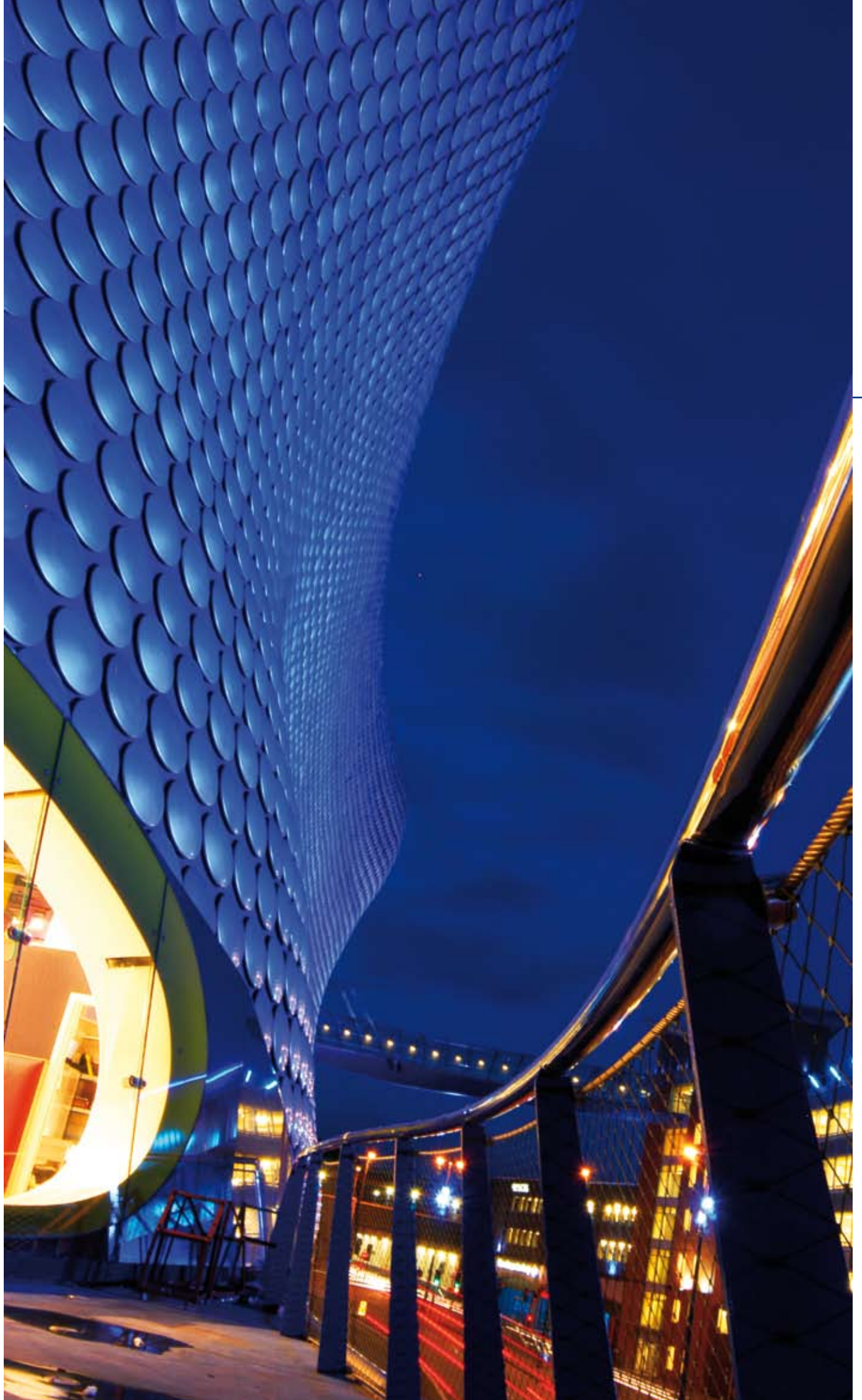


# Unlocking City Growth Interim Findings on New Funding Mechanisms

A Report by the Core Cities Group  
and PricewaterhouseCoopers LLP





# Funding Local Growth



This interim report, prepared with the assistance and support of the Core Cities Group (CCG), reviews the funding tools that are currently available or planned for introduction in the near future, and proposes a new funding mechanism to enable local authorities to finance and deliver major regeneration projects, notably those which require significant related investment in enabling infrastructure. The report seeks to identify new approaches which could be used by local authorities in the Core Cities to unlock city growth. The analysis is built around four live case studies against which we consider the application of existing financial vehicles and instruments, such as the proposed Business Rate Supplement and Community Infrastructure Levies as well as Regional Infrastructure Funds and also introduces a new concept, Accelerated Development Zones based on the principles that underpin Tax Increment Financing in the United States. The report also examines the use of such funding tools in relation to the wider policy context for urban regeneration and investment in enabling infrastructure.

The report provides a review of the potential costs and benefits of using new and existing funding tools to deliver major regeneration projects, with particular consideration of the use of financial tools to bridge the gaps in core project funding. It demonstrates that the application of a mix of new local funding tools, to support enabling infrastructure investments, could deliver significant benefits to local areas, with the potential to generate long term economic gains to the Treasury.

The review of Core City case studies suggest that the appropriate use of new financial instruments for funding enabling infrastructure could increase local economic and employment outcomes substantially over what might be achieved through conventional funding routes. Based on the case studies, this could represent a potential increase in housing, employment and economic activity outputs of between 50-80%. The analysis also suggests that emerging and alternative financial tools could offer an acceptable return on investment and would help lever in private finance by providing timely 'up front' infrastructure to act as a catalyst for development.



## The Core Cities

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The CCG is a network of England's eight major regional cities: Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield. These cities make a vital contribution to the national economy and are the engines of their regional economies. Collectively with their city regions they account for 25.5% of England's economy, have a population of 16 million people including 31% of the working age population. Improving the economic well being and performance of the Core Cities is recognised by Government as key to narrowing the long standing productivity differentials between regions, widely seen as a weakness of the UK economy.

The Core Cities have emerged from a period of decline in the 1980s to become major centres of business and wealth creation. Over the past 15 years they have witnessed an economic transformation,

with strong employment growth and improvements in incomes and competitiveness. Most cities have also experienced an 'urban renaissance', with increased investment in inner city housing and the urban fabric.

Despite these successes however, the Core Cities continue to face difficult challenges and economic performance is uneven. They are still home to some of the most deprived neighbourhoods in the country; most have a low skills base and above average levels of worklessness. The wealth gap between the Core Cities and comparable cities in Europe has narrowed over the last decade but most city regions on the continent still account for a far higher GDP per capita. The Core Cities are committed to improving their competitiveness and economic performance to match the best in Europe.

# Infrastructure deficit



One factor that is key to city competitiveness is infrastructure and its role in supporting productivity and growth. The Core Cities have suffered from a legacy of persistent under-investment in their infrastructure. Most have benefited in recent years from increases in public spending on housing, transport and public services, but there is still a large and growing need for investment in new and replacement infrastructure. Moreover, as the OECD observes, there is insufficient public funding available in the UK to satisfy the competing demands for improving and expanding existing infrastructure (Infrastructure to 2030, OECD 2007). City authorities have been working together to improve infrastructure networks, but have little discretionary powers or funding for sustained infrastructure development.

The potential for improvement in the Core Cities economies remains strong, but many high quality investment projects that offer substantial social and economic

benefits are being delayed or constrained due to a lack of finance. Macro-economic uncertainty and the impact of the credit crunch have reduced the availability of private finance, but the demand for infrastructure investment over the medium to long term is robust. In particular, there is an appetite for greater use of public-private partnerships and innovative local funding schemes to secure additional investment, especially in enabling infrastructure. Sustained investment in local and regional infrastructure is viewed by the main stakeholders as vital to the long term prosperity of the Core Cities and to meeting the Government's long standing objective to narrow the economic divide between and within regions. Immediate action aimed at bridging the infrastructure deficit in the Core Cities could also act to boost market confidence during challenging economic conditions and bolster investment activity.





## Making a difference

This report seeks to inform the ‘investment debate’ in our Core Cities by providing new evidence of the opportunities and difficulties involved in implementing new local financing tools and considering the potential benefits they might unlock. The analysis is centred on four live case studies from across the Core Cities in: Birmingham; Leeds; Nottingham; and Sheffield. Each case study examines the infrastructure needs of a large urban regeneration project and the capability of the cities in question to deliver on these needs under current or emerging funding arrangements.

Alongside consideration of emerging funding tools such as the proposed Community Infrastructure Levy (CIL) and Business Rate Supplement (BRS), the report examines the potential of two new financing concepts which have the potential to generate and support new and additional infrastructure investment: Accelerated Development Zones; and Regional Infrastructure Funds.

- **Accelerated Development Zones (ADZ):**

A concept based on that of Tax Increment Financing, pioneered in the United States. It is designed to allow cities to ‘participate in the growth dividend’ – or, in other words, allow local authorities to capture incremental value in the form of tax revenues generated from new development. In order to do this, cities require the power to retain, for a long-term period, local tax revenues such as business rates allowing funds to be

raised for investment through securitisation of those revenues.

Key principles underlying the concept include:

- ADZs would be defined physical areas, consisting of either a single or multiple administrative areas linked by a common infrastructure requirement;
- within ADZs, local authorities could retain new business rates that are supplementary to the existing revenues for the area, and secure that income to raise funding for upfront infrastructure investment;
- business rate growth would be captured and reinvested for a maximum of, for instance, 20 years or until finance raised to invest in upfront enabling infrastructure is repaid;
- there would not be a blanket entitlement to use ADZs, but cities would need to ‘make the case’ to central government so that zones created the maximum impact; and
- this would mean that endorsed ADZs would meet agreed criteria on achieving accelerated growth and multiplied outputs.

- **Regional Infrastructure Funds (RIF):**

A concept designed to provide forward funding to promote strategic infrastructure investment. Key features of the concept include:

- a fund is established to operate in a 'banker role', whereby it provides either up front finance, or finance raising guarantees, to facilitate infrastructure investment;
- funds invested by the RIF would be wholly or partially repayable from future income generated from an ADZ, BRS or the CIL; and
- RIFs would play an important role in kick starting new funding secured on CIL, BRS or ADZs as well as providing market confidence in these new funding instruments.

The evidence from the case studies in this report indicates that the CIL and BRS in

isolation may not be sufficient to meet the funding needs for the Core Cities major regeneration projects, further restricting the cities ability to compete and to generate sustainable growth. A wider range of financial mechanisms is required, and in particular mechanisms such as an ADZ, that provide cities with the ability to first generate and then capture long-term revenue streams that can be leveraged into up front capital funding for enabling infrastructure. Providing cities with tools to enable them to share in the 'growth dividend' is likely to be a powerful incentive for concerted and coordinated action and investment in projects that are critical to the economic futures of some of our most important urban centres.





## Headline findings

The headline findings emerging from the case studies and supporting evidence are as follows:

- There is demand for greater investment in large scale urban regeneration projects in the Core Cities, and in particular for 'forward funding' of enabling infrastructure. This demand is matched by a strong appetite among local authorities for greater financial devolution and innovative use of new local funding tools and vehicles.
- It is recognised that some city-wide infrastructure investment could be generated via existing financial mechanisms. This report highlights how Nottingham City Council has, for instance, sought to finance the extension of the Nottingham Express Transit through a Workplace Parking Levy. However, a single financing approach will not be suitable for all investment scenarios across the Core Cities – different models for financing infrastructure will be required depending on the nature of the project, its location and the scale and type of development.
- Large scale regeneration projects, such as those highlighted by the Birmingham, Leeds and Sheffield case studies, have the potential to offer substantial benefits to the local, regional, and national economies. But, they require significant enabling infrastructure investment in order to be delivered in full.
- Government proposals for new financial mechanisms (such as the Community Infrastructure Levy and Business Rate Supplement) can contribute much needed funds towards urban regeneration, but are unlikely (on their own) to generate sufficient additional revenue to fund the substantial infrastructure needed to support large projects.
- The evidence in this report suggests that there are quantifiable benefits to be gained from experimentation with new and innovative forms of local financing. Our analysis of the ADZ's and RIF concepts suggest they would help cities deliver regeneration schemes in full, unlocking significant socio-economic benefits.
- Bridging the infrastructure funding gap with these new financial tools offers quantifiable benefits to the Core Cities and the wider city regions. If the projects considered in the Birmingham, Leeds and Sheffield case studies were to be delivered in their entirety, they could collectively generate an additional 26,000 new jobs, 6,150 homes and growth (GVA) of £1bn a year. This represents a potential increase in housing, employment and economic activity outputs of between 50-80%. These outputs would be generated by an investment of less than 1% of the annual national business rates take. The case studies provide clear evidence that a more innovative mix of

funding tools could help unlock substantial additional economic and employment outputs from existing projects.

- ADZ's would allow cities to 'participate in the growth dividend' (i.e. allow local authorities to capture incremental value in the form of tax revenues generated from new development). In order to do this, cities require the power to retain, for a long-term period, local tax revenues (such as business rates) enabling funds to be raised for investment through the securitisation of those revenues.





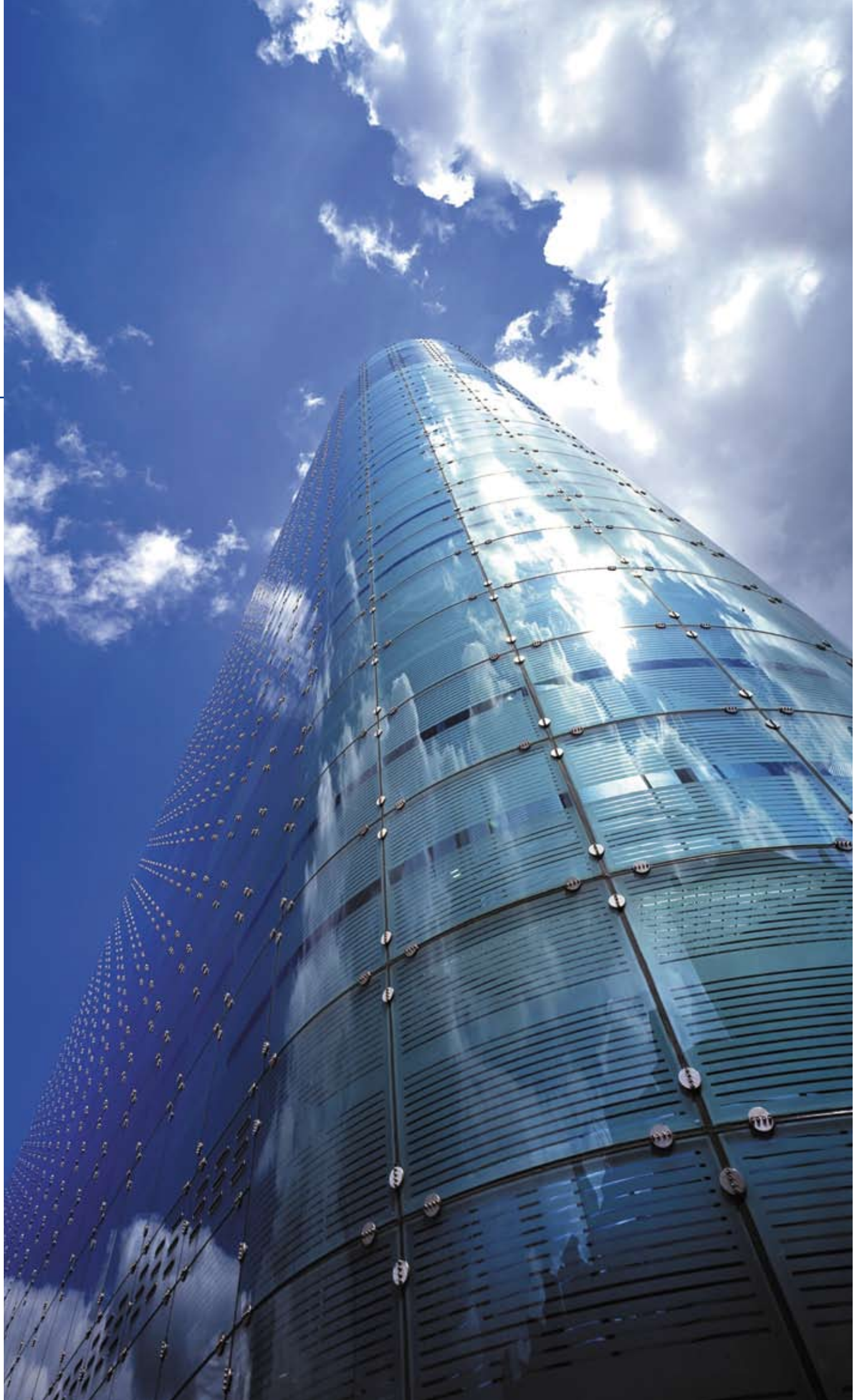
## Conclusions

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The findings in this report suggest that a step change in the Government's approach towards local financing could deliver significant rewards for: the Core Cities and their city regions; regions; and for other areas of the country. By providing additional funding for investment in regeneration and enabling infrastructure the Core Cities will be better placed to meet their housing, employment and growth targets. The case study analysis also demonstrates that innovative funding tools provide a return on investment and result in an eventual net gain to government central revenue.

Going forward, the Core Cities Group will seek to prioritise regeneration projects with the greatest potential for unlocking further regional economic growth, while seeking to work alongside central government, Regional Development Agencies, the new Homes and Communities Agency and local business communities to pursue greater financial devolution.

The CCG aims to undertake more work on the feasibility of local financing, and to seek the support of Government and other public agencies to pilot new and innovative financial tools to unlock long-term and sustainable city growth.



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