BPF
BRITISH PROPERTY FEDERATION

Local Government Association

Unlocking Growth Through Partnership

A joint report from the
British Property Federation
and the Local Government Association

Contents

Foreword
Ken Dytor and Sir Merrick Cockell

Stimulating economic growth is the fundamental objective of this Parliament. It is a challenge to which the property sector and local government are both proactively responding, in recognition of the scale of the problem and the contribution they can both make to economic growth.

The British Property Federation (BPF) and the Local Government Association (LGA) share the belief that effective partnership lies at the heart of the economic recovery. In a time of declining public spending and weak growth, the best way to stimulate the economy is through the public and the private sectors leading the way and working together.

Successful partnerships help us in the pursuit of our shared ambition to create economically vibrant places where people want to live. Partnership enables greater levels of finance to be leveraged, and expertise and capacity to be pooled. But it is not just a financial advantage. Partnering also enables a range of other benefits to be realised. Across the country, partnerships between councils and the private sector are innovating and finding new ways to push forward growth in a challenging environment.

Over the past year, we have been involved in a varied programme of work, including a series of round-table discussions and three 'place based studies'. This report draws on the experience of this work to identify ten ways councils, developers and partnerships can boost economic growth.

But we have also found a very clear message that central government is missing growth opportunities through an overly centralised and prescriptive mindset. Our work has highlighted that councils and developers can lead the way, but that sometimes the path is blocked. To have growth at the local level, central government also has a part to play in facilitating the development of growth-generating partnerships. We have found a range of blockages which stop councils and the private sector investing in the development which would speed-up economic recovery. Without the help of Whitehall to remove these blockages, partnerships will continue to strive for economic growth with one hand tied behind their backs.

Executive Summary

At the heart of this report is a recognition that we are operating in a new economic landscape. The model of funding development, infrastructure and economic development that worked for the past 15 years is no longer functional in a low-growth, post-crash world. It is imperative that we find a set of ideas and approaches that can respond to this new economic landscape.

The scale of the challenge is one that cannot be tackled by organisations operating in isolation. We need thriving partnerships between the public and private sector in order to fund the infrastructure and development we need to grow as a country.

This report is a response to that challenge. Following a year long programme of work, we have summarised the key lessons we have taken from our findings on the best way to approach investment for economic growth. The lessons are that we need:

- partnerships that can take the lead and drive growth
- tailor-made strategies for every area
- stronger and locally driven sub-regional governance
- much wider use of Tax Increment Financing
- pooling public sector capital funding in a place
- certainty and stability in the planning system
- partnerships that have a balanced share of risk and reward
- a refocusing of Inward Investment towards more locally driven approaches
- new sources of funding, such as from pension funds

To make this possible, central government must also change in the face of the challenge. We make 10 key recommendations to central government which would have a positive impact on efforts to drive growth:

1. Relax restrictions on TIF to unlock potential for additional growth.
2. Start a dialogue about how the Infrastructure Guarantee Scheme could be used to support local capital projects.
3. Expand "City Deals" to allow all areas to negotiate tools and levers for growth.
4. Mainstream replicable elements of City Deals to all areas.
5. Second external expertise to the Cities Unit to add skills, fresh thinking and capacity.
6. Let councils and partners choose the sub-regional governance that is best for them and ensure these are sufficiently empowered to pursue growth.
7. Streamline funding for growth by allowing the creation of local investment funds.
8. Avoid uncertainty caused by further major reforms of the planning system, but streamline and simplify guidance and processes and ensure planning is adequately resourced.
9. Introduce Stamp Duty Land Tax relief for public sector assets that are transferred into the ownership of a single entity to make it easier for surplus property to be released to the private sector.
10. UKTI should put their weight behind local approaches to attracting inward investment and provide continuing support to encourage investors to stay.

Group Members

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Cllr Peter Box *Leader of Wakefield Metropolitan District Council*
Cllr Russell Roberts *Leader of Kettering Borough Council*
Cllr Alec Robertson *Cornwall Council*
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Introduction

The British Property Federation and the Local Government Association are united in the ambition to create economically prosperous places where people want to live. To do this, we need to spur the economic growth that will create much needed jobs, improve the public realm and secure the conditions for long-term economic success.

At present development activity – whether for town centre redevelopment, major urban extensions or other major regeneration schemes – is at a very low ebb. This is both a symptom and a cause of weak economic growth. To break out of this cycle we need to get development going again. We see kick-starting development together with the investment in the infrastructure that supports this such as new housing, better public and road transport, improved communications networks and revitalised, regenerated public realms, as an essential component of any national growth strategy.

The lack of development activity has a number of causes that any pro-growth strategy will need to address:

- Businesses are reluctant to commit to new investment in the current uncertain economic climate
- The financial model that underpinned regeneration for many years, driven by increasing public funding and ready access to private finance, has been fractured.
- Local authorities often lack the necessary powers and resources to tackle barriers to economic development in their area.
- Structural deficiencies in the country's economy, particularly the lack of investment in infrastructure, restrict development options.
- Some bureaucratic barriers continue to deter developers from getting involved, particularly in schemes in more marginal locations.

Government has recognised the need to tackle many of these problems and has introduced a number of initiatives to stimulate regeneration and development. A key aim of this report is to look at how such initiatives can be made more effective, and what additional measures could be taken – whether by central government, local authorities or the development sector – to help improve things still further.

There are stalled developments schemes that, with the right package of support, could be taken forward very rapidly even in the current difficult climate. There are many others that are likely to remain on the back burner until more solid evidence of recovery appears but that could then progress very quickly if the right help is put in place now.

Following a year long programme of varied work, we have identified ten ways to boost the economic recovery. The programme was supported by a working group comprised of senior figures from the property sector, local authorities and the wider economic development sector. The group met for a series of roundtable discussions which focussed on developing solutions to the major blockages to development and growth. In addition to this, three very different local authorities put themselves forward as the subjects of 'place based challenge visits'. In these visits, experts from the working group joined the local authority to explore the barriers to development and help devise solutions to overcome them. Following these visits, work was commenced to put these solutions into action. Detailed summaries of the place based studies can be found in the appendices. The recommendations that follow are grounded in the learning from this programme of work.

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Adrian Penfold *British Land*
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We would also like to thank all those who attended the Place Based Study visits and who presented at the various meetings and discussions that the group benefitted from during this partnership.

01.

Partnerships can take the lead and drive growth

The blockages to development, capital investment and by extension economic growth, are so many and so varied that they cannot be tackled by organisations operating in isolation. The scale of this challenge calls for thriving partnerships between the public and private sector. By joining forces, these partnerships can take the lead in stimulating development activity and economic growth.

Strong economic partnerships pair up resources to promote mutual benefits. Partnerships can take a range of different forms – from long-term contracts through to informal systems of support – but they are all united by the following characteristics:

- Vision: a clear vision for a shared end goal, with economic growth and a thriving community at its heart.
- Leadership: a clarity and strength of leadership that will help drive the vision and bring in other partners.
- Shared purpose: an approach which embeds mutual benefits – including for the wider community.
- Sharing risk: a pragmatic and balanced share of risk and reward, so gains and losses are shared and the partnership is equal and mutually supportive.
- Trust: building and maintaining trust – consistency and transparency are essential components of positive shared ventures.

Joining forces means that each partner can contribute according to where their strengths lie, producing an effort that has more impact than each partner operating in isolation. By combining these strengths, some of the most significant barriers to development can be overcome. From this, a range of benefits flow to partners, central government, communities and the wider economy. The development and infrastructure investment that partnerships can kick-start results in job creation, greater competitiveness for businesses and economic growth.

Partnerships can unlock significant economic benefits

A partnership approach can help unite a range of different development and infrastructure projects. This is particularly important when there is a combination of business or property development and infrastructure provision, which neither the market nor the state could provide on its own. The combination of these projects can have an important impact on the economic vitality of an area, helping businesses grow and jobs to be created. As the case study below demonstrates, often these benefits will flow much further than the organisations involved in the partnership.

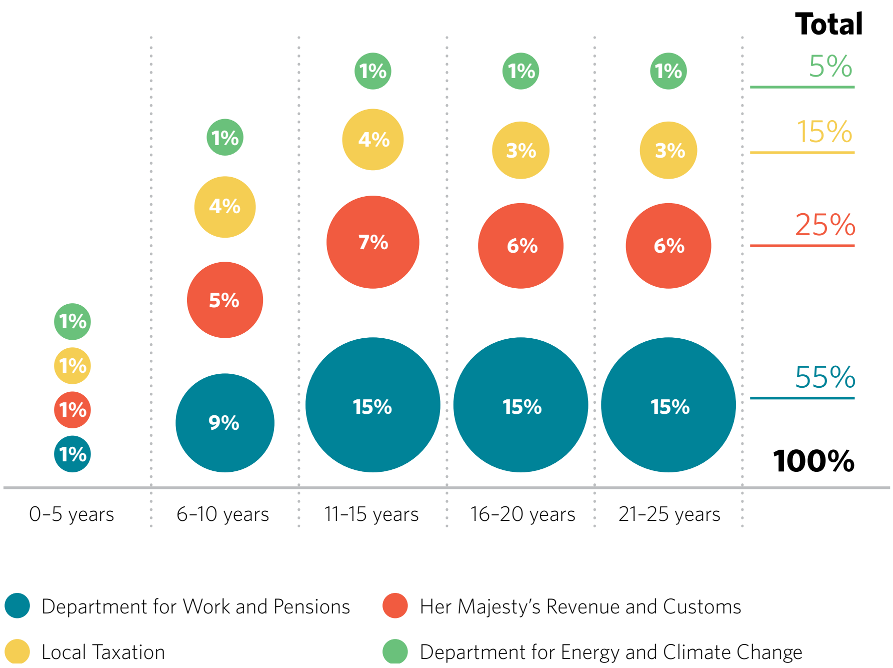
Case Study

KETTERING BOROUGH COUNCIL
Key economic benefits created by partnership

Kettering Borough Council is one of the key sites identified by General Electric to be a new sustainable low-carbon energy park. This has been integrated with plans the council has to increase the number of new homes and businesses in the borough. General Electric propose to invest £160m into a renewable and sustainable energy infrastructure. In total there would be £1.2bn of new economic activity. In order to unlock this investment, there are sections of supporting infrastructure which are required to connect up the various development sites estimated to cost £60m. Without the investment in the infrastructure, the total new economic activity would be £342m. With the infrastructure, the total economic activity would be £1.2bn, meaning the £60m of infrastructure produces a net economic benefit of £862m. This would include:

- 5,500 homes
- 300,000 sqm of business space
- 60MW of low carbon energy

The partnership would also generate significant economic benefits for central government and the wider economy, as the diagram below about the distribution of the £862m of economic benefit demonstrates. In this diagram, each circle represents the percentage of the total economic benefit that will accrue to either the Department for Energy and Climate Change, Her Majesty's Revenue and Customs, Department for Work and Pensions and local taxation. Across a 25 year period, 55% of the economic benefit, or £474m, will accrue to the DWP in the form of money saved in welfare payments.



Partnerships can correct market failures and help increase commercial viability
Working in partnership can help to pump-prime private sector investments, de-risk development sites and provide essential supporting infrastructure, that makes developments more commercially viable. This is especially vital in a period of low-economic growth. In these instances councils can draw on their access to inexpensive borrowing and a strong balance sheet, plus a large asset base worth an estimated £250bn. This can then bring in to play private sector attributes such as commercial discipline, and the ability to leverage on the back of public investment to increase the economic impact of a project.

Case Study

CORNWALL COUNCIL
Key role in the regeneration of Hayle Harbour

Cornwall Council has sourced funding from various places to improve the commercial viability of Hayle Harbour, which in turn has released lots of private sector funding. Since 1969 Hayle Harbour has been through a period of continual decline. In 2004 ING Real Estate Development acquired the site and developed a masterplan with the Council and local community to reverse the fortunes of the harbour. Despite having secured planning permission, the global financial crisis of 2008 meant that ING's proposals for Hayle Harbour were placed on hold.

In response the Council took the bold and decisive move to assemble a £15m public sector funding package (provided by the UK Government, ERDF Convergence and the Council) that would address the negative viability issues by paying for the infrastructure works, including a new bridge to access the main quay, construction of a new road, flood protection works and restoration of the harbour walls. In particular, the Council and other partners saw the opportunity to use the economic catalyst of the Wave Hub, marine energy project. This £42m project has created the world's largest test site for marine energy devices 10 miles off the coast of Hayle. Wave Hub's subsea electrical cable comes ashore at Hayle, where it connects to the National Grid. The Council's intervention had the effect of transforming the regeneration scheme from being housing led, to employment led.

The infrastructure works have opened up the opportunity to develop 14,000sqm of high quality commercial and industrial workspace, including a Marine Renewables Business Park adjacent to the harbour. The transformation will pave the way to the development of the Business Park and the comprehensive £200m regeneration of Hayle Harbour.

Partnerships can improve cross-sectoral relationships
A proactive approach to partnership from both the public and the private sector can help create an environment in which organisations are more likely to work together and help each other tackle barriers to development. This approach can be particularly important where there are substantial challenges for either the public or the private sector, and an over-arching strategy for engagement can make a significant difference. As the case study below demonstrates, it can help form the connections which make benefits mutual.

Case Study

BARNSLEY METROPOLITAN BOROUGH COUNCIL
Private sector engagement strategy

Barnsley Metropolitan Borough Council has recognised the substantial difficulties confronting the private sector in that area. Barnsley's economic backdrop, which has contributed to low end-use development values, has held back private sector investment from reaching the levels required to significantly grow the local economy. In response to this, Barnsley has undertaken a review and improvement process for all of its private sector engagement. This has included

- Placing private sector investment at the heart of the delivery of a new economic strategy, (Growing Barnsley's Economy 2012 – 2033) facilitated by direct local authority investment of £14.2m in a variety of programmes designed to assist the private sector to grow the economy over the next two years.
- Strengthening partnership arrangements with the private sector through the establishment of a Barnsley Enterprise Board to provide the private sector expertise that is required to implement the Council's economic strategy.
- Rebranding the Borough through a major campaign to improve the image and perception of Barnsley and the production of a prospectus for business that will appeal to private sector investors at home and abroad.
- Working with the private sector to de-risk investment opportunities and thereby co-create wealth.

These case studies demonstrate just some of the ways in which a partnership approach between the public and private sector can unlock development and growth in even the most challenging of economic circumstances.

To give these partnerships the best chance of success, we urge the government to act on the recommendations in the rest of the report. Whitehall presides over the framework in which these partnerships operate and there are a number of simple and cost-effective measures it could take to drastically improve the effectiveness of cross-sectoral approaches.

02.
Tailor-made strategies to meet the needs of an area

A dominant theme that emerged from our work was that strategies and approaches for economic growth must be responsive and reflective of the individual circumstances of an area. There is a growing realisation that handing down one-size-fits-all policies for stimulating growth and regeneration is an outdated and inefficient approach. Initiatives or incentives that may produce results in one area may fail to have any positive impact in another. All places are different and require packages of support tailored to their needs.

To free up councils and developers to pursue these approaches, the government must look afresh at how and to whom it devolves responsibilities. The government has moved in the right direction, but we believe it could go significantly further in the level of devolution on offer. In so doing, it would ensure that localism is seen much more widely as an engine of growth.

The need to change the system

The government's City Deals programme is an acknowledgement that the current framework of governance, powers, freedoms and responsibilities for economic development is not capable of producing effective measures to promote growth. City Deals have enabled councils to approach growth in a more integrated way, bringing together funding and responsibility over the range of measures that can contribute to growth. These have broadly covered five areas, in which there has been initial progress towards the devolution of power:

- Skills.
- Infrastructure funding.
- Inward investment.
- Business rate and other tax uplift retention.
- Cross-sectoral working (e.g. investment plans with infrastructure delivery agents such as HCA).

With the first wave of City Deals now completed in the eight 'core' cities, there are many positives. The deals have been concluded in good time. They are long term and comparatively large scale (with investments of over £1bn in at least four of the deals). They also address the main levers of growth – infrastructure, enterprise, skills, and finance. Equally, local authorities have entered into major policy and financial commitments that will give confidence to private sector partners.

Across the eight deals there are some strikingly innovative and ambitious approaches – for instance, Greater Manchester's 'Earn Back', Leeds' plan to become a 'NEET-free' zone and the Trans-Pennine integrated economic area bringing together the Leeds region and Greater Manchester.

Devolution Through City Deals (from Centre for Cities)[1]

SUMMARY OF "WAVE 1" CITY DEALS

	Finance and investment	Skills and employment	Transport	Housing	Broadband	Business support	Trade	Low carbon	Sectors	Governance
Birmingham	O	O		O				O	Life sciences	LEP
Bristol	O	O	O	O		O	O			Mayor
Leeds	O	O	O				O			Combined Authority
Liverpool	O	O	O	O			O	O	Science	Mayor
Manchester	O	O	O	O		O	O	O		Combined Authority
Newcastle	O	O	O	O	O			O	Energy and marine	Working toward a Combined Authority
Nottingham	O	O	O		O	O		O	High technology and creative	LEP
Sheffield	O	O	O						Advanced manufacturing and nuclear	Combined Authority

[1] Centre for Cities Over-view of the "Wave 1" City Deals (2012)

Case Study

GREATER MANCHESTER
City Deal

The Greater Manchester Combined Authority City Deal was the second to be agreed with government and included:

- The establishment of a £1.2bn Infrastructure Fund with an 'Earn Back' mechanism of up to £30m per annum over 30 years to be paid back by Treasury against increases in Gross Value Added.
- A single Economic Investment Framework overseen by a Regional Investment Board aligning a range of economic development funding including central government, ERDF North West Evergreen, and private sector funding.
- Business Growth Hub – with £4.4m transitional government funding – to integrate business support functions for city region businesses.
- A City Apprenticeship and Skills Hub delivering 6,000 new apprentices to Small and Medium Enterprises over two years and a range of other locally-led skills interventions.
- A Low Carbon Demonstrator – a co-funded Joint Venture (JV) with UK Green Investments to deliver a pipeline of low carbon projects to significantly contribute to GM's carbon reduction target of 48% by 2020.
- An inward investment beacon of additional assistance from and collaboration with UKTI.

The deal has been welcomed due to its city region scale, the interest in the 'Earn Back' mechanism, and because Government accepted the Combined Authority route as an alternative to the elected mayor as a demonstration of strong effective leadership and governance.

In written evidence submitted to the Political and Constitutional Reform Select Committee, Sir Howard Bernstein stated: "City Deals are a significant step forward and have involved a major transfer of powers and responsibilities from central government to Greater Manchester and the other Core Cities. They have challenged cultural norms across departments and have required Government to work with and respond to local government in new ways."

The Government has announced a second wave of City Deals focused on smaller cities. We strongly support this, but believe that there is scope for a much wider rollout of this approach.

The Localism Act (2011)[2] confers on local authorities the ability to request the delegation of functions from a public authority on the condition that it either enables the promotion of economic development or that it is increases the accountability of the function in question. In practice however, the ability to do this has been strictly rationed by government. This has meant that only areas selected by Whitehall have been able to put forward an offer. As a result, the government is in danger of missing out on the gains that could materialise if every area with a robust proposition about economic growth was allowed to pursue it.

We believe that the concept of a local authority putting together a robust growth proposition and negotiating a package of measures to support it (i.e. a 'deal') should become standard practice across the country. Every area should have the opportunity to make its case and, if it stacks up, to have the opportunity to take forward its own tailor-made deal. This would enable the total amount of money going into an area from many different bodies and agencies to be more effectively used. It could also transform local skills development by allowing areas to focus much more sharply on their distinctive needs as well as allowing much greater local involvement in the setting of infrastructure priorities. The net result of unleashing these areas to innovate and take on new responsibility would be increased investment activity and growth.

[2] Localism Act 2011 Part 1 – Chapter 4 –
Transfer and Delegation of functions to certain authorities

Case Study

CORNWALL COUNCIL
The Cornwall Deal

In the context of a continuing reduction in grant funding, Cornwall has identified a range of freedoms and flexibilities that it hopes will form the basis of a 'Cornwall Deal' to be negotiated with the Government:

INFRASTRUCTURE: Government should enable more decisions regarding the funding of local infrastructure to be taken locally. In Cornwall a number of large scale developments have faced significant delay due to the capacity to provide infrastructure funding upfront. For example, it has taken over 10 years to obtain the necessary funding to deliver a major new road scheme that will provide access to 64 acres of development land and create more than 5,000 new jobs and 6,000 homes in the Camborne, Pool and Redruth area.

FUNDING: Government should allow local areas to form a local capital pot with funding from across the public sector to use to invest in local economic regeneration. Cornwall has a good track record of delivering large and complex programmes which makes a strong case for Government to remove ring-fencing from capital grant monies. This would help Cornwall to maximise European, national and local funding streams to address local challenges. This would enable the public sector to take a more strategic 'whole-place' approach to local investment and allow greater freedom and flexibility to align resources to maximise economic growth.

POST 2013 EUROPEAN FUNDING: Local authorities must be enabled to have much greater influence over the delivery of European funding programmes. Cornwall and the Isles of Scilly have been recognised in Europe for delivering excellent programmes of investment and is eager to adopt a more flexible, delegated delivery model for the 2014-2020 EU Programmes based upon locally led strategic, operational and governance roles.

Enterprise Zones (EZs) are another of the Government's flagship policies. Their success will owe much to the ability of local authorities to implement them in a way that reflects local conditions and realities. We are encouraged by the fact that the Government has said that it will be flexible in allowing individual EZs to put together the package of measures that works best for them. It has indicated, too, that EZs must be allowed to grow and evolve with, if necessary, new tools being made available to achieve this.

Recommendations to Central Government

Allow all local authorities with a robust proposition to negotiate a "deal" to devolve tools and levers for growth. This would be justified by the increased investment activity and growth that would result from unleashing these areas to innovate and take on new responsibility.

We acknowledge that the way City Deals are currently brokered means there is limited capacity in government and it is logistically difficult for lots of areas to agree a 'Deal' at once. For this reason, we argue that government should focus its efforts on agreeing the aspects of city deals which are genuinely bespoke to that local area. There are many other aspects of City Deals which are not reliant on unique local circumstance, and which could simply be devolved across the whole country. Such devolution might be enough in many cases to give local authorities the powers they need to get their economies growing.

Commence work urgently to mainstream the aspects of the City Deals already signed that have potential for straightforward replication, allowing for minor amendments, so that all areas can take advantage of levers without having to negotiate a separate deal. These might include, for example:

- Single Capital Pot
- Local Investment Frameworks
- RGF reform
- Investment Plans for Whole Place
- Whole Public Sector Asset Plans
- More influence on skills funding

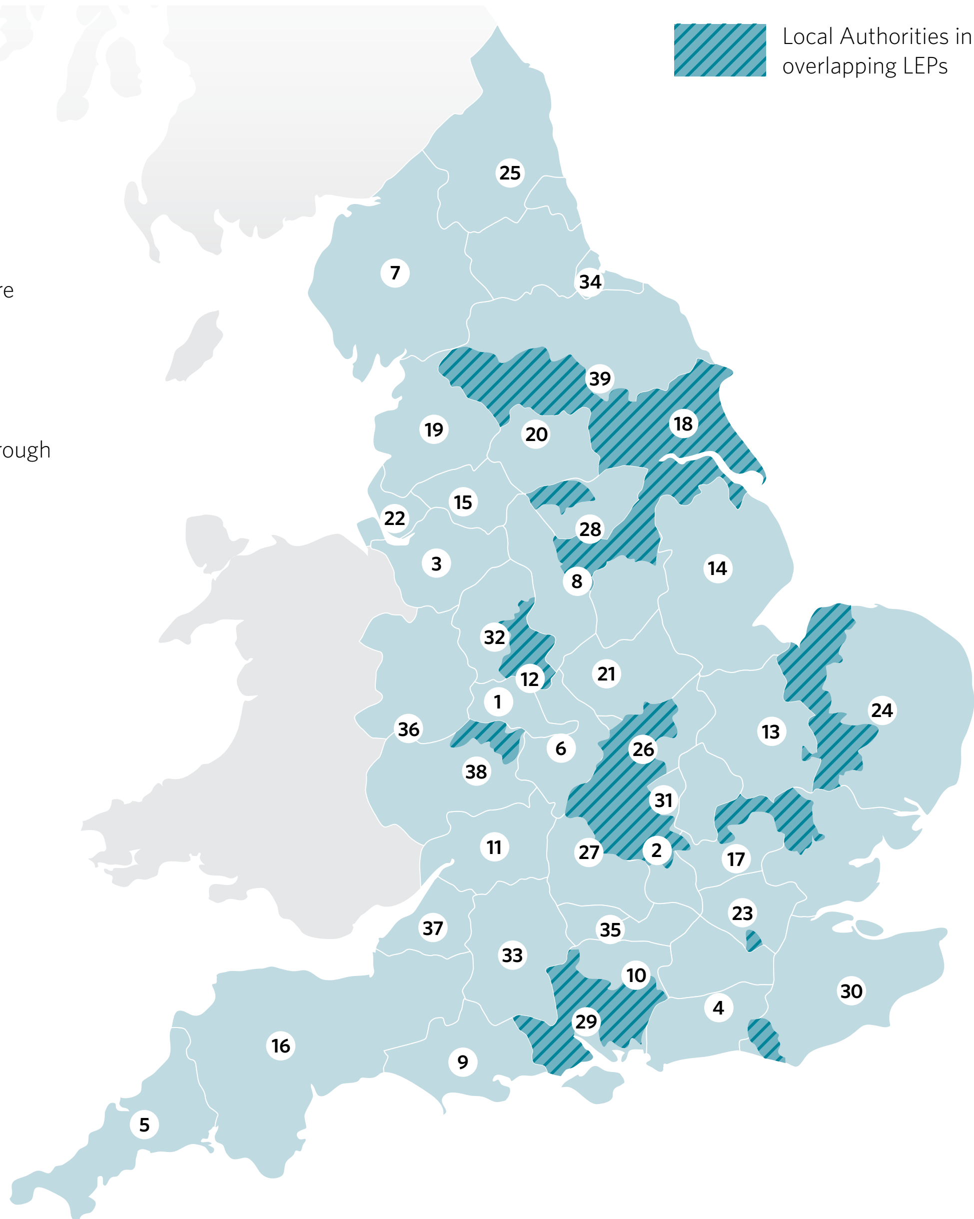
There is a strong argument for increasing the capacity of the Cities Unit so that more areas can agree deals to accelerate their economic growth efforts. Capacity could be increased by seconding expertise from local authorities, developers, and the private and social enterprise sectors. This would expand the skills and experience and bring in fresh perspectives, new ideas and a different approach to problem solving.

03.
Stronger and locally-driven sub-regional governance

The need for economic development decisions to reflect natural economic areas (which may be larger than a single authority) is now well accepted. There are a range of structures than can achieve this, including Local Enterprise Partnerships (LEPs), city-regions and combined authorities. These are integral to the process of bringing together councils, local businesses and development partners to formulate and implement plans about transport, housing and skills at a sub-regional level. If successful, this should result in better integrated local economies, more competitive businesses and increased employment and prosperity.

Local Enterprise Partnerships

1 Black Country
2 Buckinghamshire Thames Valley
3 Cheshire and Warrington
4 Coast to Capital
5 Cornwall and the Isles of Scilly
6 Coventry and Warwickshire
7 Cumbria
8 Derby, Derbyshire, Nottingham and Nottinghamshire
9 Dorset
10 Enterprise M3
11 Gloucestershire
12 Greater Birmingham and Solihull
13 Greater Cambridge and Peterborough
14 Greater Lincolnshire
15 Greater Manchester
16 Heart of the South West
17 Hertfordshire
18 Humber
19 Lancashire
20 Leeds City Region
21 Leicester and Leicestershire
22 Liverpool City Region
23 London
24 New Anglia
25 North Eastern
26 Northamptonshire
27 Oxfordshire
28 Sheffield City Region
29 Solent
30 South East
31 South East Midlands
32 Stoke-on-Trent and Staffordshire
33 Swindon and Wiltshire
34 Tees Valley
35 Thames Valley Berkshire
36 The Marches
37 West of England
38 Worcestershire
39 York and North Yorkshire



Department for Business Innovation & Skills

Produced by Statistical Analysis Directorate

Department for Business, Innovation and Skills

Though LEPs are the main channel through which the government see the formation of the sub-regional tier, the City Deals process has demonstrated the variety of governance options that are available. Different economic geographies will demand different solutions to how economic development is co-ordinated, but the key to success is allowing councils and business to have more control over these structures. Crucially, as the principal organisations involved in this, it is councils and their local partners who should be able to determine what these structures are and the form they take.

Up until now, however, it has not been clear that central government has been willing to give authorities the latitude they need aside from in the City Deals process. To take the example of LEPs, there is a strongly voiced perception that they have not been given sufficient powers and responsibilities to make them effective either strategically or as delivery units.[3] Encouragingly, the City Deals process seems to herald a growing role for LEPs, as well as other governance systems. As the case study below demonstrates, City Deals enabled LEPs to be engaged in a more advanced process of devolution and economic development.

Case Study

BRISTOL
City Deal and LEP[4]

One part of Bristol's five point City Deal is an agreement that the business community and LEP will have more influence over skills provision in the city region, in particular the £114m Skills Funding Agency funding for Further Education colleges for post-16 provision, to help capture employer demand. The West of England LEP is formally recognised as the body through which the FE providers need to account to the local business community for the relevance, impact and quality of provision. In addition to this, there are explicit and specific arrangements for the West of England LEP city-region to ensure that all bidding for non-mainstream skills funding (including European Social Fund funding) is aligned with and provides additionality to the provision within the West of England Skills Plan. In total, the measures on skills are expected to result in:

- 3,000 18+ college graduates at NVQ level 2 and below becoming work-ready, as defined by business through the CharterMark, over 2 years;
- 5% increase year on year in apprenticeships created in the West of England;
- 500 businesses engaged in shaping the skills agenda through the LEP sector groups;
- 150 businesses (75% of which are SMES) collaborating intensively in the co-design and delivery of training provision in LEP priority sectors; and
- 5% year on year increase in private sector investment in training delivered through colleges.

We support a varied and empowered sub-regional tier and are pleased that City Deals have taken steps in the right direction towards this. However, we are concerned that the prominent role and devolution extended to the sub-regional tier is not universal. We believe now is the time to build on the good work that has already taken place by creating strong structures and granting the necessary levels and responsibilities for growth.

We believe that the ability of local authorities to retain some of the benefits of growth through local rate retention and initiatives such as EZs, City Deals and the Growing Places Fund offer the sub-regional tier a potentially more active and central economic development role. In order to take advantage of these opportunities, operating arrangements need to be put in place to enable structures such as LEPs to deliver projects (including, where applicable, the monitoring of revenues to repay the finance). Clarifying responsibility for, and adequately resourcing delivery, must be a main priority as this is widely seen as the Achilles heel of many LEPs. There may be various ways of dealing with this including the appointment of a lead authority to undertake specific tasks, but it is essential that both the responsibility for and the resourcing of delivery are clear.

[3] See for instance Local Enterprise Partnerships and the Regional Growth Fund (Business, Innovation and Skills Committee – Written Evidence, 2012) 'Grow Your Own' (NLGN, 2012), 'LEPs One Year On' (Centre for Cities, 2011), 'Changing Gear' (The Smith Institute, 2012)

[4] Bristol City Deal (Deputy Prime Minister, Cabinet Office, 2012)

We also believe there would be gains from linking the sub-regional tier more explicitly to the process of 'deal making' that has so far only been extended to core cities and the second wave of city deals. As these structures span natural economic geographies, there is a strong case for them to have the ability to participate alongside local authorities in agreeing a deal with government to devolve powers where this will lead to more economic growth.

We would also stress that the benefits of collaborating across the sub-regional tier could include:

- Formation of an economic development investment fund.
- Ensuring that the limited public funds available to support economic regeneration are focused initially on the areas where the biggest impact can be made. Mechanisms such as revolving funds that allow public sector funding to be reinvested in new projects can be a very effective way of making the most out of limited resources. Achieving greater alignment between the priorities being agreed by LEPs and the allocation of resources from government funding streams such as the Regional Growth Fund (RGF) and the Growing Places Fund is another.
- The potential to take on greater responsibility for infrastructure which needs to be delivered at a sub-regional scale, such as train networks.
- Better understanding of investment appraisals and the allocation of risk between authorities for the purposes of attracting private sector partners.

Recommendations

- Councils and their local partnerships should be allowed to agree the most suitable form of sub-regional governance for their natural economic geography, and the structures which emerge should be sufficiently empowered to enable them to pursue growth.
- Where there are appropriate governance structures operating at the sub-regional level, these should be given the opportunity to participate in negotiations of 'Deals' with central government, subject to agreement by local authorities.
- If the potential of LEPs to play a role in local rate retention and in initiatives such as EZs, City Deals and the Growing Places Fund is to be realised then a key priority should be clarifying responsibility for the delivery of programmes by LEPs.
- Maximising the effectiveness of the limited public funds available should become a key priority for central government. Close alignment between the priorities being agreed by sub-regional partnerships and the allocation of resources from government funding streams such as the RGF is essential.

If properly resourced and supported, those structures operating at the sub-regional tier are the logical bodies to take on greater responsibility for the provision of sub-regional infrastructure and to foster collaboration between neighbouring local authorities in economic development.

04.

Tax Increment Financing

Tax Increment Financing (TIF) offers considerable scope for generating growth that would not otherwise happen by expediting development where the main obstacle is the high upfront cost of enabling infrastructure. The model has been used successfully in the US since the 1950s and we believe it could make a huge impact on economic growth in this country if it was utilised fully. While the Government has taken small tentative steps towards TIF there is continuing frustration both within local government and the private sector about the overly restrictive approach that the Government has adopted.

Tax Increment Financing (also known as Local Development Schemes)
Tax Increment Financing enables public bodies to borrow funding to finance improvements to infrastructure, on the basis that it will lead to an increase in business activity and therefore business rates. The increase in taxation income is then used to repay the initial borrowing, while the wider economy also benefits from the improvements to the public sphere, increased employment and higher business output. The use of TIF is severely restricted by a central government quota which limits the number of schemes to a centrally determined funding envelope.

The use of TIF in England is made difficult by the way that business rates are paid back to central government before being redistributed. This means that the proceeds of business growth are not retained at a local level and cannot be used to repay any borrowing that has been done to promote economic development. The government have used the Local Government Finance Bill (2012) to remedy this to some extent by letting councils keep a proportion of future business rate growth locally. However, the system will be reset every 10 years, meaning there is no long-term certainty over the revenue stream. Where the revenue stream can be ring-fenced and retained locally for 25 years, councils are able to pursue TIF. However, in reality the ability to do this has been limited by central government to just £150m worth of development.

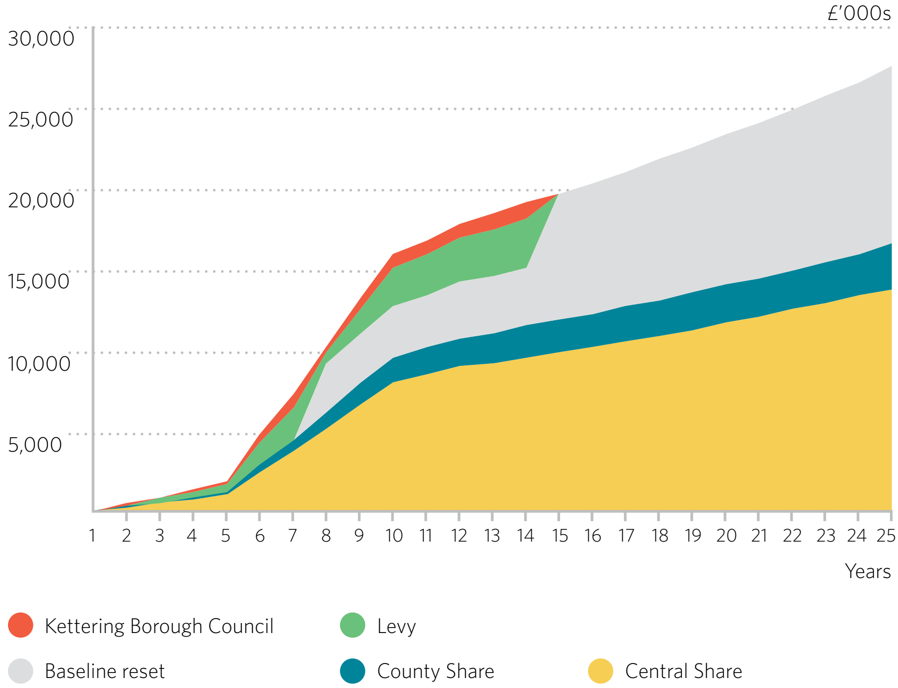
We argue that there would be significant economic benefits for the government if they were to permit the ring-fencing of business rates growth where the case for doing so shows that the investment produces growth that is genuinely additional. We agree that pursuing TIF schemes which displace economic growth is a false economy. For this reason, the government should opt for a transparent framework and evaluation method to enable the schemes that produce genuinely additional growth to be identified and permitted.

The case study below demonstrates why this is needed, and why the Local Government Finance Bill will still not enable the vast majority of councils to pursue TIF.

Case Study

KETTERING BOROUGH COUNCIL
Economic Analysis – support for Tax Increment Finance

In order to unlock the full £1.2bn of economic benefits that General Electric's investment in Kettering would bring, there is a need to provide £60m worth of supporting infrastructure. An independent economic analysis has shown that without this supporting infrastructure, the amount of growth would be far less, just £342m. In this instance, if £60m cannot be found to fund the infrastructure, £862m of additional economic gain is missed. While the infrastructure falls within the boundaries of Kettering, the benefits of the business rate growth do not. Of the £421m of additional business rates that could be generated over the next 25 years from the stalled development in Kettering, only £7.5m would accrue to Kettering Borough Council. The diagram below shows that the vast majority of the business rates growth flows away from the council.



However, if the business rates growth was not 'reset' after seven years (scheduled for 2020), and was in effect ring-fenced for Kettering for 25 years, the council would be in a far better position to finance the supporting infrastructure and to unlock a much greater level of growth. As the diagram on p7 demonstrates the vast majority of the benefits of this growth are to the Treasury and wider economy.

As this case study shows, to place an arbitrary limit on the number of TIF schemes means potentially missing out on the gains of developments such as Kettering. The government has permitted TIF to proceed via the first wave of City Deals, using up the £150m quota. If there is to be an ambitious and proactive approach to growth outside of the eight core cities, the government must look at extending the same freedoms to all areas.

In addition to this, we believe there would be significant value in opening up a discourse between the private sector, councils and government about how the Infrastructure Guarantee Scheme (IGS) could be applied to local capital projects. The IGS has committed to underwrite £50bn of infrastructure schemes, but so far aside from £10bn for housing projects, it is not clear how the rest of it will be used. We argue there could be potential applications of the IGS for council and developer TIF schemes, but that an open discussion between the key stakeholders is needed to establish this.

Recommendations

The full potential of TIF to unblock a range of stalled development projects is not being harnessed. To make better use of TIF we recommend that:

- The restrictions on TIF schemes should be lifted. Instead of an arbitrary cap the Government should set robust qualifying criteria so that more schemes can progress using this option. We believe that if appropriate criteria were set the number of schemes brought forward would be relatively limited but that a number of highly important schemes with major regenerative and growth potential would be enabled.
- A dialogue should be initiated between councils, developers and central government about how the £50bn Infrastructure Guarantee Scheme could be applied to local capital schemes.

05.

Local Investment Funds – pooling public sector capital funding in a place

Making it easier to pool public sector capital funding going into an area would enable councils and groups of councils working together to direct funding to local priorities most likely to stimulate further development and business activity. This would enable the public sector as a whole to take a more strategic approach to the provision of infrastructure, make public funding go further and lever in private finance to support economic development and enable groups of councils to join up their investment to support development of sub-regional infrastructure.

The government is taking steps towards a more place based approach to public investment and the use of assets. In the City Deals agreed to date, it has recognised the strategic economic case for pooling funds for economic development. However, across most of the country there remains a lack of integration between the numerous funding streams that exist to promote growth.

A range of sources of finance for investment in infrastructure are available including the Growing Places Fund, European Structural Funds, Regional Growth Fund (RGF), Local Sustainable Transport Fund, Community Infrastructure Levy (CIL) and the New Homes Bonus. Separate funding streams with different appraisal processes, timescales and criteria get in the way of joining funding up and attracting investment from other sources. For example, the challenge fund selection process associated with the RGF led to delays in funding and co-ordinating RGF investment with other investment, resulting in poor value for money. Local partners are disappointed with the delays and the bureaucracy attached to the RGF which exemplifies how competitive bidding rounds based on national criteria lead to greater bureaucracy and less effective distribution of resources.

Consolidating these funds at local level would allow places to prioritise projects through investment frameworks and get investment underway earlier. It would also make it easier to draw in other sources of funding. For example, Barnsley found there was insufficient funding available from any one scheme and to generate enough it was necessary to combine Regional Growth Fund, Get Britain Building and Growing Places Fund. The process for doing so was highly bureaucratic, centrally prescriptive and didn't offer enough flexibility to respond to local economic circumstances. Consolidating the fragmented funding streams would increase opportunities to use these as EU match funding and double investment.

Case Study

LIVERPOOL
Investment programme

A new approach to investment for the city of Liverpool is being developed which will be deployed through the Liverpool Mayoral Development Corporation (LMDC). The LMDC will provide strategic direction and control for a new investment programme, the Mayoral Investment Programme (MIP), using public and private finance and assets through a single pot. The long term aim for the LMDC is to create a multi-billion pound investment vehicle that will operate as a 'Bank of Liverpool'. This will grow and evolve over time, but will initially bring together a widening number of public funding streams, including future EU funding, into a single investment pot" that can then be used to attract additional private sector match and leverage commercial loans and equity funding. Importantly, it is estimated that up to 40% of this single pot could be eligible as local match funding to attract both ERDF and ESF.

Case Study

GREATER MANCHESTER
Single Assessment Framework

To ensure that all investment provides maximum value for money in terms of outcomes and returns it generates, the Greater Manchester LEP have developed a Single Assessment Framework to support decision-makers by identifying the package or programme of projects that offers the greatest overall benefits to Greater Manchester.

The Single Assessment Framework (SAF) is a robust, qualitative and quantitative process of support for Greater Manchester to be able to make consistent and evidenced decisions on investment. The Framework assesses the expected impact of projects in a clear and transparent way; from the extent to which projects fit with Greater Manchester's strategic aims and objectives, to the expected GVA benefits; from the impact on worklessness, to

[5] The Regional Growth Fund, National Audit Office, May 2012

the environmental impact of projects. The costs, benefits and sustainability of projects will be analysed to help Greater Manchester to identify the projects that provide the greatest benefits.

The Framework anticipates and seeks to leverage the shift away from grant-led funding, based on need, to recyclable investment, based on return. SAF will initially be used to support the development of strong bids, improving their overall chances of funding and maximising the impact of projects once implemented. It is also designed to play a part in maximising the funding available to Greater Manchester through RGF; from the North West Evergreen Fund; from the European Regional Development Fund or the associated European Social Fund; from local partners pooling resources; or from new streams and sources, such as through TIF.

Recommendations

Streamline funding for growth by allowing the creation of local investment funds across the country, building on the consolidated funds agreed in the City Deals.

06.

Certainty and stability in the planning system

The planning system is one of the key supply-side levers available to promote economic growth by bringing forward investment and new development. Local plans set the vision and identify the development needs of an area to steer investment and send a clear signal to the private sector about where development should go and what kind of development is needed. Councils are updating and bringing forward local plans, identifying land for development through their local plans, providing planning permission and working pragmatically to unlock important stalled sites.

Throughout our work and in each of the place based study areas we have seen how effective local planning can remove development risks for the private sector, create an environment which is supportive of business growth and gain community support for new development. However, there do remain some cases where improvements would help facilitate development.

Case Study

WANDSWORTH AND LAMBETH

The Vauxhall Nine Elms Opportunity Area in Wandsworth and Lambeth has the scope to deliver over 16,000 homes and 25,000 jobs over the next 20 years. Unlike other similar sized opportunity areas virtually none of the land is in local authority ownership but instead is in multiple large sites owned by a mixture of landowners (Covent Garden Market Association, Royal Mail) and developers (St James, Ballymore, CLS etc). It was vital for developments to proceed in a co-ordinated way to create the social and community infrastructure required to support the proposed growth. To take things forward a partnership involving all the stakeholders and co-chaired by the leaders of each borough was set up. This Board led on projects to coordinate the location of public realm; agree infrastructure needs; agree a development tariff that would pay for that infrastructure; and meet the planning needs of the area. Because of the certainty of the planning process the private sector has also been able to lever in inward investment from the US Embassy and take forward planning permissions on their own sites. Now over three years into its life the partnership has enabled planning permissions to be granted on key sites including Riverlight (now under construction), Battersea Power Station, The US Embassy, Royal Mail site, Marco Polo, and Vauxhall Gardens. All approved sites together will deliver 11,500 homes and over 35,000m2 of commercial floorspace.

Since coming to power, the government has focused heavily on the belief that planning is a blockage to development and has spent much of the last two years implementing a package of reforms intended to strike a better balance. We have welcomed many of the changes that have been introduced, particularly the moves to reduce the mountain of planning law and regulation that has built up over many years and placing local plans at the heart of the new streamlined system.

Whilst there is always scope for further fine tuning to the system, it is not our view that further rounds of planning reform would lead to a major increase in development activity. In the areas that we have looked at in which development is stalled, the key obstacle has not been planning. Indeed, the relevant local authorities have been keen to expedite new development. The overwhelming problem has been a lack of financial viability. Among the measures that

Government could take to incentivise new development, therefore, a further radical shake-up of planning would not be high on our list. Indeed, we believe that the priority now should be to allow the new planning system to bed in, identifying and remedying problems as they arise. While we would argue against any more fundamental reform, we should never the less take the opportunity to remove the remaining duplicative and confusing guidance in order for the planning system to be clearer and more streamlined.

In addition, the Community Infrastructure Levy (CIL) is an important new tool. It has the potential to help fund the local infrastructure which is needed to support future development as long as it is set at a level which does not affect development viability. Close liaison between CIL-setting authorities and local developers from the outset of the process is essential in getting the balance right.

Adequate resourcing of the planning system is an ongoing problem that needs to be tackled. The current system in which planning fees are set centrally leaves planning departments operating at a loss and when combined with public spending cuts impact on resources available for planning. Decentralising planning fees would represent a fairer, more transparent and accountable approach. Many applicants would be willing to see planning fees set at a local level if there were adequate safeguards (for example that fees were to be set no higher than the cost of the service) and a consistent level of good service. In addition to this, we want to ensure that pre-application discussions are effective and the fees charged transparent and based on robust evidence. Local Government is taking this seriously and the LGA's Planning Advisory Service will be working with councils to compare costs and approaches to pre-application discussions as part of their wider benchmarking programme.

Another piece of fine-tuning that could be helpful would be to encourage more use of Planning Performance Agreements (PPAs) – essentially a project management process intended to help major proposals progress through the application process in a timely fashion and result in high quality development. Both the LGA and the BPF strongly support the principle of PPAs. However concerns over resources, as well as the binding nature and the complexity of the current guidance have meant they are not used as widely as they could be. To be more effective, PPAs need to be simpler, more flexible and proportionate so they can be applied to a wider range of projects. This should include the ability to focus a PPA on a more limited number of issues or specific parts of the planning process – thereby reducing the cost and complexity and ensuring they can be used more widely.

Case Study

HAM YARD

Ham Yard Westminster is an example of a simple PPA which highlighted various points of agreement over milestones, timing and responsibilities. It required limited upfront resources and while such an approach may not be appropriate for larger more complex developments, was valuable in managing the process.

Recommendations

Continuing uncertainty is likely to have an adverse impact on development. We believe that the priority now must be to let the reformed planning system bed in rather than have further rounds of major reform. However, opportunities should be taken to streamline and simplify processes and guidance where possible and ensure that the planning system can be adequately resourced through localising planning fees.

07.

Partnerships need to share risk and reward

Key to partnership is a careful balance of risk and reward, which can then lead to the realisation of mutual benefits rather than the adversarial zero-sum dynamic which has sometimes undermined partnerships in the past. In the past 20 years, Public-Private Partnerships have been used as a means of managing risk in the construction and delivery of infrastructure. Transference of the risk to the private sector is seen as a way of mitigating construction and maintenance risks, as a contract is entered into to manage the asset once it is operational. This builds in an incentive for the constructor to produce an asset that will last. Below we explore how the concept of risk-share could help to unlock a new financing mechanism which can fund infrastructure and developments.

Local Asset Backed Vehicles

A Local Asset Backed Vehicle (LABV) is a contractual partnership arrangement in which a joint venture is formed between a local authority and a private sector developer. The local authority typically transfers ownership of key assets into the vehicle, and the private sector then leverages these assets to raise funding to undertake a programme of work with agreed joint priorities. Strategic Partnering arrangements are similar, though sometimes include elements of service provision and may not require the transfer of assets.

Advantages of LABVs include:
- Sharing of risk.
- Greater focus on commerciality.
- Ability to capture the uplift in asset values as a result of infrastructure improvements.
- The ability to leverage greater investment.
- Integrated approaches to regeneration and economic development.

Case Study

BOURNEMOUTH BOROUGH COUNCIL
LABV

In 2010, Bournemouth Borough Council entered into a LABV with Morgan Sindall Investments to help deliver its Town Centre Master Vision, a major regeneration project to bring new homes, offices, retail opportunities, tourism attractions, business development and improvements to infrastructure and the public realm. Set up for a term of 20 years, the Council and Morgan Sindall Investments each hold a 50% equity stake, committed through land asset transfers by the Council and a commensurate cash contribution per site by the private sector partner. The partnership is delivering residential and mixed-use proposals for 16 hectares with further potential development opportunities by way of acquisition and further joint venture activity.

By offering a dedicated supply chain of construction, residential and affordable housing providers from both the primary partner, and from a panel of strategic partners, the LABV partnership and Bournemouth Borough Council benefit from an affordable and low-risk development service. This meets local requirements to ensure delivery of key strategic development across leisure, retail, residential, affordable housing and office accommodation.

The private sector is providing development, funding, delivery and business management capacity and expertise as a natural extension to its considerable Public Private Partnership experience in the provision of community outcomes across education, health and social care, affordable housing and wider public sector infrastructure. There is a close working relationship between the regeneration, construction and residential delivery partners, which brings flexibility by way of strategic risk sharing, innovation and certainty of delivery.

While the LABVs that have operated so far have delivered positive results, take up has been relatively low. There are a number of reasons for this. Local authorities have a responsibility to ensure they get best value from the disposal of public assets and are cautious about 'selling off the family silver' at the wrong time of the property cycle or handing over control of public assets. Equally, the private sector may have concerns about entering into a process often characterised as bureaucratic, time consuming and costly.

Despite such perceptions a number of LABVs have now been established and are already showing positive results. If lessons from these pioneers are learned, we see no insuperable barriers to establishing LABVs on a much wider scale. Above all, the message needs to be conveyed that LABVs do not have to be costly and time-consuming to put in place. Equally, fears about loss of control can be allayed as, in reality, the LABV retains a high degree of control for the public sector even in relation to assets that are subject to options in favour of the LABV.

Some key messages are that a successful LABV requires:
- Close alignment between the interests of the public and private sectors from the outset. Both sectors need to be prepared to fairly share risk, understand the value drivers and have general agreement as to what it will take to make the assets commercially viable. This involves an understanding that. Assets in areas needing most improvement do not often give rise to the most viable commercial proposal.
- Full transparency over the costs and benefits.
- Clear objectives on the part of the Local Authority together with strong and consistent leadership and the commitment of sufficient officer support.
- A procurement process that is proportionate and reflects that expected benefits to the private sector.
- Proper evaluation of market demand for the outputs to be delivered by the LABV.
- Mechanisms for projecting and measuring benefits accurately.
- Flexibility to adapt to changing circumstances and market dynamics.

Recommendations

It is crucial that the lessons from those LABVs that have been created so far are identified and properly disseminated so that there can be a pooling of knowledge. This requires the creation of mechanisms for sharing experiences. There might also be some scope for standardising contract terms. Fundamentally, we need to spread the message from successful LABVs and highlight the factors that make LABVs work to remove any inaccurate perceptions about them.

The introduction of a targeted Stamp Duty Land Tax relief for public sector assets that are transferred into the ownership of a single entity would remove a major barrier to the rationalisation and more efficient management of the public sector asset base and make it easier for surplus property to be released to the private sector.

08.

Using procurement to find the right development partner

In establishing LABVs and formal partnerships, it is generally necessary for the local authority to go through a competitive procurement process to ensure it complies with competition law.

Local authorities have a duty to achieve best value and demonstrate that they have fulfilled other public obligations, and there is no one size fits all solution to the uncertainties and difficulties involved in procurement. Good practice has shown that applied appropriately, procurement can be a means of accessing innovative thinking, managing risk, achieving best value and finding the right partners and there are many examples of good practice in place. However, both developers and local authorities have raised frustrations that EU procurement processes can be complex, protracted and uncertain. The resulting cost, bureaucracy and timescales can be off-putting to developers making it harder for many local authorities to find a suitable private sector development partner at a time when there are few developers in the market.

As Sir Howard Bernstein, Chief Executive of Manchester City Council, told a Select Committee last year:
"One key issue that is consistently raised by private sector partners is that lengthy, complex and sometimes uncertain procurement processes can often hinder the delivery of effectively integrated regeneration projects and programmes. Procurement processes can be costly to participate in and indeed to run, and the ever increasing levels of specificity required to comply with regulations as a procurement process progresses can add to the cost burden on both the private and public sectors, and can actually deter potential partners from participating in procurement processes or result in procurement processes failing to secure their specified objectives. The current procurement regulations are extremely prescriptive and contain little flexibility. Regeneration strategies are often focused on identifying and procuring solutions to some of our most complex and challenging social and economic problems, which require the most innovative solutions. Overly prescriptive, complex and expensive processes can stifle such innovation."

There is a need to understand and address frustrations and identify proportionate approaches to procurement and when they can be applied. This could draw on the excellent way in which a number of local authorities have handled such procurement exercises and is likely to be of particular help to many authorities who may handle major development proposals only occasionally.

Recommendations

The LGA, the BPF and Local Partnerships should work together with local authorities and developers to explore the issues in attracting developers and investors through EU competition for land development and similar projects, and identify any steps that might be taken to address any issues and uncertainties identified.

09.

Refocus Inward Investment strategy towards more locally driven approaches

Economic growth in the UK is dependent on our ability to succeed in a global competition. Central and local government are competing with established and emerging economies for investment and business. To bring in the new business from abroad that is needed for economic growth, the UK will need to be more competitive, more business-friendly and more entrepreneurial. And for growth to be sustainable in the long-term, it is vital that we can attract greater levels of:

- **Overseas companies looking to expand their presence in Europe.**
- **Overseas investors seeking property development opportunities.**
- **Overseas investors looking to invest in major infrastructure projects.**

The reality is that the investment into the UK is subdued, and a large proportion of inward investment that does flow into the UK is concentrated in London. Our work echoed these concerns, and a strong theme which emerged in our discussions was that there are ways in which our current approach to inward investment could be improved and made less London-centric. At present, there is often a disconnect between the investment needs of local authorities and the interests of global investors. We need to work more closely with UK Trade and Investment (UKTI) to package up and sell these investments in the global market more effectively. At present, local authorities, the private sector and central government, through UKTI, all have a part to play in bringing in inward investment. But we need to do more to make the UK a more attractive place for foreign investors and to attract foreign firms to move their operations to the UK.

There are some shining examples of small, cluster economies which have attracted inward investment from global businesses, as the two case studies below illustrate.

Case Study

KETTERING
General Electric

Global energy company General Electric has proposed to invest £160m in Kettering to make it a low carbon sustainable energy park. The development would be one of a selection of pilots of what General Electric hope to turn into a replicable model to use around the globe.

The council were able to attract General Electric through a combination of their natural geographic advantages and plans for housing and business expansion. For its project to work, General Electric needed a medium size development across which to distribute energy. The location had to be next to consumers of the energy, and had to be able to operate a regional loop. Kettering's plans to build 5,500 new houses meant it matched these requirements, making it the subject of a pioneering partnership vision and bringing in substantial private investment into the area.

Case Study

BIRMINGHAM, THE BLACK COUNTRY AND SOLIHULL
Business Birmingham

In 2011-12 Birmingham attracted more Foreign Direct Investment than any other regional city.[6] Since launching in April 2011, Business Birmingham – the investment programme for Birmingham, the Black Country and Solihull – has worked with its public and private sector partners to entice investors into the region. This has so far created some 2,750 local jobs.

[6] http://businessbirmingham.com/media-centre/latest-news/foreign-investment-will-fund-growth

The region's largest potential investor is the US, which is responsible for more than a third (36%) of our FDI pipeline. India has nearly a fifth (17%), followed by Germany with almost a tenth (8%), then Australia, China and Ireland.

As an English-speaking location providing a gateway into Europe, Birmingham is already well placed to attract more US companies and this will be boosted even further with Birmingham Airport's £65m runway extension, which will open up direct routes to destinations as far away as California by 2014.

As Europe's largest economy with a strong manufacturing base, Germany remains one of Birmingham's most important markets. Indian companies are keen to invest in overseas businesses, and recognise the West Midlands as a manufacturing heartland – with Tata's investments into Jaguar Land Rover including a £355m production plant in the Black Country.

Developing a strong proposition for Birmingham, the Black Country and Solihull has been crucial for Business Birmingham. Working with public and private organisations, Business Birmingham demonstrates that the city has the strategic vision to support business growth. Birmingham currently collaborate with more than 80 local businesses, supporting potential investors by providing market intelligence, familiarisation tours and advice on topics ranging from recruitment to legislation.

Securing inward investment provides an immediate boost to the economy and opportunities for supply chain growth. It is key that authorities attempting to attract greater FDI understand; the markets they need to target, what sectors they stand out in and the needs of potential investors.

While there have been good examples of successful approaches to inward investment, our work raised three main concerns about our current approach:

- The benefits of investing in the UK have so far not been articulated fully.
- There is insufficient co-ordination or engagement between UKTI, local authorities, business and LEPs.
- There is a lack of support for firms that do come and invest once they have started. For instance, they may need help in navigating the planning system and other regulations, as well as to linking into key employment markets to attract skilled staff from the UK.

Clearly, there is also scope for local authorities, and LEPs and other sub-regional structures to take a more proactive approach to inward investment. Some authorities, as seen above, have taken on this role with considerable success. What is needed now is for UKTI to work with councils, sub-regions and business to improve its current effectiveness in bringing in investment. The approach that has been developed through the City Deals process could be used as a template for future partnership working between these organisations.

Recommendations

There is a need to ensure that UKTI has the capability and expertise needed to attract inward investment. Any additional funding in this area would be vastly offset by the additional income likely to be generated for the country and the Exchequer.

UKTI should support and assist locally led approaches to attracting inward investment being pioneered by a number of local authorities and LEPs. This experience needs to be disseminated and replicated wherever practicable.

Better arrangements need to be put in place to provide those who do invest in the UK with the continuing support that they need.

10.

New sources of funding for local infrastructure projects – pension funds

Across both the public and private sector there is a need to find new sources of finance for infrastructure projects. For local authorities, government capital grant is drying up, Section 106 revenues and asset sales are still below pre-crisis levels and there is huge pressure on revenue budgets, forcing overall council borrowing levels to fall. For the private sector, access to traditional bank finance is increasingly difficult, following the introduction of higher capital requirements and a much decreased appetite for risk within the financial sector.

There has been significant discussion about the role of pension funds in bridging the gap between projects and funding. There is a broad consensus that infrastructure is an asset class that is well disposed to pension fund investment. It offers the long-dated, index-linked, secure returns (particularly from post-construction infrastructure) that can help pensions funds build a diverse and balanced portfolio of investments.

In the UK there is £1.6tr of assets in management by pension funds, and £143bn in the Local Government Pension Scheme alone.[7] The Government's National Infrastructure Plan recommends that there should £20bn of pension fund investment in infrastructure over the next decade.

Case Study

MANCHESTER
Pension fund investment

The Greater Manchester Pension Fund (GMPF) committed in September 2012 to invest £25m in the construction of 250 new homes for sale and rent in Manchester. The deal is the product of innovative thinking and partnership between the council, the Homes and Communities Agency and the pension fund who have combined to find a way of structuring a deal which benefits all parties. The council will contribute land for four of the sites and the HCA will contribute the land for the fifth site. The pension fund contributes the financing required to build the housing. The council has taken an equity stake in the housing and will be releasing those that are for sale at 20% below the market price to assist buyers in getting mortgages. The remaining homes will be rented at market levels. The income derived from the investment is sufficient to provide a level of return to both investors with the pension fund taking a priority return and the City Council recovering its land values as a second priority. It is intended that the investment model is rolled out across other local authorities in Greater Manchester.

[7] The Smith Institute Investing for Growth (2012)

Pension funds offer a potentially significant source of investment in local infrastructure. Successfully tapping this could help councils and developers to overcome the funding challenge for infrastructure projects that would boost the economy and offer pension funds the long-term inflation-linked returns they are looking for. As the case study above demonstrates, there are ways of structuring deals that benefit all parties involved.

At present, pension fund investment in infrastructure remains small-scale. There are a number of obstacles that need to be addressed to unlock greater pension fund investment in infrastructure, including:

- **SCALE** – Investment in infrastructure is complicated and investment needs to be of significant scale to be an attractive option. The UK has a large number of small funds who do not have the scale or expertise required to invest directly in infrastructure.
- **RISK** – Investments involving construction tend to be higher risk, reducing the attractiveness of infrastructure schemes as investment opportunities.
- **PROCESS** – Costs and processes for Government investment vehicles and procurement processes are complex and costly and disadvantage pension funds.

In recognition that a collective approach from pension funds could help address these barriers, government has asked the National Association of Pension Funds (NAPF) and the Pension Protection Fund (PPF) to develop a Pension Infrastructure Platform (PIP) as a vehicle to bring pension fund investments together. A number of pension funds, including Local Government Pension Schemes (LGPS) are involved in developing the framework which will be owned, developed and run in the interests of pension funds. This will aim to provide the scale required for infrastructure investment and allow funds to share the costs and expertise involved. The fund is aiming to make £2bn available for investment by the time it is launched in April 2013.

A deeper understanding of the type of investment pension funds are interested in and the investment vehicles that could make infrastructure a more attractive option for such funds would be helpful to councils and developers in designing infrastructure schemes that are likely to be successful in attracting funding.

Recommendations

Pension funds, developers and local authorities should work together to explore opportunities for investment in infrastructure and barriers that need to be addressed. This should build on the work that the LGA has already begun with the National Association of Pension Funds to ensure that councils and LGPS funds have access to impartial information and quality advice in making decisions about investing in infrastructure.

APPENDIX 1
Barnsley

Barnsley, in common with many parts of northern England is an area that is characterised by a low-wage economy, is over-reliant on the public sector for employment and has higher than average levels of unemployment and deprivation. The scale of the economic challenge that faces Barnsley cannot be overstated; some 25,000 more jobs and 1,500 VAT registered businesses are required to reach comparable Yorkshire and Humber averages in these areas. This makes the task of economic growth all the more necessary, throws into sharp focus the crucial role of the private sector at the heart of lasting economic recovery and the need for the public and private sectors to work together to increase the rate of return on investment.

Barnsley's economic backdrop, which has contributed to low end-use development values, has held back private sector investment from reaching the levels required to significantly grow the local economy. In these circumstances there is a role for Barnsley Metropolitan Borough Council to work with the private sector to fully understand site development constraints and de-risk investment by helping to fund site preparation costs where this is required.

Barnsley is responding to the challenge presented by the local economy on four fronts:

- The implementation of a new economic strategy, (Growing Barnsley's Economy 2012 – 2033) with direct investment of £14.2m in a variety of programmes designed to grow the economy over the next two years.
- Strengthening partnership arrangements with the private sector through the establishment of a Barnsley Enterprise Board to provide the private sector expertise that is required to implement the Council's economic strategy.
- Rebranding the Borough through a major campaign to improve the image and perception of Barnsley and the production of a prospectus for business that will appeal to private sector investors at home and abroad.
- Working with the private sector to de-risk investment opportunities and thereby co-create wealth.

Central to Barnsley's new economic strategy is a responsive and flexible Local Development Framework. A flexible Local Development Framework will help to ensure that development sites are provided that are of the right size, in the right places and attractive to the market; this is a pre-requisite for the creation of conditions for private sector-led growth and greater prosperity.

The proposed land allocations, upon which public consultation has recently concluded, need to enable continuation of the delivery of 21,500 new homes between 2008 and 2026, (including within that number the aspiration to deliver up to 1,200 low-density, high-value homes) and the delivery of up to 350 to 500 hectares of new employment land to meet the requirement for private sector business and jobs growth to 2033.

Barnsley has a good track record in supporting business growth through its Enterprising Barnsley programme, which is being expanded to extend its reach as part of the implementation of the economic strategy for the Borough. In addition Barnsley's pivotal position between and within the Leeds and Sheffield City Regions can also help to provide opportunities for the private sector to invest in business and housing growth but in the current economic climate a deeper form of partnership between the public and private sector is required to de-risk and thereby bring forward private sector investment.

The key sites for housing and employment use in Barnsley have been brought together in five clusters, reflecting the complementary roles that these land uses perform in securing lasting economic growth across the Borough. Barnsley has recognised that in their current state and against the current, unfavourable local economic backdrop, the five sites may present too great a development risk for the private sector to take on. The council has worked proactively to tackle this by conducting initial site viability assessments and cost-benefit analyses to determine the extent to which the sites could be de-risked through the up-front use of public sector funding to make them more viable and thereby encourage the private sector to bring forward investment.

The following case study illustrates how this is beginning to work in practice:

Case Study

BARNSLEY METROPOLITAN BOROUGH COUNCIL
Hoyland Priority Cluster – De-risking Investment for the Private Sector

The development of priority clusters for employment and housing growth across the Borough is at the core of moves by Barnsley to de-risk private sector investment.

The Hoyland Priority Cluster

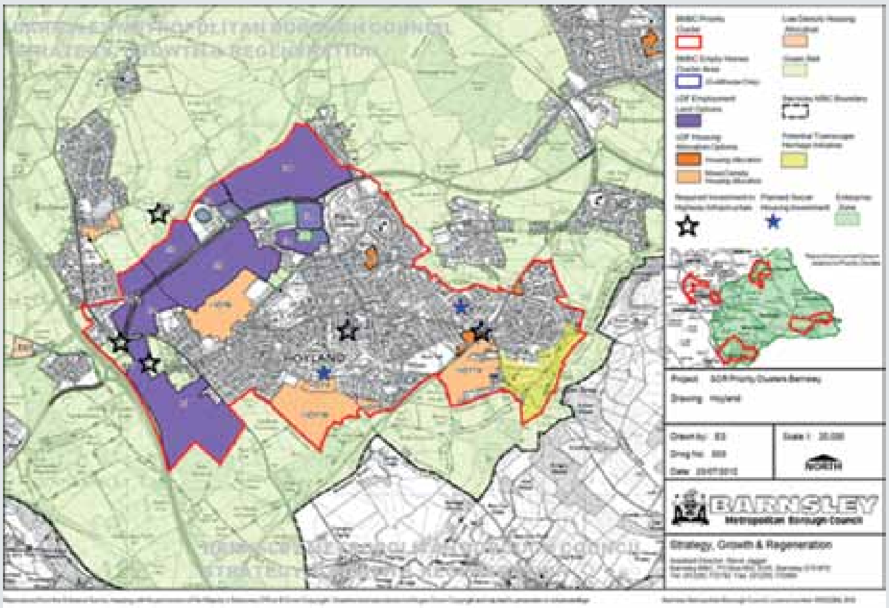
- Creation of a large 100 Ha business park located close to junction 36 of M1 and established principal town of Hoyland, serviced by Dearne valley link road. The business park which includes some land in HCA ownership and land with EZ status will offer a diverse portfolio of land that can accommodate a broad spectrum of end use.

- Land use allocation and masterplanning that enables the clustering of housing and employment development to help to create higher end-use values, ease the burden of initial site development costs and plan for upgrades to transportation infrastructure to maximise capacity for both housing and employment growth.

- A full understanding of employment site deliverability through early discussions with landowners and an external viability assessment exercise. Site viability work has highlighted potential funding gaps around transport, drainage and land remediation. Site viability work to be undertaken for housing land allocations.

- Exploration of the flexible use of other public sector funding mechanisms to complement the use of Barnsley's investment fund to de-risk investment in employment land through provision of loan finance to help fund site preparation costs.

- Vigorous marketing of investment opportunity to private sector – part of the Business Prospectus for Barnsley



APPENDIX 2
Kettering

Kettering Borough Council has an ambition to unlock development in the east of the borough which would generate an estimated £1.3bn of economic activity through housing, jobs and infrastructure. This includes a major financial commitment from private sector partners, including General Electric, which will allow Kettering to effectively cater for all of its current – and future – energy needs through a low carbon energy park. To date, Kettering has achieved two of three stated aims for this project:

- Funding has already been secured for the widening of the A14. The widening is required to unlock growth in Kettering.
- Funding has also been offered from the South East Midland and Northamptonshire Local Enterprise Partnerships, this will allow the process of discharging conditions to be completed, and access into the site constructed, to allow a start on site next year (2013).

However, additional funding is required for a major infrastructure project to enable on the delivery of a new roundabout off the E24 route (known locally as the A14) along with an eastern bypass to Kettering. The total funding requirement is in the region of £60m. Without this required infrastructure, housing delivery at East Kettering will be limited to less than 2,000 units. Growth in the rest of the borough will also be restricted.

Kettering and its private sector partners have worked alongside the LGA and BPF and identified the need for a Green Book Appraisal (i.e. an independent economic appraisal of their Responsible Growth Proposition, set out in a language which is understood by Central Government).

The Green Book Appraisal has been carried out by Local Partnerships and highlights a number of key issues:

- The net economic benefit of Kettering's Responsible Growth Proposition (5,500 new homes, 300,000sqm of new business and 60MW of low carbon energy) is in the region of £1.3bn.
- The majority of this figure (£862m) is achieved by investment of £60m in the required infrastructure.
- This arises from contributory factors such as increased employment, more efficient energy production and tax revenues for the Exchequer amongst others and represents a Benefit Cost Ratio (BCR) of 8.6 for the public sector.
- The Green Book Appraisal has also identified the direction in which these economic benefits flow – A very low percentage (14%) of the total tax take flows to the local purse
- Diagram 1 below shows the profile and scale of beneficiaries.

Diagram 1

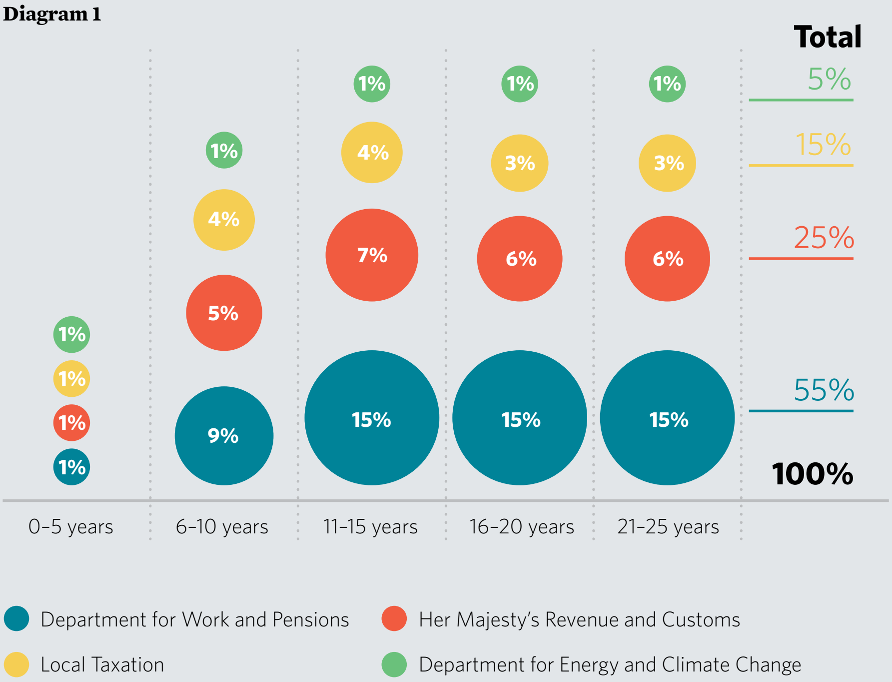
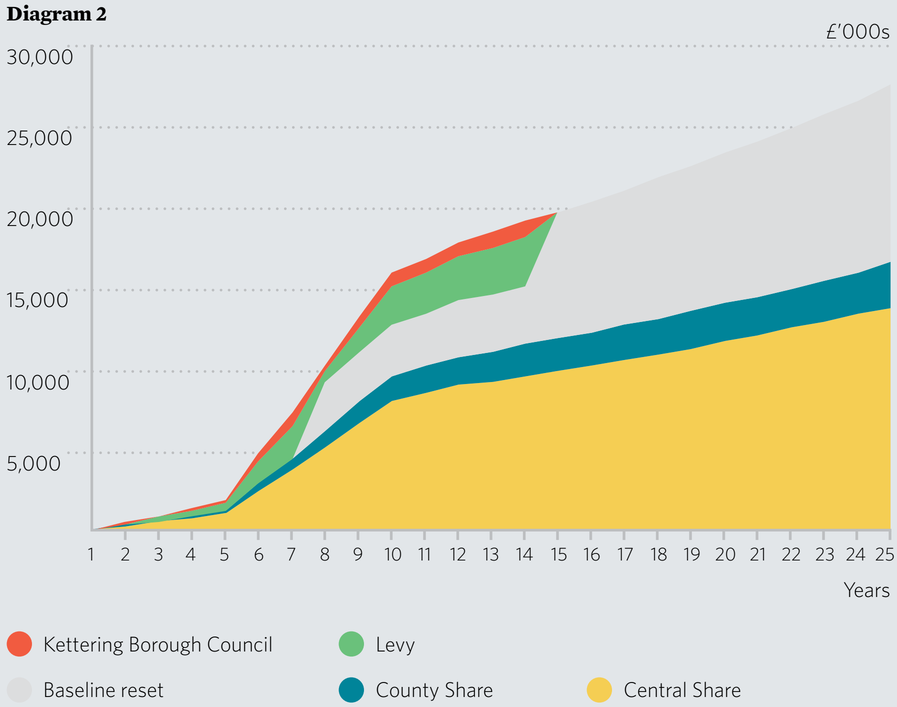


Diagram 2



Despite the perception that business rate retention will act as an incentive for local government to invest in growth, of the £421m of additional business rates that could be generated over the next 25 years from the stalled development in Kettering, only £7.5m would accrue to the Council.

Diagram 2, above, shows where the additional rates would flow with the levy and business rate re-set mechanisms, in effect, adding considerably to the 50% central share that goes back to Government.

The inclusion of a reset mechanism, whereby the baseline business rate level against which growth is measured is reset every seven years has been cited as a key barrier for local government wishing to deploy Tax Increment Finance (TIF) style instruments. Table 3 below shows the impact on the amount of business rates that Kettering would retain under a range of different reset periods and the ensuing impact on the gap funding that would be required to be met from Government.

Table 3

RESET PERIOD (YEARS)	7	10	15	20	25
Value of business rates generated (£'000s)	385,852	385,852	385,852	385,852	385,852
Value of business rates retained by KBC (£'000s)	7,453	7,551	17,683	30,743	46,179
	1.93%	1.96%	4.58%	7.97%	11.97%
Government grant required	34,314	34,048	26,098	17,369	8,811
%	63%	63%	48%	32%	16%

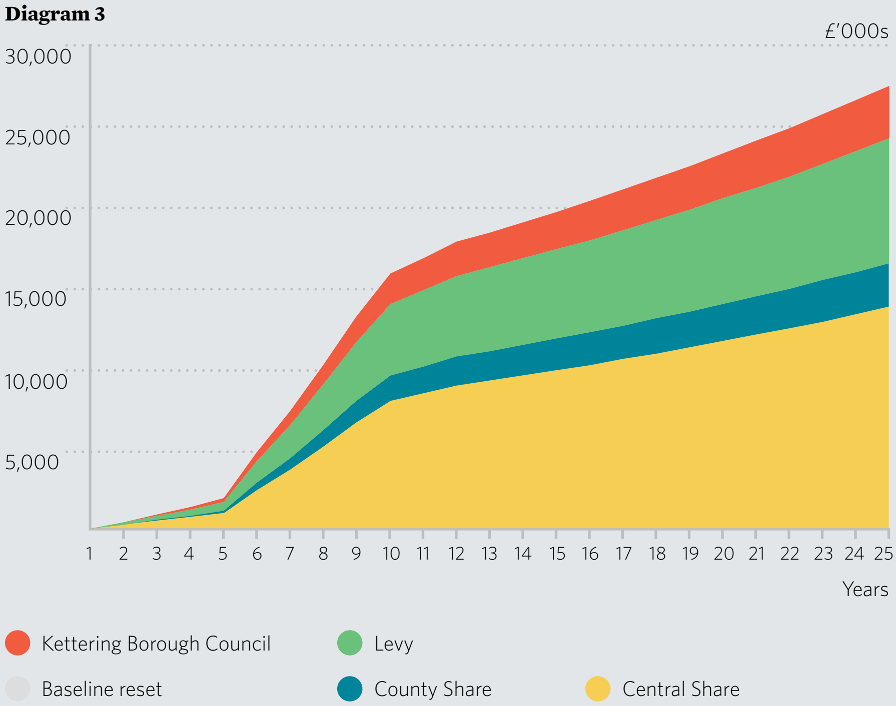
In effect, by increasing the reset period to 25 years, the Government would be increasing the extent to which Kettering could contribute to the cost of providing the crucial new roundabout. This approach would need to be justified on the basis that it is only the increased business rates income generated by the extended re-set period that would be available for funding new infrastructure schemes.

This approach also ignores the fact that government grants are ever-decreasing and that business rates income is likely to be one of the only sources of local Government income at some point in the future. Diagram 3 below shows the business rate distribution under a 25 year re-set.

There is also a business rates benefit from the proposed energy park. The advantage of this particular income stream is that it gives Kettering the opportunity to re-circulate it into future green energy schemes. This is entirely within the spirit of the Government's current consultation on business rates reform which treats income from Renewable Energy Schemes as a 'reward'; very similar to the New Homes Bonus (see below)

The New Homes Bonus (NHB) undoubtedly presents an attractive financial incentive for residential development and in Kettering's case would generate £35.3m. However, all of this income would need to be leveraged, along with other local revenues, to enable Kettering to make any meaningful capital contribution (37%) to the cost of the J10 enhancement. This raises two key issues;
a) the extent to which local government leverages itself in pursuit of economic growth
b) income which is branded by Government as a reward for encouraging development, such as NHB (and business rates from Renewable Energy Schemes) actually represents the only feasible means of repaying the necessary borrowing to unlock the development in the first place.

Diagram 3



The work of the council and partners to overcome development/growth problems.

Before engaging with the LGA and BPF, Kettering had –

- Sought discussion with the Government on the key benefits of the scheme, but had often found a 'departmental silo' problem.
- Made provision for the housing development to be 'soft-started' – with an escalating affordable housing requirement that only reached 30% if land values improved.
- Worked alongside the housing developers and other key stakeholders to resolve key technical and political issues and enable the grant of planning approval.

The work with LGA and BPF helped facilitate the production of the Green Book Appraisal, which has aided Ketterings continuing lobbying efforts to increase the profile of Kettering's cause with Central Government.

However, the ability to have a 'single conversation' with central government departments remains challenging, and the ability to do this would have a positive impact.

APPENDIX 3
Cornwall

A clear and ambitious vision for Cornwall
By 2030 Cornwall will have a sustainable economy based on innovation and green technologies. Communities will be strong and inclusive, celebrating and protecting Cornwall's unique environment and distinctive culture. Everyone will have the opportunity to enjoy a good quality of life.

The economic challenges currently faced have only served to strengthen Cornwall's resolve to work with the Government and our partners in the private, public and community sectors to align precious financial resources to achieve this vision.

A healthy and prosperous economy requires the right conditions for business so our draft 20 year Local Plan has been designed to give confidence to investors and guide where public spending is most needed to stimulate the economy and create in excess of 50,000 jobs.

Cornwall is at the forefront of delivering renewable and low carbon energies and is well placed to cement that position by taking advantage of our unique geography and climate, utilising our natural resources for economic and community gain. We see Cornwall becoming an industry leader in environmental technologies, internationally renowned for its world class research and resilient to rising energy costs.

Driving growth: policy asks
Cornwall has welcomed the Government's commitment to facilitate and support growth through initiatives such as the Regional Growth Fund, Growing Places Fund and Enterprise Zones and the creation of the Cornwall and Isles of Scilly Local Enterprise Partnership – this has laid the foundation for Cornwall to develop innovative solutions to the challenges facing our communities.

However, in the context of a continuing reduction in grant funding, we are eager to negotiate a 'Cornwall Deal' with the Government to agree a package of freedoms and flexibilities to help in unlocking local growth – a few examples are listed below:

Infrastructure
In Cornwall a number of large scale developments have faced significant delay due to the capacity to provide infrastructure funding upfront. For example, the Department of Transport's recent decision to support a major road scheme in Pool has finally allowed us to draw down £4m European Regional Development Funding to open up one of the largest areas of largely brownfield land in the county, an area extending over 64 acres. This development proposal was originally initiated in the Urban Framework Plan in 2001 and it has taken more than a decade to be planned and funded to enable implementation. We firmly believe that if more decisions regarding the funding of local infrastructure were taken locally it would accelerate the delivery of major regeneration projects.

The Council is pursuing a programme of improvements to the trunk road network (A30 and A38) to be developed in partnership with the Highways Agency and delivered as part of a route based strategy. Under this arrangement the Council will raise the necessary funding to deliver the improvements, which combined with any funding available from the Highways Agency, would allow these schemes to be delivered at the appropriate time and therefore avoid the need for issuing holding directions preventing the determination of planning applications.

Funding
In Cornwall we have a good track record of delivering large and complex programmes of transformational change – as our case study illustrates. Therefore, we ask Government to remove ring-fencing from capital grant monies. This will enable Cornwall to maximise European, national and local funding streams to address local challenges. We support the Local Government Association and British Property Federation's request, as noted in the pre-budget submission, dated March 2012, for Government to allow local areas to form a local capital pot with funding from across the public sector to use to invest in local economic regeneration. This would enable the public sector to take a more strategic 'whole-place' approach to local investment and allow greater freedom and flexibility to align resources to maximise economic growth.

Planning
We welcome the Government's commitment to devolve greater powers to local areas and the ambition to increase local communities' control over housing and planning decisions. However, we consider that a number of adjustments to Government policy will help to reduce delays in decision making. For example, it is essential that statutory time limits are needed for responses from Government agencies to ensure that critical funding deadlines can be met.

Post 2013 European Funding
Cornwall and the Isles of Scilly have been recognised in Europe for delivering excellent programmes of investment. However, there still remains a significant amount of uncertainty in Whitehall in regard to how European funding will be delivered, specifically in regard to how local areas will be involved in the development of programming priorities and subsequent role in programme management structures and delivery.

It is essential that locally accountable partners are able to fully engage in the development, governance and delivery of future European programme of investment. Local authorities must be empowered at LEP level to take control of their economic development programmes through designing a locally driven programme to deliver European and national priorities more effectively.

Conclusion
Since its creation as a unitary authority in 2009 Cornwall Council has taken great strides in working with its public, private and voluntary and community sector partners to deliver efficiencies, maximise the public sector's collective resources and improve services for local people. We are best placed to understand our local challenges and we must have the flexibility to set our own objectives and align future investment with European, national and local funding priorities.

Cornwall, alongside the Isles of Scilly are in the unique funding position of having two unitary councils, a Local Enterprise Partnership and a contiguous boundary with the NUTS II economic functional area for the allocation of European funds. Therefore, we are in a strong position to design and steer future investment opportunities and develop innovative approaches to funding and delivery at a local level.

This also provides a compelling platform for extending devolved decision making and greater financial autonomy from Government.

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