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BRITISH PROPERTY FEDERATION

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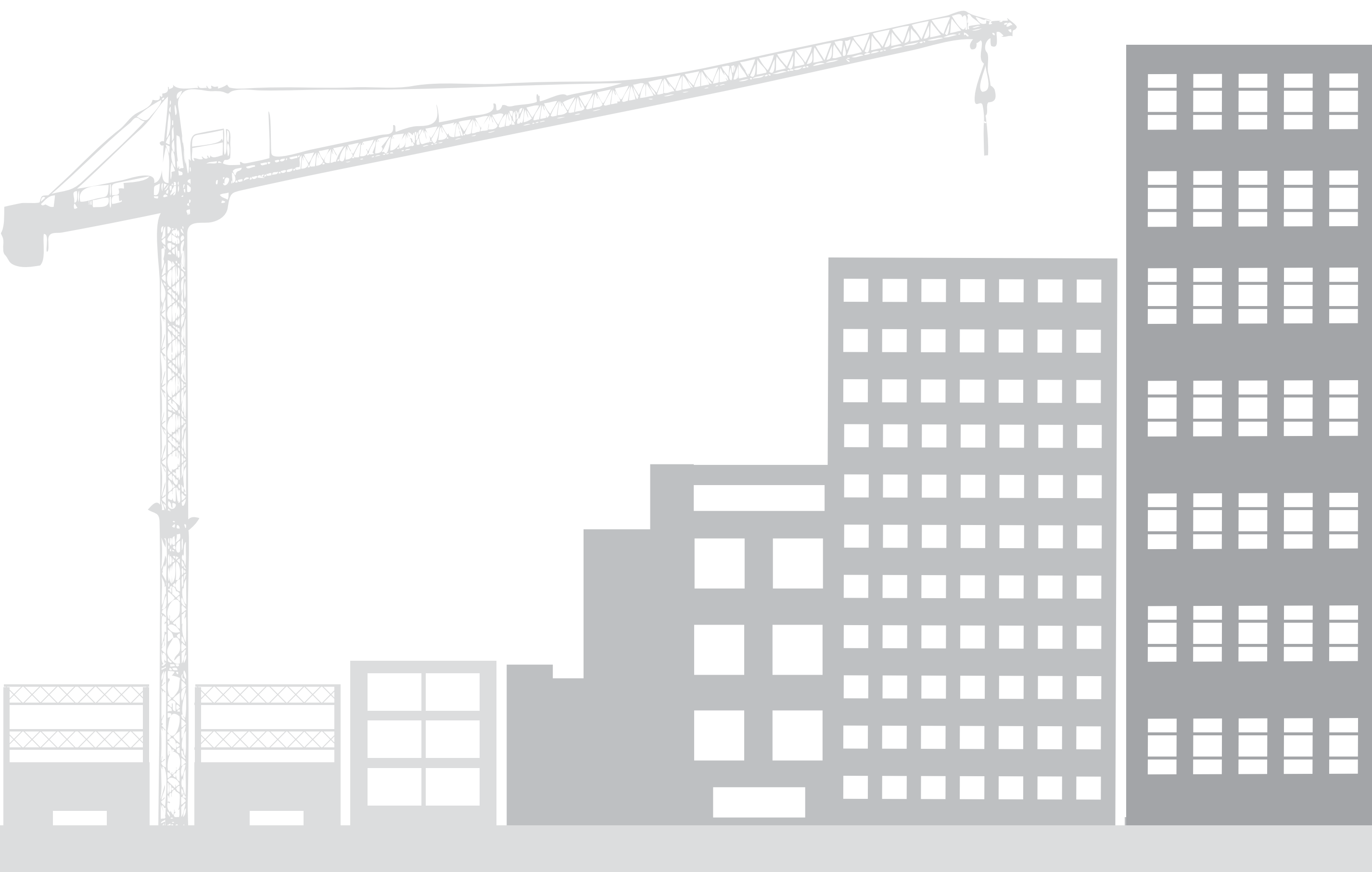
All Party Urban Development Group
Promoting sustainable development and urban renewal

GOING FOR GROWTH

Reviewing the Effectiveness of Government Growth Initiatives



Foreword

Paul Uppal MP

When this Government was formed in 2010, its main purpose was to secure the economic future of the UK. It has aimed to do this through both pro-growth and pro-aspiration policies. In outlining a strategy for growth, it has not shied away from supporting businesses by offering competitive levels of taxation, unlocking investment and financing infrastructure spending.

As Chair of the All Party Parliamentary Group for Urban Development and the MP for Wolverhampton South West, I have seen first-hand these policies put into practice. I grew up in the shadow of Merry Hill, one of the first Enterprise Zones in the 1980s. I remember the original site and I saw with my own eyes how the power of ambition and aspiration tangibly enhanced Merry Hill as the buildings rose up out of the shadows of an abandoned steel works.

Move forward to today: the reintroduction of Enterprise Zones has offered the Black Country, and indeed all other regions of the country, an opportunity to prosper once again and provide the building blocks for future prosperity. In Wolverhampton, a city with a proud manufacturing heritage, I have seen the sense of anticipation at the opening of the new Jaguar Land Rover Engine plant – the jobs it has created and the opportunities it has offered to young people across the region are invaluable.

Turning to small businesses, they are the engines of our economy, employing 60% of the private sector work force and contributing half the United Kingdom's annual turnover. Lower taxation, planning simplification and less bureaucracy will provide an ideal cocktail of measures to kick-start local economies and encourage the growth of this vital sector.

Governments can always learn and as we look beyond 2015, this report gives a vital insight into what has succeeded and how we can build and improve upon the growth initiatives this Government has put in place.

Contents

1 Introduction

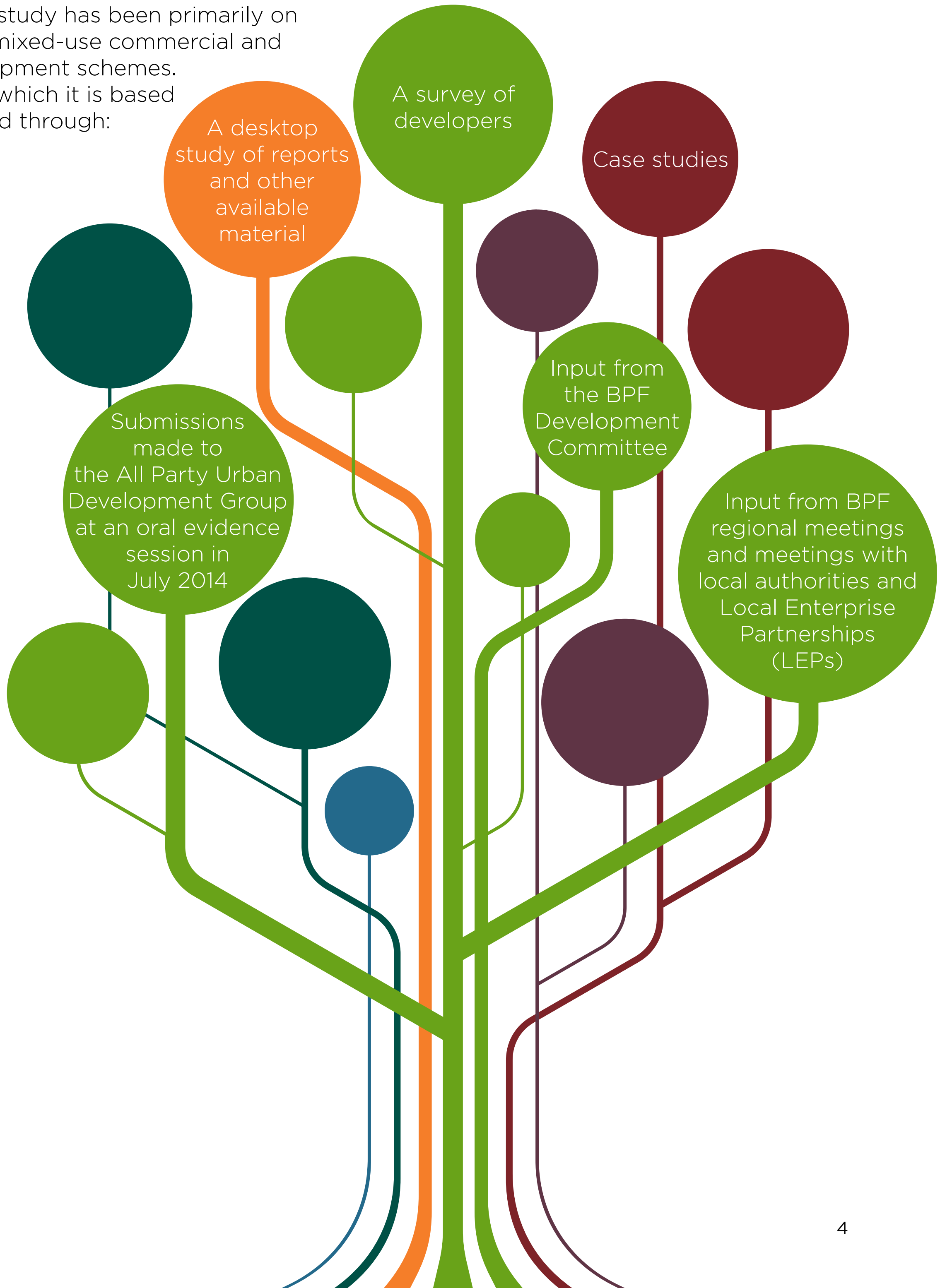
The Government has sought to stimulate greater economic growth through a number of initiatives, ranging from Enterprise Zones and Tax Increment Financing through to City Deals and a more coordinated approach to the release of public land. Although some of these initiatives have been operating for some time, there has been limited independent assessment of their impact and effectiveness. As next year's General Election approaches it is timely to appraise how well such schemes are working and the extent to which they might need to be modified, further developed or even replaced.

Urban development plays a vital role in stimulating and supporting economic growth. Aside from the direct economic benefits of construction, the creation of new offices, warehouses, retail space, infrastructure and homes in an area provides the platform for virtually all other business activity. The close relationship between property development and economic growth means that the extent to which Government growth initiatives have proven effective at getting stalled but potentially viable development projects off the ground is a key question for policy makers.

The particular focus of this report therefore is to assess which Government growth initiatives are having a beneficial impact or offering adequate support within the context of a recovering economy and, in particular, the extent to which they are supporting efforts to get viable development underway. Where any initiatives are identified as failing to deliver, it also explores the scope to make them more attractive and effective. Additional changes that could remove blockages to development are suggested, ultimately contributing to economic growth across the UK.

2 Methodology

The focus of this study has been primarily on commercial and mixed-use commercial and residential development schemes. The evidence on which it is based has been garnered through:



3 Scope

Government initiatives to support development can be broadly grouped into three key categories – Funding streams, Financial measures and Structures.

Using these three strands as a base, the following sections outline evidence of the effectiveness and functioning of the different initiatives in each of these areas.

The study also considers other barriers to development identified by respondents, and suggests the means by which these could be overcome.

A full history and detailed overview of each growth initiative can be found in Appendix A.

This study considers the following initiatives:

Funding streams

- Regional Growth Fund
- Growing Places Fund

Financial measures

- Tax Increment Financing
- The UK Guarantees Scheme

Structures

- Local Enterprise Partnerships
- Enterprise Zones
- City Deals
- Regeneration Investment Organisation

Other growth initiatives

- Empty Property Rates Relief

4 Summary of Recommendations

The principal recommendations of this report are:

1. Improve coordination and evaluation across the range of initiatives

Initiatives such as Growth Deals, which join up different funding streams, are a welcome step forward in achieving a more integrated approach but the Government continues to miss opportunities to bring together resources from different programmes and initiatives. An expert resource within central Government is needed to act as a point of contact for local authorities, to help them connect the many different strands of local growth funding, policy-making, and implementation, and join up various funding streams more effectively. The Government should develop a shared evaluation mechanism for all growth initiatives as a priority and apply its framework rigorously. This should generate an honest and transparent appraisal of the success of the plethora of growth initiatives and should assess the genuine 'additional' benefit that is generated by each one.

2. Improve the offer in Enterprise Zones and gear them more closely to local conditions

Central Government needs to reappraise the 'offer' in Enterprise Zones. Enterprise Zones need to become more bespoke, providing incentives geared to the specific circumstances of individual Zones. In some circumstances, this should include the use of capital allowances for new development. Government should also give renewed consideration to introducing 'Enterprise Zone Schemes' to grant planning permission, instead of relying on local development orders to simplify the planning process within the Zones.

3. Use Tax Increment Financing more constructively

Government should learn lessons from the successful use of Tax Increment Financing (TIF), to inform how it can be applied to other areas where the lack of upfront infrastructure expenditure is the key barrier to progress. Many currently unviable schemes could be taken forward if the Government allowed TIF to be used more widely, within a set of rigorous parameters such as those advocated by the British Property Federation (BPF) and others.

4. Reduce the deterrent to development posed by empty rates

If the Government wishes to boost construction activity, then at a minimum it should extend Empty Property Rates Relief to cover the regeneration and refurbishment of empty (or substantially under-occupied) buildings. This is economically productive activity that necessarily requires void property and should be encouraged, not penalised, by the tax system.

5. Take the devolution of powers to cities much further

Progress has been made in devolving more powers to city regions through fiscal and financial devolution but this could be taken much further. The Government should give cities greater flexibility to borrow and retain additional revenue generated by growth, as well as greater freedom to use innovative devices such as TIF and earn-back.

6. Give Local Enterprise Partnerships long-term certainty

The LEP model is firmly in place and now some degree of continuity is crucial to ensure that it has a chance to become truly established. Cross-party consensus to retain LEPs and make them work and a longer-term approach to funding would help in this regard. In addition, the Government should clarify the role of the LEPs in relation to other local structures and whether they have a part to play in setting out strategic priorities for an area, while recognising that LEPs may not always be the most appropriate local structure to provide a framework for growth.

7. Expand the role of the Growing Places Fund in supporting local infrastructure projects

The Growing Places Fund (GPF) is a highly cost-effective means of enabling developments to proceed, while providing long-term benefits by recycling funds for other projects as developments are completed. The Government should expand and extend the GPF so that it can support additional schemes. It could also be used effectively in combination with other schemes, such as TIF, to produce a beneficial effect disproportionate to the size of the Fund allocation itself.

8. Involve LEPs in the allocation of the Regional Growth Fund

The Regional Growth Fund (RGF) is one of the cornerstones of the Government's growth strategy and it is crucial that it operates effectively. In many cases the Fund is being used to support worthwhile projects. However, a more explicit recognition of the role that development can play in stimulating growth and regeneration could further improve its effectiveness. LEPs should play a greater role in the allocation of funding, as they are often best placed to understand the needs of local businesses and tie investments to local growth strategies.

9. Implement City Deals in a flexible way

Central Government should regularly review City Deals to check that they are addressing the right issues and operating effectively. While the 'Deal' concept may have wider applicability, the special focus on cities as the chief engines of growth must be maintained. There is a lack of capacity in Government to negotiate Deals on a local authority by local authority basis therefore more generic offerings may be feasible to extend devolution, as envisaged by the London Finance Commission. The bigger cities have significant organisational capacity but this is not necessarily true of other areas that may negotiate Deals. This resource issue will need to be resolved, if Deals in smaller towns and cities are to be implemented successfully.

10. Ensure local authorities retain their focus on economic growth

Viability is by no means the only barrier to development. There is still a need for local authorities to be more focused on economic growth, to produce economic strategies for their areas, and to ensure that they have an up-to-date Local Plan setting out how they will meet their community's need for jobs and homes.

5 Analysis of Key Initiatives

Government initiatives to support development can be broadly grouped into three key categories – Funding streams, Financial measures and Structures.

Using these three strands as a base, the following sections outline evidence of the effectiveness and functioning of the different initiatives in each of these areas.

Funding streams

Financial measures

Structures

Funding streams

For the purposes of this report, the focus is on two of the Government's largest funding streams, the RGF and the GPF. These were among the earliest funding schemes introduced by the Government to support growth and therefore they have had the most time and greatest opportunity to have had an impact on development activity.

Regional Growth Fund

Its role and effectiveness

The RGF was introduced in the 2011-12 financial year and funding has been announced up to 2016-17. The purpose of the RGF was originally described as being "to help areas and communities at risk of being particularly affected by public spending cuts".

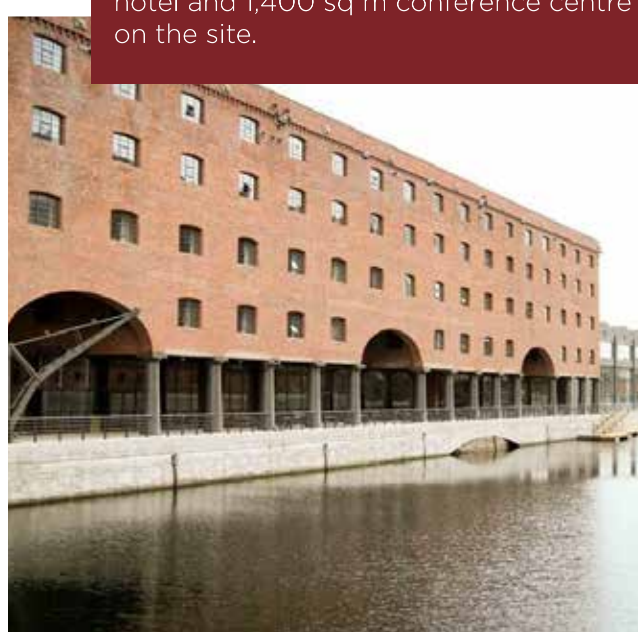
The Government says that the RGF had created 32,000 jobs by the end of 2012-13, against a target of 31,500 and it is clear that the RGF fulfills an important role.

However, the RGF has been criticised for involving too much 'process' which hampers its effectiveness and attractiveness. Some BPF members who are strongly committed to major regeneration projects have complained about wasting a lot of time and money in exploring possible access to RGF funding, before giving up in exasperation. They have complained too, that property development is not generally eligible for RGF funding as it is not considered to be a 'job-creating' activity – despite the fact that development may often be an essential component of successful regeneration. However, other BPF members have had a more positive experience, particularly where they have been working closely with a supportive local authority.

Case Study

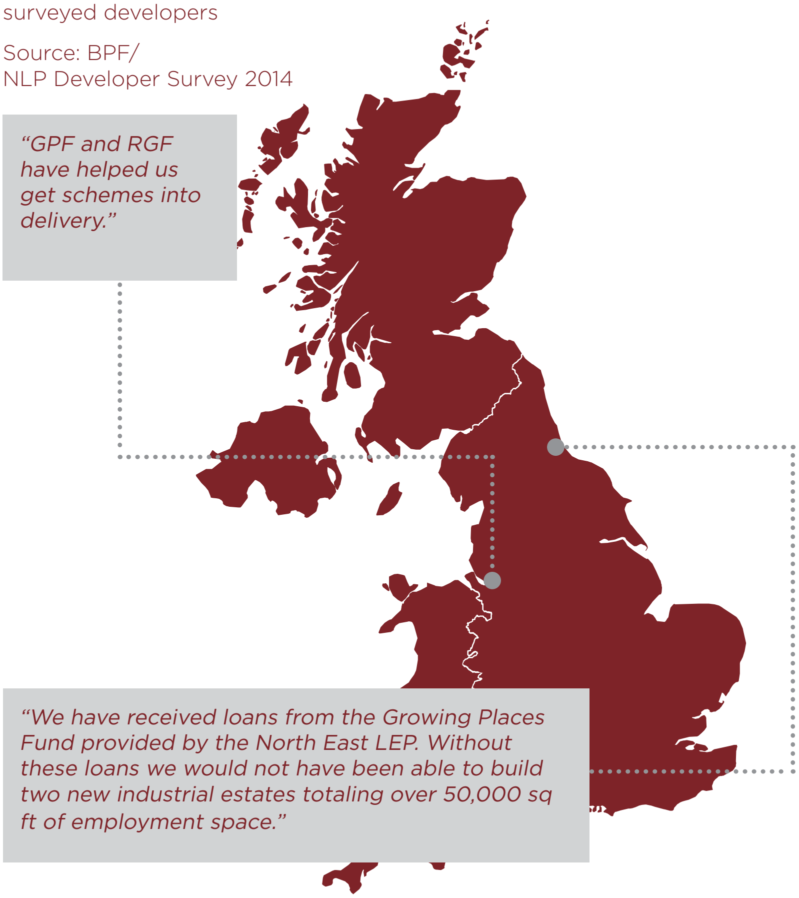
Stanley Dock regeneration

Harcourt Development made use of the Regional Growth Fund for the regeneration of Stanley Dock in Liverpool's UNESCO World Heritage site. After applying for a grant in late 2011, the company received a £4.5m commercial loan from the fund in April 2014 and have since opened a 153-room hotel and 1,400 sq m conference centre on the site.



Views on the impact of RGF and GPF on development from surveyed developers

Source: BPF/ NLP Developer Survey 2014



There has been some criticism too, of a lack of connection between the RGF and existing local growth strategies, and the lack of involvement of LEPs in assessing awards. Allowing LEPs to make a contribution to RGF decision-making would be worthwhile, as they are more likely to understand the needs of local businesses and tie investments to local growth strategies.

Recommendation

The Regional Growth Fund (RGF) is one of the cornerstones of the Government's growth strategy and it is crucial that it operates effectively. In many cases the Fund is being used to support worthwhile projects. However, a more explicit recognition of the role that development can play in stimulating growth and regeneration could further improve its effectiveness. LEPs should play a greater role in the allocation of funding, as they are often best placed to understand the needs of local businesses and tie investments to local growth strategies.

Growing Places Fund

Its role in supporting local infrastructure projects

The Government announced the GPF in September 2011, aimed at providing the up-front capital often needed by local authorities and developers to enable them to take projects forward, where relatively small amounts of funding for infrastructure would help to unlock further development. Funding is provided mostly through loans, with the repayments being reinvested in new projects. Together with additional funding announced in 2012, some £730m has been made available to LEPs in England under the scheme.

The feedback from developers about the GPF scheme has generally been enthusiastic. They believe that in many cases it has made a real difference in getting potentially viable projects underway. This view is echoed by LEPs, who have reported that without the scheme some 9 per cent of projects would have progressed at a reduced scale, 44 per cent at a slower pace and 47 per cent would not have progressed at all. Some key points made by developers in relation to the GPF scheme are that:

- Whereas RGF funding has primarily been allocated to areas hit by public sector cuts and often presenting the greatest challenges, the focus of GPF funding has been more directly on levering private sector investment and delivering growth from businesses in areas best equipped to drive growth;

- Significant regeneration and development projects can be held up because capital constraints have reduced the flow of investment in the physical infrastructure (e.g. transport, utilities, flood defences) that unlocks development. The GPF has therefore been extremely helpful in giving developers and housebuilders the confidence they need to proceed, sure in the knowledge that small but crucial pieces of infrastructure will be provided. This has meant that developers have been happy to proceed with many schemes, without having yet received any of their allocated GPF monies. Indeed, of the 159 projects underway, 103 of them have been able to proceed without having yet received any of their allocated fund;
- Funds can be allocated to developers directly by LEPs, although only £69m (12 per cent) of the capital fund awarded to projects to date has gone to developers;
- Where the GPF funding is applied to key infrastructure projects in combination with other Enterprise Zone benefits, it can have a positive effect that is disproportionate to the size of the allocation itself. There is also a potential for TIF schemes to be employed hand in hand with GPF monies;
- The GPF allows funds to be recycled for other projects when developments are completed.

Recommendation

The GPF is a highly cost-effective means of enabling developments to proceed, while providing long-term benefits by recycling funds for other projects as developments are completed. The Government should expand and extend the GPF so that it can support additional schemes. It could also be used effectively in combination with other schemes, such as TIF, to produce a beneficial effect disproportionate to the size of the allocation itself.

Financial measures

Financial measures introduced in this Parliament include TIF and the UK Guarantees Scheme (UKGS) that are designed to unlock infrastructure projects that have stalled due to adverse credit conditions.

Tax Increment Financing
Using it more constructively

The TIF model is based on reinvesting a proportion of future business rates from an area back into infrastructure and related development. The Government allows local authorities to use TIF in one of two ways. ‘Option 1 TIF’ allows local authorities, within prudential borrowing rules, to borrow against their income within the business rate retention scheme. ‘Option 2 TIF’ allows a limited number of TIF schemes to be permitted in which the business rates growth would not be subject to the levy or reset for a defined period of time. However, the Government has severely limited the number of Option 2 TIF schemes that can proceed, by allocating only £150m for the implementation of that option.

The outcome has been that TIF has been implemented only on a very modest scale. Option 1 TIF cannot deliver a business rates-funded TIF for large scale developments because the business rates income used to repay the TIF is uncertain, due to the 2020 ‘reset’ in local government income. While Option 2 TIF has the potential to fund larger schemes, it has been introduced on such a restricted basis that its impact is likely to be minimal.

Developers and local authorities have argued that a better approach would have been for the Government to provide a set of agreed criteria for the use of Option 2 TIF and then allow any scheme to proceed which meets the agreed criteria. Allowing wider use of TIF in this way could have made a significant difference to the viability of a range of schemes delayed by high upfront infrastructure costs.

TIF structures have also been enabled in Enterprise Zones and through City Deals by using mechanisms that give local authorities greater certainty over the retention of business rates income. It is significant that where TIF has been enabled, chiefly in some of the most high profile Enterprise Zones (such as Birmingham), its use has been seen to be critical in getting viable development underway.

The Greater Manchester City Deal incorporates a variation on TIF known as ‘earn-back’ which Sir Richard Leese, the leader of Manchester City Council, has described as the most innovative part of the Deal. It would be, he said, “effectively a TIF scheme that will allow us to invest very significantly in our transport infrastructure on the basis of a share of increased tax revenues resulting from the £1.2bn we are committed to invest over the next four years” . Newcastle, Nottingham and Sheffield have also included a TIF-style element within their City Deals. These were referred to as ‘New Development Deals’. Newcastle and Gateshead will benefit from new TIF powers, with all growth in business rates income generated within the four key development sites being retained by the two Councils for 25 years. This will allow Newcastle and Gateshead Councils to initiate a £92m investment programme, creating 2,000 permanent jobs within five years and 13,000 within 25 years. Sheffield will also receive new powers to fund a £33m city centre regeneration scheme through TIF.

Case study

Northern Line extension to Battersea/Nine Elms

TIF proved fundamental in obtaining backing for and investor commitment to the viability of this site. The £1 bn infrastructure investment that will see the Northern Line extended from Kennington to Battersea Power Station will be integral to connecting the new development's housing and employment uses to London's tube network.

UK Guarantees Scheme

Capitalising on Government backing for financing development

The UKGS was announced in July 2012 and the necessary legislation received Royal Assent on 31 October 2012. The scheme's objective is to avoid delays to investment in UK infrastructure projects that may have stalled because of adverse credit conditions. The UKGS provides financial guarantees from the Government for planned infrastructure projects while private sector investors are sought. Guarantees for up to £40bn in aggregate can be offered. The intention is that the projects will find other investors but the UKGS provides some confidence that any shortfall will be met. Government expenditure is only necessary if private sector investment cannot be found and the guarantees are called in.

Utilising the strength of the Government's balance sheet to facilitate infrastructure projects is an innovative approach. Virtually all of the £40bn under UKGS has been earmarked for infrastructure projects and it is expected the scheme will continue on an ongoing basis. The Government should consider exploring other ways in which it could use its balance sheet to support economic objectives. There may be a particular opportunity, for example, to use such guarantees to increase the level of house building in some areas.

Recommendation

Government should learn lessons from the successful use of TIF, to inform how it can be applied to other areas where the lack of upfront infrastructure expenditure is the key barrier to progress. Many currently unviable schemes could be taken forward if the Government allowed TIF to be used more widely, within a set of rigorous parameters such as those advocated by the British Property Federation (BPF) and others.

Structures

The Government has implemented various structures and schemes aimed at supporting development. These range from far-reaching national scale strategic bodies such as LEPs to more local and targeted structures such as Enterprise Zones and City Deals.

Structures are a crucial component of these initiatives as they act as the mechanism and functioning body for disseminating the various funding and finance measures.

For the purposes of this research, structures are considered to be a broad category consisting of strategic growth bodies, such as LEPs, that manage and facilitate funding and finance initiatives for local growth. Structures also consist of local growth packages and programmes such as Enterprise Zones and City Deals that channel initiatives and investments to meet local market needs.

Local Enterprise Partnerships

Long-term commitment required

There is broad political agreement on the need for a structure which can sit above the level of individual local authorities and help foster economic growth across an economic sub-region. This need is reinforced by the trend towards greater delegation of powers to the local level. The introduction of LEPs - partnerships between local authorities and businesses, designed to set the strategy and vision and take the decisions that will drive growth locally - has therefore been a very welcome development.

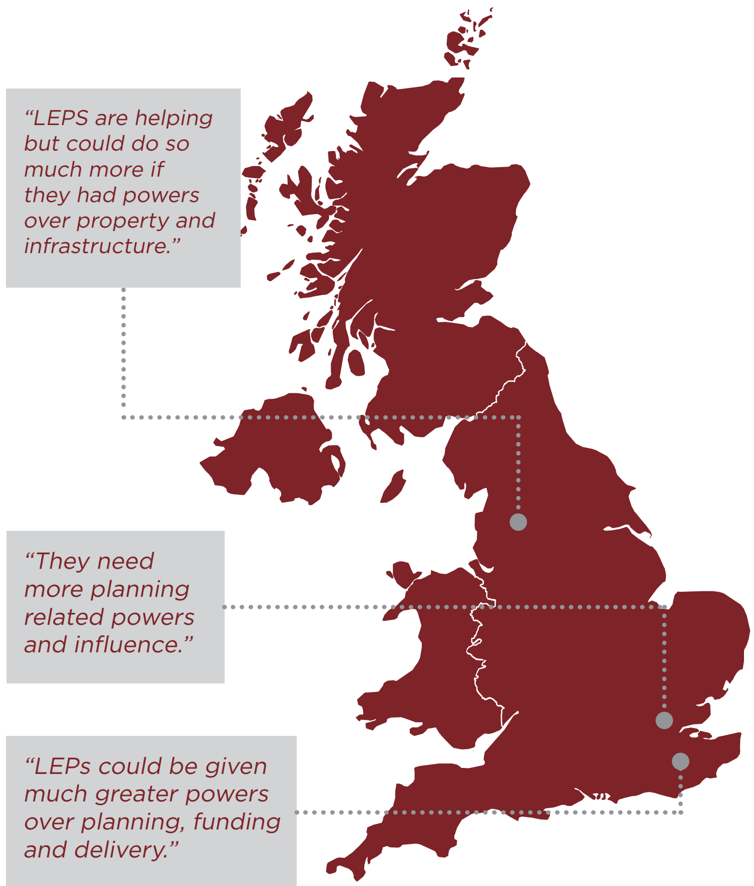
With economic growth now returning, LEPs have an opportunity to demonstrate the difference they can make. After initial scepticism, there does now seem to be a general recognition (shared by BPF members) that LEPs are making progress, albeit at different rates. At the same time, they are perceived as having a low profile, with few stakeholders having a clear understanding of their role.

From 2015/16, LEPs' roles will be further enhanced as they will be centrally involved in the allocation of funding from the £2bn Single Local Growth Fund. It is crucial that the more integrated approach to public funding that the Single Local Growth Fund represents is a success: LEPs must therefore have the capability to take on this important new role.

Some administrative issues remain. For instance, the interaction of LEPs with other local bodies, such as combined authorities and those working together under the ‘Duty to Cooperate’, can be unclear. However, the overriding imperative is to maintain continuity and provide certainty that LEPs are here to stay for the long-term. The lack of a long-term financial commitment to LEPs therefore needs to be addressed, particularly as the uncertainty that this generates feeds through into the scepticism about LEPs that persists in some local authorities. It is encouraging, that some degree of political consensus seems to be emerging that LEPs should be retained.

Views on LEPs from surveyed developers

Source: BPF/ NLP Developer Survey 2014



Recommendation

The LEP model is firmly in place and now some degree of continuity is crucial to ensure that it has a chance to become truly established. Cross-party consensus to retain LEPs and make them work and a longer-term approach to funding would help in this regard. In addition, the Government should clarify the role of the LEPs in relation to other local structures and whether they have a part to play in setting out strategic priorities for an area, while recognising that LEPs may not always be the most appropriate local structure to provide a framework for growth.

Enterprise Zones

Tailoring incentives to suit local needs and conditions

Since 2011 some 25 Enterprise Zones have been designated in England, each of which has developed an action plan setting out the key steps it believes are needed to generate growth. The Government's intention was that Enterprise Zones should be established in areas of genuine economic opportunity, in order to maximise their chances of creating sustainable new businesses and jobs. So far, they have enjoyed mixed success.

Despite this, the developers surveyed had an overwhelmingly positive attitude to Enterprise Zones. Specifically, they said that:

- Although the benefits on offer in Enterprise Zones are rarely attractive enough to be a 'game changer', Enterprise Zone status does confer some benefit simply by virtue of the spotlight it focuses on an area. In particular, it can help 'put areas on the radar' of inward investors;
- Enterprise Zones can make a real difference when combined with other forms of Government support that may be available to firms;
- It was never realistic to expect Enterprise Zone designation to lead to a rapid boost in jobs, as many of the sites require extensive redevelopment and the process of translating this into employment opportunities takes time;
- While the picture is very patchy, there have been real successes, such as the Enterprise Zones in Manchester and Birmingham, where the emphasis on the simplified planning elements and the availability of TIF to forward fund key infrastructure have been particularly helpful. Those centrally involved in schemes in the Manchester and Birmingham Enterprise Zones are of the view that Enterprise Zone status was crucial in securing key infrastructure funding needed to make some sites viable;
- More could be done in association with the Regeneration Investment Organisation to attract a wider pool of investors to Enterprise Zones.

While developers are supportive of Enterprise Zones, they have concerns that the incentives on offer, particularly in more challenged areas, are insufficient. Larger companies perceive them as not significant enough to make a material difference to their business, whereas smaller companies may be deterred by the lack of suitable and readily available accommodation. This is often because many Enterprise Zones are on largely cleared sites and (in contrast to previous Enterprise Zone rounds which offered building allowances) there is little incentive for developers to provide suitable buildings on a speculative basis, particularly as they may be subject to empty rates. This is a crucial deterrent for SMEs who expect to be able to move into accommodation as and when they need it.

Case study

Birmingham City Centre Enterprise Zone

The Birmingham City Centre Enterprise Zone, which is spread across multiple sites in the city, is an example of how Enterprise Zones can be used for regeneration that extends beyond a single assigned site and can act as a catalyst for attracting businesses and inward investment to a location – in this case the city centre.

Argent is managing the design and delivery of the Paradise Circus scheme – a key part of the new Enterprise Zone and Big City Plan – that is being taken forward through a Joint Venture Company between Birmingham City Council and British Telecom Pension Scheme (managed by Hermes). Covering 17 seven hectares of land between Centenary Square and Chamberlain Square, the dramatic transformation of Paradise Circus will provide a significant mixed-use development of offices, shops, leisure and cultural facilities together with civic amenities, a hotel and new public realm.

The first phase of the scheme will include a completely revised road layout, substantial new public realm and two new office buildings providing over 23,000 sq m of Grade A space.

If progress is to be made across the spectrum of Enterprise Zones then each offer needs to be much more in tune with local circumstances. Flexibility is therefore crucial. It is recognised that the Enterprise Zone process has allowed for some degree of flexibility. The Birmingham City Centre Enterprise Zone, for instance, comprises a number of separated sites across the city centre rather than the usual single, contiguous site. However, greater flexibility is particularly needed in the ability to tailor incentives to the needs of a particular area. Unfortunately, the degree of flexibility shown has been very limited and much more could be achieved if a wider range of incentives were available. In particular, some areas would benefit from building allowances. However, the extent to which State Aid rules would allow this is unclear.

Recommendation

Central Government needs to reappraise the ‘offer’ in Enterprise Zones. Enterprise Zones need to become more bespoke, providing incentives geared to the specific circumstances of individual Zones. In some circumstances, this should include the use of capital allowances for new development. Government should also give renewed consideration to introducing ‘Enterprise Zone Schemes’ to grant planning permission, instead of relying on local development orders to simplify the planning process within the Zones.

City Deals

More flexibility required to meet local needs

City Deals are agreements negotiated between central Government and cities that are intended to give local decision-makers new powers, freedoms and funding channels.

City Deals encourage cities to create innovative solutions to key problems, whether in relation to infrastructure provision, skills development or other matters. They also allow cities to retain more of the benefits of growth and reinvest the income locally. Crucially, City Deals place considerable emphasis on bringing the public and private sectors together.

There were clearly lessons learnt from the first set of City Deals that need to be applied in future versions of the Deals. Cities did not always see the process as being as collaborative as it could have been and there remain concerns as to how far some central Government departments are genuinely committed to the process. There is a widely-held perception that there is significant variation between Departments when it comes to support for the principle of decentralisation. Some Departments support national programmes as their preferred approach and have proved to be less open to negotiation than those that recognise the City Policy Unit's mandate to deliver a place-based policy agenda.

Cities need to have a clear vision if they are to make the most of the opportunity. Not all cities had viable policy proposals ready when the City Deal invitation was issued and new ideas had to be rapidly formed to ensure credible offers could be made. This could have implications for their long-term success and City Deals will need to be regularly reviewed to check that they are addressing the right issues and operating effectively.

The increased freedom to influence local growth has, of course, come at a time of major cuts to local government budgets which, although providing a strong incentive for local authorities to innovate and to pool resources with neighbours, also restrict their capacity to deliver City Deals.

In spite of all these challenges, City Deals do appear to be making progress in establishing the right structures and processes.

Case study

City Deals

The Government has agreed 25 City Deals throughout England. Each Deal has been negotiated and agreed on a case-by-case basis with each bid outlining genuine additionality from the Deal, such as new jobs and housing.

In Sunderland, the Government is investing £5m for the development of an International Advanced Manufacturing Park and more than £80m of funding is finally in place to build a long-awaited bridge over the River Wear. Nearly 9,000 new jobs are projected to be created in the long-term due to this investment.

While some City Deals have focused on particular growth industries in different locations, others have sought to address social and economic problems. For example, the Greater Ipswich City Deal included investment in creating and piloting a Youth Job Centre to support 3,500 young people into work in the Greater Ipswich area.

Recommendation

Central Government should regularly review City Deals to check that they are addressing the right issues and operating effectively. While the ‘Deal’ concept may have wider applicability, the special focus on cities as the chief engines of growth must be maintained. There is a lack of capacity in Government to negotiate Deals on a local authority by local authority basis therefore more generic offerings may be feasible to extend devolution, as envisaged by the London Finance Commission. The bigger cities have significant organisational capacity but this is not necessarily true of other areas that may negotiate Deals. This resource issue will need to be resolved, if Deals in smaller towns and cities are to be implemented successfully.

Taking the devolution of powers to cities much further

Devolving greater powers, including fiscal powers, to the city regions is now very much on the radar of the major political parties.

A series of BPF member roundtables in Birmingham, Manchester, Liverpool and elsewhere has revealed widespread sympathy for the view that the poor performance of many English cities in comparison to their European counterparts is due at least in part to the over-centralised nature of Government in the UK. The predominant message is that there is now a new generation of civic leaders strongly committed to generating economic growth and creating constructive relationships with those in the private sector who could help achieve these goals. The relationship between the property development sector and local authorities in most major cities is now better than it has ever been.

Initiatives such as City Deals represent a step in the right direction but much more could be done to give major cities the degree of initiative and the level of resources that will enable them to fulfill their potential as drivers of growth.

Upgrading infrastructure is a key priority in most cities and finding ways of funding it remains one of the most important issues to address. Local authorities should have more freedom to explore innovative approaches to achieving infrastructure funding. There is support for the suggestion that the Government should differentiate between debts that are incurred for the purpose of delivering economic growth that will enable them to be repaid over time and borrowing to fund general Government debt. It would be particularly helpful to see authorities enjoying much more freedom to use TIF, which uses anticipated future increases in tax revenues to finance current improvement.

The most successful cities in Europe have more substantial powers and resources and operate within a much more decentralised national system than is the case with English cities. Those running cities, working in partnership with business and other interest groups, are best-placed to understand local needs – for instance on matters such as infrastructure and skills – and to address them. Initiatives such as City Deals represent a step in the right direction but much more needs to be done.

Economic performance of cities relative to national GDP average

Source: Clark & Clark (2014) Nations and the Wealth of Cities: A new Phase in Public Policy, Centre for London, p37

	GDP per capita ($000s)	Number of top eight regional cities above national GDP average	Cities (above, below)
Germany	42	8/8	Cologne-Bonn, Frankfurt, Hamburg, Hanover, Mannheim, Munich, Nuremberg, Stuttgart
Italy	33	6/8	Bologna, Brescia, Florence, Genoa, Milan, Turin, Bari, Salerno
Canada	42	4/8	Calgary, Edmonton, Hamilton, Ottawa, Montreal, Quebec, Vancouver, Winnipeg
Spain	29	3/8	Barcelona, Bilbao, Zaragoza, Alicante, Malaga, Oviedo, Seville, Valencia
France	40	2/8	Lyon, Toulouse, Bordeaux, Marseilles, Nantes, Nice, Rennes, Strasbourg
England	37	1/8	Bristol, Birmingham, Leeds, Liverpool, Manchester, Newcastle, Nottingham, Sheffield

Recommendation

Progress has been made in devolving more powers to city regions through fiscal and financial devolution but this could be taken much further. The Government should give cities greater flexibility to borrow and retain additional revenue generated by growth, as well as greater freedom to use innovative devices such as TIF and earn-back.

Other growth initiatives

Empty Property Rates Relief

Reduce the deterrent to development

The removal of Empty Property Rates Relief in 2008 continues to have a damaging impact on businesses, jobs and the UK economy because it creates a strong disincentive for property businesses to speculatively develop new space. It causes regeneration projects and the refurbishment of old building stock to become unviable, due to the unavoidable need to hold empty property while planning permission is sought and other preparatory stages are carried out.

The Government responded to these concerns by introducing a new, temporary measure for unoccupied new-build properties from October 2013, but due to the range of restrictions attached this has proved to be next to meaningless in getting new development underway.

Recommendation

If the Government wishes to boost construction activity, then at a minimum it should extend Empty Property Rates Relief to cover the regeneration and refurbishment of empty (or substantially under-occupied) buildings. This is economically productive activity that necessarily requires void property and should be encouraged, not penalised, by the tax system.

Other barriers to development

The principal constraint on new development remains a lack of viability in many areas. Often this is due to a lack of local demand, exacerbated in recent years by the global economic recession. Even where potential demand exists, getting development underway has been challenging because of the difficulty of accessing development finance in the aftermath of the banking crisis. However, the strengthening economic recovery, the recovery of the financial sector and the advent of new sources of finance are now opening up opportunities for development in many areas.

But viability is by no means the only barrier. When asked what the main constraints were on undertaking new development, the most common responses from leading developers included:

- Local political priorities being less focused on economic growth;
- Lack of an up-to-date economic strategy within a local authority;
- Absence of – or an out-of-date – Local Plan/Core Strategy.

The findings from the developers' survey are reinforced by recent research undertaken by NLP into the progress made in updating Local Plans since the Government's new planning legislation and policy was instituted. Views gleaned from developers and local authorities revealed that while at a national level there is a key focus on the role of planning in facilitating local growth, this is taking time to filter down to a local level. For example, it now takes, on average, four months longer for Local Plans to be declared sound than it did before the introduction of the National Planning Policy Framework in 2012.

Recommendation

Viability is by no means the only barrier to development. There is still a need for local authorities to be more focused on economic growth, to produce economic strategies for their areas, and to ensure that they have an up-to-date Local Plan setting out how they will meet their community's need for jobs and homes.

6 Conclusion

This report has focused on the extent to which Government initiatives have stimulated development activity. While economic growth does not always require new development, there are many areas where economic growth cannot be delivered without a concomitant increase in development. There is therefore a strong public policy interest in helping to remove blockages to development, where it can help stimulate and support economic growth. At the same time, it is important that any initiatives should not create perverse incentives to generate development for which there is no market.

Certain imperatives must be made clear as national priorities, for example: promoting local growth; rebalancing the North-South divide; improving infrastructure; creating jobs; and increasing the availability of housing. While these priorities may be set at a central level, achieving them could be made considerably easier and more efficient if their delivery was made the responsibility of local authorities or strategic areas, through the further devolution of powers. This would allow for greater understanding of local challenges and greater use of local strengths.

In order for this 'larger than local' devolution to work, local authorities must be able to take advantage of increased powers over their finances. Local authorities respond to financial incentives and this would encourage them to work together strategically, and LEPs to form strategic plans.

Central Government needs to work more collaboratively with local authorities in the pursuit of this much-needed local growth. This includes encouraging and incentivising local authorities to release more land assets and bring forward land for development. Some work on this has begun, for example through the invitation for councils to bid for a share of a £200m fund to redevelop brownfield land for housing sites, which would deliver 750-2000 homes each.

While the economy is on the path to recovery following the recession, it is important that the focus on local growth remains a key priority for decision-makers. As many of these initiatives are predicted to have a long-term impact, they need to stay high on the political agenda of all Parties, in order to ensure they can create new jobs and support economic development over time. It took decades before the Enterprise Zones of the 1980s generated any significant beneficial impact. This must be remembered following the outcome of the General Election in 2015, in order that the current initiatives are fine-tuned, rather than scrapped and replaced with new schemes. Improved coordination, evaluation and monitoring of the initiatives over a longer period of time is required to ensure that they continue to play a vital role in increasing development and contributing to economic growth.

About the authors

About the All Party Urban Development Group

The All Party Urban Development Group (APUDG) is a cross party parliamentary body of MPs and Peers committed to progressing urban renewal and sustainable development in the UK. The group was formed to raise the profile and understanding within Parliament of the regeneration process and the role that can be played by the private sector, particularly the property investment community. The group's remit is to take a holistic approach in the examination of all constituent elements that bring about truly sustainable communities, and to review policies that will increase the quality and pace of urban renewal and sustainable development nationally.
www.appgurbandevelopment.org

About the British Property Federation

The British Property Federation (BPF) is a membership organisation devoted to representing the interests of all those involved in real estate ownership and investment. The BPF aims to create the conditions in which the real estate industry can grow and thrive, for the benefit of its members and of the economy as a whole. Its membership includes the biggest companies in the real estate industry - property developers and owners, institutions, fund managers, investment banks and professional organisations that support the industry.
www.bpf.org.uk

About Nathaniel Lichfield & Partners

Nathaniel Lichfield & Partners (NLP) is one of the largest independent planning, economics and urban design consultancies in the UK and is currently RTPI Planning Consultancy of the Year. NLP offers the broadest range of skills of any specialist planning firm. This includes services in spatial analytics, economics, heritage, sustainability, urban design, graphics and sunlight and daylight, as well as a full range of planning skills.
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