Economy and Transport Board
30 May 2013

Item 3

Emerging practice on regeneration – Councils taking prudent financial risks to support growth

Purpose of report

For discussion and direction.

Summary

The Board's advice is sought for promoting the new ways in which councils are helping to regenerate areas and unlock growth through taking prudent financial risk. In order to facilitate discussion, the report considers three aspects of this emerging role:

- the emerging practice and the themes that are developing
- the financial barriers that councils continue to face in wanting to do more
- the likely consequential impact in local government role looking ahead.

Judith Armitt, the Chief Executive of Local Partnerships (LP), will give a short presentation to the Board on LP's role in support of councils on growth.

Recommendation

Members are asked to comment and provide a steer.

Action

As directed by members.

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Background

1. Councils' leadership role in supporting local economic growth has entered a new phase in recent years. Since the recent banking crisis and subsequent squeeze on public finances, councils have recreated their role to be the facilitators of local growth. The approach to working with the private sector has been transformed – one where councils are using a variety of approaches to assume and manage prudent risk to unlock growth and ensure that developers and the private sector are able to thrive and increase local investment.

2. At the Board meeting in January, members debated emerging practice in financing local growth and were presented with examples of how councils were using their assets in innovative ways to fund growth initiatives. The Board requested that officers bring a report to a future meeting for further discussion on how the LGA can assist in helping councils who want to do more. This paper builds on that initial discussion by highlighting the breadth of actions which at their core have one thing in common – councils' willingness to take prudent financial risks.

Emerging practice

3. At a time of economic crisis and global economic and financial uncertainty, our businesses and residents require intense support from their councils. A review by Professor Tony Travers[1] in December 2012, demonstrated where councils collectively had risen to the challenge of a new economic era. The examples below illustrate a variety of approaches that demonstrate how councils are assuming and managing financial risk to ensure that developers and the private sector are able to thrive and increase local investment. Although in many cases the practice is still new and evolving, there are themes developing in the way councils are getting involved.

4. Councils are:

    4.1. <u>Helping business to access finance</u> which continues to be a barrier to growth for many small and medium enterprises (SMEs). Lancashire County Council made available an initial £100,000 to unlock the potential of local firms unable to raise cash from high-street banks. Calderdale freed up funds to support new SMEs, leading to 150 new businesses which in turn, created 500 new jobs and private sector investment exceeding the initial seed money.

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[1] Local government's role in promoting economic growth - Removing unnecessary barriers to success. An independent report commission by the LGA. Professor Tony Travers. http://www.local.gov.uk/c/document_library/get_file?uuid=5722bba1-04cf-44a6-bb61-623142db7a43&groupId=10171

4.2. Using the strength of their own balance sheets to access prudential borrowing. London Borough of Waltham Forest's injection of capital investment has enabled the go ahead for the stalled redevelopment of the old Arcade site. The prudential borrowing that was required will be repaid by commercial rents achieved on the site. Thanet District Council have helped to bring together a cocktail of funding sources towards a new heritage amusement park, which includes £1.8 million of prudential borrowing.

4.3. Underwriting private sector risk. Eastleigh Borough Council has offered offer a "guaranteed purchase" model for those developers who had sites with existing planning permission but were unsure if they could sell the houses so development had stalled. The council offered to act as a purchaser of last resort if the developers could not sell them. Developers in Bradford found it difficult to obtain bank funding for the development of the prominent city centre gateway site. Bradford Council supported developers by providing a commercial loan of over £6 million secured by a second charge over the development. The development has secured over 760 jobs.

4.4. Facilitating growth through more strategic use of land, such as in Hackney where the council was a key partner with the London Development Agency (now Greater London Authority), Transport for London and Barratt Homes to deliver a new development based on 600 new homes. The council's role in the partnership was to provide land at nil value to facilitate the development and to assist with de-risking the financial viability of the project. Similarly Basingstoke and Deane Council contributed land for free towards regeneration of an area delivered jointly with a housing association.

5. Councils are also delivering and innovating on major infrastructure projects that will radically transform the economic viability of an area. Major projects such as the Mersey Gateway, will drastically reduce congestion and kick-start a major 20 year regeneration programme. The new bridge is being procured as a Public Private Partnership with over 70 per cent of the cost being funded by the private sector (financed through tolls collected).

6. An analysis of the emerging practice tells us that councils are clearly willing to take prudent risks to increase the potential for their local economies. It tells us that the political will is there as is the know-how and expertise. Professor Travers report also said that councils were able to do this as a result of maintaining a high level of budget stability since 1990 and have been effective and cautious in controlling indebtedness.

7. Looking ahead, we would suggest that there are three core actions in how the LGA should support councils and we would welcome the Board's views on these – especially on the best way to get information to busy members:

7.1. To develop a narrative for partners that councils are serious players in unlocking growth opportunities – they have the willingness and know-how and financial integrity.

7.2. To highlight to government, in particular Her Majesty's Treasury, that council leadership in taking financial risks needs to be supported and encouraged across the country. Central government's slowness to lift financial constraints and offer further incentives will prevent councils from innovating and finding lasting local solutions to economic challenges.

7.3. To share emerging practice with wider local government. Not all councils are at the same place in terms of expertise, experience and confidence in driving growth. The emerging practice could be used to encourage and support developing practice in all areas.

Remaining barriers

8. Whilst councils are already de-risking projects to unleash growth, they are keen to do more but are being hampered through limitations on their ability to raise funding and financing, which include:

8.1. Limits to how much they can borrow on housing - the government has placed strict cash limits on HRA debt, preventing borrowing for investment, including new housing growth. Lifting the housing borrowing cap would allow councils to invest an additional £7 billion over 5 years resulting in up to 60,000 more homes over and above current plans and unlocking £20 billion in wider economic impacts.

8.2. A lack of sufficient financial incentives to invest and innovate. The recently published report by the London Finance Commission, Raising the Capital, highlights that:

8.2.1. Tax Increment Financing is endorsed by the Government but their use is heavily regulated.

8.2.2. Many successful foreign cities are able to apply tourism and environmental taxes, to invest more in marketing and public realm improvements to boost growth.

8.3. Unwillingness by central government to mainstream incentives put forward through city deals core package. In particular, councils were disappointed that the Manchester earn-back model is not being made available to more places. The model is expected to have a substantial impact on Greater Manchester. The locally funded element of the programme will deliver a short-term boost to demand in excess of £2 billion by 2016 and in the longer term the forecast economic impact of the local contributions exceeds £1 billion per annum by 2025.

8.4. The LFC's report endorses the LGA's argument that sources of funding for infrastructure are "very heavily departmental in nature; new schools, hospitals, homes and major transport schemes are all nationally funded by separate central government departments through ring-fenced grants. This fragmentation makes co-ordination of investment decisions across sectors difficult, which can increase inefficiency and reduce effectiveness."

8.5. Uncertainty with borrowing rates. Recent increases in the Public Works Loan Board interest rates show that councils remain vulnerable to changes by ministers and are therefore keen to develop alternative sources of lending.

9. In addition to funding and financing barriers, Professor Travers' report also highlighted the impact of continued council funding cuts on pro-growth services. As councils prioritise the protection of critical social care for children and older people services, as well as key environmental services, other council services have seen their expenditure disproportionately reduced.

10. As a result, spending on housing, highways and transport, cultural and, particularly, planning and economic development services is being reduced far faster than the average for all of local government.

11. In conclusion, despite local government's willingness to support their local economies through taking prudent financial risks, they are being severely hampered by restrictive government policy on council borrowing, and lack of meaningful incentives to do more. The resultant impact is that the country invests less in housing and infrastructure than it could do.

12. Are there other restrictions on funding and financing that the LGA should be calling for changes to?

The LGA support offer

13. The LGA will continue to lobby to remove barriers to growth, but an equally important role is to ensure that emerging practice in the sector supports improvement in all councils.

14. The LGA already offers support to develop their capacity, confidence and know-how in the new roles they can play in driving growth. Our current offer includes:

14.1. Support for council leaders and portfolio holders on a range of issues - from visitor economy, culture and growth through to workshops on collaborating with partners for growth, and free councillor training sessions on development economics and viability.

14.2. Direct support - through the Planning Advisory Service (PAS) councils are offered support on getting their local plans in place; on joint plan-making; and advice on setting a Community Infrastructure Levy (CIL).

14.3. Peer challenge - the LGA's free corporate peer challenge can be tailored to focus on council's economic strategies and relationships. PAS' 'Open for Growth' peer challenge offers a more tailored review on how a council's planning policy and strategic planning functions help support growth. Councils can access an independent review of their housing services through a low cost peer challenge.

14.4. Using council's physical assets to promote growth - the LGA's capital assets programme is helping a group of councils to use their surplus assets to stimulate growth locally.

15. Members may wish to comment on the current offer and suggest how we develop this work in the future.

16. Councils can also get assistance with growth and regeneration projects from Local Partnerships (LP), a joint venture owned by the Local Government Association and HM Treasury. LP provide delivery support and commercial expertise to local authorities and other public bodies on key projects, financing and efficiency issues. LP is now expanding its offer to councils and Local Enterprise Partnerships (LEP) on the delivery of regeneration and growth. Judith Armitt, the Chief Executive of Local Partnerships, will give a short presentation to the Board on LP's developing role, the issues councils face, and the opportunities to influence future direction.

17. The support to councils available from LP reflects its belief that issues relating to physical and economic regeneration are central to delivering growth at the local and national levels. It has to ensure the resources available to local authorities and other public bodies are targeted at delivering the same objectives – unlocking private sector investment and ensuring the benefit of the investment is retained in the local area. LP recognises that in the current economic climate none of us have the luxury of large delivery teams. LP can use the extensive experience of its staff to support the projects being promoted by councils and LEPs, integrate the growth agenda within service delivery and discourage re-invention of the wheel.

Next steps

18. The LGA is currently lobbying on a range of fronts to dismantle the barriers that prevent councils from doing more on supporting local growth. At the forthcoming LGA Annual Conference, the LGA will be presenting its reform plan for councils that will outline new ways of allocating public funding and providing services. This is based on the numerous local consultation events that the Chairman has led over the last few months.

Recommendations

19. Discuss that the emerging ways in which councils are doing economic development and regeneration, is the space that local government needs to occupy?

20. Discuss and suggest further development support on funding and financing of local growth initiatives and infrastructure.