

**CITY DEVELOPMENT COMPANIES:  
NATIONAL AND INTERNATIONAL  
EXPERIENCE**

**IMPLICATIONS FOR BIRMINGHAM**

**European Institute for Urban Affairs  
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**PART 1:**  
**THE CONTEXT**

## 1. Why Is a City Development Company Important for Birmingham?

- 1.1 The city of Birmingham is at a crucial time in its development. Cities drive national and regional economies. And Birmingham is the largest UK city outside London. What it does and how it performs matters enormously to the national interest. Much is already happening and more big change is in the air. There is huge interest and investment taking place in the city centre. The leader of the City Council, with the active support of key private and public sectors figures, has produced a Birmingham Prospectus for the wider city which identified a series of key priorities and actions that Birmingham intends to deliver during the coming years. The City Council also published a Visioning Study for a City Centre Masterplan by Professor Michael Parkinson which proposed many things Birmingham could do to build upon its recent successes. It has now appointed Masterplanners to turn those ideas into economic, physical and social reality over the next twenty years.
- 1.2 The national urban policy scene is also changing very rapidly with a new Prime Minister, new policy priorities and a new delivery system developing. For example, the crucial Treasury Sub National Review has just announced its support for the creation of new agencies to spearhead the development of our cities, City Development Companies. The Review also underlined the need for Regional Development Agencies to become less interventionist, more business focused and more willing to delegate powers, responsibilities and money down to sub-regional delivery vehicles. The Planning White Paper has emphasised the need to speed up the process of decision-making to deliver change in our cities. Birmingham City Council has anticipated that agenda by speeding up its planning processes. The Housing White Paper has underlined the crucial importance of improving the supply and quality of housing in our cities. Birmingham City Council, has already responded to that new housing agenda by declaring its intention to create 5 eco towns in the city. And many cities which are competitors to Birmingham are actively exploring new ways of delivering and paying for development in cities. For all these reasons the question of the best way of delivering development in the next twenty years is a huge issue for Birmingham.
- 1.3 The City Centre Visioning Study identified a series of key opportunities for Birmingham that would build upon its key achievements in the city centre in recent years. It argued that the city needed a second act to build upon its very successful first act. Birmingham needed to increase and improve its innovation levels, skill base, connectivity and place quality and public realm. It identified a series of particular opportunity areas and called on the City Council to immediately release a dedicated £10m annually to start the process straight away. But primarily that study emphasised the need for a new vehicle which could take the big decisions about the future of Birmingham and deliver the transformational change which the city is seeking to allow it to punch its weight as the biggest UK city outside London. However, although the study provided some initial thoughts on delivery, it provided little detailed evidence or argument. This report provides it.
- 1.4 Birmingham City Council and English Partnerships recognised the significance of the times and these issues and commissioned this new piece of work to identify a delivery model that might work for Birmingham. The work was designed to:
  - confirm partners were building on the momentum of the Visioning Study and taking immediate practical steps;

- get continued support and buy in from partners for the Masterplanning process;
- help deliver the Birmingham Prospectus;
- clarify the real political, financial and administrative issues involved in creating a CDC so that partners could honestly decide with the facts in front of them;
- fast track the process so that a CDC might possibly be set up on a pilot basis and shape the Masterplanning process;
- explore how the Masterplan could be financed;
- be the basis of a government supported International Conference on CDCs in Birmingham in the Autumn 2007 which would give Birmingham a high profile and allow it to influence national policy.

*Delivering the Masterplan - does Birmingham need a strategic vehicle?*

- 1.5 The Visioning Study for the Masterplan showed there was significant agreement on the achievements and challenges faced by Birmingham city centre and the wider city region. There was also a broad consensus on the necessary shape of the Masterplan. There was equally agreement that a Masterplan was a necessary - but not a sufficient - condition of success. All partners agreed there had to be a way of making sure that the Masterplan was delivered. It would not simply happen on its own. It would need to be specifically encouraged. All agreed the city should explore what kind of vehicle with what kinds of powers and resources would best deliver the proposed Masterplan.

*Are City Development Companies the answer?*

- 1.6 City Development Companies are intended to be independent companies, probably limited by guarantee. They would build on URC functions but have greater responsibilities for driving economic growth, a broader range of functions, increased profile and greater leverage over greater budgets.
- 1.7 The CDCs are intended to bring the following kinds of benefits:
- encourage a more entrepreneurial approach by local authorities;
  - provide an economic leadership role around a vision;
  - reduce the number of players in the field;
  - help deliver regional strategies;
  - attract specialist development talents and skills;
  - improve the quality of development proposals;
  - increase a city's capacity to bid for major projects;
  - increase the fit between economic development and reality by operating across local authority boundaries;
  - champion economic development in other strategies.

*What will CDCs do?*

- 1.8 CDCs will themselves decide what functions they should have. But they could include:
- coordinating the efforts of local authorities;
  - acting as the lead for economic Masterplanning;
  - coordinating and overseeing major physical projects;
  - integrating different public investment programmes;
  - coordinating housing market renewal or targeted housing growth;
  - coordinating promotion, marketing and branding;
  - coordinating major investments, events and projects;
  - improving the quality of investment propositions;
  - coordinating local authority services to business.
- 1.9 In the original Visioning Study many partners in the city said they wanted the benefits that a CDC might deliver. They wanted a more strategic, long term, partnership based approach to development across a wider territory than the narrow city centre, which aligned the policies of a range of agencies already operating in the area. They wanted a more integrated approach to marketing and branding. They wanted higher quality development projects. They wanted the local authority to increase its capacity to deliver long term development. The Visioning Study revealed considerable appetite by key stakeholders to be more consistently involved in the future development of the Birmingham city centre. But there was no obvious forum in which they could play a role. Again a CDC could be the answer.
- 1.10 Our report set out to test these arguments and aspirations. It is based upon extensive analysis of the experience of cities at home and abroad. Birmingham wanted to check what was going on elsewhere not to slavishly imitate other places but to make sure it did not miss any tricks. This is about Birmingham. So most importantly it is based upon the views of over 70 key stakeholders in Birmingham drawn from a wide cross section of public, private and community sectors. Our work turns a mirror to the face of Birmingham and reports honestly what people think and want.. The report provides : a review of policy and delivery vehicles in UK to see what works, where and how; a similar review in North America and Europe; extensive discussions with the main stakeholders in Birmingham; a review of different financial mechanisms; a clear set of principles, options and recommendations for partners to explore a CDC during the Masterplan process. To provide a route map for the reader of this version, we outline the key findings of our work in the following paragraphs.

*What are the big messages from our study?*

- 1.11 City Development Companies are an idea whose time has come. And Birmingham came to the idea on its own very early. All the evidence from this report indicates that such a vehicle would add value to Birmingham. The wider international and national picture underlined the potential value of CDCs. Government is actively encouraging them. Many other cities are developing them. But most important, many people in Birmingham recognise the potential value.
- 1.12 Major public sector partners, in particular the Regional Development Agency, AWM and English Partnerships, are firmly behind it. The private sector both inside and

outside Birmingham want a CDC which would give it greater confidence and willingness to invest in Birmingham. Crucially, key figures in Birmingham City Council, elected members and senior officials, want it to happen.

- 1.13 A CDC would create a robust partnership with public and private sector players. It would bring private sector skills, experience, confidence and resources into the city. It would unite partners in the city around the plans and priorities of the current administration and leader. It could deliver the two outstanding projects which will shape the future of Birmingham - the Masterplan and Prospectus.
- 1.14 Across all the sectors of Birmingham life there is a broad agreement on:
- the value of creating a CDC;
  - the priorities it should focus upon;
  - the areas where it should operate;
  - the timescale it would need;
  - the scale of its revenue costs;
  - the powers and resources it needs;
  - the types of partners who should be involved;
  - the skills and qualities required of the Board, the chair and the team.
- 1.15 This report argues that Birmingham should seize the time. The City Council should take the lead and invite partners to join it in creating a CDC for the city. They should identify and create a Shadow Board and Chair as soon as possible. The Shadow Board should have about a dozen members including: the Leader, Chief Executive, Director of Planning and Regeneration and leader of the opposition group from Birmingham City Council; a senior representative from both English Partnerships and Advantage West Midlands. It should also include representatives from, for example, higher education; business, professional and services; the creative, media and digital industries; manufacturing and other key sectors of Birmingham's economic life. But it could start with a smaller number of members to get the process going and add as the process developed.
- 1.16 The Shadow Board should be convened in early autumn 2007. Its job would be to ensure that by early 2008 it had developed an agreed organisational structure, agreed Board members and Chair, had a strategic and business plan agreed and had initial funding in place. The Shadow Board should be in place to be revealed at the Birmingham International Conference to be held in the city on November 13.

*Carpe diem Birmingham!*

- 1.17 Delay is not an option for Birmingham. It has been the city of enlightened public leadership in the past and generated legendary statesmen in the municipal arena. The leader of the City Council should make the simple decision to commit to this process now. The details can be worked out in the autumn – but no later than that! The diagram below is not a detailed organisational model for a CDC. That would be putting the cart before the horse. Instead it is a simple route map and a timetable Birmingham should stick to. It shows what key players must do by when during the next five months. If partners don't do some version of this they will have wasted their money on this study. More important they will waste a crucial opportunity. To govern is to choose! Statesmanship means – bravely setting out a vision and direction,

**PART 2:**

**URBAN ECONOMIC DELIVERY VEHICLES:  
THE NATIONAL AND INTERNATIONAL EXPERIENCE**

## 2. What's Going On in Urban Delivery Vehicles in the UK?

- 2.1 This chapter of the report tries to help discussions in Birmingham by reviewing the main types of local delivery vehicles introduced in urban regeneration across the UK during the last decade. It explores their:
- rationale;
  - corporate status, composition, responsibilities and powers;
  - relationships with key partners;
  - timescale;
  - financing;
  - strengths and weaknesses;
  - impact and critical success factors.
- 2.2 The UK has vast experience of creating vehicles to deliver regeneration. To keep this review manageable, we have focused on the main kinds used in the past decade. These vehicles rest on the belief that they should be introduced where existing public organisations and their partners cannot address serious market, institutional or informational failures.
- 2.3 Although they take many different forms, a series of policy imperatives lie at their core. The best way of orchestrating public sector assets and investment to attract additional private sector investment assumed a higher profile after the Rogers report and the 2000 Urban White Paper, which underlined the scale of socio-economic challenges facing major towns and cities and championed locally led urban regeneration projects. Some vehicles are wide ranging in scope. Others are more focused on particular themes such as housing. Some recent delivery vehicles have been encouraged by the Sustainable Communities Plan and are concerned to direct investment in growth areas and to find ways of securing funding for necessary infrastructure on, for example, section 106 agreements via tariffs.
- 2.4 While public-private partnerships and joint venture arrangements are nothing new, more recent initiatives have focused much more on devising new ways of 'sweating' public assets. This has often involved both public and private partners performing new roles e.g. guarantor, investment management. In many cases the private has assumed greater responsibility for functions which were once the public's responsibility. Such innovation has also been driven by a growing policy dilemma. A lot of recent Government-funded urban research has urged greater focus on maximising urban competitiveness. But willing the means is becoming increasingly challenging given the anticipated tightening of public expenditure in the 2007 Comprehensive Spending Review and also reduction in EU funding after the accession of Eastern European countries. For similar reasons, there are a growing number of vehicles which use different forms of hypothecation. Also there are limited moves to grant local institutions such as local authorities greater powers and incentives to enable them to respond to such challenges.
- 2.5 The LGA has defined local delivery vehicles as follows: "LDVs provide a co-ordinated, coherent and flexible partnership approach to responding to issues raised by the sustainable communities agenda. As organisations with a fixed timeframe and specific focus they are able to concentrate on the specific aspects of delivery

necessary to meet community expectations. LDVs can use land assembly, investment and planning powers to create confidence and stimulate private investment.”

- 2.6 This selective review covers the leading types of delivery model and their main roles and powers. There is a deliberate northern bias since market conditions in northern cities are more similar to those in Birmingham than those in southern growth areas. The case study examples are shown in Table 2.1 below. This review also explores the experiences of two northern cities that have used a range of urban regeneration vehicles - Manchester and Liverpool. It explores which vehicles senior policy makers in those cities think have been the most successful and why. It identifies lessons about their rationale, make-up, powers and strengths and weaknesses.

**Table 2.1: Local Delivery Vehicles: Selected Case Studies**

Case Study	Vehicle type	Status	Role	Powers
<b>Renaissance Leeds Partnership</b>	Voluntaristic collaboration	Unincorporated partnership	Orchestration of regeneration	None, all vested in partners
<b>Urban Development Corporations</b> (latest round)	Channel for Central Government investment into growth areas	Non-departmental public body	Expediting housing, related infrastructure	Grant in aid, land holding, development control, compulsory purchase
<b>Urban Regeneration Companies</b>	Urban regeneration facilitation	Most are limited companies	Enable investment by visioning, Masterplanning, co-ordinating implementation	None but able to draw upon core partners' powers – funding, compulsory purchase, planning
<b>Milton Keynes Partnership Committee</b>	Supporting growth area via tariff (land value capture)	Sub-Committee of English Partnerships	Ringmaster – landowners, developers, public agencies	Planning powers, EP funds, tariff revenues
<b>Blueprint</b>	Local Asset Backed Vehicle	Private sector company	Asset management, delivery of regeneration projects in UPAs	Funding – trading portfolio and private sector equity

*A range of Local Delivery Vehicles*

- 2.7 A key question is - what is the added value of different delivery vehicles? Both the regeneration context and the standing of existing agencies will dictate whether the vehicle should: have formal or informal status; possess legal, financial and planning powers; be based in-house within one of the partner organisations; be arm's length and focus on strategy, facilitation and/or a delivery agency.

*The 'minimalist' model*

- 2.8 At one end of the spectrum is the minimalist, low-cost, non-bureaucratic solution. The Renaissance Leeds Partnership (RLP) is a good example of this approach. RLP is an unincorporated collaboration whose main purpose is to orchestrate and manage better the delivery of major regeneration projects throughout the city. Its executive committee - known as the Project Board - consists of representatives from its four core members: Leeds City Council, the Leeds Initiative (private sector coalition), English Partnerships and Yorkshire Forward. It is chaired by the Chancellor of Leeds University. He is widely respected locally and was formerly Chief Executive of the City Council and also a partner in a major local law firm. RLP primarily facilitates delivery by funding Masterplans and supplementary documents in key parts of the city such as the city centre and rim. It subsequently champions them by staging awareness-raising workshops with developers and other stakeholders, aligning programmes and removing blockages. The focus of its work has been on maximising competitive advantage, improved place making through raising the quality of the public realm and improving connectivity. Yorkshire Forward has supplied almost £925k over a 4 year period (2004/5-2007/8) which pays for the two staff who support the work of the partnership and also the cost of consultancy studies.
- 2.9 Although based within the City Council, co-location of Yorkshire Forward staff has encouraged collaborative working. At partners' instigation the staff try to retain independence from the Council, engage with key stakeholders and respond to their concerns. This loose partnership arrangement works well for a number of reasons. Leeds is fortunate in having a booming economy and RLP's remit is essentially to direct sizeable volumes of public (£3bn) and private investment (£10bn) and ensure it is of the right quality. It is less about tackling market failure. Like URCs, RLP does not have direct powers but its members can bring theirs to bear if necessary. The same applies to funding. Members are held to account by a memorandum of understanding which sets out priorities and expectations and also by peer pressure.
- 2.10 Clarification of which partners are in lead roles in different parts of the city has further promoted accountability. Cross-party support for RLP has been essential given its Masterplanning role. Partners are currently reviewing whether RLP is fit in its present form to assume more of an economic development role in future. They are considering whether to widen its membership to include, for example, representation from the health and Higher Education sectors and revise its modus operandi. It is acknowledged that regeneration plans need to be expedited in certain parts of the city. However, this may be resolved by creating more powerful area-based regeneration vehicles under the RLP umbrella rather than necessarily reconfiguring RLP.

*The 'middling' model*

- 2.11 Urban Regeneration Companies occupy a middling position in terms of resources and powers. They are particularly relevant to Birmingham because the Government has in its consultation paper on CDCs indicated that some variation on the URCs model might be adopted. URCs were conceived in response to the Rogers Report and are companies limited by guarantee set up jointly by local authorities, regional development agencies and often but not always English Partnerships. They have been designated in tranches and there are now 23 throughout the UK. Unlike UDCs, they can be set up quickly. Their role is to realise latent development opportunities in areas which are underperforming either because of institutional or market failure. Their ability to provide added value rests largely on their preparing and championing

a Masterplan, securing the co-operation of core stakeholders and other key actors. They use those organisations' powers - they do not possess any in their own right - and expertise. They facilitate as distinct from undertake development directly through negotiation, setting terms of reference including development agreements, procuring resources and project management. As public money has become scarcer, URCs have recently explored new avenues. These include using Local Asset Backed Vehicles, for example Blueprint in East Midlands URCs, and collaboration with innovative private sector investors who are pursuing more strategic approaches to regeneration for example Cibitas, East Manchester.

- 2.12 URCs are particularly effective where local authorities want to engage the private sector more closely and secure major private investment. Their company structure provides legal certainty about partners' obligations and a mechanism for decision making. This gives reassurance to the private sector because businesses are used to such arrangements and can see the public sector working in a speedy, non-bureaucratic fashion. Operating at arm's length allows URCs to: act as intermediaries and brokers; focus on the needs of the designated area; balance policy requirements and commercial viability and generally help to de-risk partnership projects. Many of the initial URCs were successful in recruiting high-powered, private sector-led Boards and talented staff which increased their credibility, commercial standing and effectiveness. However, the rapid expansion in their number, along with general shortages of skilled practitioners, has led to some experiencing recruitment problems.
- 2.13 URCs' success is determined critically by: the quality of their Masterplans, the quality of their Board and staff, the clarity of their objectives and their ability to win and keep the backing of their core stakeholders. Some URCs have been good at embedding what they do within partners' wider programmes and practices. This would include Central Salford URC. The co-location of staff has also helped here. In Corby, for example, the forward planning unit of the local authority is based in the same building as the Catalyst Corby URC. This has encouraged the alignment of the URC's programme and long term planning policies. There is a lot of evidence that both EP and RDAs have found it easier to work with URCs than local authorities. This has increased the resources they have got from those agencies.
- 2.14 One downside of URCs is that they can be constrained by other partners' timescales and slowed down by their approval procedures. Their success depends upon them being able to build consensus amongst partners. This has not always been possible. Local authority commitment is absolutely vital. URCs do not have the powers to hold assets. Some believe this will be necessary in future to increase their clout when public resources are scarce. There have been instances when their reputation has been damaged when projects in which they have been involved have run into problems, even when they have not been directly responsible. URCs have also faced VAT charges which has limited their resources or spawned complicated charging arrangements. A minority of interviewees were more sceptical of the added value of URCs.

*The 'maximalist' model*

- 2.15 At the other end of the spectrum are Urban Development Corporations, the most formal vehicles with the greatest range of powers. The latest generation of UDCs have all been designated in growth areas - London Thames Gateway, Thurrock Thames Gateway, and West Northamptonshire. Like their predecessors, they possess their own grant-in-aid budgets, development control including section 106, land and property holding and compulsory purchase powers. But unlike the first

couple of tranches of UDCs, land has not been vested in them and they do not possess plan making powers. This trimming of their powers was in response to concerns that they were originally too impositional in style. Also, their budgets are much smaller than in the past. Their main virtue is that they possess focus and drive. And they can use their resources and powers to lever other contributions and overcome barriers to regeneration such as fragmented land ownership and different interests. They do not depend as much on other public agencies' investment timescales. The combination of powers and expertise of the first generation UDCs meant that they could direct attention to problematic brownfield locations that had been put on the back burner because local authorities had more immediate service responsibilities.

- 2.16 However, the advantages of UDCs should not be overstated. In practice, like their less formal counterparts URCs, they depend heavily on getting the co-operation of local authorities in planning terms. This is far from straightforward since they all operate in a number of local authorities. Also UDCs have to persuade partners to supply essential infrastructure. Even the mighty London Docklands Development Corporation (LDDC) could not persuade developers to press ahead in the Isle of Dogs until the commitment to construct the Docklands Light Railway was secured. Legislative requirements and initial public consultation work also mean that UDCs take a relatively long time to set up - 2-3 years. They must subsequently report to Parliament. Arguably, UDCs also suffer from not being given enough time to see plans through. And wind up inevitably poses questions about sustainability, momentum, loss of key personnel and hand-over arrangements. Some remain critical of the UDC model because they see them as remote from and not accountable to local communities.

#### *Tariff systems*

- 2.17 Other vehicles have focused upon aligning public expenditure programmes, forward funding essential infrastructure and securing developer contributions to help foot the bill. The main means of achieving this at the moment is by levying a tariff which is essentially a standardised, pooled section 106 agreement, covering a set area and designed to capture some of the uplift in value which takes place as a result of development. The other option for extracting 'betterment' is through a Planning Gain Supplement. But this is still at the developmental stage and has its critics as well as enthusiasts. The leading current example of a tariff is the Milton Keynes Partnership Committee. MKPC's remit is to co-ordinate the planning and delivery of development and investment in the city. It consists of local authority, EP and LSP members representing health, community and business sectors with voting powers and others with observer status. It possesses both plan making powers and the ability to decide major planning applications. Although primary legislation was not required to set up the sub-committee, since EP did this under the terms of the Leasehold and Reform Act, securing Treasury agreement to the tariff mechanism and other issues took a long time. A team of eight EP secondees manage MKPC's budget and business planning processes and delivery. Standard tariffs have been devised for both housing units and employment floorspace. And pooled income has been applied to specific infrastructure types. 50% of resources have been allocated to local infrastructure - schools, community facilities, public open space. The remainder goes to strategic infrastructure – road, rail, public transport, health, Higher Education and community-led programmes. MKPC is taking a long term approach to infrastructure provision and will operate for the period 2004-2016.

- 2.18 There is broad agreement that MKPC has worked well. Pre-agreed up-front private sector tariff payments have bridged the gap between infrastructure requirements and public sector agency commitments. The MKPC has proved an effective interface between public agencies and the private sector. Its openness to scrutiny and commitment to engaging community interests has tempered public accountability concerns. Developers, despite some initial reservations, support the tariff. Securing contributions by long-stop dates following planning permission has prevented land hoarding, guaranteed payments and also lessened developers' risk. EP has played an absolutely critical role by acting as banker, guarantor and underwriter to deal with the cash flow gap between funding infrastructure and receipt of payments and by utilising the business/delivery plan to build confidence and act as a lobbying device.
- 2.19 However, questions remain about the tariff's transferability. Milton Keynes is a designated growth area and tariff receipts in less buoyant markets such as Birmingham would be much smaller. Also the financial structure of the house building industry is such that setting the tariff at too high a level might reduce the amount of land brought forward by developers. Even in Milton Keynes, the tariff will provide less than 20% of total anticipated infrastructure costs of £1.6bn over the next decade. There, EP has played a pivotal role which may not prove replicable. Government will need to consider who would perform such a role elsewhere. Also tariff structures are easier to devise in greenfield than urban locations because land and property valuation is more straightforward. To be fully effective, tariffs also need to be linked to LAAs/MAAs and require longer term public expenditure planning.

*Local Asset Based Vehicles*

- 2.20 One of the most recent forms of local regeneration vehicle is the Local Asset Backed Vehicle. This involves public sector agencies (such as local authorities, EP, RDAs) transferring sites within their ownership into a joint venture with a long term developer and investment partner. They contribute a mixture of debt, equity and mezzanine finance and in many cases management expertise. The logic is that public agencies make better use of their assets to lever in private investment, thereby compensating for public expenditure constraints. Also that both partners take a longer term, more strategic view of development opportunities and both have a control and stake in the outcome. Careful assembly ('bundling') of a property portfolio can maximise its 'marriage' value, capture land value uplift, enable recycling of proceeds and ensure that the more profitable developments cross-subsidise the more marginal schemes.
- 2.21 Such joint ventures have the potential to extract additional value from property holdings through better management, assembly of adjacent sites if necessary using CPO powers, Masterplanning, land remediation, acquiring planning permission, changing or intensifying use, improvements in public realm. Earlier examples of LABVs such as the English Cities Fund, Isis and Blueprint tend, however, to involve investment in specific projects which have not necessarily been part of a wider Masterplan and have not therefore captured all the potential benefits. Creative Sheffield City Development Company is, however, pursuing a more strategic approach in the city centre fringe areas which may be relevant to Birmingham. Although the City Council lacks major landholdings, it is exploring the possibility of re-allocating land within its ownership currently zoned for industrial purposes for commercial uses and capturing and recycling the consequent appreciation in land values.

*The experience of Blueprint*

- 2.22 We conducted a brief examination of Blueprint which is a 50:50 public/private sector partnership between EP and EMDA on the one hand (25% each) and Igloo. Investment, control, risk and returns are all shared equally between partners over a ten year period. (Very recently other RDAs such as AWM and NWDA have set up similar ventures. AWM has recently transferred a number of its Midlands sites into a joint venture with Langtree Group known as PxP.) Blueprint was formed in 2005 as a private sector company, which has enabled it to be treated as off-balance sheet. So it has been able to avoid clawback, State Aid problems and OJEU requirements. On the other hand, this has meant that it has received less public sector input and funding. Blueprint essentially has a two-fold rationale. It has enabled EMDA to entrust its property portfolio in URC areas to a third party because of limited internal capacity. And Igloo has since been able to sweat those assets through tighter management practices. Property revenues help to fund 6 staff. Disposal of assets which are not central to regeneration has helped to fund development projects.
- 2.23 Blueprint is involved with 6 projects each in the £10-15m range which are all located in Urban Priority Areas. Blueprint operates flexibly either undertaking development in its own right, selecting a development partner or assembling land and providing essential infrastructure and development guidelines before selling them on. Blueprint has been able to take on difficult schemes, or those in areas where market conditions are sluggish, because it can take a medium rather than short term view about returns and also inject its own funds. Unlike ECF, it has a local remit and knows its patch. It works closely with URCs and local authorities who, although initially suspicious, now generally support it. The need for Blueprint to secure planning permission for schemes in which it is involved has provided a safeguard and reassurance to public partners. The potential shortcomings of Blueprint are that public sector partners are placing their bets on one private sector partner and that the individual projects are sometimes quite site-specific and insufficiently integrated with wider strategic plans. Even though Igloo has through active management managed to boost the value of the trading portfolio of industrial estates by 8%, this has generated comparatively modest additional capital.

*How has it been for Manchester? - towards LABV and TIF*

- 2.24 We finish this chapter by looking at regeneration vehicles in Manchester and Liverpool. Manchester is renowned for its entrepreneurial, attitude and also for the energetic way it has grasped Government funding opportunities. However, this opportunism has been tempered by a desire to ensure that Government programmes are fit for purpose and applied in such a way as to meet the city's needs. Senior City Council members and officials are pragmatic and have been prepared to utilise a variety of local delivery vehicles over the years if circumstances dictate rather than insisting on implementing programmes in house.
- 2.25 The precise model chosen has largely hinged on the nature of the objectives and rationale, the extent and make-up of the designated area, the ability to procure the necessary financial resources and expertise to achieve significant impact and the most effective ways of engaging key partners. The local authority has had both the self-confidence and clout to set up a number of arm's length bodies which have acted as an effective intermediary with the private sector. And it has procured additional EP and NWDA resources without losing undue influence. A complex model involving a URC has been pursued successfully in East Manchester. There the City Council has brought together a range of regeneration programmes - New Deal for Communities,

Education Action Zone, Housing Market Renewal Pathfinder and Urban Regeneration Company. The local authority concluded that only a comprehensive, locally driven, step change in living conditions and service provision can reverse the fortunes of an area that has experienced such dramatic long term economic decline to make it once again an attractive place to live and work.

- 2.26 There have been cases, however, when a model has proved successful in one area of the city but not as effective in another. Hulme City Challenge was a non-profit, arm's length organisation which received many plaudits for making an inner area once again liveable and attractive to investment. But a similar model did not work as well in North Manchester (North Manchester Regeneration Company) because the body was not as well resourced, covered too large an area and its objectives were not clearly enough defined.
- 2.27 Manchester City Council has not finalised its approach to LABVs. However, it is keen on them in principle and sees them as one way of providing infrastructure funding in future. It is considering putting some of its property assets together with those of EP into a vehicle. On the basis of past experience, MCC is anxious to separate the commissioning and delivery roles and to make LABVs accountable by tying such mechanisms to existing partnership arrangements. Strategic Regeneration Frameworks for the four quadrants of the city are likely to provide the basis on which infrastructural planning and delivery takes place. A number of developers and institutional investors are already pursuing area-based as distinct from site-based approaches for example, Morgan Stanley, Cibitas, Royal Bank of Scotland. They have the potential to be a private sector partner in either a city-wide - or more likely - a series of area-based LABVs.
- 2.28 Securing the necessary funding for major transport infrastructure is a major issue in Manchester as it is in all major UK city regions. The key development here is Greater Manchester's Transport Innovation Fund bid. This is currently being worked up by Greater Manchester Passenger Transport Executive and the Association of Greater Manchester Authorities, on which the ten local authorities have representation. The TIF bid involves use of congestion charging, as part of a wider package of measures including DfT funding, to enable the expansion of the Metrolink tram system and promote economic regeneration and growth throughout the conurbation and environmental sustainability. GMPTE and the AGMA Executive are currently exploring whether the bid can meet the four tests set by the latter. These include: securing the necessary upfront transport investment; ensuring the charge does not compromise competitiveness and inclusion goals; establishing that the measures are acceptable to the public and business community; ensuring that charging is targeted at actual or potential congestion hotspots.
- 2.29 Public consultation work has revealed that although the majority (60%) of respondents are reluctant to accept the pay-to-drive principle, they consider it a price worth paying if it is a means of securing the necessary finance to pay for the extension of the Metrolink system. The bid is taking shape around 15 corridor partnerships which are each putting together packages of investment relating to the principal radial routes into the city. These are designed to integrate economic growth and transport strategies and efficiency between transport modes. Local contributions are likely to comprise a mixture of local authority prudential borrowing, revenue from road charges, workplace parking levies and a business rate supplement.

*How has it been for Liverpool? – from area based to city wide vehicles*

- 2.30 A critical feature of Liverpool today is the way in which effective area based delivery vehicles have been rolled out and then fused together with other agencies into a delivery mechanism serving the whole of the city. There is much agreement that the Speke Garston Development Company, a joint venture between Liverpool City Council, English Partnerships and later North West Development Agency, which operated between 1996 and 2003, was an early success story. The combination of EP resources and access to extensive tracts of local authority and other public sector land proved a powerful combination in an area that had traditionally been under exploited. Unusually for the time, SGDC was co-located with an SRB-funded scheme, the Speke Garston Partnership. This meant that SGDC's physical regeneration programmes were complemented by social programmes and in particular measures to help local people to access training and employment opportunities arising from the inward investment brought in by SGDC.
- 2.31 SGDC did not own land but entered into contracts to create infrastructure and exercised options to develop land. Its main achievements were to develop a number of new business parks in the vicinity of Speke Airport, redevelop the former airport site for a mixture of uses and carry out extensive land remediation and environmental improvements. SGDC's success was attributable to: the resources and powers (e.g. planning) at its partners disposal; excellent staff; an influential and widely respected chair; a high level of autonomy and minimal statutory clutter. Its main downside was the length of time taken in getting its three core members to approve particular schemes. In many respects, SGDC was a similar model to an URC, with its own dedicated staff and Board, agreed Business Plan and revenue support from partners. There was a good division of roles. The City Council handled policy and Masterplanning aspects, retained planning powers and also helped deal with associated public accountability issues. This left the LDDC considerable scope to get on and focus on delivery.
- 2.32 This model was effectively replicated on a city-wide basis when Liverpool City Council, North West Development Agency & English Partnerships continued their joint initiative by establishing the Liverpool Land Development Company. Its brief was to act as the main vehicle for implementing the major physical regeneration programmes in four Strategic Investment Areas in the city (including Speke Garston), as part of the 2000-2006 Merseyside Objective One Programme. Its activities included land and property acquisition and disposal, site remediation and servicing, major infrastructure implementation and highway improvements. The regeneration of Liverpool city centre was subject to different arrangements and was spearheaded by a URC, Liverpool Vision. Like many other URCs, its Masterplan has given investors confidence, brought other public sector partners on Board and greatly enhanced their level of expenditure there.
- 2.33 The latest development is the proposed fusion of LLDC, Liverpool Vision and Business Liverpool, which is effectively a department of the City Council handling business support, into a single economic agency. Provisionally this is called 'Liverpool plc'. It is also likely to incorporate a marketing and inward investment function. Its remit is to make Liverpool a quality place and promote growth of its economic base. This is because there is a perception that while the development environment in the city has changed markedly, its economy has not grown at the same pace. While details still need to be worked out, it seems probable that the agency will be a company limited by guarantee with three members: LCC, NWDA and

EP. They will reserve to themselves powers over key decisions regarding strategic planning. They will also be able to raise finance on the back of assets. It will also have a private sector dominated Board. It will have powers to own and invest in land and property and to raise finance.

- 2.34 Members have in principle agreed to transfer land - and in EP/NWDA's case, possibly equity - into the company. Although there do remain issues regarding cost, value of receipts and funding the purchases. Liverpool plc will not have planning powers. A key question will be balancing freedom of manoeuvre and accountability. One possibility might be to require the agency to report to the Council's Scrutiny Committee. There are also some outstanding legal and state aid issues which need to be resolved. Incorporation of inward investment and marketing and business support services within Liverpool plc is designed to encourage integration and achieve synergies between physical development/place making and soft functions. This does, however, raise issues about how the organisation will relate to bodies that are currently responsible for such functions which operate at sub-regional or regional level that is Merseyside Enterprises and Business Link.
- 2.35 This chapter has reviewed the experience of a range of agencies, initiatives and experiences in the UK. It is crucial context for the discussion now taking place in Birmingham. We draw out the specific policy messages and implications for Birmingham in Chapter 5 of this report as we move towards recommendations for action in Birmingham.

### 3. What's Going On with Urban Delivery Vehicles Abroad?

- 3.1 The experience of the UK encourages Birmingham to explore the creation of a new delivery mechanism and new forms of innovative financing. We are constantly told that cities abroad do things better than us and in particular have greater innovative fiscal tools available to them. So we next test whether that argument is true. Does experience elsewhere encourage Birmingham in the same direction? This chapter of the work reviews the experience of economic development agencies in North America and Europe. It is based on interviews with a range of key players and an analysis of key documents.

#### *The rise of local and regional development agencies*

- 3.2 If Birmingham decides to establish some form of City Development Company, it will not be alone. Regions and cities across the world have been experimenting with local economic development agencies for the past four or five decades. Against the backdrop of a globalising economy, local and regional economic development has become increasingly important. In this changed context, structures of government and governance have evolved into multilevel systems working across local, regional, sub national, national and supra-national scales. Regional and local level institutions have become important ingredients in 'bottom-up' forms of economic development and a common feature of this global institutional change is the growth of local and regional development agencies, particularly in the period since the mid-1970s. There is no definitive figure for the number of these agencies, but one informed estimate puts the current figure at around 1,000 for Europe and 2,000 for North America.

#### *No single model - places and countries differ*

- 3.3 Despite the growth of local economic development agencies across the world, it is important to stress the international differences that make international comparisons and institutional transferability difficult. Local and regional development agencies operate in very different circumstances in relation to local economic development powers and frameworks that are, in turn, linked to very different political cultures and fiscal contexts. Countries differ in their national and state political and administrative cultures and central-local relations and the role and functions of central and local authorities are often conceived in very different ways. Financial arrangements also differ widely. These political and fiscal differences appear to impact less on the governance structures and activities of local economic development agencies (although there are some international variations) and more on the type and range of financial mechanisms and tools that these agencies are able to use.
- 3.4 Municipalities and their redevelopment agencies have to operate in very different circumstances with differing constraints and opportunities. In the US, for example, cities are experiencing increasing fiscal stress from declining state support and receding federal aid. Cities are facing deep-rooted fiscal challenges from insufficient local revenue sources compounded by a growth in unfunded mandates (duties imposed by higher levels of government not matched with financial support to implement them). Slow economic growth also means that revenue sources previously relied upon are no longer as productive as they once were. This situation has led local governments to seek out new revenue sources, such as non-profit organisations, and by raising rates on items impacting on select constituents (which dilute potential for concerted resistance) such as tobacco, casinos and other forms of gambling. Indeed, one expert argued that the relatively weak federal and state

support for regeneration was a major reason why there were so many redevelopment authorities in the US contrasting this situation with the UK where "the thing [the UK government] is good at doing is writing big cheques" and "throwing more money at distressed areas than [the US government] ever does".

- 3.5 In Canada, decades of fiscal restraint on municipal governments by federal and provincial governments have reduced transfers and increased the 'downloading' of responsibilities on municipalities. There has been growing pressure from municipalities for greater powers and financial autonomy and the ongoing battle between cities and higher tiers of government has been given high profile support in a recent (February 2007) report by the Conference Board of Canada Institute, which has looked at Canada's global competitiveness '*Mission Possible: Sustainable Prosperity for Canada*'. One volume of the report focuses solely on the key role that Canada's largest cities can play in improving Canada's economic and social performance. The report makes a convincing case for ensuring that major cities have adequate fiscal resources and underline the clear municipal fiscal imbalance. The report argues that provincial and federal governments need to do more to enhance cities' revenue-raising capacity and that cities need to have greater political autonomy and more control over revenue raising and expenditures.
- 3.6 At the same time, Canadian cities are themselves securing legislation to improve their political and fiscal status. A new City of Toronto Act, for example, gives the municipality:
- Broad authority to manage its financial affairs.
  - Increased flexibility to establish municipal corporations.
  - Authority to undertake tax increment financing with respect to municipal taxation within prescribed areas.
  - Broad permissive authority to raise new taxes except in areas specifically prohibited, such as an income tax, wealth tax, gasoline tax or a general sales tax.
  - Expanded authority to provide bonuses for private business in the City of Toronto within the context of a community improvement plan without provincial approval.
- 3.7 Revenue pressures are also impacting on cities in continental Europe and this is compounded, in some countries, by the need to negotiate relatively new government relationships with successive waves of political decentralisation. In France, cities are still coming to terms with the workings of inter-communalities and the 'contractual system' of service provision requiring extensive cooperation between different government levels. In Italy and Spain, cities are adjusting to the recent trend in both countries towards local authorities being given greater fiscal autonomy.
- 3.8 The differing political and fiscal contexts are not simply a reflection of the difference between federal and unitary states. There also differences within them. In the US federal system, city-state relationships are conditioned by fiscal history. Thus, for example, in the case of New York State and City, the latter's two major financial crises have meant it remains more highly controlled its State. A recent study by Harvard Law School illustrates the significance of intergovernmental relationships in a comparison of the legal powers of Boston (one of our case study cities) with six other major American cities: New York and Chicago (two other case studies), San Francisco, Seattle, Denver and Atlanta. The Report shows how these cities have all been organised by their states in very different ways, with different governmental structures and different legal limitations. It concludes that Boston has been saddled

with a legal structure that is significantly more constraining than the one that applies to most of the other cities examined and most strikingly so in relation to fiscal control. Boston enjoys much less legal control and flexibility than the comparator cities.

*What kinds of Economic Development Agencies exist?*

3.9 Table 3.1 lists a number of economic development agencies selected, with a steer from our expert advisors listed in the appendix, to reflect the different types operating across North America and Continental Europe. While some of the cities chosen are similar in size to Birmingham and/or face similar challenges (e.g. the industrial reconversion and physical redevelopment being attempted in Detroit and Barcelona), others are chosen more to illustrate the range, across international economic development agencies, of:

- governance structures;
- geographical areas of operation;
- activities undertaken; and
- financial mechanisms and tools.

3.10 The Table below shows several features:

- the relatively long history of economic development agencies in North America and particularly the USA (with some established in the mid and late 1950s: San Jose in 1956, in Boston in 1957 and Baltimore in 1959). Continental European agencies are a more recent vintage;
- the wide diversity in size (from medium-sized cities like Boston in the US and Dortmund and Rotterdam in Europe to city-regions like Greater Washington in the US and Lyon and Stuttgart in Europe);
- the co-existence within cities of agencies with different geographical areas of operation and/or foci of activity (e.g. Toronto and Barcelona).

**Table 3.1: Development agencies: International comparator case-studies**

City	Organisation	Population	Coverage	Established
<b>North America</b>				
<b>Canada</b>				
Toronto	TEDCO	2.6 million	City	1986
	Waterfront Toronto		Sub-city	2001
<b>USA</b>				
Baltimore	Baltimore Development Corporation	636,000	City	1991 (economic dev. agency since 1959)
Boston	Boston Redevelopment Authority	589,000	City	1957
Chicago	City of Chicago Planning and Development Dept.	2.8 million	City	1991 (in present format)
Detroit	Detroit Economic Growth Corporation	950,000	City	1978

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New York	New York City Economic Development Corporation	8.1 million	City	n/a
Philadelphia	Philadelphia Industrial Development Corporation	1.5 million	City	1958
San Jose	San Jose Redevelopment Agency	970,000	Sub-city (areas determined to be blighted)	1956
Washington	Greater Washington Initiative	6.1 million	Region	1994
<b>Continental Europe</b>				
<b>France</b>				
Lyon	Aderly Lyon Area Economic Development Agency Grand Lyon l'esprit d'entreprise– underlying economic development plan	1.2 million	City Region	1974
<b>Germany</b>				
Dortmund	Economic Development Dortmund	589,000	City	2000
Stuttgart	Stuttgart Region Economic Development Corporation	2.6 million	City-Region	1995
<b>Italy</b>				
Milan	Milano Metropoli Development Agency	1.2 million	City Region	2005
	Citta di citta (partnership to develop and deliver city region strategic plan)	1.2 million (commune di Milano)	City Region	2005
Turin	Invest Torino Piedmont	4.2 million	Region	1996
	Torino Internazionale	1.2 million	City Region	2000
<b>Netherlands</b>				
Rotterdam	Economic Development Board Rotterdam	599,000	City	2003
<b>Spain</b>				
Barcelona	Barcelona Activa S.A.	1.6 million	City	1986
	22@bcn S.A.		Sub-city (Pobleneu old industrial district)	2001

### *How are they governed?*

3.11 A number of characteristics stand out in terms of corporate status and governance structures. These include:

- in North America, the emphasis on non-profit economic development agencies/corporations which, for example, allows them to use development powers that are not available to municipalities under most state constitutions;
- the public-private partnership model is favoured in many Continental European cities;
- an example of a subsidiary limited company established by local government (Stuttgart);

- a municipality directly administering its own economic development agency (Chicago);
- an example of a City Council acting as the Board of its redevelopment agency (San Jose);
- a range in the size of the Board from just 5 (Boston) to as many as 60 (Detroit);
- Boards including a mix of representatives from business, labour, and civic group representatives, as well as ex-officio members from local government agencies;
- the lead role played by Mayors in many cities in appointing Board members.

*Political leadership is crucial*

- 3.12 Leadership is important and challenging. The role of leading politicians (Mayors or delegates in North American and Continental European cities) is crucial. This applies equally to both municipal-led redevelopment initiatives and more arms-length redevelopment authorities. Interviewees also emphasised the challenging nature of the executive jobs with Chief Executives needing to be able to operate in a political environment and be comfortable wearing a range of hats: planning, project management, real estate development and finance. Relationships between municipal administrations and the redevelopment agencies are crucial. As one interviewee put it, if this relationship is not on a firm footing from the outset economic development agencies are "dead on arrival".

*What roles can they play?*

- 3.13 Arms-length redevelopment agencies can also provide stability in the delivery of regeneration programmes and projects in situations where there is political instability. The OECD's Programme on Local Economic and Employment Development and Forum of Cities and Regions, from international experience, points to a number of distinctive features of successful development agencies in relation to the latter's economic, implementation leadership and coordination/ governance roles:

*Economic roles - development agencies:*

- build markets by acting within them;
- are entrepreneurial, risk and cost sharing;
- undertake asset management, investment, marketing, infrastructure, planning, promotion;
- are outside the normal ambit of Government.

*Implementation roles - development agencies:*

- employ dedicated professional teams;
- undistracted by other mandates; monitoring progress and impacts;
- bring innovation, new tools, new approaches, new partners.

*Leadership roles - development agencies:*

- set out a strategy towards a new future;
- galvanise the instincts of leaders;
- translate multiple visions into a coherent programme.

*Coordination/ governance roles - development agencies:*

- facilitate territorial coordination, cross-border, cross tier, cross sector organising;
- offer an independent broker/ leader role;
- enable shared ownership.

*Redevelopment activity*

- 3.14 In North America there has been a shift in local development activity away from its historical focus on grants and improving infrastructure for business recruitment, industrial development, and incentives towards a greater emphasis on business retention and expansion, workforce development, neighbourhood redevelopment, technology transfer and the development of local entrepreneurs. City or county government economic development offices have traditionally been responsible for local economic development. But these have been joined by a rapidly growing number of non-profit or quasi-public economic development organisations - commonly called economic development corporations.
- 3.15 These redevelopment authorities have taken over from where traditional non-profit community-based organisations involved in encouraging private sector involvement in urban renewal and community rebuilding leave off. They are usually corporate entities with specific redevelopment powers including, most commonly:
- expropriation;
  - zoning and planning functions;
  - administering public funds loans and tax credits;
  - administering tax increment financing; and
  - issuing bonds in support of development projects.
- 3.16 They also have powers specifically targeted at real estate development including:
- renewal in blighted areas;
  - purchase, sale and lease of property;
  - operation and maintenance of buildings;
  - granting property tax exemptions; and
  - encouraging job training.
- 3.17 In Europe it has been left to individual Member States and their cities, to develop their own programmes and economic development agencies to attract private sector involvement into urban renewal. The agencies range from arms-length development agencies more on the North American model (e.g. in the UK) to public-private partnerships (e.g. in France and Germany) and to private municipal companies (e.g. in Spain).

*What activities do they undertake?*

- 3.18 The range of economic development activity undertaken by development agencies include:

- business retention and expansion;
- business attraction, marketing, and branding;
- business finance;
- entrepreneurial and small business development;
- real estate development and redevelopment (through as land assembly, feasibility studies, project financing, regulatory approvals, infrastructure improvements, and private sector participation);
- workforce development;
- technology led development.

3.19 The activities undertaken by individual agencies depend on their scale and political remit. Thus, for example, one the largest we looked at (in resource terms the New York Economic Development Corporation (NYEDC) undertakes a distinctive range of activities taking in place marketing, infrastructure and utility development, energy programmes and real estate development. It:

- oversees industrial parks; wholesale and retail markets; heliports; rail lines; and waterfront development;
- has development responsibilities as well as design, planning and construction capabilities and also supports private lending activity to small businesses through loan guarantee programmes;
- brings together city, state and federal funding packages for economic development projects and provides discretionary financial assistance to investment projects under the authority of the New York City Industrial Development Agency and the New York City Public Utility Service and the Business Incentive Rate programme; and
- is also involved in land sales and ground leases and making underused City-owned properties available for sale or lease to private companies and organizations willing to invest in their development.

*One or several agencies in a city?*

3.20 New York also illustrates the hierarchy of redevelopment authorities that operates in some cities. The NYEDC works city-wide but alongside it is a plethora of smaller-scale agencies operating in each of the city's five boroughs, (including, for example, the Lower Manhattan Development Company set up specifically to redevelop Lower Manhattan post '9/11'). Similarly, Toronto has its city-wide Toronto Economic Development Corporation but also Waterfront Toronto, which concentrates on the redevelopment of Toronto's waterfront. It is responsible for Masterplanning in its area and is now shifting into project implementation. The main activity to date has focused on the completion of six waterfront parks and related public realm projects. The emphasis is now shifting to commercial and residential redevelopment projects within the three designated waterfront areas.

*Do they focus on economic sectors or places?*

3.21 Development agencies operating city-wide with a sectoral focus co-exist with agencies with a geographical remit. Thus, for example, Barcelona has set up a number of private municipal companies (independent legal entities with 100% municipal ownership) to take forward some of its key redevelopment projects. Two

important municipal companies are Barcelona Activa S.A. and 22@bcn S.A. Barcelona Activa operates city-wide and is dedicated to fostering entrepreneurship and innovation to counter the city's industrial decline and high levels of unemployment. 22@bcn S.A. is responsible for the city's largest and most strategic redevelopment project, the reconversion of the Poblenou old industrial district.

*What marketing activities?*

- 3.22 Some development agencies concentrate on place marketing. Thus, for example, the Greater Washington Initiative is a place-marketing agency created by the Greater Washington Board of Trade and concentrates on:
- provision of key industry and location data for potential investors;
  - identification of strategic sites, and site tours;
  - advice on business service providers.
- 3.23 Other development agencies incorporate place marketing in wider redevelopment activity (for example, the Baltimore and Stuttgart Region Economic Development Corporations). Generally, municipalities provide the city-wide vision to which redevelopment authorities work. An interesting exception is Rotterdam, where the city's public-private Economic Development Board (EDBR) is responsible for producing and updating the city's vision ('Rotterdam 2010') and its International Advisory Board of academic experts and development practitioners meet regularly to discuss global economic and social developments to position the city internationally.
- 3.24 Several development agencies have a remit to tackle housing: Boston Redevelopment Authority, Waterfront Toronto and 22@bcn in Barcelona. Interviewees pointed to the growing concern in the US over urban housing: both affordable housing (hitherto the province of vehicles like Community Development Corporations) and housing that directly addresses the growing problem of 'middle class flight'. The pressure appears to be growing for arms-length development authorities to seek to influence housing markets in their jurisdictions.

*Financial powers and instruments*

*Countries differ*

- 3.25 Clark identifies eight key factors that help to explain international differences in local economic development financial instruments. Taken together they mean that city and regional governments across North America and Europe have different levers at their disposal for leveraging private sector investment into their redevelopment programmes. The variations relate to:
- where fiscal and financial authority is located in different tiers of public finance systems;
  - how public sector debt is defined, calculated and appraised;
  - the degree to which public funds or fiscal revenues are 'ring-fenced' or hypothecated;
  - mechanisms for attracting, appraising and managing public-private co-investment;
  - regimes for encouraging financial institutions to get involved in local economic development;

- the extent to which public sector assets are subject to limiting controls on their sale, re-use or participation in financial transactions;
- single and/or free market agreements between nations (producing different outcomes in terms of parallel social and sub-national investment mechanisms);
- political cultures in relation to risk appraisal and acceptance in development and in civic cultures in relation to popular support for taking on long-term debt.

3.26 Financing tools for cities and regions are, as a result, very different from one place to another. For example:

- Tax credits and incentives in the USA have tended to do what grant in aid does in the UK.
- SME development has tended to be tackled by loan guarantee systems in Europe and regulation in the USA.
- Town-centre investment mechanisms have developed through statutory frameworks in North America and largely through voluntary partnerships, or chambers of commerce, in most of Europe.
- Tax abatement for foreign direct investment deals in some cities and regions are mirrored by the use of direct subsidies in others.
- Public bonds are issued in some countries to support the activities that are the preserve of private fund managers in other countries.

3.27 Despite these kinds of differences, Clark argues that two basic forms of innovation are emerging:

- a continued push by commercial intermediaries and investment institutions to create non-governmental approaches that define and develop new localised investment markets;
- within government at various tiers efforts to innovate with public finance in ways that will make it more flexible and sensitive to commercial thresholds, and thus leverage private investment more effectively.

3.28 In North America, typical powers include:

- expropriation (using powers of eminent domain);
- zoning and planning functions;
- administering public funds, loans and tax credits;
- administering tax increment financing; and
- issuing bonds in support of development projects.
- renewal of real estate in blighted areas;
- purchase, sale and lease of property;
- operation and maintenance of buildings;
- granting property tax exemptions; and
- encouraging job training.

3.29 Typical financing tools include:

- tax-exempt bond financing;
- property tax reductions;
- exemption from mortgage recording tax;
- exemption from sales and use taxes on construction and equipping costs;
- Payments in Lieu of Taxes (PILOTS);
- Tax Incremental Financing;
- Revolving Loan Funds;
- Small Business Loans;
- Enterprise and Empowerment Zone incentives.

*Tax Increment Financing – what is the fuss about?*

- 3.30 Tax Increment Financing is receiving a great deal of attention in the UK. It attempts to capture the expected future uplift in land and property values from redevelopment to finance public infrastructure investment and site preparation and secure private investment in redevelopment programmes. A TIF functions by pledging property tax increments gained (over the pre-development year / the “baseline”) as a result of the new development within the tax increment district. TIF Bonds are issued based upon this expectation of increased real property taxes and typically upon the guaranty of one or more developers. Proceeds from the sale of the TIF Bonds finance specific activities and/or capital improvements. The City designates the TIF Development District and subsequently the assessable “baseline” of all real property within that district. A special fund is created into which all “incremental” real property taxes are placed. Withdrawals are made from this special fund to cover debt payments on the TIF Bonds. The City is not otherwise liable for the bonds as the City’s full faith and credit is not pledged. Typically, one or more developers, anticipating an increase in the value of their property within the District, will guaranty debt service under the bonds by a Developer’s Agreement. If the assessable base increases the developer is not required to pay any funds other than the taxes originally anticipated upon completion of the development. The City continues to collect the tax revenues generated by the “baseline” assessment in the TIF district.
- 3.31 The appeal of TIF for municipalities and redevelopment authorities appears unabated but there is a growing body of research in the USA that cautions against an uncritical approach to its implementation. One international expert argued that TIF works best in already rising property markets and that it is a "tough tool to use" in declining or steady markets. Another argued that one advantage of TIF was that it provides some kind of market tool for judging how feasible a proposed development is - will investors buy the bonds?
- 3.32 In Continental Europe, typical financial tools include:
- some combination of state, regional and local grants and incentives;
  - grants and incentives for business development;
  - loan guarantees for small and medium-sized companies;
  - fees and charges.
- 3.33 European approaches to 'value capture finance' are developing which mirror to some extent the US system of tax increment financing:

- In the Netherlands, where substantial land holdings are in the public sector, the emphasis has been on optimising the role of leasehold reviews to capture land value uplift.
- In Germany, the emphasis has been on developing joint venture land holdings.
- In the UK, the emphasis has been on negotiated levies (through Planning Gain) and is now shifting towards developing asset backed financing mechanisms (LABVIs), a national levy system (Planning Gain Supplement) and local voluntary approaches (e.g. Milton Keynes Tariff system).

*Land holding is crucial*

- 3.34 In both North America and Continental Europe, municipal land ownership is crucial for redevelopment vehicles both for control and private sector leverage. In governance terms, there is a need for organisational vehicles able to provide stewardship of public and private land holdings. In Toronto, for example, 70% of the land being redeveloped by Waterfront Toronto is publicly owned by a mix of federal, provincial and municipal government. The location of parcels of land is also very important - "location, location, location" as one interviewee phrased it.

*But will such tools work in the UK?*

- 3.35 In his evidence to the Lyons Inquiry on Local Government Finance, Tony Travers, the Director of the Greater London Group at the London School of Economics, notes the difficulties of taking models of government or taxation from one country to another. While there is little evidence of transfers of whole systems of local taxation across international boundaries, there have been examples of finance options being adopted. The transfer of Business Improvement Districts from North America to the UK is an example of such a transfer. It also seems likely that smaller tax reforms such as the possibility of tax increment finance as used in the US or smaller taxes linked to infrastructure developments can be envisaged.

- 3.36 A number of commentators in the UK have argued for the establishment of Regional (or City) Investment Funds that would combine bonds, equity and debt packages and for tax incremental financing but recognise that:

- City Investment Funds would require guarantees from local authorities and/ or central government;
- tax incremental financing (TIF), as already noted, would require central government to change its stance on hypothecation.

- 3.37 There are indications that Government policy is bending towards a degree of local hypothecation in the shape of Milton Keynes Roof Tariff and the current proposals for using Planning Gain Supplement to capture land value uplift. Care will need to be taken in replicating the US model of TIF. Early criticisms of TIF in the US related to:

- the massive expansion over time in the eligibility and uses of TIF financing has meant that they often incorporate subsidies to areas which are not blighted (in some states most TIF financing is being undertaken in higher-income locations);
- the purposes of TIF financing, which have expanded to include not only basic infrastructure but other expenditures, including reducing the investment costs of private real estate developers;

- the lack of say in TIF approval of some local development actors (notably local school districts and other recipients of property tax funds) even though they bear part of the cost (with schools, for example, facing increasing demands on them from redevelopment but having to meet these increased demands from a frozen tax base) have led them increasingly to take issue with the growth of TIF investments. Local battles over TIF designation have become more commonplace and politically challenging.
- 3.38 A recent paper reviewing North American research to date on TIFs conclude that TIFs must not become: 'yet another incentive in the border wars for private investment...If TIF is not used more discriminately, its increasing popularity may only lead to more fiscal fragmentation, give-aways to the private sector, and spatial inequities in public resource allocation.'
- 3.39 There is a difference in views between practitioners using TIF (generally positive) and more formal evaluations using statistical methods of analysis (sometimes negative). The latter have looked at the impact of TIFs on property values and jobs and on the hidden costs of the municipal use of TIF, namely the potential for harm to the overlapping jurisdictions who share their tax bases with TIF districts. The evidence has been mixed at best with some showing TIFs having a positive effect and some a negative effect on property values and employment. There have also been some contradictory findings in relation to whether TIF designated areas "capture" tax revenues from overlapping jurisdictions.
- 3.40 The TIF system is still evolving in the US in response not least to some of the critical press that it has received. The early TIFs, for example, were heavily dependent on state/city funding. They were effectively Municipal Bonds. More recent ones are financed partly off the municipal balance sheet with bonds issued by special purpose vehicles. The public sector took the lead but the market has followed behind as the principles, mechanisms and risk have become better understood. The criticisms of TIF have also been directed principally at the scope and governance of the TIF instrument rather than the financing mechanism itself. If TIF is to be adopted in the UK, it is likely to be in the generic sense of greater flexibility in local financing and methods for capturing 'land value uplift' that have elements of TIF but are not a direct replication of it.
- 3.41 This chapter has shown the range of approaches adopted in different countries and the options available to Birmingham. Chapter 6 of this report draws out the specific policy implications for the city.

**PART 3:**  
**POLICY MESSAGES FOR BIRMINGHAM**

## 4. What Messages from Government's Consultation on CDCs?

- 4.1 The debate about development vehicles has moved up a gear with the Government's consultation paper on City Development Companies and its review of responses. To see what latest thinking is across the country we review in this chapter some of the stakeholders' responses to its recent consultation exercise. We focus on the views of key national, regional and local economic development organisations that work in similar contexts to Birmingham.

*What does the government think about CDCs?*

- 4.2 We identified the key features and government ambitions of CDCs in Chapter 1 of this report. These include: supplying economic leadership; pursuing more entrepreneurial, less risk averse approaches; driving forward implementation of strategies and investment propositions; rationalising delivery arrangements; unlocking resources including necessary skills; branding and identity and increasing legitimacy of interventions amongst key partners, especially the private sector. Government envisages CDCs could have a number of functions including:

- co-ordinating the economic development and neighbourhood regeneration activities of neighbouring authorities in terms of strategy development and procurement of services;
- acting as lead public sector client for Masterplanning;
- co-ordinating and overseeing major physical development projects;
- developing and co-ordinating integrated implementation plans;
- co-ordinating delivery of housing market renewal or targeted housing growth;
- co-ordinating promotion, marketing and branding of cities/city regions;
- co-ordinating the bidding for major investments, events and projects;
- advising on establishment of additional investment funds and/or financial vehicles;
- improving the quality of investment propositions;
- co-ordinating the delivery of services to business in cities/city regions.

- 4.3 Government encourages places to develop their own tailored solutions within some basic parameters set by Central Government. These include complementarity with the strategic and delivery roles of other key bodies such as Regional Development Agencies and local authorities and related strategies. The Government is open-minded about CDC boundaries and recognises that both city and city region-based approaches have their merits. In terms of governance, government suggests that a balance must be struck between democratic accountability and freedom of manoeuvre in terms of day to day operations, that Nolan principles should be followed and that local authorities, English Partnerships and Regional Development Agencies, the private sector and Local Strategic Partnerships should each be represented on the Board. In terms of funding, the paper recognises CDCs will require considerable revenue support. It recommends a long term approach, the sharing of costs between member organisations, careful consideration of compliance with State Aid rules and investigation of innovative ways of raising finance for example public-private joint ventures such as asset-backed vehicles and Business

Improvement Districts. The Government's paper asked a series of questions about CDCs. We summarise some of the key responses next.

*What did the consultation show?*

*CDCs are wanted*

- 4.4 Most respondents supported the idea because of a rationalisation in the number of bodies involved, the formulation, co-ordination and delivery of economic development strategies at a scale at which markets operate and providing a clearer point of entry to the private sector. Some felt CDCs could help agencies to pool resources to tackle wider economic problems. Most felt CDCs could secure more buy-in from partners, increase focus on delivery and improve efficiency and cost effectiveness through economies of scale in procurement. But all agreed on the need for local flexibility in delivery arrangements.
- 4.5 However, there were some perceived risks. Some feared CDCs might add to complexity, duplicate other bodies' activities and not bring added value. Some saw a risk that CDCs might lose focus by spreading themselves too thinly or operating over too wide an area. They must retain an economic focus rather than dealing with housing, health or social aspects of city strategies. However, others stressed the need for partners to integrate economic, planning, housing and transport strategies. Some felt that tensions might arise between local authorities seeking to co-operate in a CDC. Many thought that operating at the city region level would involve more public and private organisations and aligning strategy and that delivery would be harder. Many suggested that some roles could best be executed at city region level for example promoting strategic economic growth by co-ordinating policies and funding on employment sites, skills and major transport infrastructure. It was felt that others were more suited to being delivered at local authority or neighbourhood level - physical development, regeneration. Regeneration bodies felt that close engagement of the private sector and integration of economic and social regeneration agendas could only be achieved by operating at a local level. Some concluded from this that special purpose vehicles could conceivably operate at a variety of spatial levels.

*A single government CDC brand?*

- 4.6 Views varied on this. Most felt Government imprimatur would confer advantages in terms of status, credibility, clarity to the private sector, savings in establishment costs and sharing of best practice. Others, however, were opposed to any form of Government controls because it might stifle local initiative and be burdensome and time consuming. Most respondents agreed that if controls are introduced that they should be 'light touch' and avoid generating 'one size fits all' solutions. Some felt that creating too many CDCs in the market place would diminish their value and significance and give little sense of priority.

*Building on URCs?*

- 4.7 There was strong support for building on the URC model. Most valued their company status and identity, voluntary nature, use of Masterplanning and business planning and success in engaging both public and private partners and co-ordinating and aligning inputs. Views differed whether URCs had enough powers. City region CDCs would inevitably involve greater public sector representation. If CDCs involve some form of LABV, new legal models might be required. Some also advocated that

CDCs operate over longer timescales since some URCs had been pressured into taking short-term decisions.

*What should they do?*

- 4.8 Most endorsed the functions specified in the consultation paper but argued that city/city-regional partners should decide which functions should be included. Options mentioned by respondents included: alignment of funding; skills and worklessness issues; economic growth; inward investment; strategic marketing; physical infrastructure; innovation economy; sustainable technologies; site acquisition/asset deployment and advocacy. Some thought business support, inward investment and overseas trade services were better delivered regionally. However, good economic intelligence, Masterplanning and project management were essential whatever functions CDCs had.

*Supporting public/private regeneration vehicles*

- 4.9 CDCs' role here would depend on their composition, legal status and structure. Some thought CDCs themselves should be public-private partnerships. Others thought CDCs could perform a variety of roles - acting as sponsor, facilitator, managing agent or parent company of public-private special purpose vehicles. Some thought it important CDCs have the option of supporting such vehicles so they could directly or indirectly own assets and realise their value.

*What about governance?*

- 4.10 Most agreed with the thrust of government thinking. But two tensions emerged. Many wanted to strike the right balance between operational freedom and democratic accountability. Some think CDCs should be less risk averse, more entrepreneurial than many public agencies. Others felt that they should perform an important scrutiny role. Board composition was the other tricky issue. Some thought small, focused, private sector-led Boards were more likely to gain the confidence of investors and other private sector partners. Others, however, felt that CDCs should guard against vested interests. Some argued that elected local authorities should exercise a strong leadership role and be well represented on CDCs, especially if questions of strategy and policy are an important part of their remit. It was suggested that these two contrasting views could be reconciled by setting up a larger, more public sector orientated steering group to oversee the activities of a CDC while assembling a smaller, private sector led Board to handle its operations.

*Revenue funding*

- 4.12 Most felt that CDCs' running costs should primarily be met by the public sector. They agreed this would need to be long enough (3-5 years) to permit business planning and win the confidence of partners. Disbursing public funding would also require transparency, accountability and control of risk. A number did, however, suggest innovative ways of raising additional revenue. Suggestions included: the use of LABVs or similar vehicles which vest revenue generating assets in the CDC; equity sharing; hypothecation - a variant of the Business Improvement District model); relocation of Business Rates; extending the Local Authority Business Growth Initiative; business investment incentives - tax credits; capturing land value uplift and various forms of developer contributions for example, Section 106 agreements and Planning Gain Supplement and charging for consultancy services.

*CDCs are going to happen*

- 4.13 So views vary about the details. But it is clear that key partners in places which are comparable to Birmingham are keen to develop CDCs for a range of reasons. The competition is moving ahead in this direction.

## 5. What Messages from UK Cities?

- 5.1 Chapter 3 of this report reviewed the evidence and experience of economic delivery vehicles from many places in the UK. It contained a lot of detail that was necessary to understand what has been happening. This chapter tries to simplify the experiences of those places and highlight the key messages for Birmingham as it contemplates creating a new delivery vehicle. What does this body of case study evidence suggest in terms of good practice? This chapter compares and contrasts the key features of different types of local delivery vehicle and identifies the critical success factors. It also tries to distinguish the transferable 'must haves' from those features which are specific to particular places.

### *Clarity of purpose*

- 5.2 The underlying logic for introducing different vehicles varied considerably depending upon local context. Their form is dictated by their function. Typically those situated in growth areas were mainly concerned with directing investment in a strategic and co-ordinated fashion. Those in more run-down locations were primarily about kick starting regeneration. Nevertheless, the challenge of securing major public/private investment in supporting infrastructure and the search for innovative funding mechanisms to compensate for declining EU and the tighter rein on public expenditure recurred in all areas. The history of local delivery vehicles indicates there is a constant tension between pursuing narrow goals which are achievable but which may not be sustainable and becoming overburdened and losing focus. This problem has been best overcome where vehicles have a clear rationale and tight remit but (i) have been properly embedded within wider strategies and (ii) the investment programmers of public and private sector organisations have been properly aligned so that they together achieve a coherent approach. The rationale must be set out in clear, unambiguous terms. This encourages partners to reach a common understanding of the challenges and be clear about expectations, objectives and their role in meeting them and making wider contributions.

### *Fitting the local context*

- 5.3 Solutions should also reflect the physical and institutional context. Vehicles must be fit for purpose and equal to the scale of the task. Generally, the larger the area and the more complex the land ownership patterns and more difficult the market conditions, the greater the direct and indirect resources and powers the vehicle will need to be credible and effective. The institutional context is equally important. There must be a sound understanding of existing agencies' capacity and track record. There must be evidence that the proposed vehicle will add value. Also, each partner must understand and accept the implications of their respective level of control over its operation, accountability, risk and anticipated costs and returns. New vehicles require the backing of local authority and key economic development partners. This requires a degree of pragmatism since their success may depend upon key partners relinquishing some powers and sharing resources and credit with the new body.

### *Choosing the right area*

- 5.4 The extent of the designated area again depends upon the delivery vehicle's purpose. Subsidiarity should apply. Most local delivery vehicles have focused on physical regeneration, economic development and housing which are best co-ordinated at the local level. Vehicles in regeneration areas have so far concentrated

on particular zones rather than covering whole authorities or sub-regions. But vehicles in growth areas have covered bigger territories and crossed administrative boundaries.

*What corporate status, structure and composition?*

- 5.5 Local delivery vehicles have taken a variety of institutional forms, shaped primarily by partners' motivations, policy objectives and roles. But they are also shaped by the need to minimise respective risks and liabilities and ensure that legal requirements are satisfied. Also the legal status of the vehicle must permit access to the necessary public and private funding. Most agree that the status of vehicles and related organisational arrangements should be as simple as possible to minimise establishment and transactional costs. However, the steady shift from public sector-led vehicles to public-private partnerships and different kinds of joint-venture arrangements has made things more complicated. Partners have had to engage legal and financial advisors to handle risk assessment, tax implications and due diligence. This has helped partners to ensure that state aid rules and procurement requirements are observed and minimised exposure to financial losses.

*Accountability but flexibility*

- 5.6 A balance must be struck between public accountability and allowing vehicles enough room to get on with the job. Structures for setting the policy context and commissioning work should be kept separate from delivery mechanisms and private sector consultative groups. This should ensure transparency and accountability and the full engagement of public and private sector partners but without the involvement of the private sector causing conflicts of interest. Recruiting private sector 'big hitters' to Boards who do not have a direct stake in outcomes, maintaining competitive procurement of particular services and projects and setting up separate private sector forums can help minimise such problems. Most of the public private partnerships (e.g. Blueprint, English Cities Fund) have involved some form of 'deadlock' arrangement where neither the public sector nor the private sector partners can act without the permission and approval of the other. So far, risk aversion on both parts has tended to prevent majority/minority stakeholding arrangements.

*What legal status?*

- 5.7 The legal status of the vehicle will become increasingly important in future. Research by PwC has shown that pursuing a Limited Liability Partnership model may offer advantages for both the public and private sector. It allows the private sector to invest alongside the public sector. It enables LLP to enter contracts without making its partners jointly and severally liable and grants exemption from tax at the vehicle level. It is also important that Birmingham does not set up vehicles with a status which preclude certain options in future. For example, companies limited by guarantee (e.g. many URCs) cannot receive capital funding or equity from a private sector partner. By contrast a company limited by shares or a partnership structure can do so. Limited liability partnerships grant limited liability to all partners and also allow them to play an active role in the management of the company. This is not the case in limited partnerships where this is only granted to non-managing limited partners. Typical activities in which partners might want a say include land assembly, infrastructural investment, disposals and entering into development agreements or joint ventures.

*Who runs them?*

- 5.8 The precise membership of local delivery vehicles varies. But local authorities, regional development agencies and English Partnerships have usually been core members. RDA involvement brings their funds to bear and may also help to ensure that the vehicle's actions sit well with its regional investment plan and the content of the Regional Economic Strategy. Local authority involvement is imperative to ensure public scrutiny and accountability. It is also crucial in ensuring that such vehicles' programmes link in well with the key strategies - Community Strategy, Local Development Framework - and local authority programmes, policies. This also helps the vehicle to use their powers and expertise. EP has often played a key role in terms of forward funding, supplying land and buildings and other forms of investment and support.

*What roles, responsibilities and powers?*

- 5.9 Local circumstances - land ownership patterns, market conditions, partners' track records - have had a major on impact the vehicles' roles, responsibilities and powers. The more challenging the environment, the greater the institutional capacity required. Most funding packages comprise a mixture of public grant, debt and equity finance. Despite the variation in approach, some common messages again emerged.

*How do they add value?*

- 5.10 It is crucial that local delivery vehicles add value not duplicate or displace other partners' existing activities. The evidence is they have achieved this by performing the following roles:
- focusing on physical regeneration, economic development and in some areas, housing;
  - championing a Masterplan for the area;
  - ensuring that the built environment and public realm is of a very high quality;
  - performing an effective 'ringleader' role by understanding partners' motives, freedoms and constraints;
  - engaging landowners and private investors at the local level through Masterplanning, land assembly, enabling works, negotiation and if necessary land acquisition;
  - facilitating development either by carrying out upfront improvements or acting as a guarantor in order to overcome risk and cash flow problems facing developers;
  - preparing a Business Plan which clarifies vision, objectives, key projects, management arrangements, financial resources, output monitoring and timescales;
  - orchestrating the investment programmes of a number of public agencies in the area and ensuring that their requirements are met to maximise drawdown;
  - creating well structured and well managed procurement processes so that good private sector partners are selected;
  - negotiating development agreements which balance the need for quality outcomes with commercial viability considerations;
  - marketing the city to businesses, investors, and tourists
  - being entrepreneurial and risk taking;

- maintaining excellent systems of programme and project management so that interventions remain on track and to maintain partners' confidence and commitment.

5.11 URCs and more voluntaristic approaches show that vehicles with minimal formal powers can exercise considerable influence by persuading their key partners to act on their behalf. Examples include forward funding by EP and enabling investment by RDAs, compulsory purchase either by RDAs or LAs and fast-tracking and co-ordinating machinery within local authorities which aligns their respective departmental resources and procedures with those of the delivery vehicle.

*Timing and timescales*

5.12 Major physical regeneration projects require sustained commitment and backing over a long time. They also need a mix of specialist property, financial and legal expertise. While many partnerships have tried to focus hearts and minds by setting finite tasks and timescales, there are no quick fixes. Cross party political support is crucial to guard against possible changes of direction and give private partners confidence. Vehicles take time and money to establish and decommission and retaining staff towards the end of a vehicle's life is often difficult. So they need enough time to achieve substantial regeneration and move the area beyond the tipping point so that the private sector can undertake purely commercial projects and investment can become self-sustaining. Public agencies cannot expect the private sector to invest in difficult areas and take a long term view if they do not do so themselves. Most interviewees felt that major delivery vehicles should be allotted a timeframe of at least 10-15 years if they are to make a real difference.

5.13 Short life organisations also face a particularly hard task exacting long term commitments from public agencies, many of whom operate within tight financial rules and over limited budgetary timescales. Vehicles with more extensive powers and leverage are less vulnerable, for example, traditional UDCs. Some vehicles have sought to counter this problem by producing long term Business Plans which tie investment plans in with long term planning policies and others' programmes.

*Formal and complex is slower*

5.14 More formal and powerful vehicles tend to take longer to establish than more voluntaristic arrangements, where responsibility for delivery remains mainly with existing partners. Vehicles involving novel financial mechanisms may be able to gain 'first mover' advantages. But this is offset by the greater time taken up in negotiation because of both unfamiliarity with the territory and the risks involved. Also, pursuing less well understood procurement routes may cause delays. Introducing a variation on an original theme is invariably quicker to put in place. Public sector partners may find that entering into joint ventures with private companies who have already launched similar tried and tested vehicles elsewhere, reduces the inception period. For example, this has applied to more recent versions of the Blueprint model for example the recent King Sturge- initiated vehicles.

*Pacing matters*

5.15 The pace of delivery is also an important consideration given the need to sustain momentum and meet expectations. Well designed programmes tend to incorporate a lead in developmental period to enable organisations to hit the ground running, more

easily attainable 'quick win' projects during the early phases which build confidence and credibility and help buy time to allow the more complex projects to be executed.

*What forms of finance?*

- 5.16 Some believe that vehicles' financial clout is the most important factor affecting their likely success. They pointed to the recent heightened concerns about urban competitiveness and consequent weight of expectation upon regeneration bodies at a time of public expenditure restrictions. There are currently three main means of filling the gap between infrastructural investment needs and available public expenditure:
- various means of securing developer contributions (e.g. Section 106, tariffs and possibly a Planning Gain Supplement);
  - public private partnerships which usually combine public sector capital and property assets and private sector debt and equity;
  - various forms of hypothecation such as BIDs, TIF and LAGBI.
- 5.17 The main problem with all three is that innovation is currently running well ahead of evaluation. As a result it is difficult to make firm recommendations about their virtues and drawbacks. In areas experiencing market failure, it may be preferable to consider elements of each separately. They are unlikely to yield the necessary resources given the fragile nature of private sector confidence and the need to minimise the burdens upon local businesses.
- 5.18 The nature of the organisation can affect tax liability which affects resources. Stamp Duty charges must also be taken into account in considering whether to transfer assets into asset backed vehicles. VAT eligibility is another concern. Again, partners have needed specialist advice to find the most efficient financial arrangements and avoid the obvious pitfalls.
- 5.19 The costs to the private sector is a crucial issue. Public sector partners should try to de-risk as much as possible through Masterplanning, land assembly and minimising hurdles. This involves, for example, avoiding OJEC procedures if possible. This should be possible if assets put into a model are purely land-related.

*What kind of people?*

- 5.20 The quality of Boards, Steering Groups and staff is crucial. The team and Chief Executives of these organisations must be best in class with extensive experience of undertaking public private sector delivery. And such people are becoming more difficult for the public sector to hang on to in the face of private sector attractions. Boards must allow adequate representation but retain a tight focus and ensure all Board members contribute to delivery. Smaller Boards with less than 15 members are less unwieldy and reach decisions more quickly. Sometimes, early success can lead to other bodies wishing to get involved or lobbying for special delivery vehicles to take on added responsibilities. This can lead to mission drift, overreach, loss of focus and bureaucracy. The most effective models have: effective representation of core members at executive level; some form of scrutiny arrangement to meet public accountability; and fit for purpose delivery vehicles driven by professionals and business people with the right skills.

5.21 Some areas which are planning to establish CDCs such as Plymouth are contemplating appointing non-executive directors and remunerating them in order to attract people of the right calibre. The staff team should combine local expertise and knowledge to be able to engage other local actors with commercial acumen and experience to ensure that the designated area becomes more 'investable'. Ultimately, special delivery vehicles will need to convince banks, financial institutions, investors and intermediaries that the return on their involvement in development projects justifies the outlay and the risk that it entails. Staff need a good steer from Board and senior management. But the most effective bodies also seek to empower their staff by leaving them room to operate and thrive.

*What works? - critical success factors*

5.22 What does the experience of special delivery vehicles in the UK tell us about the ingredients that make for success? Successful delivery agencies have the following features:

- they add value to and complement existing institutional arrangements;
- they act as custodian of a Masterplan which has the backing of key partners and sets out a compelling strategic vision for the area to public and private sector partners;
- Masterplan programmes and projects are embedded within wider strategies, plans and programmes of partners for example Sustainable Community Strategies, LAAs, MAAs, RES. This promotes ownership and ensures they are sustainable in the longer term;
- they are led by entrepreneurial Boards and staff with the right mix of skills and talents;
- they work to a Business Plan which provides clarity and focus and indicates clearly: what they will and will not do, priorities, timescales, activities and resources;
- they offer incentives and rewards to key partners and reduce risks to encourage involvement;
- they receive support from the local authority in terms of delegating planning powers. If they don't get that, they get fast tracking procedures, land contributions free of ties since these will give them considerable autonomy. Guaranteeing land with planning permission breeds private sector confidence;
- they have the backing of key partners in terms of pooled land contributions, investment programmes;
- they can assemble land and enter into joint ventures or sale and leaseback deals. They have persuaded partners to exercise powers on their behalf for example by offering local authorities indemnity against costs incurred in compulsory purchase orders and charging these to developers;
- they involve institutional investors that are prepared to take a long term, area-based not project-based approach to reduce the risk that the values of pioneering developments will eventually slump to the level of surrounding properties;
- they encourage developers to get involved by carefully handling procurement arrangements and minimising the costs involved which can be a deterrent;
- they are resourced by a carefully constructed and researched financial model which is developed in tandem with the master planning exercise so that no revisions are made unless they can be paid for;

- they are backed by a local authority which instils confidence by showing strong political leadership, building cross-party consensus on regeneration priorities and aligning its departmental activities;
- they benefit from revenue support from partners which enables them to recruit an excellent core team and commission consultancy work.

*Organisational culture matters*

5.23 This review has shown that organisational models and fiscal tools may work better in some contexts than others and may not always be transferable to Birmingham. It is important to remember that an organisation’s degree of success is contingent upon its culture and values. The evidence is that regardless of their purpose, remit and operational context, organisations which have the following qualities are more likely to succeed.

<ul style="list-style-type: none"> <li>• openness</li> <li>• supportive</li> <li>• no blame culture</li> <li>• customer focus and orientation</li> <li>• added value</li> <li>• market driven</li> <li>• accountable</li> <li>• accessible</li> </ul>	<ul style="list-style-type: none"> <li>• delivery focus</li> <li>• quality</li> <li>• co-operative</li> <li>• innovative</li> <li>• objective</li> <li>• professional</li> <li>• business-like</li> </ul>
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*What does this mean for Birmingham?*

5.24 This review has shown there is great diversity of approach and no single ideal model which can be adapted to work in all contexts. Essentially it is ‘horses for courses.’ Market conditions, patterns of land ownership, institutional relationships and capacities and critically the relationship between the local authority and the private sector shape the solution adopted. Birmingham must work out its own fit-for-purpose model while trying to incorporate the success factors identified above. Other cities have replicated successful models from one part of a city to another and also city wide. There is scope to adopt this approach in Birmingham too (e.g. Attwood Green). The most consistent message to emerge is that there is a strong case for some kind of arm’s length delivery vehicle dedicated to the task of regenerating a locality. Such bodies possess the necessary focus. They signal to the private sector, seriousness of intent. They can better attract staff with the necessary calibre. By contrast, in-house solutions can be more difficult to sustain because local authorities have other daily pre-occupations. Also, regeneration projects do not have as much electoral and political significance as mainstream services. In this context bureaucracy and risk-averse behaviour can cause problems. In devising these arrangements, partners must strike a balance between granting the delivery vehicle sufficient flexibility and freedom of manoeuvre to deliver and ensuring that it remains publicly accountable. Separation of commissioning and delivery in organisational terms has often helped in this respect.

5.25 Given the current public expenditure climate, special purpose regeneration vehicles will probably need extra financial powers. Our review has shown that different financial models have strengths and weaknesses. Given market conditions and

Birmingham City Council's land holdings in the city centre and other key regeneration zones, some combination of developer contributions, local asset backed vehicles and hypothecation should be explored. Since many recent innovations have not been fully evaluated, partners should proceed carefully. However, there is real risk that Birmingham will fall behind its competitors if it does not press on and actively consider the options. Most northern cities are introducing new forms of financing physical infrastructure and they are opting for a variety of local asset backed vehicles. This report suggest that Birmingham has a window of opportunity to put in place the bare bones of a delivery vehicle and recruit a Shadow Board and core staff. This would allow partners to buy into and refine delivery arrangements during the Masterplanning phase and for proposals and financial tools/backing to be worked up in tandem.

## 6. What Messages from Abroad?

*We need a 'Birmingham UK' model*

- 6.1 A strong message coming from the international survey was that the form and function of any redevelopment agency in Birmingham would be determined by Birmingham's local economic and political context. The local economy helps to condition the willingness of the private sector to invest in redevelopment. There is, for example, a considerable difference between New York, a global city where private investors are queuing up for opportunities to invest and, say Detroit, a city in decline and experiencing capital flight. In the UK context, the contrast would be between London and the south eastern growth areas where the issue is controlling growth and places like Birmingham and northern cities like Sheffield where the issue is stimulating demand and private sector investment.

*What advantages of a vehicle?*

- 6.2 The decision to establish an economic development company, in whatever form, is also fundamentally a local political choice. In relation to financing, it requires a considered assessment of the Council's approach to risk. The City Council needs to ask itself - why it should choose a development agency over its own in-house economic development activity? The OECD suggests a number of ways in which development agencies add value. They:

- offer a crisis response;
- are organising vehicles for implementation;
- are business like and 'investor facing';
- lever external investment;
- address a special area or territory;
- have an independent or pooled identity;
- are outward facing and promotional;
- use flexible systems and procedures;
- are unencumbered by other missions;
- have a particular legal or fiscal status;
- are able to make transparent decisions about resource allocations;
- share risks and costs.

- 6.3 The OECD also argues that development agencies offer particular advantages in relation to development outcomes:

- the pace of response to investors/developers;
- the scale of intervention possible;
- the reputation and credibility of city 'negotiators';
- the costs and risk sharing opportunities;
- value and benefit capture opportunities;
- increased efficiency in land, property and local investment markets;
- the overcoming of 'coordination failures' arising from fragmented jurisdiction.

*What kind of governance?*

- 6.4 International experience suggests there is a range of options.
- The City Council could opt for directing economic redevelopment 'in-house' (with some joining-up of departmental activity) on the Chicago model.
  - It could go for an incorporated arms-length non-profit economic development corporation on the US North American model.
  - It could opt for an intermediary structure on the lines of the private municipal companies in Barcelona or an informal public-private partnership like Torino Internazionale.
- 6.5 Political leadership is important and Birmingham needs to consider how this would be reflected in the governance structures and accountability mechanisms. In terms of Board membership, the typical model is for the leader of the Council (in North America and some European countries, the Mayor) to sit on the Board with Councillors and Chief Officers representing economic development functions. The Board Chair is nominated by the Council and is typically from a private or civic sector background. Board members are typically nominated by the Council and can have private sector majorities. Birmingham will need to decide the balance.
- 6.6 Accountability mechanisms vary (according to form) but these will need to be adapted to UK and Birmingham contexts: the scrutiny process might be one avenue but regular reporting to the Council will be required in some form.

*Which areas?*

- 6.7 The geographical area of coverage will need to be determined by the city's Masterplan. Will the agency's area of operation be city-wide or geographically focused? Some international commentators have underlined the risks that a narrow area focus produces, with development concentrated in designated areas and the lack of 'trickle down' to other equally deserving but non-designated areas. This can be particularly visible in decentralised systems (like Birmingham) where it is essentially service delivery that is devolved but not economic development. One expert interviewee felt that Birmingham had a real opportunity to be innovative if it goes down the CDC route by linking in CDC activities to its decentralised service delivery structure. Concentrating redevelopment in particular areas raises equity issues and it is ultimately for the Council to address these.
- 6.8 It is also important that the redevelopment agency has a clear idea of what its priorities for private sector investment are. Masterplanning is clearly critical in this context. It is important that the private sector investments are guided by longer-term public choices and priorities and not what are the most profitable short-term development opportunities for private investors. Local government leaders need to be able to step back from the process and judge how much power to concede over the development process.

*What functions?*

- 6.9 Birmingham will also need to decide upon the range of activities that the agency will be empowered to undertake. Will it span the full range of economic development activity (from place-marketing to real estate development) or leave some functions

(like place-marketing) to other bodies? There are examples internationally of both options. A key issue in this context is whether to include housing in the agency's remit, as are some international agencies, particularly in North America.

*What staffing?*

- 6.10 Staffing of the redevelopment agency is critical. Again such bodies need to recruit the very best people, if they are lead and deliver transformational change in cities. They must be able to operate in a political environment and comfortably wear a range of hats from strategic planning to real estate development and project management. The staff team needs to have the autonomy and professional expertise to work in an entrepreneurial way.

*What financial mechanisms?*

- 6.11 If Birmingham decides to go ahead with a CDC, it will clearly also need to decide on the funding tools that the CDC will deploy. The potential toolbox, from adapted international and existing and developed UK mechanisms, would appear mainly to contain:
- the selective packaging of EP/AWM regeneration grants;
  - long-term structured borrowing through bonds and debentures (including tax exempt bonds);
  - local sales taxes;
  - a local congestion charge;
  - tax exemptions and accelerated credits;
  - a variant of tax incremental financing or similar methods of capturing increases in land and property values (such as the ring-fencing and capturing of future revenues from Planning Gain Supplement and S106 agreements, LABVIs and local voluntary value capture approaches like the Milton Keynes Tariff);
  - business development incentives including the securitisation of small business loans and investments;
  - Real Estate Investment Trusts and tax credits for housing developments;
  - historic preservation incentives.
- 6.12 The Council will need to make a balanced assessment of the local relevance and applicability of individual mechanisms and specifically of the added value of establishing a LABVI directly operated by the CDC or functioning independently below it. The Council will need to take steps to ensure the transparency and accountability of any of the financial mechanisms finally chosen.

**PART 4:**  
**WHAT SHOULD BIRMINGHAM DO NEXT?**

## 7. What Do Partners in Birmingham Want?

7.1 To find out what Birmingham stakeholders want we interviewed a wide selection of partners from many different sectors who had contributed to our original Visioning Study. We knew their views about where Birmingham should go. We wanted to find out how they thought the city should best get there.

7.2 To do this we got their replies to the following question:

- Does Birmingham need a new body or would it simply clutter up an already crowded scene?

7.3 If the answer was 'no', the conversation was brief. If it was 'yes' we asked:

- What should be the main functions of the Birmingham delivery vehicle? Which of the following - should it deal with:
  - Economic development and if so, which aspects (inward investment, marketing, physical regeneration, innovation, business support)
  - Housing
  - Transport
  - Tourism
  - Other responsibilities?
- What sorts of activities should it focus its attention upon?
- How would a CDC and the Council link to a LABV?
- Where should it operate?
- How should it be funded?
- Should it be set up for a defined period or have an open timescale?
- What sort of governance arrangements should it adopt?
- What experience skills will the staff need?

7.4 There is a surprising amount of consensus amongst key players on very many of these questions. In particular there is much agreement about the machinery – value, functions, priorities, boundaries, personnel. There is a little bit less certainty about money. That particular dimension will need a lot of exploration in the next stage, as we show later.

*Would a CDC be valuable for Birmingham?*

7.5 Birmingham does 'do' partnerships. But it does them a bit less than other big cities. It has had a number of important ones in the past, in particular the development partnerships which delivered Brindley Place in the 1990s and the Bullring and Attwood Green in the 2000s. There are also a range of other partnerships around the city. However, in general Birmingham has done less partnership working around economic development in recent years than some other Core Cities, including Manchester, Liverpool and Sheffield. Birmingham for example has not had an Urban Regeneration Company which those three did and which arguably has encouraged their central city renaissance. Many argued that Birmingham has found partnership

working more of a cultural challenge. The City Council is one of the largest local authorities in Europe employing over 50,000. And Birmingham is the second largest city in the country. Some feel that the scale of the city and the weight of the local authority have made Birmingham a little less able to forge working partnerships in the past.

- 7.6 However, there was a huge consensus that a CDC would now be valuable for Birmingham. The time seems ripe to many to create such a partnership. The fact that there is not an existing organisation means that, although there may be less experience of making them work, there are no institutional barriers to creating a new one. Partners do not think it would clutter up the existing scene. They do not think it would be a talking shop, if the right arrangements are created. Indeed many think that since so many other places have created or are creating similar vehicles, Birmingham risks falling behind its competitors if it ignores this trend.
- 7.7 The extent of unanimity on so many important individual points was striking. A range of elected members and senior officers in the City Council stressed the potential advantages. The senior team at Advantage West Midlands is very committed to supporting a model and stressed it would help deliver their renewed determination to make Birmingham the driver of the regional economy. It has created similar partnerships in other parts of the region in recent years. AWM would be prepared to channel substantial sums of money – up to £50m - through a CDC. This commitment is particularly important in the light of the recent Treasury Sub National Review and the importance of sub-regional partnerships to deliver the sharpened RDA focus on economic performance and business. Equally English Partnerships, which is supporting similar vehicles in many of Birmingham's competitor cities, wants to see one created in Birmingham. It would guide substantial sums through the CDC. It also offered to fund a third of the initial revenue costs if AWM and BCC would match. This positive attitude was reflected by a range of senior figures in the city including senior figures from: Universities, the business, professional and financial services sector, the development industry, the media and ICT industries, the leisure industries, architecture, the cultural industries, housing associations. Many recalled the virtues of some other more specific partnerships that have been active in the city in recent years and pointed to their achievements and merits.

*What specific advantages would it bring?*

- 7.8 Partners outlined a whole range of advantages they thought Birmingham could get from a CDC. They mirror many of those which we identified earlier in other cities at home and abroad. But that makes them more - not less - persuasive reasons to act. A CDC would:
- give a clear lead on the future economic vision for the city of Birmingham;
  - see the 'bigger Birmingham picture' and encourage a more coherent city wide approach to development instead of the current project based approach;
  - better connect development across the city and also the city region;
  - encourage more rounded sustainable development in the city instead of a sectoral or institutional approach;
  - encourage a focus upon long term not short term development;
  - engage the key stakeholders in key decisions about the economic future of the city;
  - support Birmingham City Council and its leadership;

- give a single voice for the city rather than the range of existing voices and support the marketing and branding of the city;
- signal to national government that Birmingham was in the lead on developments not lagging behind;
- secure the long term commitment and resources of the two major public sector partners AWM and EP to Birmingham;
- attract private sector skills expertise and experience of development. The local authority has skill in land assembly but much less in development. The local authority has also been losing qualified staff in this field to the private sector;
- give the confidence to major external developers and institutional investors that Birmingham was committed to a long term partnerships with a clear vision and business plan and encourage their investing resources in the city long term. A senior private sector figure said 'Once declared it would attract private sector resources as surely as night follows day';
- speed up decision-making on key long term strategic developments;
- encourage a more entrepreneurial approach to development and planning;
- be more flexible and more business friendly than the local authority;
- pursue an integrated approach to development and encourage different local authority departments to do the same;
- attract high quality people to the city who would raise the quality standards for future development;
- raise the performance of other partners as they emulated the decision-making processes of the CDC.

*What should a CDC do?*

- 7.9 There was equally extensive agreement upon the key functions of a CDC. It should focus upon economic development including physical regeneration, innovation, connectivity and strategic infrastructure. It should not be a transport agency but should have responsibility for shaping and delivering developments in the four major gateways of the city. It should not have a landlord function but should lead on the wider issues of sustainable development and the kind of place Birmingham should be in twenty years time. It should have a place making function and set standards for the nature and quality of urban development. It would not take the planning functions from the local authority. The CDC should not take responsibility for the wider agenda of social exclusion or any of the component parts that contribute to it for example health, labour market, education, and housing.
- 7.10 Most agreed that the CDC should take responsibility for inward investment and marketing of Birmingham. Located in Birmingham, which is within the city council should be placed in a CDC. There is an existing public private organisation – Marketing Birmingham- which is undertaking marketing Birmingham for business and tourism. Most believed that ideally should be inside a CDC. There would have to be serious discussions to see whether and how this can be done.
- 7.11 Most agreed that the CDC should be as much a strategic and enabling as a direct development body. It should essentially be cheering and steering the efforts of partners rather than doing the rowing itself. However many believe there might be sub bodies which were responsible for delivering specific programmes and projects in particular areas of the city. They would be responsible to the main CDC Board, which might also use its central finances to fund such initiatives.

- 7.12 There was agreement that the CDC should take the lead in two important initiatives currently taking place in Birmingham. It should take responsibility for steering, and subsequently delivering, the Masterplan for the city centre which is about to be prepared by consultants over the next year. And a CDC should take ownership and responsibility for implementing the wider Prospectus that was prepared by a range of partners in the public and private sectors for the Leader of the City Council. At present no single body has responsibility for driving those plans and projects forward. A CDC would be perfectly placed to do so.

*What boundaries should it have?*

- 7.13 There was virtual unanimous agreement on the potential boundaries of the CDC. Whether desirable or not, it was felt that the city region was simply too big for a CDC. There would be too many places, too many interests. It would run the risk of diluting effort and resources. It would be difficult to get political agreement. But it was also agreed that the city centre was too small. The city centre would be an important focus of a CDC, especially since it would be responsible for the Masterplan. But the CDC would need to concern itself both with more economic functions than those currently found in the city centre and also with many more places and communities. Indeed a potential virtue of a CDC was that it could link developments across different parts of Birmingham and possibly cross-subsidise developments. There was agreement that the boundary of the CDC should be that of the local authority. But it was recognised that within that boundary the CDC would focus on strategic places and projects and would not work everywhere at the same time. Again there was agreement that the initial focus would include in the city centre Eastside, the wholesale markets, New Street, and beyond the centre the Wheels Site, Longbridge, and Icknield Port Loop as well some local centres.

*Timing*

- 7.14 Everyone agreed that the job of the CDC was a long term one. Most partners were reluctant to put a finite date on it and argued it should exist as long as it was needed. The Masterplan was conceived as a twenty year period and the CDC should be compatible with that timetable. But it was also argued that the CDC should review its performance after five years and honestly decide if its performance justified its continuation.

*Local asset based vehicles - silver bullet or snake oil?*

- 7.15 An earlier chapter outlined the different financial tools being explored to finance urban development. It showed there is considerable interest in ways of using local assets to attract private sector investment within Local Asset Based Vehicles. Such tools are also proposed for exploration by the government consultation paper. These are complex, technical matters which are explored further in chapter 8. Here we simply report the views of partners about the desirability and possibility of such tools and instruments. In fact there is more uncertainty or disagreement about this issue of money than about issues of machinery where we have shown considerable consensus. Partly, this uncertainty is because of the complexity of the area and some uncertainty about what is involved. However, views fall into two broad camps. One camp believes that Birmingham City Council is unusual in holding substantial assets and that there is great mileage in exploring their being put into a pool to attract private sector investment. Partners refer either to first principles or to the experiences of other cities. They argue an asset based vehicle would give a CDC real teeth. It would allow the local authority to retain control of its assets, access the

development value as it increased and recycle profits to fund long term future development. Partners argued that the private sector would respond positively to such a statement of intent from the local authority and would begin to invest its resources. As a senior private sector player said, 'In principle it is simple and what Joe Chamberlain did to build the city's infrastructure a century ago.' The overwhelming opinion of partners was that although details had to be sorted out, the principles should be explored. In their view it is not only desirable but do-able. It may not be a silver bullet. But it is an important piece in the city's financial armoury.

- 7.16 However, amongst senior officers of the local authority there are rather more reservations about this approach. They expressed a number of concerns, including the following. The local authority can get access to cheap money from the PWLB and does not need to attract cash in any other way. The assets of the local authority are exaggerated and could not generate the necessary sums involved. A LABV would have transaction costs and some risks for the local authority. While many senior officer can see the advantages of a CDC they are sceptical of the virtues of a LABV. They regard it more as snake oil than silver bullet.
- 7.17 These are complex issues. And partly the two groups are talking past each other. But whoever is in the right, the key question remains: Since traditional sources of revenue will not be available, how will Birmingham finance the major development implied in the Masterplan without exploring innovative financial tools? Chapter 8 tries to do this amongst other things by looking at what financial tools and arrangements might be able to finance future development in Birmingham.

## 8. What Financing Arrangements Are Possible and Desirable?

- 8.1 The crucial question for Birmingham partners is whether they are committed to creating a new partnership mechanism to steer the city's development during the next 20 years. That question must be addressed first, as this report has shown. However, if the answer to that question is yes, a whole variety of financial, legal and technical questions will have to be addressed. Those details will need to be resolved in the next phase, as we suggest later. However, the question of money to pay for development, although not the only issue, is crucial. This chapter explores these issues and outlines one possible financial model for Birmingham. However, given the lack of agreement identified in the previous chapter, we recognise the model will need extensive discussion and elaboration. We propose it here to stimulate debate amongst partners. Other versions may emerge in due course. Also even if there is not agreement on the details of a financial model and money, it does not reduce the significance of the consensus on the machinery which we have already demonstrated.
- 8.2 Chapters 3 and 4 identified a range of funding options for the Birmingham Masterplan and a variety of delivery structures for applying this funding, in the light of considerations such as risk transfer and the resources and expertise needed to deliver the Masterplan. This chapter identifies the most appropriate funding sources, which should be explored early in the life of a CDC. It also reflects the views of a variety of partners by proposing a 'straw man' financing structure that could :
- leverage the significant private finance that will be required;
  - manage the risk exposure of the key public sector stakeholders whilst recognising their determination to drive change in Birmingham;
  - recognise the need for capacity, expertise and resources in addition to finance.
- 8.3 From our discussions it is clear that Birmingham City Council is committed to the CDC having the financial resources to adopt an interventionist approach. It will be much more than a facilitating or marketing function. Similarly, both AWM and EP have indicated that they would consider investing significant amounts in a CDC to deliver the Masterplan. Clearly the details of the financing plan will require more detailed investigation and negotiation. These should take place within a Shadow CDC as the Masterplan is being prepared.
- 8.4 It is important to recognise that there are likely to be significant changes in the future when assessing the most appropriate financing options for Birmingham. These include the formation of Communities England, the implications of the Sub-National Review and the continuing debate about greater flexibility in local authority financing. Where possible this chapter addresses the potential impact of these future developments. It is essential that any funding plan is flexible enough to accommodate any shifts in policy.
- 8.5 The proposed funding plan has been guided by a number of key principles. These include:
- BCC recognises that it benefits from a low cost of capital, through its prudential borrowing regime. It is also willing to take financial risks where appropriate and intends to be a major funds provider for the delivery of the Masterplan.

- EP and AWM are supporters of the CDC Masterplan approach and are willing in principle to invest material sums in a strategic financing plan, rather than on an ad hoc or project by project basis.
- BCC is willing to contribute assets to the plan where it can be demonstrated that there is financial and commercial benefit in doing so. It does not however have significant surplus or under-valued assets. Therefore a vehicle centred on realising incremental value from Council assets is unlikely to be a major source of funding for the Masterplan.
- when contributing any assets to a structure, such assets will only be made available if not already earmarked for future capital or revenue funding for the Council's core operating activities.
- any indicative solution proposed now must be flexible and able to accommodate the diverse range of projects that the Masterplanning exercise is likely to identify. There is no single 'off the shelf' solution that has been shown to work elsewhere and which is directly replicable in Birmingham.
- the funding structure also needs to take account of the need to build capacity, both in terms of resources and expertise. At the moment there is not enough capacity to deliver the Masterplan.

8.6 The proposed funding structure is based on our judgement of the views expressed, by public and private sector partners and upon the experience of funding and structuring models elsewhere. It assumes that the sole aspiration is the delivery of the Masterplan and not any other aspirations of the stakeholders. The proposal is indicative. It will need to be continually revisited as the Masterplan evolves. However, in our view there is considerable merit in ensuring that the Masterplan exercise progresses within a commercial and financial context, such as the framework suggested.

*Possible Sources of Funding for the Masterplan*

8.7 The priorities for exploring as potential funding routes for the Masterplan should consist of the categories below.

*Prudential Borrowing (Birmingham City Council)*

8.8 The Council's cost of capital is very low compared to private sector requirements, whether debt or equity. During the consultation process, the Council leadership has consistently reiterated their commitment to applying the Council's prudential borrowing powers and for adopting an interventionist approach. The Council appears therefore open to taking risk where appropriate. But it recognises that management of that risk is an area where assistance will be required from the private sector. It is also recognised that the Council has in-house expertise in structuring transactions that involve the Council and the private sector. Therefore the financial/commercial drivers for partnering with the private sector are well understood.

*Public sector equity*

8.9 Both AWM and EP would be willing to invest in a structure that finances the delivery of the Masterplan. The key aspect here is that both parties will provide investment capital that is held and recycled within the structure, rather than committing grant aid on a project by project basis. BCC has indicated a willingness to invest surplus assets

in the structure, although the extent of this investment will require further clarification. The Council has very limited surplus land assets, other than the Markets area. It does however have smaller sites or the opportunity to exit leasehold commitments in many areas of the city that are likely to be part of the Masterplan. There is therefore the opportunity to benefit from marriage value with other sites or provide a foothold from which to look at wider land assembly, including the strategic use of the Council's or indeed EP or AWM's CPO powers.

- 8.10 A further potential source of equity is EU Structural Funds under the JESSICA initiative. JESSICA in essence entails investing ERDF as equity in a public-private partnership focused on urban development. Some of the detail of JESSICA is currently being discussed between the European Investment Bank which is acting as managing agents for JESSICA on behalf of the EU and DCLG. Some further guidance is expected late summer of 2007. However, we believe that JESSICA funding could readily apply in Birmingham. AWM is coordinating JESSICA in the west Midlands region.

*Hypothecation of Local Revenues*

- 8.11 Hypothecation involves identifying local revenue sources that can be captured and used to help fund regeneration in the local area. It is a key principle underlying the Tax Increment Financing ("TIF") structure set out in Chapter 3. Because of fundamental differences in fiscal policy between the UK and US it is not possible to directly replicate the US TIF model for Birmingham. However there has been considerable debate recently on granting greater flexibility in the financing constraints under which local authorities operate. So potentially hypothecating local revenues could be an important aspect of the financing plan for Birmingham. The possible sources of revenue worth further investigation include:

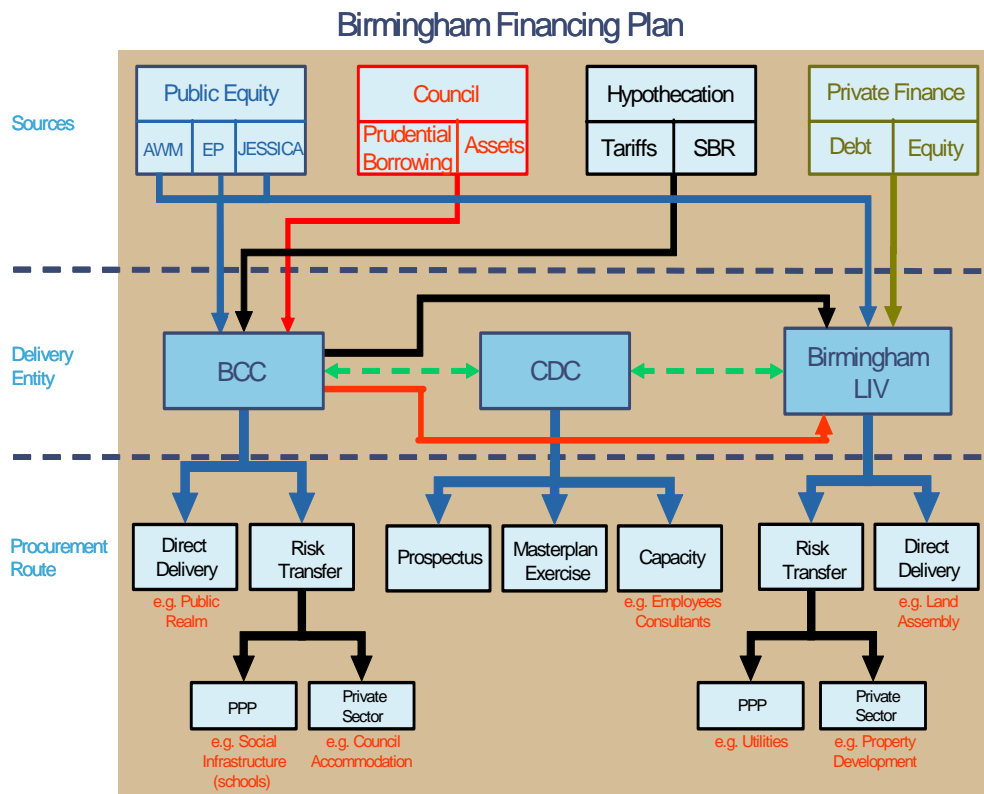
- S106 Tariff approach, as adopted in Milton Keynes and other growth zone areas. Such a tariff approach is better suited to housing or estate based regeneration where substantial new build is envisaged, for example Eastern Corridor.
- Supplementary Business Rates (SBR), which was proposed in the Lyons Review. This could be applied for example in the city centre area and be ring fenced to finance major infrastructure improvements. A study recently published by Centre for Cities/IPPR indicates that a 2p supplement for the Birmingham Local Authority area would generate a receipt of £15m per annum.
- Car park levies, as used for example in Nottingham as part of the financing of the tram extension. In simple terms an additional levy is charged per car park space and this additional receipt is ring-fenced for a prescribed use.
- Other options that are being proposed in other areas include congestion charging, Council tax, stamp duty, etc. These are likely to be more difficult to implement. But the Financing Plan should continue to monitor how the debate on hypothecation develops.
- The city should commit to providing ring fenced capital receipts for the rolling fund, as the Visioning Report argued

- 8.12 The challenge for hypothecation is not just in identifying the future income stream that can be captured. It must look at how this future income stream can be used to justify borrowings which then in turn can be used to forward fund the necessary

infrastructure. This 'banker' role was adopted by EP for Milton Keynes. The Funding Structure will need to identify who fulfils the 'banker role' for Birmingham, including whether this could be a private funder rather than a public entity. A current study on this is currently being undertaken by the London Borough of Barnet, with HM Treasury and others on the Steering Group. This is an interesting aspect to monitor and see how the lessons learnt can be applied in Birmingham. The 'prize' is however significant as the Centre for Cities/IPPR study indicated that Birmingham Council could raise circa £115m under prudential borrowing through a Supplementary Business Rate receipt over 10 years.

*Private Finance (debt and equity)*

- 8.13 Private finance can apply at various levels depending on the risk that would be taken on and the expected return. At the simplest level, it is expected that developers will undertake development activity using their own resources. Here, the public sector's role is to create the right environment for private investment. However, there is an increasing trend towards public-private partnerships in which the PPP finances those aspects that have traditionally been funded by the public sector, for example, land assembly, infrastructure, public realm. Exploring PPP options could help reduce the drain on public capital and achieve a degree of risk transfer.
- 8.14 Depending on the nature of the private sector entity, an added benefit of private finance is the resources and expertise that the partner can bring. These complement the expertise the council has in terms of planning or procurement. PPPs therefore can combine a source of finance with a service element. It can therefore address the issue of capacity to promote the delivery of the Masterplan.
- 8.15 Diagram 1 below shows how a financing plan for Birmingham could be constructed.



8.16 It should be emphasised that the diagram reflects funding flows for financing the Masterplan. It is not an organisation chart nor does it set out the decision making process between the various partners. For example, the CDC would be the central entity in promoting the delivery of the Masterplan. But in this model is not the entity that would undertake the investment. Any financing plan needs to address the fundamental aspects of risk and reward. Also risk should be taken on by the entity best placed to manage that risk. The proposed plan above therefore highlights two key variables:

- Sources of finance – from public sources such as equity, assets or prudential borrowing, through to the other extreme of private finance, with aspects such as hypothecation in between; and
- Procurement route – considering the most appropriate procurement option in terms of capacity, risk appetite, risk transfer etc. Again the spectrum is from direct delivery in which the entity takes all of the risk, through a PPP type solution with a degree of risk and reward sharing and to the other extreme of 3<sup>rd</sup> party delivery.

8.17 It is impossible to prescribe at this stage exactly how this proposed structure will apply for the Birmingham Masterplan. This will depend on the projects that the plan will contain and also different views on risk and reward by the main public sector stakeholders. We have therefore sought to establish some key principles and a framework in which the CDC and stakeholders can better assess financing options. The key aspects of the proposed structure are identified below.

*The role of Birmingham City Council*

8.18 The Council is committed to actively driving the delivery of the Masterplan, and in particular using its prudential borrowing powers given the highly competitive cost of capital. However it is important that the Council does not become exposed to risks or projects that it is not best placed to take on. Therefore risk transfer will be achieved either through the creation of a new PPP entity - the Local Investment Vehicle (LIV) - or by transferring the project risks through a procurement process. To help finance the activity that the Council undertakes, other public sector bodies will pass funds to the council either on an investment basis or where no direct commercial return is envisaged, for example, public realm, as a grant. Furthermore, BCC would act as the conduit for capturing and recycling any hypothecated revenues. These would either be retained in the Council or passed to the LIV, depending on whether these would be used as a justification for public or private finance.

8.19 The types of project that the Council could take on include:

- Shared/major public realm – where there is no direct commercial return, a need to maintain the public realm to a high standard over time and potential VAT benefits.
- Social infrastructure, for example schools – where funding will have to come from local sources or national programmes, but project risk transfer can be achieved in a variety of ways through procurement.
- Council accommodation provision – in terms of both the provision of new accommodation and generating proceeds from the disposal of old sites across the city centre. The council has the capacity and risk appetite to procure these

projects and may not want to share any return with an external partner. There will however need to be a strategic link between this project and the wider aspirations of the Masterplan - both for the alternative use of the legacy Council sites and the potential momentum that a significant new Council office(s) could bring to a new development area.

*Local Investment Vehicle*

- 8.20 A new funding vehicle, the Local Investment Vehicle (LIV) will be one step removed from the Council. It will therefore achieve an element of risk transfer for those projects that it is felt that the Council is not best placed to bring forward. This could either be a public-public or public-private entity depending on the activities that it would undertake. However, from our discussions it seems likely that the Masterplan will have a number of area based projects for which strategic land assembly and infrastructure investment will be required. This type of investment has a significant speculative element, both in terms of the scale of investment and the timing for realising value, given the need to acquire the land, resolve planning issues and attract a developer. Such activity will require specialist expertise. This may be better achieved with a private development partner rather than a public-public partnership using contracted in expertise.
- 8.21 Other aspects of the LIV could be:
- a structure in which incremental value can be created from the limited surplus assets that BCC and/or other stakeholders invest, particularly if such assets can be combined with wider land assembly activity;
  - as well as investing through BCC, AWM/EP/JESSICA may be willing to invest in the LIV. Such a structure could then be an effective recycling mechanism for public funding, and potentially leverage in additional private finance;
  - depending on the ownership and control structure of the LIV, it may be considered 'off balance sheet' for the public sector partners and also beyond certain operational constraints such as OJEU procurement or demonstrating best value;
  - further private debt finance could be secured, either against the current value of the land assets transferred or project finance against the future returns that the LIV would generate;
  - the LIV could decide whether to undertake direct delivery or transfer risk to 3<sup>rd</sup> party where appropriate.
- 8.22 As the diagram showed, the types of project that the LIV could undertake for Birmingham include:
- land assembly and other enabling investment for area based projects. Such activity could either be undertaken directly by the LIV or at a project level in conjunction with a 3<sup>rd</sup> party. In such projects, however, it is important to select a partner who is willing to take a long term equity position and further work is needed on whether such activity is better achieved on a project by project basis or by adopting a more strategic approach across a portfolio of projects;

- we do not envisage that the LIV would undertake direct development of projects unless there was a clear rationale for doing so. In the majority of instances end construction and development risk will be passed to a 3<sup>rd</sup> party;
- there will be other aspects where a PPP approach will be more appropriate. A good example can be utilities, where utility companies will often invest in anticipation of future demand but the economic assumptions are usually relatively prudent and the timescale only looks at the relative short term. Many utility companies are however open to alternative approaches in addressing the timing difference that often occur in the provision of infrastructure.

*The CDC*

- 8.23 The CDC provides strategic direction. The LIV would effectively be an investment vehicle and therefore need not contain any resources or expertise. Certainly it is important not to introduce another delivery entity to the proposed CDC. So we propose that the CDC acts as a managing agent for the LIV. The CDC would still be responsible for commissioning of the Masterplan and it would also have resources to draw on, either in-house or commissioned from consultants.

*Endpoint - machinery first, money next*

- 8.24 This Chapter has identified a set of financial principles, reviewed a range of complex, technical issues and outlined one possible financing structure for the CDC. We are confident that they address the key financial challenges that partners will face as they seek to raise the money to deliver the Masterplan and the Prospectus. Whatever the Council and partners finally decide to do in future, they will have to explore innovative ways of generating resources which will require new processes, relationships, culture and attitudes. In fact, such changes will reflect much that is already happening within the Council as it implements its business re-engineering plans. However, we do not want the financial tail to wag the policy dog. We underline that the precise details about what is desirable and possible financially can only be determined by detailed discussions amongst partners as the Masterplan projects develop and as partners decide upon relationships, policies and priorities for a CDC. Both are crucial. But as in life, first things should come first. Birmingham should not worry about getting the money until it has decided where it wants to go and how it's going to get there.

## 9. What Next?

- 9.1 CDCs are an idea whose time has come. And Birmingham came to the idea on its own very early. All the evidence from this report indicates that such a vehicle would add value to Birmingham. The wider international and national picture underlined the potential value of CDCs. Government is actively encouraging them. Many other cities are developing them. But most important many people in Birmingham recognise the potential.
- 9.2 A CDC would create a robust partnership with public and private sector players. It would bring private sector skills, experience, confidence and resources into the city. It would unite partners in the city around the plans and priorities of the current administration and leader. It could deliver the two outstanding projects in Birmingham - the Masterplan and Prospectus.
- 9.3 There is a broad consensus on:
- the value of creating a CDC;
  - the priorities it should focus upon;
  - the areas in which it should operate;
  - the timescale it would need;
  - the scale of its revenue costs;
  - the powers and resources that would be desirable;
  - the types of partners who should be involved in the vehicle;
  - the skills and qualities required of the Board, the chair and the team.
- 9.4 There is broad agreement that the CDC should:
- deliver the Masterplan and the Birmingham Prospectus;
  - focus upon economic development and place making but not social policy. It should have responsibility for key infrastructure investments. It should have responsibility for marketing. It should be responsible for the development of sustainable communities;
  - have the local authority boundaries;
  - not be a time limited body. It should run for 15 years or longer but be subject to a review after 5 years;
  - be a company limited by guarantee;
  - have a Board from the key public sector agencies and stakeholders from other areas of economic life in Birmingham;
  - have a small team and be led by a high powered Chief Executive with an established track record in delivering economic development in a major urban area;
  - have a chair from the private sector who has standing in economic life in Birmingham, could speak for Birmingham inside and outside the city, has the time to undertake the task and who could work effectively with the Leader and Chief Executive of the City Council;

- the operating costs of the CDC should be paid for by the founding public sector partners BCC, AWM and English Partnerships.

9.5 Chapter 8 outlined a potential financial planning model which reflects many of the conversations we have had with senior partners in the city. However, it raises many important but unanswered legal, financial and operational issues. They cannot be resolved in this consultation document. They need to be addressed in more detail and be agreed by partners. Birmingham needs to take the best advice and make the right decisions on these issues. Once made, they will shape the likely impact and success of the CDC.

*What steps should now be taken by whom?*

9.6 Birmingham should seize the time. The City Council should take the lead and invite partners to join it in exploring the creation of a CDC for the city. They should identify and create a Shadow Board and Chair as soon as possible. The Shadow Board should have about a dozen members including: the Leader, Chief Executive, Director of Planning and Regeneration and leader of the opposition group from Birmingham City Council; a senior representative from both English Partnerships and Advantage West Midlands. It should also include representatives from, for example, higher education; business, professional and services; the creative, media and digital industries; manufacturing, architecture, health, and other key sectors of Birmingham's economic life. It should not be 'dead white male' nor simply the usual suspects. And it must reflect the diversity of all Birmingham's communities. It should also get some new young blood involved. The people who led the Birmingham Prospectus would be obvious potential Board members. But many others have been proposed. Many are interested in contributing. The non-public members of the Shadow Board could - but may not necessarily - be on the final Board. The Board should have powerful members from within the region. But it should consider appointing senior figures from outside the region with international and national profiles, particularly if they have links with the city.

9.7 The Shadow Board should be convened in early autumn 2007. Its job would be to ensure that by early 2008 it had developed an agreed organisational structure, agreed Board members and Chair, had a strategic and business plan agreed and had initial funding in place. During this period, the Shadow Board should be supported by secondees from, for example, the City Council, AWM and EP to help them develop their plans. But the Shadow Board should take detailed legal, financial and technical advice from the Masterplan consultants who are currently being appointed. They have specific expertise in this field and it is part of their commission to implement the conclusions of this feasibility study.

9.8 This report has shown that different cities in different countries have different ways of organising economic development. There is much variation in the detail. Nevertheless a key set of principles underlie successful organisations. We don't need to rehearse the critical success factors again at this point. However, we do want to underline one crucial message of this report. It is that such organisations and arrangements work where the partners want to make them work. They don't work where partners do not want to make them work. Institutional and financial arrangements are rather less important than political will and goodwill. It is an obvious, simple but powerful message. The risks involved in creating such an organisation – financial, reputational, institutional - do not go away. The guarantors of the company would in the end be responsible for failure if it occurred. But those risks have to be recognised and managed. The essential argument of this report is that

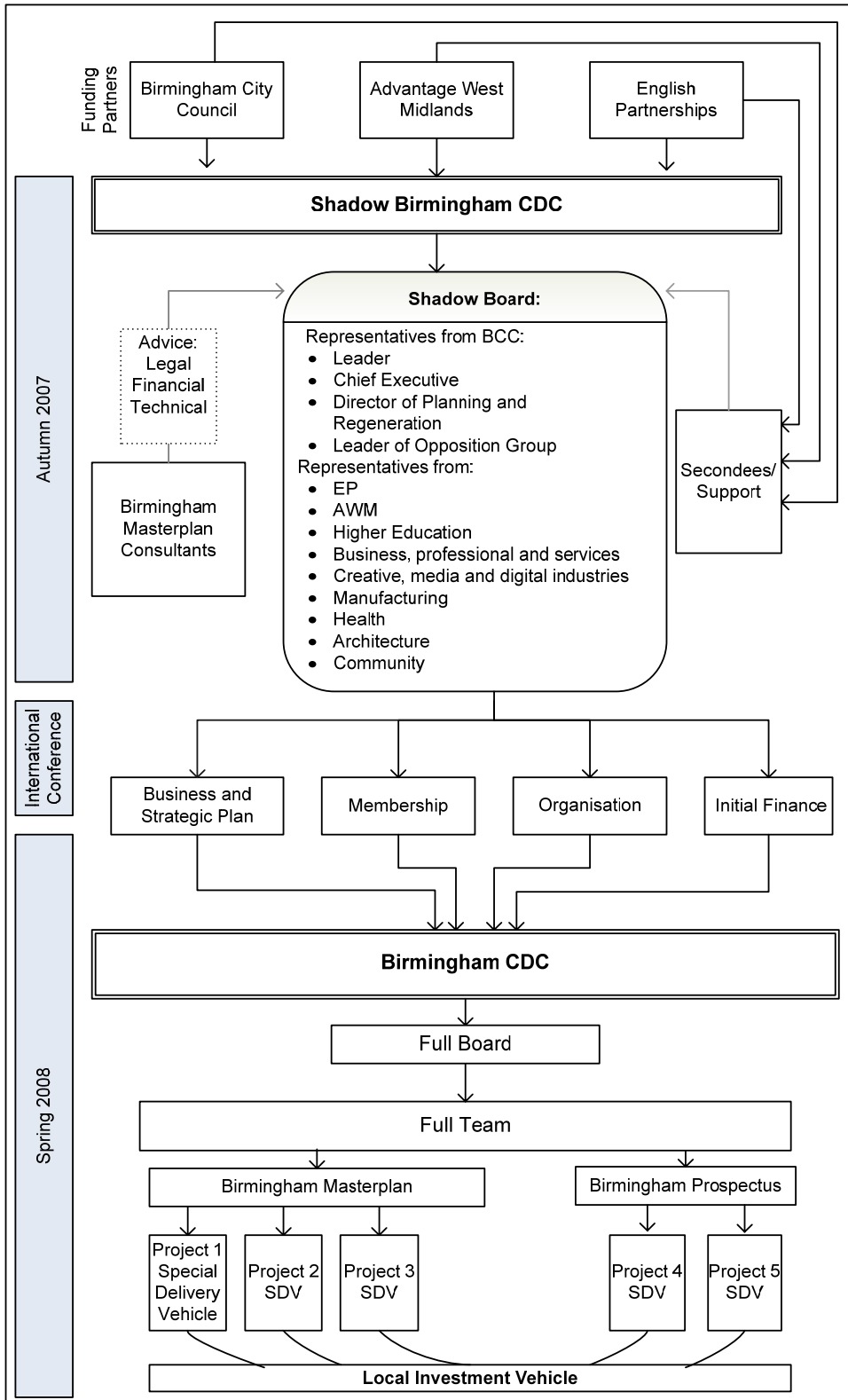
there is a bigger economic prize for the city and its stakeholders if a successful organisation is created. It will improve the performance, profile and prospects of the city of Birmingham.

- 9.9 If this initiative is to succeed it will require long term cooperation by a range of partners. It will require a different way of working within and between the public and private sectors in the city. It will need greater political will, trust and leadership. All partners may have to give up some individual organisational power, resources and influence to generate more of them collectively to serve the wider interests of Birmingham. Partners will have to give up what others say others always want – having the last word. It means giving credit to other organisations even if they did not do everything, if it strengthens the partnership process. It may require the private sector to lose some of the existing bodies to speak with a more united voice. It will require the RDA to make clear its commitment to Birmingham as an important driver of the region and to commit substantial resources. It will involve recognizing success, like Attwood Green, even if it was created by other administrations.
- 9.10 And it will require the leadership of the City Council to initiate and shape the process. It will require cross party support and representation on the Board of the CDC. It will not work unless the City Council is entirely committed to it. As with all partners, the City Council may have to make some short-term sacrifices. But the long-term advantages for Birmingham and its people, as well as those for the City Council and leadership are potentially far greater. Birmingham has been the city of enlightened public leadership in the past and generated legendary statesmen in the municipal arena. As central government claims to be giving more powers and responsibilities to local authorities, the city has a great opportunity to rise to the occasion and demonstrate municipal leadership once again. If it does so, the prize is great. If it does not, the costs of failure, of missed opportunities - and the risk that Birmingham will be passed by - could be even greater.

*Carpe diem Birmingham!*

- 9.11 The leader of the City Council should make the simple decision to commit to this process now. The details can be worked out in the Autumn – but no later than that! The diagram below is not a detailed organisational model for a CDC. That would be putting the cart before the horse. Instead it is a simple route map and a timetable Birmingham should stick to. It shows simply what key players must do by when during the next five months. If partners don't do some version of this they will have wasted their money on this study. More important they will waste a crucial opportunity. To govern is to choose! Statesmanship means – bravely setting out a vision and a direction, getting involved everybody who wants to help, letting them get on with it and sharing the credit all round. Birmingham is ready for this – and should just do it.

Diagram 2: A Route Map Towards Birmingham's CDC



**APPENDIX**  
**INDIVIDUALS AND ORGANISATIONS CONSULTED**

## Individuals and Organisations Consulted

### **Birmingham:**

Cllr Steve Bedser	Birmingham City Council
Henry Bellfield	Barberry, Board Member, WMDA
Jerry Blackett	Birmingham Chamber of Commerce
Robert Blyth	Horton Estates, Board Member, WMDA
Sir Albert Bore	Birmingham City Council
Steve Botham	Caret
Gary Cardin	Drivers Jonas
Alan Chatham	Mailbox
Tim Clark	Mitchells & Butlers
Michael Clarke	Birmingham University
Paul Dransfield	Birmingham City Council
Clive Dutton	Birmingham City Council
Martin Easton	Birmingham City Council
John Edwards	Advantage West Midlands
Mark Glatman	Abstract Securities
Alan Griffith	Cyril Sweett, Chairman, WMDA
David Hersey	Royal Bank of Scotland
Stephen Hughes	Birmingham City Council
Glenn Howells	Glenn Howells Architects
Peter Jones	Birmingham City Council
Simon Kimberley	Optima
Mick Laverty	Advantage West Midlands
Mike Loftus	Locate in Birmingham
Greg Lawson	Pinsent Masons
Paul Madden	Calthorpe, Board Member, WMDA
Mary Martin	University of Central England
Alan Murie	Birmingham University
Justin Parker	A & J Mucklow, Board Member, WMDA
Mark Pearce	Advantage West Midlands
Philip Singleton	Birmingham City Council
Bill Smith	Birmingham City Council

Richard Smith	Opus Land, Board Member, WMDA
Paul Spooner	English Partnerships
Sandy Taylor	Birmingham City Council
Jonnie Turpie	Maverick TV
David Waller	PricewaterhouseCoopers
Jonathan Watkins	Ikon Gallery
Julian Wells	Targetfollow Group
Cllr Mike Whitby	Birmingham City Council
Karen Yeomans	Advantage West Midlands

**U.K:**

Peter Andrews	Chief Executive, London Thames Gateway Development Corporation
Mike Appleton	Director, Cibitas Investments
Glenn Athey	Senior Economist, IPPR
Sir Howard Bernstein	Chief Executive, Manchester City Council
Peter Connolly	Blueprint Regeneration Partnership
Ben Denton	Director of Investment and Management, First Base
Chris Farrow	Chief Executive, Central Salford URC
Jim Gill	Chief Executive, Liverpool Vision
Professor Stuart Gulliver	University of Glasgow
Paul Hackett	Public Policy Consultant.
Jane Hamilton	Chief Operating Officer, Milton Keynes Partnership Committee
Bob Lane	Chief Executive, Northern Northants Development Co.
Colin Mawhinney	Head of Renaissance Unit, Renaissance Leeds Partnership
Tom Russell	Chief Executive, New East Manchester
Mike Shields	Chairman, Liverpool Land Development Company
Vince Taylor	Director, Vince Taylor Associates

**International:**

Ian Bromley	Chief Executive, Creative Sheffield
Mayraj Fahim	Independent local government adviser, USA
Susan Fainstein	Professor of Urban Planning, Harvard University, USA
Jeff Finkle	President and Chief Executive Officer, International Economic Development Council, Washington DC, USA

Greg Clark	Chair OECD Forum of Cities and Regions and Advisor on City and Regional Development, Department of Communities and Local Government, UK Government
Xavier Gracia	Head of Marketing, 22@bcn, Barcelona
Sander de Jongh	Secretary General, Economic Development Board Rotterdam
John Macintyre	Vice-President, Toronto Economic Development Corporation, Toronto
Mónica Madrigal	Gabinet Tècnic, Pla Estratègic Metropolità de Barcelona, Barcelona
Hildegard Mai	Stadt Dortmund, Wirtschaftsförderung, Dortmund
Steven Pedigo	Director of Research, Greater Washington Initiative, Washington DC, USA
Sam Rhoads	Client Relations, Philadelphia Industrial Development Corporation, USA
Elisa Rossa	Direttore, Associazione Torino Internazionale, Turin
Peter Strazzabosco	Department of Planning and Development, Chicago, USA
Kevin Whittle	Head of Policy, London Thames Gateway UDC
Kiyomi Yamamoto	Communications and Community Relations Division, San Jose Redevelopment Agency, San Jose, California, USA