



# Decentralisation, deal-making and local infrastructure funding and financing

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# Outline

- The shifting context...
- Traditional and emergent approaches to governing local infrastructure funding and financing
- Decentralisation and deal-making in the UK
- Fiscal devolution
- Conclusions

# The shifting context...

- Rising infrastructure development and renewal demands
- Global Financial Crisis, Great Recession and historic low interest rates
- State indebtedness, fiscal consolidation and austerity
- Infrastructure investment for economic growth, recovery and competitiveness
- Financialisation and infrastructure as an 'asset class'
- Search for new (national and international) public and private funding and financing sources, models and governance arrangements

# Traditional and emergent approaches to governing infrastructure funding and financing I

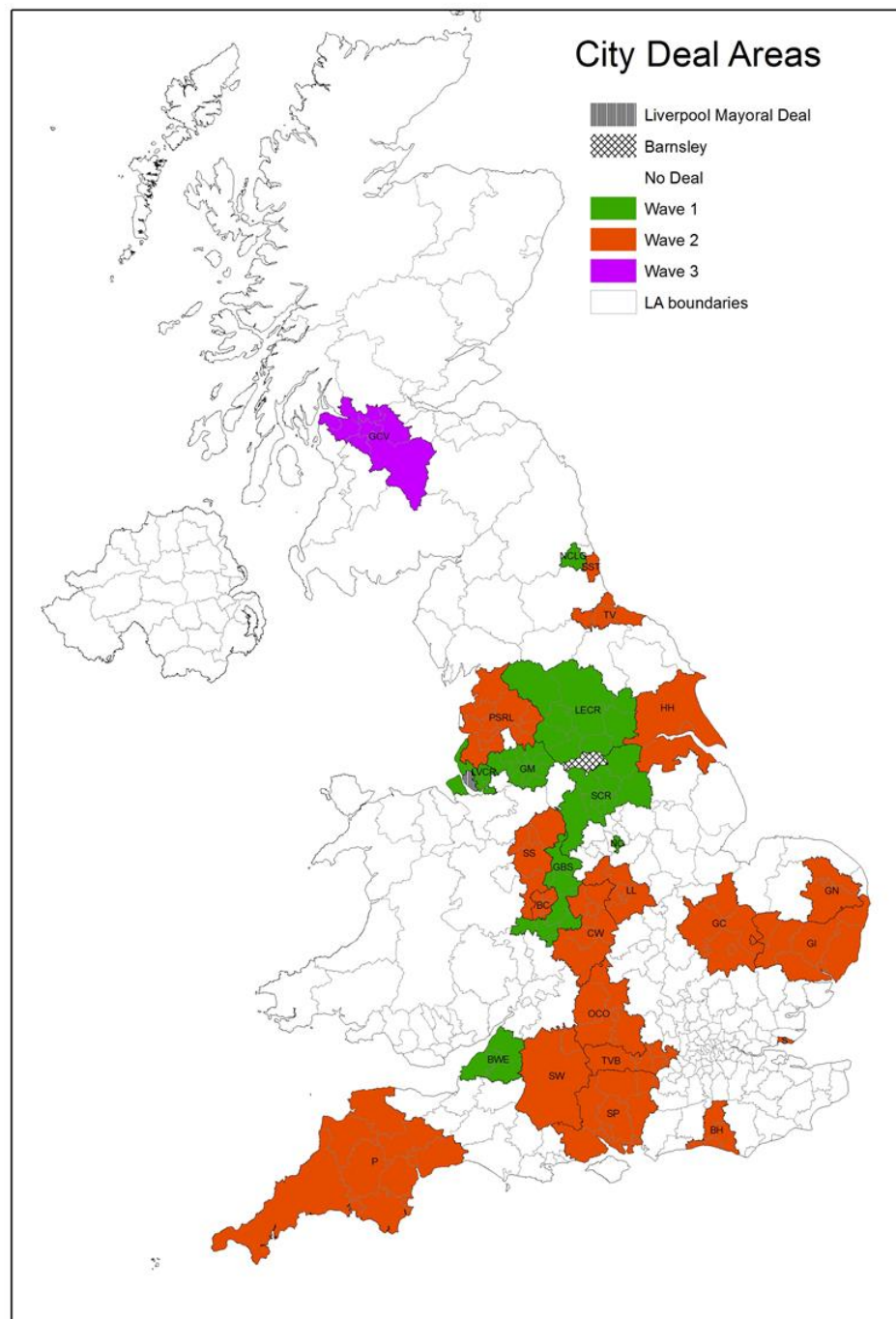
Dimension	Traditional approaches	Emergent approaches
Rationale(s)	<p>Economic efficiency (and social equity)</p> <p>Market failure</p> <p>Managing/reversing urban (population) decline</p>	<p>Unlocking economic potential (e.g. GVA, employment)</p> <p>Releasing and capturing uplift in land and property values</p> <p>Market failure</p> <p>Managing urban (population) growth</p>
Focus	Individual infrastructure items (e.g. roads, bridges, rail lines)	Infrastructure systems, interdependencies (e.g. connectivity, power, telecommunications, district heating, urban resilience)
Timescale	Short(er) 5-10 years	Long(er) to 25-30 years
Geography	Local authority administrative area	FEA/TTWA, city-region, multiple LA areas
Scale	Small, targeted	Large, encompassing
Lead	Public sector	Public and/or private sectors (including international)

# Traditional and emergent approaches to governing infrastructure funding and financing II

Dimension	Traditional approaches	Emergent approaches
Organisation	Projects	Packages of projects (i.e. programmes)
Funding	Grant-based (e.g. from taxes, fees and levies)	Investment-led (e.g. from borrowing, grant, revenue streams, existing assets)
Financing	Established and tried and tested mechanisms and practices (e.g. borrowing, PPPs and bonds)	Innovative mechanisms and practices (e.g. value capture, asset leverage and leasing, sovereign wealth, asset managers, revolving funds)
Process	Formula-driven allocation, systemic	Negotiated/deal-making, 'open' (competition)
Governance	Single LA-based	Multiple LA-based (e.g. Combined Authorities, Joint Committees, Metro-Mayors)
Management and delivery	Single LA-based, arms-length agencies and bodies	Multiple LA-based, joint ventures, LA commissioning and new vehicles

Source: Authors' research

# Decentralisation and deal-making in the UK



# City Deals

Source: Colin Wymer, CURDS



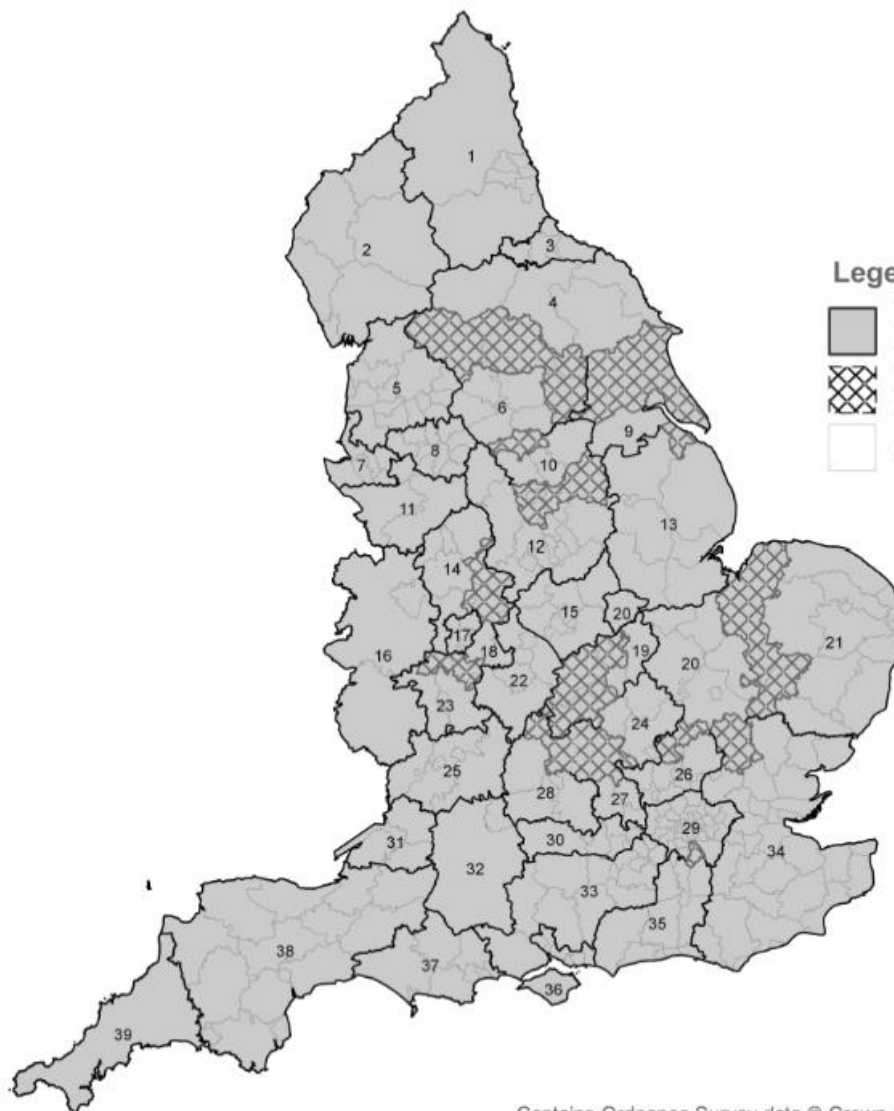
# Local Growth Deals

## Key

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

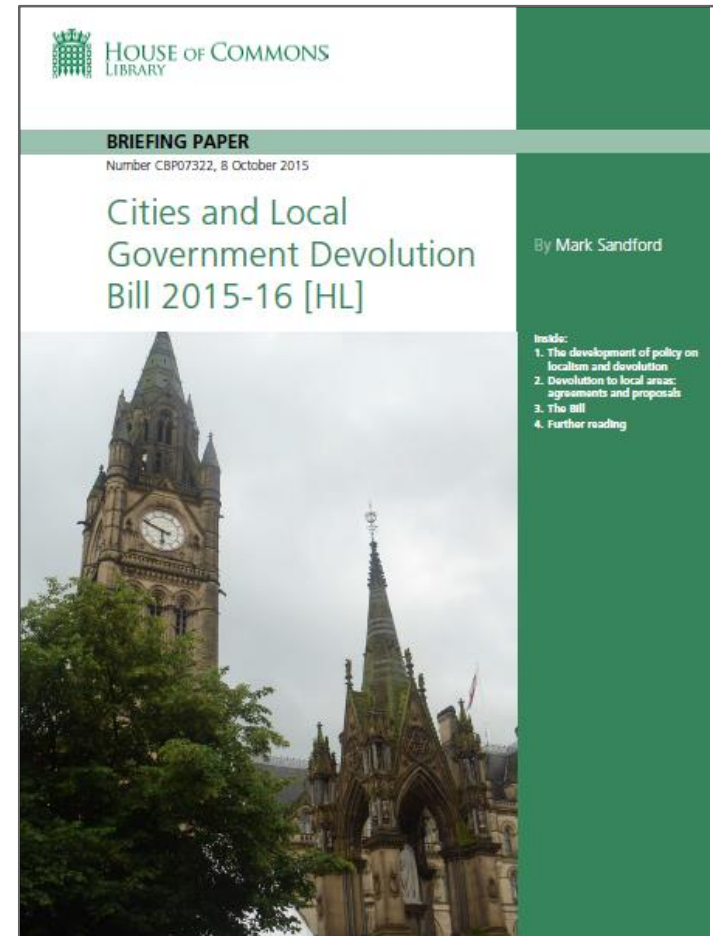
## Legend

-  Local Enterprise Partnership
-  Local Authority in overlapping LEPs
-  Local Authority

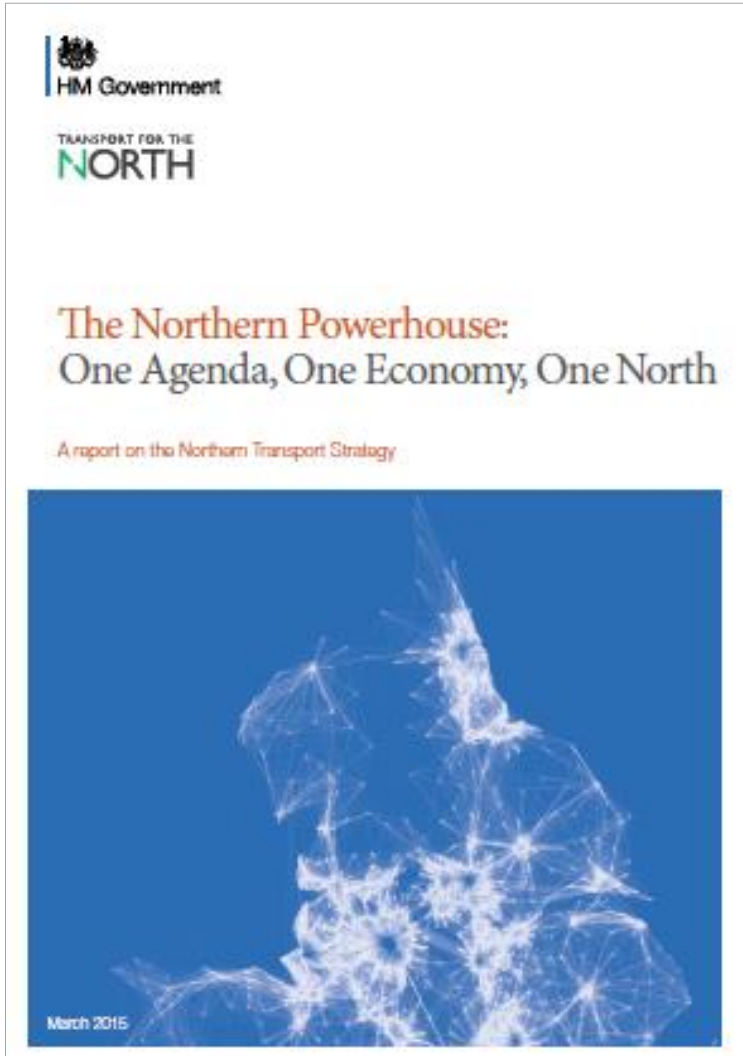


# Cities and Local Government Devolution Bill

- Enabling legislation for decentralisation and localism agenda
- Enshrines GM 'devo-deal' and 'Northern Powerhouse' strategy
- General framework for further deal-making between the centre and local areas to define specific 'devolved' functions
- Directly Elected Executive Mayors and Combined Authorities



# 'Northern Powerhouse'



- Spatial economic re-balancing
- Connecting the 'North' through transport infrastructure
- Trade and investment marketing and branding (e.g. UKTI)
- Cities/city-regions, governance and decentralisation
- Science and culture

# ‘Pitching’ for international investment for the ‘Northern Powerhouse’



- Sale and/or lease of public assets and infrastructure
- Investment bank terminology and techniques
- UKTI Regeneration Investment Organisation



# More 'Powerhouses'...

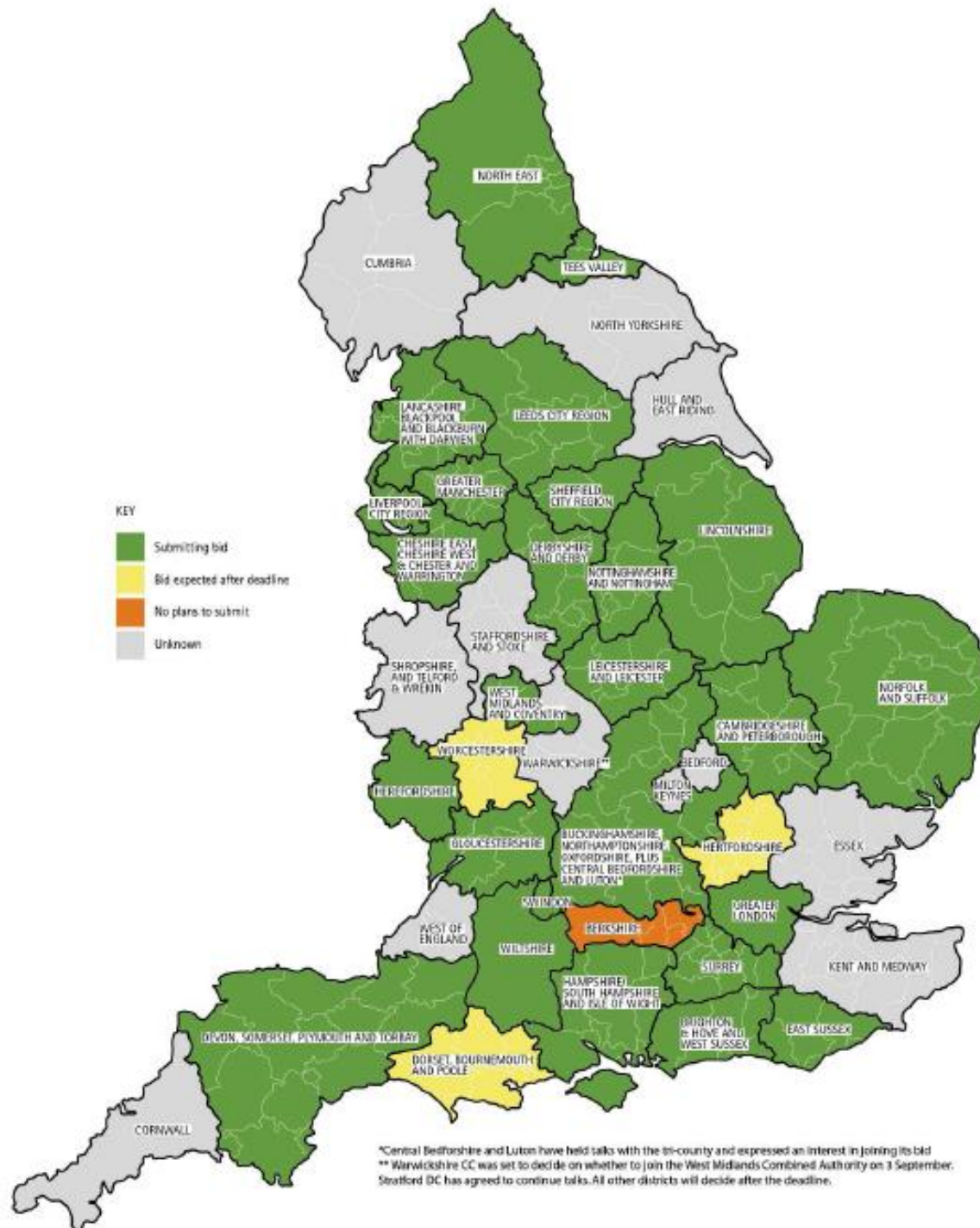


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# 38 new 'Devolution Deal' Proposals, Sept 2015



\*Central Bedfordshire and Luton have held talks with the tri-county and expressed an interest in joining its bid  
 \*\* Warwickshire CC was set to decide on whether to join the West Midlands Combined Authority on 3 September.  
 Stafford DC has agreed to continue talks. All other districts will decide after the deadline.

# The 'asks' of local areas

- Fiscal devolution (e.g. variations on business rate retention models, extension of TIF flexibilities, borrowing flexibilities and gain share/earn-back type innovations)
- Transport investment, bus and train franchising and integrated ticketing
- Skills funding, incentives and regulation,
- Devolution of business support functions and budgets
- Specific sector-based investment propositions
- Devolution of commissioning powers for the Work Programme
- Propositions to accelerate housing delivery (e.g. unlocking public land and the devolution of various delivery budgets)
- Greater control over European funding streams
- Initial steps towards integration of health and social care
- Integration of emergency services
- Local energy provision

# North East and Tees Valley

	North East	Tees Valley
<b>Governance</b>	Creation of an Elected Mayor to Chair Combined Authority. First election held in May 2017.	Creation of an Elected Mayor to Chair (still to be established) Combined Authority. First election held in May 2017.
<b>Finance and Funding</b>	Creation of a North East Investment Fund. £30m p.a. in HMG grant funding for 30 years. Mayor given new power to introduce business rate supplement to fund infrastructure. Ability to vire resources and use capital receipts from asset sales for 'public service transformational activities'. New business rate pilot.	Creation of a Tees Valley Combined Authority Investment Fund. £15m p.a. in HMG grant funding for 30 years. New business rate pilot.
<b>Housing and Planning</b>	Establish a North East Land Board to review all public-owned land and property. Devolution of statutory planning powers to Mayor and CA. New North East Planning Development Framework.	Power to create Mayoral Development Corporations. Establish a Tees Valley Land Commission to review publicly-owned land and strategic sites. Government to consider devolution of housing transaction funding.
<b>Transport</b>	Creation of new 'integrated transport system'. Bus service franchising. Multi-modal ticketing. Longer-term funding. Devolution of transport powers.	Greater recognition of Tees Valley within Transport for the North. Potential bus franchising model. Multi-year transport funding from HMG.
<b>Other areas</b>	Devolution of climate change initiatives and energy efficiency initiatives. Measures to protect Newcastle Airport from devolution of APD to Scotland. Devolution of funding and assets held by HMG.	Industrial carbon capture and storage proposals. Examine challenges facing Tees Valley in connecting to local electricity network. Potential new nuclear power investment in Hartlepool.



# Fiscal devolution

# Reforming local government funding

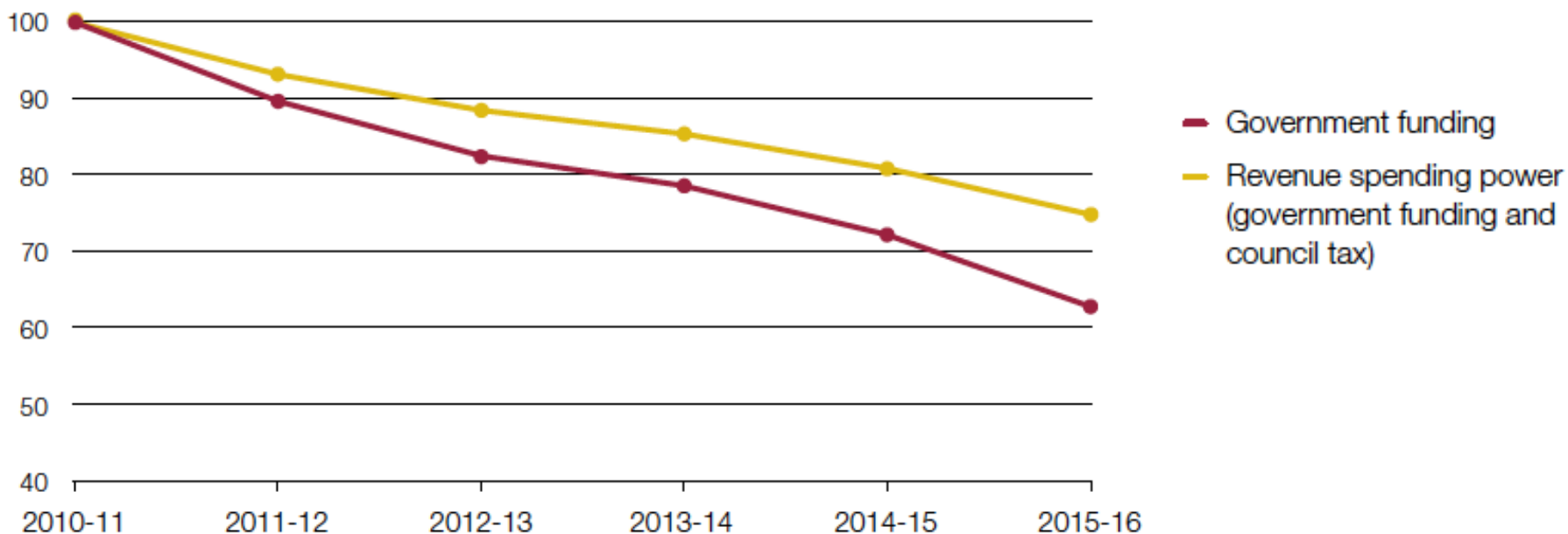


- 100% retention of local taxes – including £26 bn of revenue from business rates
- New power to cut business rates to boost enterprise and economic activity in their areas
- Directly-elected executive ‘metro mayors’ able to add a premium to business rates to pay for new infrastructure
- New powers and new responsibilities to ensure the reforms are fiscally neutral

Source: Greg Clark, Secretary of State, Communities and Local Government, Written ministerial statement to House of Commons, 12 October 2015

# Change in Local Authority spending power and Government funding, 2010/11-2015/16

Percentage change at 2012-13 prices (indexed: 2010-11 = 100)

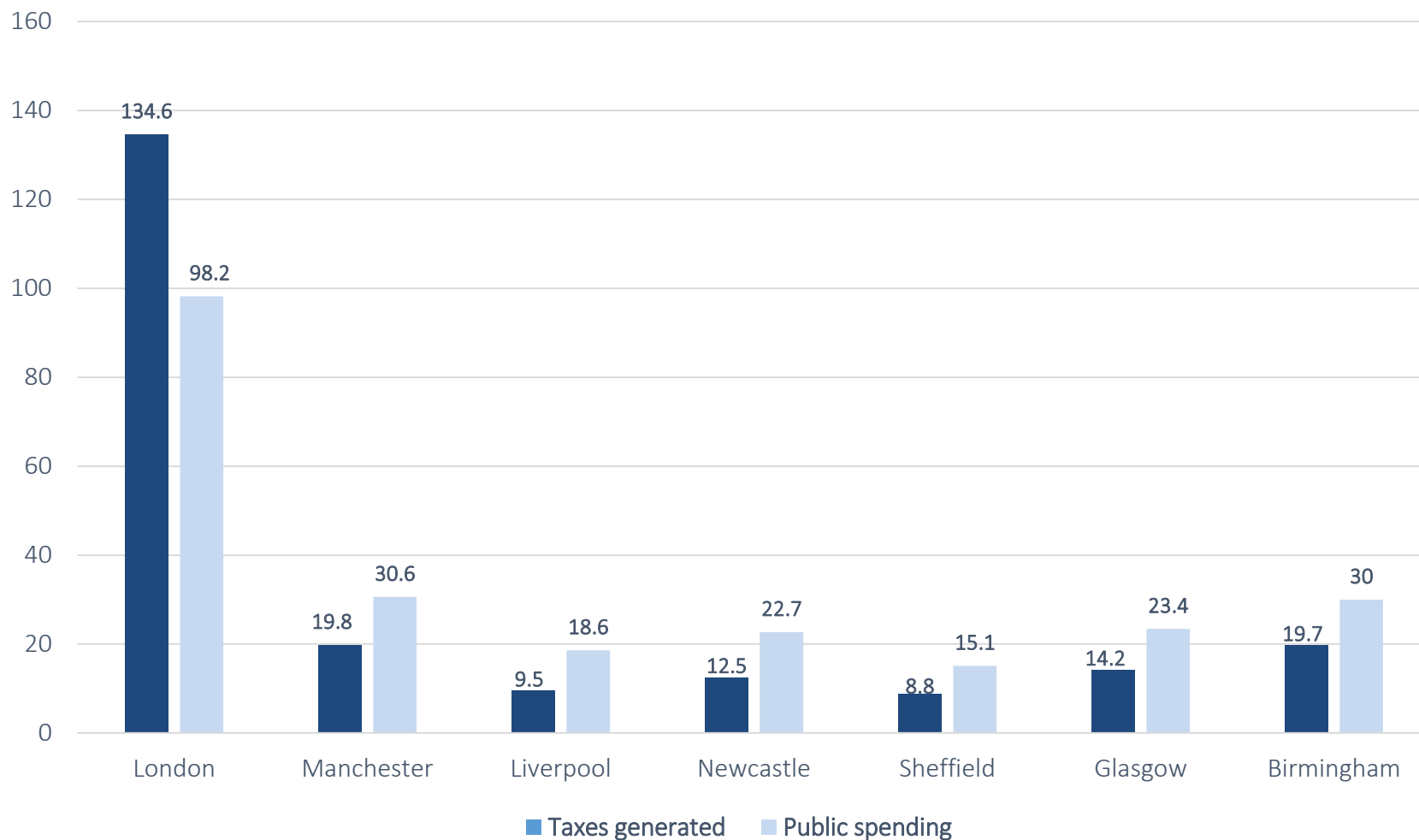


# Tax revenues for local and regional government

Country	1975	1995	2012
United States	34.2	33.1	35.8
Spain	4.3	13.3	42.1
Denmark	30.4	31.9	26.9
France	7.6	11.0	13.2
Italy	0.9	5.4	16.4
Japan	25.6	25.3	24.7
Germany	31.3	29.0	39.8
<b>United Kingdom</b>	<b>11.1</b>	<b>3.7</b>	<b>4.9</b>

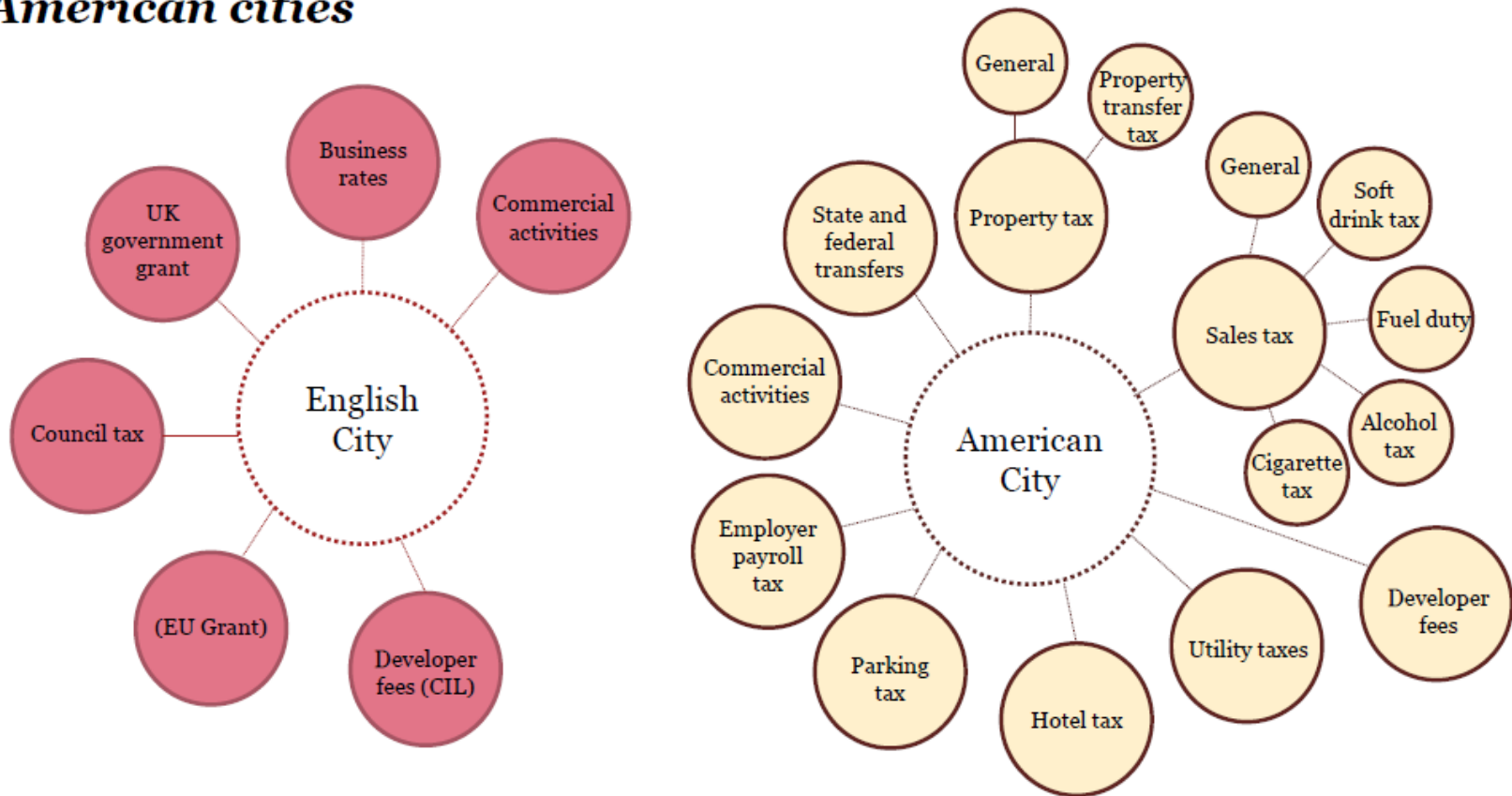
Source: Calculated from OECD tax policy data in Martin, R., Pike, A., Tyler, P. and Gardiner, B. (2015: 14) Spatially Rebalancing the UK Economy: the Need for a New Policy Model, Regional Studies Association: Seaford.

# Tax and Spending in UK Cities 2013/14 (£billion)



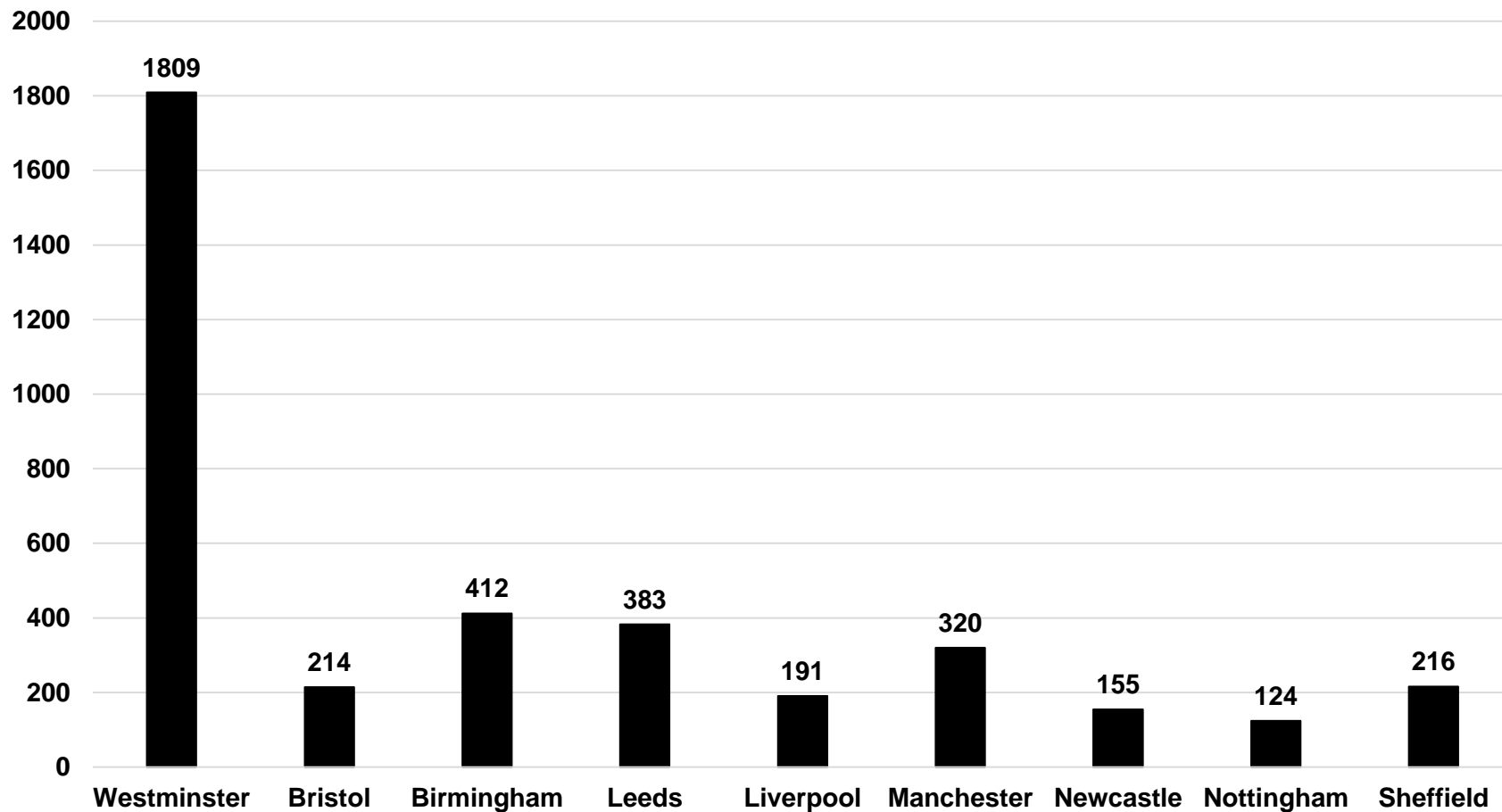
Source: Centre for Cities (2015) Mapping Britain's Public Finances, London, Centre for Cities.

## *A tale of two cities: comparing revenue sources in English and American cities*



Source: Strickland, T. (2015) Infrastructure investment, Presentation to CURDS MA Local and Regional Development students, 14 October.

# Business Rate (Net) Projected Income (£m) 2015/16



Source: Department for Communities and Local Government NNDR1 (2015/16)

- 7 Commissioners (chaired by Lord Andrew Adonis)
- Remit to report every five years at start of Parliament on recommendations for priority infrastructure projects
- Initial priorities: Northern connectivity; London transport; and energy
- George Osborne commits to spend £100bn by 2020 and pledges that infrastructure will 'lead' CSR 2015





# Conclusions

- Shifting context amplifying local infrastructure challenges and question of how to pay for them?
- Evolution of traditional and emergent approaches to governing local infrastructure funding and financing
- Ad hoc, piecemeal and competitive decentralisation and deal-making orchestrated centrally generating highly uneven capacities, resources and outcomes across the UK
- Meaningful fiscal devolution hampered by modest reforms of a highly centralised public finance system in the context of austerity
- Future challenge of better co-ordinating and integrating the central national *and* local systems of infrastructure provision

# Acknowledgements

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(<https://research.ncl.ac.uk/ibuild/>)

