

CORE CITIES UPDATE

Background

1. This report provides a short update on the work of the Core Cities Group. It covers:
 - Responses to the credit crunch.
 - New proposals for financing major infrastructure.
 - Workstream group activities.
 - Party conferences and the Core Cities Summit.

Responding to the credit crunch

2. This work is looking at how to support economic development, quality housing, infrastructure and regeneration in the light of the credit crunch and general economic downturn. Key activities have included:
 - Two meetings with Professor Michael Parkinson, who has been commissioned by CLG to undertake a study into the effects of the credit crunch on regeneration. A summary of the discussions is attached as Appendix A. The review will report in October.
 - Early work on the relationship between the new Homes & Communities Agency (HACA), including consideration of the recent CLG / HACA / LGA protocol for joint working. The Group is hoping to set up a series of meetings with HACA in late 2008 / early 2009 to take this forward.
3. The Group has been invited to a forthcoming consultation session on the draft national framework for regeneration: '*Transforming Places, Changing Lives*'. (available at: http://www.communities.gov.uk/publications/citiesandregions/transforming_places). Bristol City Council will be represented at this meeting: West of England partners are invited to send any issues that they would like raised to: jenny.ford@bristol.gov.uk.

Financing major infrastructure

4. Partnership Board members should by now have received a copy of the Core Cities' new report, '*Unlocking City Growth*'.
5. '*Unlocking City Growth*' looks at different ways of funding major infrastructure and concludes that not enough money is available. It suggests the following new 'Advanced Development Zone' (ADZ) scheme:

- Local authorities identify a regeneration area / development site, the costs involved in bringing it forward (for infrastructure, remediation, etc) and the potential financial return in terms of increased business rates over a 10 – 20 year period. Sites would generally need to be quite large to be viable or could be a series of linked smaller sites, e.g. areas linked by a new tramline.
 - Subject to various approval processes, the local authority borrows the money required from a Regional Infrastructure Fund (RIF) or similar and develops the site.
 - Additional business rates resulting from the investment are retained by the local authority for a set period and used to pay back the RIF – potentially over a period as long as 20 years.
 - Once the RIF loan has been paid back in full, business rates revert to central government.
6. This report will be formally launched at Party Conferences (see below). Whilst there are a number of issues still to be resolved, initial responses from central government appear positive.
7. West of England partners may wish to consider whether there are examples of investment within the sub-region that could be supported through the above approach.

Workstream groups

8. Activities pursued by Core Cities workstream groups have included:
- Work with CABI to introduce a Sustainable Cities web-based tool: see www.sustainablecities.org.uk
 - Discussions with national agencies, including the Arts Council, on the role of local culture in driving the international competitiveness of the Core Cities. In particular, this would look at the economic impact of cultural spend.
 - Initial meetings of a MAA network (including city-region officers and non-Core Cities who are developing MAAs).
 - With the Department for Work & Pensions, Learning & Skills Councils and other partners, developing a framework for joint work on skills and employment.
 - Exploring the possibility of a workshop on transport and housing growth with the Department for Transport and HACA.
 - Ongoing discussions with RDAs, HACA and government departments on the implementation of the Sub-National Review (SNR), the next report on which is scheduled for publication on 19th September.

Party conferences and the Core Cities Summit

9. At this year's party conferences, the Core Cities will be joining with partners to run a range of urban-themed events: the 'Urban Hub'.
10. Partners attending the conferences are invited to attend all Urban Hub events, but in particular the launch receptions and Core Cities' discussions on the finance report '*Unlocking City Growth*':

Event	Details	Speakers
<i>Liberal Democrat conference</i>		
Urban Hub launch	Sun 14 th Sept: 19.30 – 21.30: Hardy Suite, Hermitage Hotel, Exeter Road, Bournemouth.	Cllr. John Shipley, Leader of Newcastle City Council; Julia Goldsworthy MP, Shadow Secretary of State for CLG.
Financing the future of cities: Who pays?	Mon, 15 Sep 2008: 18.15 – 19.15: The Hermitage Hotel, Clifton Suite	Cllr John Shipley; Jeremy Browne MP, Shadow Chief Secretary to the Treasury; Dan Rogerson MP, Shadow CLG spokesperson.
<i>Labour Party conference</i>		
Urban Hub launch	Sunday 21 September, 19:30 - 21:30, Manchester Art Gallery, Mosley Street, Manchester M2 3JL.	Rt. Hon. Hazel Blears MP, Secretary of State for CLG; Rt. Hon. Andy Burnham MP, Secretary of State for CMS; Sir Richard Leese, Leader of Manchester City Council.
Financing the future of cities: Who pays?	Tues 23 Sep: 12.45: Manchester Suite, IoD Hub	Sir Richard Leese; Rt. Hon John Healy MP, Local Government Minister; Angela Eagle MP Exchequer Secretary to HMT.
<i>Conservative Party conference</i>		
Urban Hub launch	Sunday 28 September, 19:30 - 21:30: Reception hosted by Birmingham City Council at Baskerville House, Centenary Square, Birmingham.	Cllr. Mike Whitby, Leader of Birmingham City Council; Eric Pickles MP, Shadow Secretary of State for CLG.
Financing the future of cities: Who pays?	Tues 30 Sep: 13.00: City Inn (Brindley Place), Meeting Rooms 2 & 3	Stephen Hughes, Chief Executive, Birmingham City Council; Kulveer Ranger, Director of Transport Policy, Mayor of London's Office; Bob Neill MP.

11. Further information about the Urban Hubs can be found at: www.urban-hub.org
12. The Core Cities are developing plans for a youth summit in February and for the next Core Cities Summit, provisionally scheduled for 16 – 18 November 2009. City-region partners are likely to be invited to this event.

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ECONOMIC DOWNTURN AND UPDATE ON WORK WITH MICHAEL PARKINSON

Introduction

John Healey has commissioned Professor Michael Parkinson to undertake a study into economic downturn, its effects on economic development and regeneration activity and potential policy responses. The remit is as follows:

- what has happened to regeneration so far;
- what is happening right now;
- what might happen in the coming period;
- who could do what to reduce the risks and stimulate regeneration in future.

The Review reports in October and an online survey can be found at <http://www.survey.ljmu.ac.uk/creditchunchsurvey>. CCG has lead two consultation meetings for the study, one with our Treasurers Group and another with a mixed group of regeneration, housing and economic officers from the 8 cities. Work to provide evidence of effects is being undertaken within each of the cities through the Treasurers Group.

It should be noted that each of the RDAs is in process of producing a paper jointly with Treasury on economic effects within their region. CCG approached the RDAs with a view to participating, but this was not possible due to time constraints on the RDAs. It would however be helpful for CCG to make some statement, perhaps separately with the RDAs and/or Chambers.

Summary of initial discussions and findings

Common issues

Developers are experiencing a major credit/liquidity issue. Lenders may see less gain and more risk in lending for regeneration. Slowdown is particularly seen in development schemes not yet on site. LAs are becoming much more pragmatic about releasing sites onto the market. There is growing awareness that decisions made on viability of developments today will affect schemes due to come on line in 2-3 years.

Family housing is still attractive, but apartments and 1-2 bed units are experiencing problems. It is increasingly difficult to deal with Section 106 and the scale of ask on affordable housing. There are divergent views from developers dependent on their previous experience of regeneration, their confidence and their sources of financing (some may be more robust in their capacity to continue in a slowdown). The developer's view is either it is a short-term blip and a way of normalising the market (usually from a developer more accustomed to working in regeneration) or that it is going to last over five years (often more commercially driven developers). Hardest hit areas are likely to be those with the lowest values and often greatest regeneration needs, e.g. less affluent inner-city rings between city centres and suburbs.

Emerging themes

Market effects

There is still a major liquidity issue, but this is not regarded by everyone as a 'crunch' more as a credit freeze. The issue of confidence in the marketplace is beginning to show a tangible negative result, but there is a view amongst more experienced regeneration developers that if they go 'back to basics' on schemes, stripping away the extras, then profits can still be made. One major risk to cities is managing to keep things going so that in the next three years there are still schemes coming out the other side, and that not everything is mothballed. The prevailing view is that we will not see recovery until 2010 at the very earliest, and that there will be a 'time-lag' between noticeable economic recovery and market recovery in the regeneration sector. This is an opportunity to take stock, to think about financial engineering, prepare places for regeneration for when the market increases, and to reassess the economic development model we are using, moving on from one that is so strongly based on land values.

Regional effects

London is not currently massively affected because prices are high so there are bigger potential profit margins, although the financial sector is experiencing problems. Outside of London/South East the effect varies significantly. Core Cities may be able to withstand more than other cities. There is recognition that the composition of each individual city economy is a key factor. Financial services sector will clearly be hit – those cities reliant on financial sector may be harder hit, and there is an argument that London will not be immune so that may present opportunities for some regional cities.

Housing

There is general agreement that government need to move on from unachievable housing targets. The current housing model isn't correct and this is an opportunity to fix it. Place-making and regeneration remain further down the ladder of priorities than achieving housing growth.

Ecotowns would make regeneration areas much more difficult to market and there is a real concern that due to housing targets and lack of freedom for LAs to commission housing that difficult rim estates will be left undeveloped, as developers will favour easier greenfield sites. An additional issue is providing infrastructure to rim estate areas. However, developers may have more confidence if housing targets become more realistic, which could jump-start development.

The key housing policy aim of encouraging house ownership may no longer be appropriate and there is a real need to establish good, reliable rental schemes which people are attracted to. Affordable housing policy may also need reviewing.

The government requirement that LAs have a rolling 5 year supply of land to meet housing targets can undermine the planning of main regeneration areas - regeneration land ownership and remediation can be complex. LAs may not

be able to say exactly what will come out of a given site far enough in advance, whereas greenfield sites can be clearly defined. If an LA can't definitely indicate which targets will be met, greenfield developers are likely to gain planning and win appeals in greenfield areas, so that targets can be seen to be being met.

Emerging conclusions from discussions

The work Michael Parkinson is undertaking has not yet supplied any emerging conclusions, but from our own discussions, there are some key themes that are clearly visible.

Capacity

Do local authority officers, businesses and developers have the experience and skills necessary to weather the storm? Many organisations and individuals have no experience of managing their work in relation to economic downturn; a very different proposition.

Developer perspectives

The way in which developers assess and calculate the values of schemes may need a rethink. The level of regeneration experience of a developer can result in very different views about the same scheme.

Housing targets and models

Some strong arguments are emerging in favour of realigning housing targets, with less housing in the short term than currently planned for, lower affordability targets particularly where linked to planning gain and more rental / mixed tenure schemes.

Economic models

It may be time to rethink our economic development model, moving on from one that is too closely linked to land values, to consider wider 'well being' issues and a stronger focus on the knowledge economy, building on the work already done in this area.

Approaching lenders

There is some potential for the public sector to approach lenders regarding priority schemes that cities really need to happen and priority groups for mortgages.

Additional local financial freedom

Many of the arguments that CCG makes actually become stronger at a moment of downturn and there is the opportunity to push harder on, for example, innovative local financing methods.