Belfast City Council

Report to:	Strategic Policy and Resources Committee
Subject:	City Investment Framework – Alternative Financing Models
Date:	22 January 2010
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1. Relevant Background Information

1.1 Members will be aware that under existing arrangements the Council has only limited resources in terms of what it can bring to City Investment.

1.2 To date the Council has played its part through:

- the Capital Programme which is totally rate funded and restricted to Council assets

- the City Investment Strategy/Fund which is funded by rates and capital receipt and has to date realised £154m of investment in City assets for a Council commitment of £16m

- a series of City promotional events and research activities on best practice

- input to and support for relevant planning and transport policies

- considering long run maintenance commitment for public financed projects undertaken by others eg Connswater Greenway

- convening various forums where key players from the private, public and community/voluntary sectors can come together to focus on the future of the City

- mustering political consensus to lobby Ministers and the Assembly.

1.3 While these activities have had a certain level of success, the Committee in its response to a City Investment Framework paper (appendix 1) in November, accepted that further work was needed in regard to alternative funding mechanisms and how the Council might work better with public and private sector partners.

2. Key Issues – Funding Mechanisms

2.1 It is not unique that Belfast is considering other ways to attract and finance investment as many other Cities in the UK and Europe are in a similar position eg:

2.2 Price Waterhouse Coopers have recently published a major report for the Core Cities Group – ***'Unlocking City Growth Interim Findings on New Funding Mechanisms'.***

2.3 The All Party Urban Development Group has completed an inquiry into City Regeneration entitled ***'Regeneration and Recession – Unlocking the Money'*** which also looks at new financing tools.

2.4 '***Closing the Investment Gap in Europe's Cities'*** by the Urban Land Institute again looks at various methodologies through which new investment can be channelled.

2.5 HM Treasury is pursuing a ***'Total Place'*** initiative that is attempting to map and redirect all public spending ie Whitehall Departments, Local Authority and National Health Service in particular localities such as Birmingham, with a view to getting a better return for the public.

2.6 There are a range of mechanisms considered in the above publications but they all have one thing in common and that is the need for a clear view of where the City's Leaders want the place to go.

2.7 Partnership is tricky and complicated; it is slow; has conflicting agendas and needs to have flexibility for a longer term programme so it is important that Members continue to spend time on considering what they believe is best for the City and build for example upon the N/S/E/W debates.

2.8 While City leadership and strong strategic oversight are the primary considerations the mechanisms or vehicles for delivery of city investment is also an important issue to consider. In simple terms the private sector will just want the money it invests out again with profit. To ensure that the private sector gets its due return and also that the overall objectives of City Investment happens needs strong leadership from the public sector particularly the elected representatives.

2.9 In terms of the mechanisms themselves table 1 below sets out the advantages and drawbacks of each:

Funding Approach	Summary	Advantages	Drawbacks
Use of Assets (e.g. LABVs)	Belfast uses property assets as the basis of attracting additional investment from the private sector. The nature and quality of assets (e.g. income generating, development sites) will determine their potential to drive investment	Cash neutral Potential for better use of existing assets	Availability of assets? Current values depressed Market appetite?
Planning gain	The public sector captures a contribution from developers to pay for infrastructure from additional value created on granting of planning.	Understood by developers Tried & tested	Drop in value impacts potential to generate funding May further delay developer activity
Accelerated Development Zones	A proposal to allow a local authority to retain future business rates growth in a defined area to create an income stream to service borrowings used to fund enabling infrastructure	De-risks opportunities for the private sector. Enables value created by infrastructure to be captured Allows investment to be made up-front Potential to join other funding streams together to create viable funding "cocktail".	Still remains at proposal stage Requires local authority to take risks Does not lend itself to residential development. How is upfront investment cash flowed? May require legislative change.
Joint European Investment in Sustainable City Areas ("JESSICA")	The use of ERDF funding to invest in regeneration activity (as opposed to grant aiding).	Tap into existing budgets Offers potential for a return (which can be recycled/ reinvested)	Not yet in place Need to avoid state aid issues Competition for scarce funds Not currently being considered for NI

2.10 In terms of the mechanisms available Local Asset Backed Vehicles (LABV) depend largely on private sector investment which may be difficult to attract at the present moment in a depressed market although may be a strong possibility in the future and Officers will keep abreast of possibilities especially in regard to Council sites.

2.11 Planning gain is currently largely within the remit of DOE at present and will be affected by the changing planning legislation.

2.12 We understand that the DFP are not supportive of a Joint European Investment in Sustainable City Areas (JESSICA) as ERDF funding is largely already committed.

2.13 Accelerated Development Zones (ADZ) could potentially be a possibility although they do have various pros and cons.

2.14 The current rate take for Northern Ireland is over £1billion pa and an ADZ may provide more innovative ways of using some of these monies.

2.15 Price Waterhouse Coopers (PWC) who are looking at this type of model for Derry City Council and the development company Ilex have produced a scheme for developing a case for ADZs in both Belfast and Derry with a view to obtaining any necessary legislative change – see appendix 2.

2.16 The potential for ADZ areas in Belfast set out in the PWC document are only indicative and further thought will be required as to the best potential site - see appendix 3 for suggested areas. Any such area would need to have major commercial potential.

2.17 A further issue to be considered is the different way in which business rates in Northern Ireland are split between local government and central government which may require a specialist delivery vehicle to develop an ADZ.

2.18 Regardless of how an ADZ might work in Belfast the key risks of the proposed development happening or not happening quickly enough to raise sufficient rates and how the Council might finance debt during the development phase needs to be addressed. Business as usual also needs to continue using existing rate expenditure.

2.19 Officers would wish to obtain the Committee's view on whether BCC should approach Derry Council/Ilex to consider a joint piece of work on ADZ's

2.20 Obviously depending on where an ADZ was situated a number of other partners may be involved including both private and public sectors. Similarly the legislation is different here than in Great Britain eg in Great Britain business rates are pooled and redistributed by Westminster. The scoping exercise would tease out such anomalies.

3. Key Issues – Partnerships

3.1 As part of the RPA transfer discussion BCC have engaged with DSD/DRD/DOE and SIB on the potential of creating a joint framework for city investment. Officers have also acted on the suggestions made by Members in consideration of the PWC Report on local government reform that the Council should now actively consider how it might work in collaboration with others.

3.2 While the RPA future remains uncertain it is clear that there will be less money available from the public sector for capital investment and for that reason it will be important to work up collaborative solutions.

3.3 Whether transfer of functions occur or not it is becoming clear that a City Investment Framework that resonates with the Investment Strategy for Northern Ireland (ISNI) would help to attract investment into the City. Even greater shared understanding of planned investment by government departments would be a step forward and help inform private sector thinking.

3.4 More importantly the Council is about to revisit its City Masterplan and this document could pull together existing and proposed projects and reflect these against Councillors views on City Investment and also those of the community as articulated within the Strategic Regeneration Frameworks (SRFs).

3.5 Whether RPA happens or not there is now a better working relationship between Belfast City Council and relevant government agencies. To build on this and perhaps explore the potential and possibility of pilot exercises in terms of neighbourhood regeneration or planning both groups of Officers are undertaking desk research as to best practice in Scottish authorities. A site visit to some of these authorities may help to cement a serious working relationship between the Council and central government in the context of community planning.

3.6 The Committee is asked to note the ongoing work by Officers in developing a broader approach to City Investment with government departments and note that a further report will be brought in the context of RPA discussions in due course.

Resource Implications

Should Committee agree to commissioning a discrete piece of work with Derry City Council costs depending on Derry City Council's response, should be shared and would be within existing budgetary provision.

Recommendations

(i) The Committee is asked to agree to commission a joint piece of work with Derry City Council to scope out the case for Accelerated Development Zones.

(ii) The Committee is also asked to note the ongoing discussion with DSD and SIB and to endorse further discussions on City Investment with other partners.

Decision Tracking

The first step would be to contact Derry City Council/Ilex and work up an agreed

specification which we could probably do by the end of February 2010.

7. Documents Attached	
Appendix 1 –	Update on City Investment Framework (incorporating the Capital Programme, City Investment Strategy and update on assets) Paper 20/11/09
Appendix 2 –	Price Waterhouse Coopers 'Shaping Our Own Future – The Case for Accelerated Development Zones in Northern Ireland: A Proposal for our Gateway Cities'
Appendix 3 -	Potential Sites