

REPORT TO EXECUTIVE

PORTFOLIO AREA: ECONOMIC DEVELOPMENT & ENTERPRISE

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Public Yes

Key Decision: Yes

Recorded in Forward Plan:

No

Inside Policy Framework

Title: CITY DEVELOPMENT COMPANIES & THE DELIVERY OF
CARLISLE RENAISSANCE

Report of: Director of Carlisle Renaissance

Report reference: CE 12/07

Summary:

In December 2006, as part of the follow up from the Local Government White Paper, the Department of Communities & Local Government (DCLG) issued a consultation paper titled "The Role of City Development Companies (CDCs) in English Cities and City-Regions." The deadline for responses is 7 March 2007.

The concept of a CDC is based on the establishment of a special purpose vehicle to deliver economic interventions and act as a catalyst for the revival of local economies. This report summarises the key points raised in the consultation paper and sets the context within which an assessment of CDCs and other mechanisms for the delivery of Carlisle Renaissance will take place.

Recommendations:

The Executive is recommended to: -

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: None

- a) Note the consultation paper and delegate authority to the Portfolio Holder for Economic Development & Enterprise and the Chief Executive to respond by the deadline date.
- b) Approve work, involving the Carlisle Renaissance Task Group, to assess the implications of a CDC and other mechanisms for the delivery of Carlisle Renaissance.
- c) Note the workshop on CDCs and other delivery mechanisms, led by the City Council and involving public and private sector stakeholders to take place in March 2007.

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1. BACKGROUND

- 1.1 The 2006 Local Government White Paper announced the intention of the Department of Communities & Local Government (DCLG) to promote the concept of city development companies (CDCs) for English cities and city-regions. As part of this process DCLG is undertaking a consultation exercise with stakeholders.
- 1.2 In December 2006 a consultation paper was issued titled “The Role of City Development Companies in English Cities and City-Regions.” A copy of this paper is attached as an appendix to this report. The closing date for responses to the consultation is 7 March 2007. A summary of responses will be published on the DCLG website (www.communities.gov.uk) on 31 March 2007.
- 1.3 The concept of a CDC is based on the establishment of a special purpose vehicle to deliver economic interventions and act as a catalyst for the revival of local economies. This report summarises the key points raised in the consultation paper and sets the context within which an assessment of CDCs and other mechanisms for the delivery of Carlisle Renaissance will take place.

2. POLICY RATIONALE

- 2.1 The consultation on City Development Companies (CDCs) is part of the Governments’ ongoing policy response to addressing the challenges and opportunities associated with the economic development of cities and city-regions (the economic “footprint” of cities), through the use of special purpose vehicles (SPVs)
- 2.2 In recent years, economic interventions have been increasingly delivered through a variety of SPVs designed to act as a catalyst for the revival of local economies. Urban Regeneration Companies (URCs) are one of the most prevalent examples of this approach. Typically representing a partnership between a local authority, regional development agency (RDA), and English Partnerships, they fulfil a co-ordinating role to deliver regeneration, but do not hold statutory powers or hold assets.
- 2.3 The primary role of URCs has been to address significant development opportunities by developing and managing implementation of a masterplan, build business confidence and realise a collective vision for the future of an area. They have tended to focus on a specific geographical area, often but not exclusively

within local authority boundaries and in areas with high levels of deprivation. Further information of URCs can be found at www.urcs-online.co.uk)

- 2.4 URCs have been found to benefit from a tightly defined, customer focussed approach, as well as a more independent environment than that of their constituent parties. They embrace a more entrepreneurial and less risk-averse culture than the private sector often finds easier to work with than directly with the public sector. This is critical since economic development interventions require interaction with the private sector if they are to be successful.
- 2.5 The CDC concept is based primarily around that adopted by URCs but on a wider geographic area, intended to secure greater impact through an expanded scale and scope of activity, a higher profile, greater leverage over public sector budgets and more closely correlated to economic footprints, which will often extend beyond single local authority boundaries (i.e. city-regions).
- 2.6 The consultation does not propose a single model or prescribe certain activities for CDCs. However, it recommends that certain principles should be followed in that they should be: -
- Developed through a partnership approach between local authorities and RDAs and complement the strategic and delivery roles of other bodies
 - Supported by the Local Strategic Partnership (LSP) and have a clear role in the delivery of Sustainable Community Strategies and Local Area Agreements (LAAs)
 - Evidence based and focussed on interventions where there is potential for the greatest levels of sustainable economic growth

3. FUNCTIONS, GOVERNANCE & FUNDING

- 3.1 The consultation paper sets out a range of potential functions for a CDC including: -
- Acting as a co-ordinating vehicle between neighbouring local authorities that wish to work together on economic development activities
 - Acting as the client for economic masterplanning and co-ordinating public sector interventions
 - Co-ordinating and overseeing major physical development projects
 - Developing and co-ordinating integrated implementation plans for public sector investment programmes
 - Co-ordinating the delivery of targeted housing renewal and housing growth
 - Co-ordinating the promotion, marketing and branding of cities and city-regions

- Co-ordinating bids for major investment, events and projects
 - Co-ordinating the delivery of services to business
- 3.2 It is envisaged that CDCs could generally be established as companies limited by guarantee not operating on a profit making or dividend basis. Membership should include the relevant local authority alongside the RDA, English Partnerships and other relevant partners. The company board (appointed by company members) should be chaired by a representative of the private sector with private representation on the board comprising around half the total representation. The Local Strategic Partnership and other community representation would be included on the board.
- 3.3 CDCs are likely to be resource intensive, requiring considerable investment in running the company. It is envisaged that these costs will be met by the members of the company and other key partners, each giving a commitment to provide funding support over the longer term. Encouragement will be given to explore innovative approaches to meeting running costs, including attracting private finance though for example the development of the Business Improvement District model. Commitment will also be required from partners to fund capital and project expenditure and align their funding with the actions of the CDC over the longer term.

4. THE LOCAL CONTEXT

- 4.1 The core regeneration agenda for Carlisle is Carlisle Renaissance. The City Council, together with the County Council, the Northwest Development Agency (NWDA), English Partnerships and the Government Office for the Northwest (GONW) have committed resources to the early development of the renaissance agenda and are committed to determining the most appropriate mechanism to drive forward its delivery.
- 4.2 In January 2007 consultant's proposals for a new City Centre Development Framework & Movement Strategy were published by the City Council. A new economic masterplan for the Carlisle city-region, which is being developed in partnership with leading local businesses, will be published in April 2007. The NWDA and the City Council have agreed a £1.5m programme of interventions to support the local economy and take forward further detailed planning activities over the next 12 months.

- 4.3 Carlisle Renaissance has been adopted by the Carlisle Partnership (LSP) as the foundation for the Carlisle Sustainable Community Strategy which is currently in development and will be subject to extensive consultation in the coming months. The Sustainable Community Strategy will bring together the plans and priorities of all public sector organisations within and associated with Carlisle and further develop aspects of the renaissance agenda associated with health, crime, education and social exclusion etc.
- 4.4 The City Council is considering the potential offered by the creation of Local Asset Vehicle (LAV) to facilitate physical regeneration in Carlisle, particularly that which is associated with the Development Framework & Movement Strategy. LAVs combine locally owned public sector assets with private sector finance, and the CDC consultation makes reference to a number of local authorities considering this approach. The Government is looking at ways in which LAVs and CDCs might interrelate.
- 4.5 The CDC concept, which derives from the Local Government White Paper, has implications for the City Council's work to develop a "Principled Approach" to the reorganisation of local government, which is being developed with other local authorities in Cumbria. The economic footprint, or city-region, of Carlisle extends into the area of neighbouring local authorities and therefore it will be important to gauge their views on CDCs as part of this process.
- 4.6 Following the publication of the CDC consultation paper the Chairman and Chief Executive of the NWDA have indicated that they strongly support the principle of establishing a special purpose vehicle, such as a CDC, for the delivery of Carlisle Renaissance. English Partnerships and Cumbria Vision have indicated their willingness to engage in the process. The role of Cumbria Vision in relation to any CDC is something that will require further consideration.
- 4.7 A CDC or similar special purpose vehicle could have significant implications for the City Council and other partners and it is important to undertake a rigorous assessment of the risks and benefits associated with this approach. The Carlisle Renaissance Task Group, which includes representation from across the public sector at a local, regional and national level, provides a useful forum to further this assessment.
- 4.8 The engagement of the private sector in this process is fundamental. It is proposed to hold a special workshop with leading local businesses (including those engaged in the preparation of the economic masterplan) to consider the range of delivery

mechanisms for Carlisle Renaissance, including a CDC. This workshop would also involve key public sector stakeholders, including RENEW, the regional academy for sustainable communities, and is expected to take place in early March 2007.

- 4.9 The deadline for responses to the CDC consultation is 7 March 2007 and it is important for the City Council to respond to this consultation in order to seek the views of DCLG of any issues which arise from the early assessment of the risks and benefits to Carlisle of adopting this or other similar approaches to the delivery of Carlisle Renaissance.

5. CONSULTATION

- 5.1 The following have been consulted to date: -

- Corporate Directors
- Cumbria County Council
- Cumbria Vision
- NWDA
- GONW (and associated Executive Agencies and Non Departmental Public Bodies)
- RENEW
- English Partnerships

- 5.2 In addition to the above the following will be consulted in preparing a response to the DCLG consultation paper and the assessment of the risks and benefits of a CDC: -

- Members of the Carlisle Partnership Economic Development & Enterprise Priority Group
- Cumbria Chamber of Commerce and members of its business affinity groups
- DCLG
- Representatives of URCs and areas progressing CDC proposals (i.e. Hull, Plymouth, Sheffield)
- Neighbouring local authorities in Cumbria, the North East and South West Scotland.

6. RECOMMENDATIONS

- 6.1 The Executive is recommended to: -

- a) Note the consultation paper and delegate authority to the Portfolio Holder for Economic Development & Enterprise and the Chief Executive to respond by the deadline date.
- b) Approve work, involving the Carlisle Renaissance Task Group, to assess the implications of a CDC and other mechanisms for the delivery of Carlisle Renaissance.
- c) Note the workshop on CDCs and other delivery mechanisms, led by the City Council and involving public and private sector stakeholders to take place in March 2007.

7. REASONS FOR RECOMMENDATIONS

- 7.1 To respond to the DCLG consultation of CDCs and enable further work to be undertaken assess the range of mechanisms appropriate for the delivery of Carlisle Renaissance.

8. IMPLICATIONS

- Staffing/Resources – Previous examples of established regeneration focused special purpose vehicles such as URC's have involved the transfer/secondment of employees from local authorities and other public sector organisations.
- Financial – The consultation envisages that the CDC model will be supported by capital and revenue funding from its members, including the local authority.
- Legal – The City Council has power under Section 2 of the Local Government Act 2000 to do anything which it considers is likely to achieve the promotion or improvement of the economic, social or environmental wellbeing of its area. This power is comprehensive and may be exercised in relation to or for the benefit of the whole or any part of the authority's area or all or any persons resident in it. It includes power to incur expenditure and to enter into arrangements or agreements with any person, and co-operate with or facilitate or co-ordinate the activities of any person. In determining whether or how to exercise the power, the Council must have regard to its own community strategy and to any relevant guidance issued by the Secretary of State.
- Corporate – The vision and strategic objectives of Carlisle Renaissance have been adopted by the City Council. Adopting a CDC could have implications for

the role and nature of services delivered by the City Council, particularly in relation to economic development and associated activities.

- Risk Management – The risks associated with the CDC approach will be considered as part of the assessment process. This will include reviewing the risks addressed by previous examples of regeneration focused special purpose vehicles, such as URCs.
- Equality Issues – None
- Environmental – None
- Crime and Disorder – None
- Impact on Customers – Previous examples of regeneration focused special purpose vehicles, such as URCs have led to a more customer focussed approach in relation to economic development and associated activities supported by the public sector.



The Role of City Development Companies in English Cities and City-Regions

A Consultation

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Introduction

1. City development companies are city or city-region wide economic development companies formed to drive economic growth and regeneration. The 2006 Local Government White Paper announced the intention of Communities and Local Government to promote the concept of city development companies for English cities and city-regions, including through developing guidance in conjunction with partners. This consultation is part of that process. It is being carried out in the context of the Government's review of sub-national economic development and regeneration. The review is exploring the opportunities for further releasing the economic potential of English regions, cities and localities, and to more effectively respond to the ongoing challenge of tackling pockets of deprivation. The Local Government White Paper explained that the review would also be used to further develop Government's emerging policy on cities.
2. The Government does not intend to prescribe a single approach in relation to city development companies, nor does it intend to specify in which cities or city-regions (including 'polycentric' collections of cities and towns) this approach should be adopted. International evidence suggests it is appropriate to foster an evolutionary, bottom-up approach, led by local government and its partners within certain parameters set by national government. It is the role of Communities and Local Government to promote and further develop the concept with local authorities, Regional Development Agencies and their partners. Consultation responses will feed into the Government's continuing consideration about the role of city development companies, support to those interested in taking forward this approach and final guidance material.
3. This paper sets out what the Government hopes to achieve by promoting city development companies, and consults on suggested key criteria that should be fulfilled as well as good practice. It also asks a number of specific questions. It can be read online at www.communities.gov.uk/consultations.
4. Consultation responses should be received no later than 7 March 2007. They can be sent to either the email or postal addresses below:

cdc.consultation@communities.gsi.gov.uk

City Development Company Consultation
Communities and Local Government
Zone 4 / G10
Eland House
Bressenden Place
London SW1E 5DU

5. Further copies of the consultation paper are available from this address. Communities and Local Government will also be running a public web forum consultation on city development companies alongside the written consultation, which can be accessed via

<http://forum.communities.gov.uk/cdcs>. All postings made on this forum will also be considered as responses to the consultation.

Disclosure

6. A summary of responses to this consultation will be published by 31 May 2007 on the Communities and Local Government Website. Paper copies will be available on request.
7. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004).
8. If you would like the information you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.
9. The Department will process your personal data in accordance with the DPA and in the majority of circumstances; this will mean that your personal data will not be disclosed to third parties.

Background

The Importance of City and City-Regional Economies

10. The success of English cities and city-regions is important because the majority of our citizens live and work within them. They also have a crucial role to play in leading England's response to the challenge of globalisation, as the Government set out in *Devolving Decision Making 3: The Importance of Cities to Regional Growth* (HM Treasury, ODPM and DTI, March 2006). As globalisation increases the competition from emerging economies, England's competitive advantage increasingly lies in knowledge-intensive and service-focused sectors of the economy. The benefits of physical proximity are particularly important for these sectors, facilitating knowledge transfer and innovation, and providing deeper, specialised labour markets. The economic success of our cities, which provide a forum for this proximity, is therefore vital to our ability to compete in an increasingly open 21st Century global economy.
11. The *State of the English Cities* report (ODPM, 2006) demonstrated the significant progress made by many of our cities in reversing decades of industrial decline to begin to carve out new economic niches. Much of the progress cities have made in recent years has been a consequence of sustained national economic growth; but advances are also the result of the successful exploitation of these circumstances from both public and private sectors. For many years, urban policies concentrated on addressing the worst examples of industrial decline and using public finance to compensate for a lack of private investment. Increasingly, favourable macroeconomic conditions and the lessons of past policies are encouraging a greater alignment of economic opportunity with coordinated initiatives addressing regeneration needs and market failure, and the use of public finance and intervention to leverage private-led economic growth.
12. Despite significant improvements however, the *State of the English Cities* report also demonstrated that most English cities still need to make further progress, to spread success more widely, both within cities and through regions, and to further strengthen their economic rationales. Many towns and cities have undergone processes of managing decline and initiating recovery, but still have much more to do to achieve the economic transformation that will make them truly competitive on a global stage. Other places are not yet at that stage, and continue to manage difficult processes of economic and population decline alongside economic restructuring.

Policy Rationale

13. In recent years, economic interventions have increasingly been delivered through a variety of special purpose vehicles, designed to act as a catalyst for the revival of urban areas and local economies, in particular through improving the physical platform from which cities can attract greater levels of investment and growth. Special purpose vehicles benefit from a tightly defined, 'customer focused' approach as well as a more independent environment than government or its agencies. The Local Government Association has found that the use of such vehicles can unlock resources, increase the legitimacy of and support for actions, bring in new skills for specific tasks, and embrace a more entrepreneurial and less risk-averse culture.¹ Such vehicles also provide a reduced risk of resources being pulled away from core activities and the opportunity for 'branding' to reflect joint ownership and credit.
14. This combination of factors can increase the focus on delivering a clear set of objectives. A corporate structure is often seen to be most suitable in order to foster these characteristics. Non-profit vehicles are often established as companies limited by guarantee, with limited liability registered with the registrar of companies. Different models, such as the limited liability partnership, can be established where there is a view to profit-making, and are often adopted where there is private involvement in the company.
15. This approach is also one with which business finds it easier to work. This is important, because economic development interventions are not classic public services, they seek to influence the way in which businesses and markets perform in order to achieve improved economic performance and other economic or social goals. This means that successful interaction with the private sector in delivering these interventions is critical. Private sector targets can include small entrepreneurial firms, development companies and investment institutions, a wide range of local and national service providers, and international and foreign corporate investors. Finding the best means to interact with such diverse firms is a key task for these vehicles.
16. An increasing number of local authorities, Regional Development Agencies (RDAs) and their partners are looking to combine and aggregate existing vehicles in order to make best use of resources and deliver a more integrated and streamlined approach to economic development issues. The approach is often to develop more ambitious vehicles with a greater scope of activity as well as to rationalise or better coordinate what can be a disparate array of economic development bodies.
17. For example, Sheffield City Council has built on the track records of existing bodies, including the urban regeneration company (URC), Sheffield One, to establish a new city development company, Creative

¹ *The Role of Local Delivery Vehicles in Creating Sustainable Communities*, Local Government Association, 2005

Sheffield, to spearhead the economic transformation of the city. Other places have developed, or are developing, new holistic economic development vehicles, combining functions such as housing strategy with a wider economic role. The Government believes there is considerable potential in this approach. Economic development companies operating at the city or city-regional level are a well established concept in countries including the United States, Canada, the Netherlands and Germany. The case studies at the back of this consultation give further detail.

Formal City Development Company Status?

Discussions to date with interested parties have indicated different opinions on whether the Government should seek to develop a formal 'city development company brand', based on meeting certain key criteria. Many argue that URCs have benefited from the recognition, status and support associated with their membership of a Government sponsored programme, and that a similar approach is desirable in relation to city development companies. In such instances, Government could require companies to fulfil key criteria, for example on governance arrangements, in order to be recognised as Government approved 'city development companies'.

Others have pointed to international evidence, where city development companies have emerged to a wide variety of models. They suggest that the role of Government should be to promote and support the city development company approach, but not to specify certain requirements, particularly when the concept is relatively new in this country.

18. The Government does not intend to establish city development companies on a statutory basis or vest them with statutory powers such as planning or compulsory purchase. We will not impose the city development company approach anywhere, nor do we propose a single uniform model. It is clear from international evidence that there is no uniform approach to this issue. It is intended that the structure and activities of city development companies will depend on the issues faced by individual places, on the priorities of partner bodies, and on the fit between economic objectives and the historical, administrative and legal context within which such a body needs to evolve. The Government wants the evolution of city development companies to be local authority and RDA led, in conjunction with other partners and central Government as necessary, working with and building on existing special purpose vehicles as appropriate.
19. The Government is however particularly interested in the potential for city development companies to adopt a similar model to that developed for URCs. URCs have proved successful in attracting private investment into places, in coordinating economic development delivery and funding, and in providing economic leadership through the devising and implementation of economic masterplans for areas. It is envisaged that a similar approach can function across cities or city-regions, securing greater impact through an expanded scale and scope of

activity, higher profile, and greater leverage over budgets.² URCs do not hold land assets or engage in the direct delivery of capital projects. They coordinate delivery through their partners, including through the use of partners' compulsory purchase and planning powers. In promoting city development companies, the Government envisages that they could fulfil similar roles.

20. It will be for partners to decide whether city development companies should be time limited bodies, with clearly defined exit strategies, as URCs are. Whether a time limited approach is adopted or not, it is important for members to understand the level of long term financial and practical commitment that is likely to be required in supporting a city development company.

Urban Development Corporations, Urban Regeneration Companies, and City Development Companies

Urban Development Corporations

- Established under the Local Government, Planning and Land Act 1980
- Non Departmental Public Bodies funded by central government. Vested with statutory powers, including development control for strategic planning applications
- Aim to bring land and buildings back into effective use, encourage the development of new industry and commerce, and ensure housing and social facilities are available in the designated area

Urban Regeneration Companies

- Independent companies, limited by guarantee. The members comprise local authorities, RDAs and often English Partnerships
- Fulfil a coordinating role to deliver economic regeneration. Do not have statutory powers or hold assets.
- Primary role is to address significant development opportunities by developing and managing implementation of a masterplan; and to build business confidence and realise a collective vision for the future of the area.

The City Development Company Approach

- Local Government and RDA designed
- Independent companies, potentially (though not necessarily) limited by guarantee. Members would normally include local authorities, RDAs, and other partners such as English Partnerships as appropriate
- Build on many of the characteristics of URCs, but tasked with responsibility for a wider agenda in driving economic growth across cities. This could involve greater geographical coverage, a broader range of functions, increased profile, and leverage over greater budgets

² Government Guidance and Qualification Criteria for URCs can be accessed via the following link:
www.communities.gov.uk/pub/226/UrbanRegenerationCompaniesguidanceandqualificationcriteriaPDF155Kb_id1128226.pdf

21. It is also important to recognise that city development companies may take time to evolve. For example, Creative Sheffield has emerged from a long history of various special purpose vehicles and projects, and is incorporating the functions of three bodies: the URC 'Sheffield One', the investment agency 'Sheffield First for Investment', and the Cultural Industries Quarter Agency. The new economic development company is also undergoing a two year transition phase during which time the integration of existing functions, recruitment of staff, and shaping of key strategic documents including an Economic Masterplan will take place.
22. Based on international evidence and the experience of special purpose vehicles domestically, the Government believes there could be a number of key advantages in establishing city development companies for English cities and city-regions. City development companies could:
- as corporate bodies, better mirror the entrepreneurial approach and timescales of the private sector, facilitating a more responsive interaction with business, developers and investors than government or its agencies
 - provide an economic leadership role, setting out and coordinating delivery around an economic vision, enabling investment to be focused where there is potential for greatest impact
 - reduce the number of players in the economic development arena, aggregating currently disparate roles and improving the efficiency of economic interventions, through the succession, transition or integration of existing bodies' functions
 - focus on the implementation of Regional Economic Strategies and other relevant regional strategies at the city or city-region level
 - attract the specialist talent and skills that are key to economic development, including in corporate finance, marketing, project management and physical regeneration and property development
 - improve the quality of investment propositions generated by the city or city-region for external third party, public-private, and commercial financing
 - increase the capacity of cities to bid for major projects that can have catalytic effects on economic performance
 - increase the fit between economic development delivery and economic reality, by operating across local authority boundaries
 - champion economic development needs in the development of other strategies

Consultation Questions

1. What are the advantages and risks in moving towards a more unified approach to economic development at the city or city-regional level?
2. Should Government seek to develop a city development company brand, with formal approval needed for city development company status to be granted?
3. Is a variation on the URC model the best approach for city development companies to adopt?
4. Are other models suitable for city development companies?

City Development Company Proposals

Basic Principles

23. This consultation does not propose a single model or prescribe certain activities for city development companies. The Government does however recommend that certain basic principles should be followed:

- Complementarity between city development companies and the strategic and delivery roles of other bodies, developed through a partnership approach between local authorities and RDAs in particular
- Support from relevant Local Strategic Partnerships and a clear role in delivering Sustainable Community Strategies and Local Area Agreements
- An evidence based, selective approach, focusing on where there is potential for the greatest levels of sustainable economic growth

24. In promoting the concept of city development companies, the Government expects that they should complement the strategic and delivery roles of other bodies, and that city development companies should have a clearly defined role within the context of Regional Economic Strategies. RDAs would have a critical role to play in ensuring that this complementarity is achieved and that city or city-region based approaches are integrated with regional approaches. This will be more important the wider the scope of activity that partners wish city development companies to pursue.

The rationale for a city-region approach

Economic interventions seek to influence the way that markets perform. There is increasing recognition of the value in coordinating such interventions at the level of the 'economic footprint' of cities, the area over which key economic markets, such as labour, housing and retail markets operate. In many cases this would mean operating across multiple local authority boundaries. This might be a metropolitan city-region, such as Greater Manchester, Greater Washington or the Stuttgart city-region, over which city development companies or similar bodies operate, as set out at the end of the consultation paper. It might also be a cluster of towns or cities in a polycentric city-region, such as in Pennine Lancashire, where Elevate, the Housing Market Renewal Pathfinder, operates across five local authority areas.

Expanding the geographical remit of economic development and regeneration delivery also increases the importance of adopting a selective approach in deciding how and where to intervene. Existing special purpose vehicles have benefited from focusing on tightly defined urban areas, or having focused economic objectives. City development companies have greater flexibility within which to operate, but will need to adopt a similarly focused approach to intervention.

25. It is envisaged that local authorities and RDAs should work together in the formation of city development companies from the outset, as well as other partners relevant to the intended agenda, such as English Partnerships. City development companies could add value to the work of such partners by:

- developing place-focused implementation or action plans for public investment in line with Regional Economic Strategies and other regional strategies as relevant – for example, the Regional Spatial Strategy
- using evidence, economic analysis and evaluation to influence regional and local strategy formulation
- acting as a focal point for private sector engagement within cities and city-regions, increasing the potential for public funds to attract private investment
- working with delivery partners such as English Partnerships to ensure delivery is aligned with an overall strategic vision for cities and city-regions, and ensuring an appropriate mixture of expertise is utilised

26. Local Strategic Partnerships (LSPs) set the agenda for delivery at the local level through agreeing Sustainable Community Strategies and Local Area Agreements (LAAs). Local authorities and LSPs can seek to ensure that:

- city development companies have clearly articulated roles in delivering relevant parts of Sustainable Community Strategies
- city development companies complement the full range of priorities set out in Sustainable Community Strategies, such as on environmental sustainability or social equity
- there is an appropriate and clear division of responsibilities between city development companies and other bodies operating at the city level
- overall economic development delivery is aligned with economic development elements of LAAs. Where local authorities and LSPs wished, city development companies might be tasked with developing proposals for economic development elements of LAAs

27. The experience of URCs indicates that there is merit in Government setting out a broad policy agenda and framework for regeneration and development vehicles. It is also clear that URCs and other special purpose vehicles benefit from having a partnership with a clear set of agreed objectives and focusing on delivery of a consultation-approved masterplan. This is particularly important in terms of providing the private sector with confidence about long term investment and capacity to deliver. In promoting city development companies, the Government

envisages that they should adopt a similar approach, focusing on aspects of the economy where there is greatest potential for sustainable growth and setting out a clear vision for doing so. There is therefore a need for robust economic analysis underpinning consideration of the appropriate approach. An evidence based appraisal of current economic competitiveness, assets and weaknesses is a fundamental starting point. This needs to be backed by a clear appraisal system and robust evaluation plan in order to ensure that interventions are based on clear market failure rationales and realistic options - so that the added value of interventions can be assessed.

City Development Company Functions

28. The nature of activities to be pursued by city development companies will be for founder members to agree, and should be in line with the Regional Economic Strategy and other relevant regional and local strategies, including Local Development Frameworks. It is intended that city development companies can have a key role to play in ensuring the coordination and optimum targeting of public programmes and funding. Through this role, the Government believes city development companies can enhance the capacity of Local Area Agreements to increase the alignment of public funding at the city or city-regional level.

Business Support Simplification Programme

The Government is currently working to simplify the range of publicly funded support available to the business community. It is seeking to reduce the number of products and services in England, from around 3,000 at the moment to 100 or fewer by 2010. This will make it much easier for those managing a business or thinking of starting an enterprise to understand and access the publicly funded help available.

The promotion of city development companies supports this agenda, offering the potential to simplify business' interaction with the public sector in cities. Government will look to RDAs and local authorities to work in partnership to ensure that city development companies operate within future shared frameworks for the delivery of business support products and services and for their marketing and access.

29. The Government envisages that city development companies should be selective about the nature of activities to be pursued. It is important that they should not recreate in entirety the economic development roles of local authorities or RDAs. Potential functions might, for example, include some of the following roles:

- Acting as a **coordinating vehicle between neighbouring local authorities** that wish to work together on economic

development and urban regeneration activities, by providing mechanisms for them to:

- interface with RDAs, English Partnerships and other strategic and delivery bodies
 - develop shared plans and strategies across multiple areas
 - develop and negotiate Multi Area Agreements for economic development
 - coordinate procurement of specialist services from the private sector
- Providing a **‘smart client’ function for public sector led development planning**. Acting as the lead public client for economic masterplanning - setting out a strategic, economically and environmentally sustainable direction for cities - and targeting and spatially prioritising investment. Co-ordinating the work of public sector investors, subject to their agreement.
- **Coordinating and overseeing major physical development projects** across cities and city-regions. This role could include: procuring private sector participation in the development process; ensuring appropriate project management (including critical path analysis) is in place; aligning programmes with wider investment strategies; establishing design parameters to high environmental standards; financial strategy and planning for projects; and determining the phasing of land release.
- Developing and coordinating **integrated implementation plans for otherwise disparate public investment programmes** within cities and city-regions, such as Local Authority Capital Funds, ERDF, RDA Single Pot, English Partnerships investment, and wider investments by agreement with the parties concerned, using the LAA framework.
- **Coordinating the delivery of housing market renewal or targeted housing growth** alongside wider economic development in cities and city regions by agreement with key national and local partners.
- Coordinating otherwise disparate **promotion, marketing and ‘branding’** of cities and city-regions, to aggregate efforts and ensure effective partnership with local, regional, and national players and with private and civic institutions. City development companies could act as a coordinating agent to procure private sector expertise and manage contracts with private sector suppliers. These roles would be devised and performed in agreement and collaboration with RDAs, and in line with the UK Trade and Investment – RDA framework on overseas and domestic inward investment promotion.
- **Coordination of the bidding for major investments, events, and projects** where these are deemed by local and regional

authorities to be important catalysts for achieving long term economic development plans for the city or city-region.

- **Advising city and regional authorities on desirable additions to the suite of investment funds and financial vehicles** that might be made available in order to better meet the investment requirements of the city or region.
- **Improving the quality of investment propositions** generated by the city or city-region for external third party, public-private, and commercial financing by supporting the growth in awareness and understanding of how such investment streams operate and the scope for the city or city-region to develop more robust propositions.
- Where required, city development companies could work with RDAs and Business Link Operators to **co-ordinate the delivery of services to businesses within a city or city-region**, within the shared framework for business support being developed through the Business Simplification Programme. The role would be to ensure that the delivery of business support services - including enterprise development services and business retention and investor after care programmes - is aligned with other economic activity and to coordinate the procurement of services from expert providers.

30. In all of these roles the city development company could act to improve the public sector co-ordination of economic development within the city or city-region, on behalf of local authorities and by agreement with the RDA and Government and national agencies as necessary, and through the use of market and commercial expertise through appropriate forms of public procurement.

31. City development companies may also be able to play important roles in the development of public-private joint ventures. Potential roles might include providing an interface role between the public and private sectors through the city development company board or managing public-private vehicles. The Government is continuing to look at this issue in more detail, including ways in which conflicts of interest could be avoided and democratic accountability assured.

32. A number of local authorities are looking at the creation of Local Asset Backed Vehicles (LABVs). These are funds, combining locally-owned public sector assets and equity from institutional investors, established to finance the delivery of major regeneration outcomes. It is envisaged that these vehicles, with their own boards and management teams, are constituted as limited partnerships. Similar funds have already been established at a regional level and have generally been owned 50/50 by the public and private sector partners. Property development and regeneration projects are delivered according to an agreed business plan established at the outset of the vehicle's life. Returns made by the vehicle are directed back into the LABV and shared on an equal basis

between the partners. The Government is looking at ways in which city development companies and LABVs might interrelate.

Consultation Questions

5. Do you agree with the suggested 'basic principles' [paragraph 23] for city development companies as set out in this paper?
6. Will city development companies be more effective when operating at the city-region scale?
7. What are the functions that city development companies could most usefully perform?
8. What role could city development companies play in supporting public-private regeneration vehicles?

Governance

33. In establishing city development companies, partners will want to strike the right balance between having clear lines of democratic accountability and ensuring the freedom to deliver away from day to day political involvement. This consultation paper envisages that city development companies could generally be established as companies limited by guarantee and will not operate on a profit making or dividend issuing basis. They would act more as the business facing arm in coordinating inputs from local and regional public sector bodies. However, there are options about how ownership of city development companies is structured. This could include by share or through other partnership agreements. The following suggested criteria is based on the key criteria for URCs:

- Membership should include relevant local authorities alongside the relevant RDA and English Partnerships or other partners.
- The company board, appointed by company members, should be chaired by a representative of the private sector, with private representation on the board comprising around half the total representation.
- Local Strategic Partnership and other community representation on the board is to be encouraged
- The Nolan principles of good governance for public companies should be followed

Funding

34. A city development company is likely to be resource intensive, requiring considerable investment in running the company. Commitment to ensure a city development company has certainty over its running costs is essential. In many instances, we envisage that running costs will be met by member organisations. One of the potential advantages of adopting a multi-local authority approach could be to spread the weight of funding support amongst a greater number of partners.
35. The adoption of three year rolling contracts for other special purpose vehicles, in line with their business plans, has proved effective. It is recommended that there should also be a commitment in principle to support the company over the longer term and that this should be maintained on a rolling basis in line with the city development company business plan. This is consistent with the advice on URCs.
36. It is essential that when establishing a city development company, partners consider the potential State aid implications of doing so, particularly with regard to the specific activities to be undertaken. The State aid rules apply to aid granted in any form, not just the payment of money, by central Government or through State resources (that is, by or through any public authority or company) in favour of certain 'undertakings'. Ensuring the rules are complied with can also ensure the best use of the public resources available. The penalties for granting illegal State aid can be severe, so it is strongly recommended that independent legal advice is sought on this issue. General guidelines are also available on the Communities and Local Government and Department for Trade and Industry Websites.³
37. Discussions with some parties interested in the city development company approach indicate that other innovative approaches to meeting running costs are also being considered, though are at early stages of development. These include the potential use of revenue generated through public-private joint ventures and other means of attracting private finance, including through further developing the Business Improvement District model. The Government believes these approaches are to be encouraged and is interested in working with partners to further explore the options. In doing so, it is important to recognise the inherent risks which may be involved, including the unpredictability of revenue flow, and the potential for conflicts of interest to arise in the event of individual business contributions.
38. Capital or project expenditure will be less easy to predict than running costs. The level of funding for capital projects can only be accurately worked up when projects have been identified and developed. The amounts involved are greater and subject to a range of variables over time. Firm assurances from partners over covering early expenditure and a commitment in principle to align funding with action plans developed by a city development company over the longer term, are

³ Communities and Local Government State aid advice:
www.erdg.communities.gov.uk/StateAidHomePage/ Department for Trade and Industry State aid
advice: <http://www.dti.gov.uk/bbf/state-aid/index.html>

crucial. As for running cost funding, we recommend this should span three years as a minimum, and should be maintained on a rolling basis in line with the city development company business plan.

Consultation Questions

9. Do you agree with the suggested 'governance' criteria? Are other forms of ownership appropriate?
10. How could city development companies pursue innovative but reliable approaches to meeting running costs whilst avoiding conflicts of interest?

Summary of Consultation Questions

1. What are the advantages and risks in moving towards a more unified approach to economic development at the city or city-regional level?
2. Should Government seek to develop a city development company brand, with formal approval needed for city development company status to be granted?
3. Is a variation on the URC model the best approach for city development companies to adopt?
4. Are other existing models suitable for city development companies?
5. Do you agree with the suggested 'basic principles' for city development companies as set out in this paper?
6. Will city development companies be more effective when operating at the city-region scale?
7. What are the functions that city development companies could most usefully perform?
8. What role could city development companies play in supporting public-private regeneration vehicles?
9. Do you agree with the suggested 'governance' criteria? Are other forms of ownership appropriate?
10. How could city development companies pursue innovative but reliable approaches to meeting running costs whilst avoiding conflicts of interest?

Case Study: Creative Sheffield

Territorial Coverage	City of Sheffield, England. Population 521,000.
Status	Company limited by guarantee, owned by Sheffield City Council. Incorporated October 2004.
Funding	Funded by Yorkshire Forward, Sheffield City Council, English Partnerships and ERDF Objective 1.
Accountability	Accountable principally to its board, comprising a private sector chair and other public and private partners, including both Sheffield universities. Accountability also derived from the Local Strategic Partnership group and open to Council's scrutiny process.
Principal activities	<ul style="list-style-type: none"> • Economic masterplanning • Coordinating and implementing physical regeneration projects • Inward investment • Marketing and branding the city • Supporting key knowledge-intensive growth sectors and university – business links
Website	www.creativesheffield.co.uk ⁴

For many decades Sheffield's economy was based on the outputs of coal, steel and manufacturing. Since the decline of these industries in the 1970s and 1980s, Sheffield has, in the last six years, experienced an economic revival driven by strong local authority leadership and a number of special purpose bodies, including Sheffield One, the city's Urban Regeneration Company and Sheffield First for Investment. It has been one of England's fastest growing major city economies, unemployment has fallen to a level in line with the national average, and there has been a significant improvement in investor confidence. Sheffield has a range of significant economic assets on which to build and these need to be exploited to the full to bring about a step-change in the levels of economic growth and city competitiveness.

Creative Sheffield has been set up to spearhead the city's efforts in transforming its economy. It builds on the success of existing approaches and will lead on the development and implementation of an Economic Masterplan to guide public and private investment within the city. Creative Sheffield is currently in the set-up phase until March 2008, during which time the functions of Sheffield One, Sheffield First for Investment and the Cultural Industries Quarter Agency will be integrated to form a single economic development company for the city. Creative Sheffield will work within the overall City Strategy to ensure that there are close connections with other programmes addressing skills, worklessness and social equity.

⁴ At the time of publication, the website was undergoing a refresh to reflect developments since it was established

Case Study: Manchester Enterprises and Manchester Solutions

Territorial Coverage	The 10 local authorities within the Association of Greater Manchester city-region. Population 2.5 million.
Status	Group of non-profit companies.
Funding	Publicly funded. The Manchester Solutions companies secure funding to deliver services through competitive processes from a range of sources.
Accountability	<p>Both Manchester Enterprises and Manchester Solutions have boards comprising public and private representatives, including AGMA⁵ authorities and the North West RDA. Both are private sector chaired.</p> <p>As the strategic body, Manchester Enterprises is accountable directly to the Greater Manchester Forum - an assembly comprising public and private sector stakeholders - and AGMA.</p>
Principal activities	<p><u>Manchester Enterprises</u></p> <ul style="list-style-type: none"> • Strategy formulation • Implementation of the Regional Economic Strategy for the city-region • Inward investment promotion (through MIDAS) <p><u>Manchester Solutions</u></p> <ul style="list-style-type: none"> • Skills development including work related learning • Connexions service • Business advice • Creative industries network development • Social enterprise support
Websites	<p>www.manchester-enterprises.com</p> <p>www.manchester-solutions.co.uk</p>

The Manchester Enterprises Group was established in 1999 as a not-for-profit group of specialist companies. Between 2000 and 2004, the Group's geography expanded from the original four local authority areas to all ten in Greater Manchester.

From 2006, the Group has been separated to reflect strategic and delivery functions. Manchester Enterprises, working closely with MIDAS, concentrates on strategic functions. The eight other former Manchester Enterprises companies that now form the new Manchester Solutions Group manage a range of economic development services, tendering to deliver programmes on behalf of a range of funding partners.

⁵ Association of Greater Manchester local authorities

Case Study: Toronto Economic Development Corporation

Territorial Coverage	City of Toronto, Canada. Population 2.5 million.
Status	Self-financing special purpose body, 100% owned by the city authority. Founded in 1986 as an urban development corporation.
Funding	Self-financing
Accountability	Board is selected by the City Council. It includes the Mayor or designate, council representation and business representatives.
Principal activities	<ul style="list-style-type: none"> • The implementation of a remediation strategy for both soil and groundwater • The provision of new infrastructure to support new leasing activity, including an emphasis on the 'green environment' • The leasing of vacant lands to support economic development • The construction of new building space in partnership with public and private partners • Property management of over 400 acres of land and 580 000 square feet of building space • Sponsorship of general and sector-specific business incubators • Environmental business management
Website	www.tedco.ca

Toronto is the banking and stock exchange centre of Canada and the third largest financial centre in North America. The Greater Toronto Area is one of North America's fastest-growing economic regions and has been widely recognised as a key city-region of the future, including by www.citymayors.com and the Financial Times.

The City of Toronto Economic Development Corporation (TEDCO) is strategically aligned with the City's Economic Development Division and works to advance various elements of the City's Economic Development Strategy. Its role includes the preservation of employment lands, redevelopment of brownfield sites and underutilized lands, sustainable development, excellence in design and job creation. It enjoys the authority to explore, pilot, and implement incentives and redevelopment tools. TEDCO's objective is to work closely with the City of Toronto and strategic partners to pursue business and redevelopment opportunities to retain, expand and attract businesses. TEDCO helps create and retain employment within the City of Toronto, operating within the context of the Toronto Economic Development Strategy. Its board comprises several high profile private sector representatives alongside council and labour representatives.

Case Study: Baltimore Development Corporation

Territorial Coverage	City of Baltimore, United States of America. Population 636,000.
Status	Corporation contracted with the City of Baltimore to provide economic development services. Founded 1991 (though predecessor companies date from 1959).
Funding	Self-financing.
Accountability	14 board members, including the Mayor, city officials and representatives of the private sector.
Principal activities	<ul style="list-style-type: none"> • Liaison between public and private sectors • Inward investor support, including site selection assistance • Administering the State of Maryland Enterprise Zone scheme • Direct development on city property • Support for business in obtaining public and private grant, loan or investment funding • Workforce development support
Website	www.baltimoredevelopment.com

Baltimore is one of the most important cities on the East Coast of the United States, with world port, government offices, significant medical and educational institutions, and major tourist attractions. The region is a well-established centre of medicine and biosciences, international finance and banking, aerospace and defence systems, information technology, hospitality and entertainment, maritime commerce, and manufacturing.

The Baltimore Development Corporation is a self-financing special purpose body of the city authorities. Board membership includes the Mayor, city officials and business interests. It focuses predominantly on business growth, delivered largely through support and guidance functions, including advice on obtaining various permits, accessing funding streams, site preparation, new construction, and working capital needs. It also plays an important 'interface' role between public and private sectors, and analyses and recommends individual public – private partnership proposals.

Case Study: Greater Washington Initiative

Territorial Coverage	Greater Washington city-region, encompassing the District of Columbia, Northern Virginia and Suburban Maryland. Population 5.9 million
Status	A non-profit affiliate of The Greater Washington Board of Trade.
Funding	Financially supported by all local public jurisdictions and more than 70 area companies.
Accountability	Board of Trustees comprises private and public representatives.
Principal activities	<ul style="list-style-type: none">• Provision of key industry and location data for potential investors• Identification of strategic sites, and site tours• Advice on a wide variety of business service providers
Website	www.greaterwashington.org

Greater Washington is the fourth largest US metropolitan area, with a population of nearly 6 million, expected to grow a further 8.5% by 2010. It also has the fourth largest gross regional product in the United States, and has the nation's highest median income. In 2005, 54 local companies had a market capitalisation of over £1 billion. Greater Washington has seen its economy grow by 19.6% over the last 5 years (compared to a US average of 14.5%).

GWl is a marketing organisation created by the Greater Washington Board of Trade. It focuses on positioning Greater Washington as a top choice location for both businesses and employees by identifying strategic partners and venture capital contacts; meeting public and private sector leaders; arranging site tours; and obtaining demographic and real estate information about Greater Washington and its partner jurisdictions.

Case Study: The Stuttgart Region Economic Development Corporation

Territorial Coverage	Stuttgart city-region, Germany. Population 2.6 million. Established 1995.
Status	Subsidiary limited company of the Verband Stuttgart (city-region assembly)
Funding	Part public funded part self financing.
Accountability	Verband Stuttgart, the democratically elected assembly, chooses 7 members of the supervisory board, including the Regional Director, for 2 year terms.
Principal activities	<ul style="list-style-type: none"> • Research and analysis of market developments, benchmarking against competition. • Identifying suitable real estate for investors • Extending growth markets and building up business networks • Assistance for companies with new products and production methods • Marketing and press campaigns relating to successful city-region businesses
Website	http://www.region-stuttgart.de/sixcms/sr_home/

Stuttgart is the third largest urban region in Germany. It is often cited as a leading model for city-region interaction. Stuttgart is an industrial city with world famous automobile companies, state-of-the-art science and research facilities, and a renowned cultural offer. The city region has a GDP of 116% of the EU average, higher than all UK cities bar London. The Verband Region Stuttgart draws up and finalizes a Regional Plan, with a time-horizon of 10 to 15 years. It formulates the goals, basic principles, and suggestions from which the planners at municipal level have to take their line.

Business promotion, tourism marketing, and the co-ordination of local public passenger transport are handled, in collaboration with other regional organisations and companies, by a number of private-sector subsidiary companies. This includes the Stuttgart Region Economic Development Corporation Ltd, founded in 1995 to act as the central point of contact for all enterprises interested in doing business in and around the city. The Corporation analyses market strengths, trends and technology clusters, benchmarking Stuttgart against other economic regions. It also provides support for potential investors, helps to develop business networks, coordinates initiatives to safeguard employment, undertakes territorial marketing and advises businesses on securing grants.

ANNEX

The Consultation Criteria

The Government has adopted a code of practice on consultations. The criteria below apply to all UK national public consultations on the basis of a document in electronic or printed form. They will often be relevant to other sorts of consultation.

Though they have no legal force, and cannot prevail over statutory or other mandatory external requirements (e.g. under European Community Law), they should otherwise generally be regarded as binding on UK departments and their agencies, unless Ministers conclude that exceptional circumstances require a departure.

- 1. Consult widely throughout the process, allowing a minimum of 12 weeks for written consultation at least once during the development of the policy.**
- 2. Be clear about what your proposals are, who may be affected, what questions are being asked and the timescale for responses.**
- 3. Ensure that your consultation is clear, concise and widely accessible.**
- 4. Give feedback regarding the responses received and how the consultation process influenced the policy.**
- 5. Monitor your department's effectiveness at consultation, including through the use of a designated consultation co-ordinator.**
- 6. Ensure your consultation follows better regulation best practice, including carrying out a Regulatory Impact Assessment if appropriate.**

The full consultation code may be viewed at:

www.cabinet-office.gov.uk/regulation/Consultation/Introduction.htm

Are you satisfied that this consultation has followed these criteria? If not, or you have any other observations about ways of improving the consultation process please contact Albert Joyce, Communities and Local Government Consultation Co-ordinator, 6 H/10, Eland House, Bressenden Place, London SW1E 5DU; or by e-mail to: albert.joyce@communities.gsi.gov.uk.