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NEW LOCAL GOVERNMENT NETWORK


# More Light, More Power

## Reimagining public asset management

**Joe Manning**

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Cover Image Photo by *Martin Deutsch*

New Local Government Network (NLGN) is an independent think tank that seeks to transform public services, revitalise local political leadership and empower local communities. NLGN is publishing this report as part of its programme of research and innovative policy projects, which we hope will be of use to policy makers and practitioners. The views expressed are however those of the authors and not necessarily those of NLGN.


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**Joe Manning**
*September 2012*

# *Introduction*

***"The Town will be parked, paved, assized, marketed, gas and watered and improved."* Joseph Chamberlain, 1873**

Times are tight and councils are struggling to marshal the resources to continue to serve and support their communities. Following cuts in central grant funding, local authorities are looking for new and sustainable revenue streams. To this end, there are opportunities for councils to sweat the public asset base. Reimagining public asset management can meet pressing social need, on issues such as public health, and support jobs and employment opportunities, by boosting the local economy.

The accounting value of publicly owned assets in England is in the region of £385bn. This is slightly more than the £375bn pumped into the economy so far through quantitative easing and 15 times the value of Tesco's assets.[1] Approximately two-thirds of publicly owned assets are held by local authorities, from town halls, to leisure facilities, to land. They are critical to both local governments policy objectives and their balance sheets.

To avoid "selling the family silver," and in the face of a depressed market, local authorities must be creative in their approach to asset management. Long-term leases or partnerships with private sector specialists and community groups, for example, will allow councils to reconfigure the public estate whilst retaining the public realm.

The returns could be impressive. The sale of the Regional Development Agencies assets at market rates achieved a net profit of £3.7m in 2011, or 7 per cent above HM Treasury's accounting value. This level of return would equate to £35.7bn above the accounting value of local authority held assets. A more conservative estimate, of a return between 1 - 2 per cent per annum could be worth £50bn in revenue over the next decade.

1 See, http://www.publicfinance.co.uk/features/2011/05/squeezing-the-assets/

We've been here before of course. In 1874, the then Mayor of Birmingham, Joseph Chamberlain, took over the private gas and water companies and proceeded to reinvest the profits they made in public works. He also helped shape the city's urban environment through slum clearance, the development of Corporation Street and investment in libraries, municipal swimming pools and schools.

Bold and visionary, Chamberlain invested in assets that underpinned the future growth of his city. But as The Rt Hon Greg Clark MP, Minister for Decentralisation and Cities, has identified: "His legacy is more than physical; he has become a symbol of what good local government can achieve, and an abiding inspiration to generations of people who believe in public service in their city."

Our research found that there is much that good local government can achieve in the 21st century too. Councils have quickly seized opportunities to become energy retailers, investing in solar panels and Energy from Waste plants. Others have entered into Joint Ventures and Local Asset Back Vehicles to construct transport infrastructure or unlock urban development. Those at the forefront of new thinking have even focused on intangible assets. This includes more than selling website advertising or sponsoring roundabouts, it requires a focus on knowledge, intellectual property and brand.

All these approaches have seen councils employ what we have termed 'creative commerciality.' This will be central to the future and purpose of local government, as Chamberlain understood in 19th century, assets can underpin place-shaping and provide local government, business and communities with financial freedom.

This report builds on evidence from best practice at home and abroad whilst also suggesting where the sector could go next. The document is intended to share knowledge and to provide a call to action for local government.

In order to provide a structure for the different strategies pursued by councils, the report is broken down into five chapters. Three of these chapters focus on a specific asset class, estates management, transport infrastructure, and energy generation.

It should be acknowledged that these asset classes are somewhat arbitrary. Throughout the research it became apparent that there are overlaps between each area. The case studies used are intended to illustrate these overlaps, providing a narrative that will tie the chapters together. The chapters are book ended by a synopsis of current approaches to asset management and a discussion of the potential for council's future use of assets.

At the end of each chapter current approaches and recommendations are summarised. These are a mixture of the tactical moves that councils *should* all be making in the short-term to make savings and the strategic investments that councils *could* make for the long term to generate revenue. The recommendations include:

- Councils should build from the asset base they have and make use of any advantage this gives them in meeting local priorities. These advantages could include unique property assets such as heritage sites, specific natural assets such as extensive woodland or longer hours of sunlight, and intangible assets, such as legal expertise.
- Councils could take 'equity stakes' in private development on public land or that makes use of publicly held assets. This would provide much needed development finance. The equity stake model would also allow councils to capture some of the on-going 'market value' of assets.
- Following the lead of the City Deals, councils could consider pooling their own financial resources - Public Works Loan Board (PWLB) borrowing, capital receipts, New Homes Bonus - with devolved transport budgets to leverage major investment in transport infrastructure.
- Councils could consider using their discretion over business rates and council tax to incentivise businesses and residents to buy locally produced energy and connect on to district heating schemes.

# 1 *Income, revenue and savings*

**Local assets are a crucial resource and there is historical precedent for councils investing in them. But, this way of thinking has been largely lost and local authorities need a better understanding of capturing value and revenue streams.**

Observant visitors to London's Shoreditch will notice the striking motto that brands public buildings: 'More Light, More Power'. Although it is now to be found in the borough of Hackney the motto remains a testament to the ambitions of Shoreditch St Leonard's parish council in the late nineteenth century. Its origins lie with the Shoreditch Electric Light Station, which opened its doors in 1896; above which still reads 'E Pulvere Lux Et Vis', or 'Out Of The Dust, Light And Power'. The station burnt rubbish to generate electricity and heat the public baths next door.

Fast forward to 2012 and the approach still resonates. Despite investment under the previous government, councils are faced with rising costs and declining revenues. The public policy drivers of the 21st century, from concerns over public health, to financial turmoil in the Eurozone, to climate change, look different to those faced in Victorian Britain and add urgency to the challenge. Investment in productive assets, to meet current and future social need, is critical to both council's policy objectives and their balance sheets.

To realise these benefits, however, councils need to find ways to flip liabilities, such as waste, into productive assets with potential revenue streams, such as energy retail. Many are already moving forward with new approaches.

This research has focused on councils that are pro-actively managing their asset base in order to develop revenue streams. This was based on two assumptions. First, that if it is possible to sell an asset then it should also be possible to rent or lease it thus avoiding "selling the family silver." Second, sustainable revenue streams rather than one-off capital receipts are the key to financial self-sufficiency for many local authorities.

This of course may require further investment or change of use. Such revenue streams may also be modest in terms of wider budget cuts or infrastructure investment. But, this approach to asset management is an important facet of the creative commerciality that will underpin local government's financial future.

## Farming to football

*Asset management can be crucial to regeneration strategies. There are many types of assets and a great variety in the assets under council control. This report will address estates management, transport infrastructure and energy generation.*

The pro-active management of assets gives councils another tool with which to actively engage in 'place-shaping.' It allows for the delivery of both regeneration schemes and the protection of front line services. In addition, access to new revenue streams allows local government the autonomy to reinvest in improving its business and service offer. They give finance officers and civic leaders greater adaptive capacity and independence: the resources to negotiate risk and change more effectively.

Case Study

***Utilising investment: Joseph Chamberlain's Birmingham***

*Joseph Chamberlain transformed Birmingham during his tenure as Mayor from 1873 – 1876. The key to his success was the acquisition of privately held utility and land assets. In 1874, Chamberlain encouraged the council to buy out the two local gas companies; Birmingham Gas and Light Co. and the Staffordshire Gas Light Co. Chamberlain obtained two low interest loans, and assured the city that the scheme would pay for itself. Within ten years, Birmingham had cut the price of gas to its citizens by 30 per cent. It also generated enough profit to enable the town to buy out the local water companies in 1875. In this case his objective was not further profit but improving public health by reducing the price and improving the quality of the water supply - 'more for less' in the language of current policy debates.*

There is great variety in the asset base under council management. While some have spent the last twenty years reducing their asset holdings, others have large commercial and industrial estates. Hampshire County Council, for example, owns around 2000 hectares of farm land leased to private tenants, whilst Swindon Borough Council holds the stadiums for the town's rugby club and football club. Other councils have a crucial role to play in stewardship of assets: Westminster City Council is home to 11,000 listed buildings, 53 conservation areas and a World Heritage Site.[2]

Different models will be needed in different localities. To this end, it is imperative that councils develop strategies that build on the asset base they have rather than imitate the approaches of others. It was made clear on more than one occasion during this research that the "local government asset base has emerged almost by accident." Councils must now design within these constraints.

The typology of asset management includes the physical, natural, economic, social and human. Physical facilities house and connect people, goods and services. They include buildings and land, transport and communications infrastructure. Natural assets are "the biological assets (produced or wild), land and water areas within their ecosystems, subsoil assets and air."[3] Economic assets are the institutions that support a functioning market place. They include businesses, banks and universities. Social assets and networks exist within the community, they support cooperation and resilience.[4]

Thinking holistically is crucial for strategic local asset management. Management accounting practice has led to narrow definitions of assets and silo-thinking. It is important to challenge the dominant financial mind-set in order to find creative approaches to revenue generation that do not focus on the capital value of bricks and mortar assets at the expense of realising full value for localities.

**2** English Heritage, *Managing local authority heritage assets* (2003)

**3** United Nations, Glossary of Environment Statistics, Studies in Methods (1997)

**4** De Silva M J, McKenzie K, Harpham T, Huttly S R A (2005) 'Social capital and mental illness: a systematic review', Journal of Epidemiology and Community Health, vol 59: 619-27; Harper R and Kelly M (2003) Measuring Social Capital in the United Kingdom, London: ONS and Wilkinson R G (2005) The Impact of Inequality, London: Routledge

It is also essential that councils look beyond tangible, physical assets and aim to extract value from the knowledge economy. Councils' main assets are arguably their staff and their intellectual property. Councils are repositories of knowledge. Finding a way to harness this could generate a new source of income. In many instances councils also retain strong brand equity with local communities. A trusted and recognisable logo is a significant asset. The enduring appeal of the motto of the Shoreditch Electric Light Station remains a demonstration of this.

## For what it's worth

*The local government asset base is of significant value but can also be a drain on resources. Current economic conditions have decreased public sector asset sales and councils will have to be more creative in how they use assets in the future. Prudential borrowing headroom, the Localism Act 2011 and a number of centrally designed initiatives are the tools that authorities can use to achieve this.*

The economic value of publicly owned assets in England is in the region of £385bn. This is slightly more than the £375bn pumped into the economy so far through quantitative easing. Approximately two-thirds of public sector assets are held by local authorities, including housing, schools and leisure facilities; and the remainder are owned by central government and other public bodies, such as police authorities, fire authorities and health organisations.[5] Excluding housing, the average authority devotes 8 per cent of its annual revenue budget to running and maintaining its property (this proportion is higher in some service areas), making it the second most costly resource after staff.[6]

The local government estate - property and land - accounts for the majority of its asset holdings. It has an estimated net book value of over £250bn; this book value has nearly doubled in the last decade.[7] If this definition is expanded to include Property, Plant and Equipment the value is £339bn, of

**5** Audit Commission, *Room for Improvement* (2009)

**6** Ibid

**7** Ibid, The book value of assets is based on the original cost of the asset less any depreciation cost made against the asset.

which £15bn or 4.4 per cent is classified as investment property.[8] The figure for investment property may actually be higher; however, according to one interviewee, councils are often not clear "about the property held solely for income or that held for regeneration purposes."[9]

It is much more difficult to account for the value of the other assets reviewed in this report. The nearest approximation for the value of transport infrastructure is a figure in the national accounts for local government 'civil engineering works.' These have an estimated value of £282.3bn, most of which appears to be attributable to highways.[10] The third asset class of this research, energy generation, is the least developed but could potentially become very significant. Warwick District Council, for example, has found that energy investments could secure over £250m in revenue for the district over the next 15 years.[11]

The asset base of the public sector has been subject to considerable change in recent years. Councils have been under pressure to sell assets for capital receipts, and a number of pathfinders have focussed on better property management and disposal. They have also moved assets off balance sheet into new management organisations. The Large Scale Voluntary Transfer of social housing is the most significant example of this approach, a policy which led to the transfer of over 1m former council-owned properties to social landlords, often newly-formed charitable associations and trusts.[12]

Unfortunately this has meant that the disposal of assets has often been driven by short term budgetary targets, rather than an informed appraisal of the assets that are not being used productively or are surplus to requirements. Understandably, councils have been looking to sell before they buy or invest.

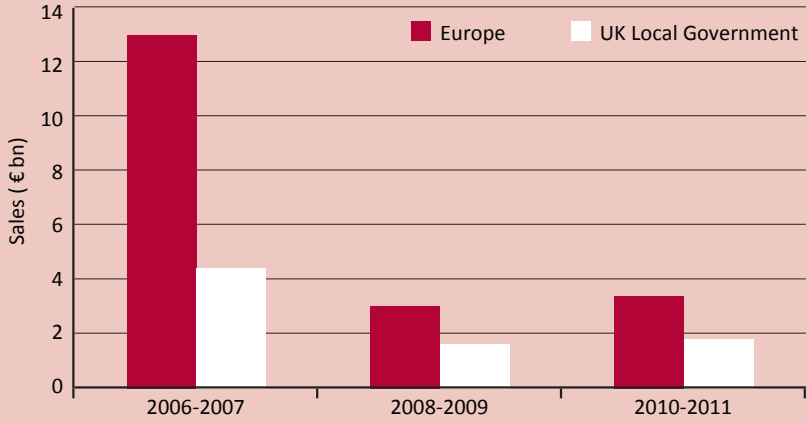
With the financial gap that councils are attempting to bridge set to widen, pressure will continue. The UK economy continues to struggle and George

**8** HMT, Whole of Government Accounts (2010)
**9** Interviewee
**10** CIPFA, *Local Authority Transport Infrastructure Assets* (2010)
**11** Encraft, *Power you don't know you have* (2012)
**12** See, http://www.guardian.co.uk/society/2008/dec/10/housing-voluntary-transfer

Osborne has announced that further spending cuts will take place. Local authorities have already seen their grant reduced by 28 per cent over the current funding period. It is estimated that post-2015 councils will have to endure cuts of a further 20 per cent in order to meet the Chancellor's fiscal targets.

The public sector had previously been selling assets in a rising market and was at times criticised for not "getting a better price".[13] Yet, the recession has severely limited the scope for asset disposals; with a quarter of councils expecting receipts from disposals to fall by over 80 per cent.[14] As one interviewee said, "Nobody is selling property unless it is at a loss. It is just sat on the books." This trend is also observable across Europe (see graph below).[15] European sales were dominated by the €2.3bn raised in four markets – Germany, Sweden, Russia and the UK. These countries accounted for 75 per cent of public sector sales.[16]

**Figure 1** Public sector asset sales




**13** Interviewee

**14** European asset sales taken from CBRE, *Public sector asset disposals in Europe* (2012); UK Local Government Figures from DCLG, *Local government financial statistics England* (2012)

**15** Interviewee response

**16** CBRE, *Public sector asset disposals in Europe* (2012)

In order to avoid "selling the family silver," and in the face of a depressed market, some councils are beginning to pursue different financial models, treating assets as a strategic tool. These include issuing long-term leases and using assets as collateral in local regeneration initiatives.

The primary model for local regeneration is a Local Asset Backed Vehicle (LABV), a joint venture into which the council assigns key property and land that the private sector is able to borrow against. Risk and reward is shared through a limited liability partnership and can help avoid the lengthy procurement periods and start-up costs of previous Public Private Partnerships. Project finance is usually provided for town centre development, such as the £450m, 25 year partnership between Croydon Borough Council and the developer John Laing. LABVs offer a chance to leverage council assets without having to dispose of them.

LABVs offer an opportunity to develop long-term relationships and can be designed around the specific assets and needs of any given locality. New models are also emerging that are oriented around more strategic partnering principles – capital investment is delivered but this is just part of the arrangement. LABVs and other joint venture models could have higher level place-making outcome objectives; evolving beyond their initial purpose through the acquisition of new development sites or through involving multiple public partners in the client role.[17] By way of example, in 2010 Torbay extended its range of services through the creation of TOR2, a joint venture company between the council and May Gurney. TOR2 delivers waste and recycling collections; the maintenance of highways, grounds, parks, car parks, buildings and the council's vehicle fleet; street and beach cleaning; and out-of-hours call centre support; designed to drive service improvements and value for residents.[18]

Throughout the research it became clear that the best of these vehicles will be based on, as one interviewee described it, a "three stage consideration" of outcome objectives; funding required and available; and, the design of

**17** For more on the potential of LABVs and Joint Ventures, see HMT Joint Venture Guidance (2010) available at http://www.hm-treasury.gov.uk/d/joint_venture_guidance.pdf

**18** See, http://www.tor2.co.uk/pages/about.html

the delivery vehicle.[19] HMT's Green Book business case approach is useful for straight forward procurement exercises, but does not necessarily suit these more holistic asset commercialisation arrangements.

To meet the second stage requirement, local government has significant freedom to borrow to invest. Throughout the 1980s council capital expenditure was defined and controlled through annual expenditure allocations. In addition, limits on capital expenditure were set partly by reference to a prescribed proportion of an authority's capital receipts. The Prudential Borrowing Code, introduced in April 2004, created a new regulatory regime for capital finance. Councils were given more responsibility to manage their own finances. Councils were freed to borrow to invest in fixed assets, as long as they are able to demonstrate that the borrowing was prudent, affordable and sustainable.[20] The majority of councils borrow from the PWLB, with interest rates based on Government gilt yields.

With regards vehicle design, the Localism Act 2011 has reduced inspections and budget ring-fencing, and introduced a new general power of competence. Provisions in the Local Government Finance Bill will incentivise councils to engage pro-actively in economic development through the introduction of business rate retention. HMT has also launched 'UK Guarantees', under which the government will aim to ensure finance where major infrastructure projects are struggling to access private finance because of adverse credit conditions.

These reforms clear the way for ambitious and entrepreneurial councils to step forward with creative plans for their asset base. Councils have the tools they need. They will have to make them work, for as one interviewee put it "it is unlikely that they will get anything more in the near future."[21]

## Sustainable partnerships

*Partnership working is essential to successful asset investment and management strategies. All new developments require willing fee payers.*

**19** Interviewee
**20** Communities and Local Government Committee - Seventh Report: Local authority investments (2009)
**21** Interviewee response

*Councils must assess public and business willingness to pay and develop the asset base in accordance with this.*

Discussion to this point has focused on the assets held by local government, yet asset ownership is mixed. The public sector, private sector and community groups are all stakeholders in the local asset base. In addition to the many joint ventures between public and private sector partners, it can also be productive to transfer assets from the public to community sectors. These relationships are not always the easiest to manage as partners have different strategic aims and time horizons. A sense of shared objectives is crucial to success.

Case Study

***Municipally owned airports: Greater Manchester***

*Manchester Airport has been municipally owned since it became operational in 1938. However, the Local Government Act of 1985, which abolished Greater Manchester Council, led to a wave of corporatisation and privatisation of local authority assets. This was formalised in the Airports Act 1986 which required fifteen municipal airports to be set up as 'arm's length companies'.[22] Anticipating these legislative developments Manchester City Council and the nine metropolitan borough councils, who inherited GMC's 50 per cent stake in Manchester Airport, created Manchester Airport PLC. Wholly owned by the ten councils, the public company was created in order to retain control of the airport amid concerns that privatisation could jeopardise its status as an international gateway and have negative repercussions for the region's economy.[23] Manchester Airport has continued to grow, and is now the busiest UK airport outside London, providing a constant revenue stream for the local authorities via the dividends paid to them as shareholders. Keen to maximise the commercial benefits that the aviation industry offers the councils also purchased a majority shareholding in Humberside Airport in 1999, and following*

**22** House of Commons Library, Aviation: Regional Airports briefing paper, 2012
**23** The Manchester Airport Group PLC, Annual Report and Accounts 2010-11

*the acquisition of East Midlands and Bournemouth Airports in 2001 the company was restructured into Manchester Airport Group PLC, the largest UK owned airport group, reporting profits of £84.7m in 2011.*[24]

The complexity of public policy goals was pointed to by many local authority officers to explain a lack of focus on revenue streams and the commercial viability of schemes. By way of example, in designing road charging schemes transport planners must also acknowledge broader objectives such as reducing congestion, improving air quality, and improving capacity and connectivity. It also became apparent that significant tensions can arise between investing for social need and investing for returns. This makes little sense to private partners that are not incentivised to take such factors into consideration.

In addition to clarifying the high-level objectives, councils must also base their strategies on a sophisticated understanding of customer need, future service demand and user behaviour. Transport infrastructure, for example, has had to cope with a significant increase in demand, with 50 per cent more journeys made by car since 1980. This is predicted to rise by another third by 2030. At the same time there has been a change in public willingness to pay for certain services. Sixty four per cent of citizens express support for councils charging for fast track or premium services, while 33 per cent of people think it is acceptable for councils to sell services, for example property maintenance, to local residents who would not receive that service normally.[25] Local authorities could therefore consider differential service offers and charges to contend with rising demand.

Councils could even seek to develop entirely new services that could benefit communities and raise revenues. Hull, for example, is an exception in the UK phone network as it is not served by British Telecoms. Hull City Council was one of only a handful of authorities to own and operate a telephone service and network infrastructure throughout the 20th century. In 1989, its subsidiary company Kingston Telecoms, KCOM as it is now known, converted this network to a digital infrastructure - the first in the UK. It used this infrastructure to pioneer additional services for Hull residents, providing Video on Demand and Digital TV through KC Connect. KCOM has used such

**24** See, http://www.salford.gov.uk/manchesterairport.htm
**25** BDO, *A Perfect Storm: Revenue and Charging* (2010)

market intelligence to provide digital communications services to the public and private sector throughout the UK. The city council held on to a 45 per cent stake in the company and has been able to share in its success.

There are opportunities to explore. Current estimates of asset value are *de minimis*; creative thinking and a pro-active approach could see new value recognised in assets such as, estates, transport infrastructure and energy generation, and beyond.

## Approaches and recommendations

- Councils should focus on generating revenue streams from assets, not just one-off capital receipts. This will support local government's long term financial sustainability and self-sufficiency.
- Councils should build from the asset base they have and make use of any competitive advantage this gives them. These advantages could include unique property assets such as heritage sites, specific natural assets such as extensive woodland or longer hours of sunlight, and intangible assets, such as legal expertise.
- An information rich economy means that councils should rethink what constitutes an asset, building on their knowledge and intellectual property to offer new services to communities, business and the wider public sector.
- Local government should raise internal awareness of assets as a strategic resource that need to be actively managed at both corporate and service levels.
- Councils could explore opportunities for joint ventures – such as LABVs – which not only leverage assets for project finance but can also be a means to revenue generation through strategic partnering agreements.
- The Localism Act and PWLB borrowing head room give councils an opportunity to make strategic investments in the local asset base. Councils' borrowing capacity and credit rating could enable them to make capital investments that kick-start stalled developments.

- Councils must base their asset management and investment strategies on a sophisticated understanding of future user need. This will allow them to work with partners to design better services.

# 2 *Estate management*

**Local government properties are the largest of its asset holdings. The majority of asset management strategies have focused on this. HM Treasury accounting orthodoxy has limited creativity and the transformation of assets into productive revenue generators.**

The local government estate – civic halls, libraries and homes – defines towns and cities across the country. These extensive properties represent by far the largest local government asset holding, with a total net book value of over £250bn.[26]

The diversity and value of council estate assets led Secretary of State for Communities and Local Government, Eric Pickles, to insist that organisations across the public sector: "take a good hard look at what they own."[27] The resulting DCLG mapping exercise threw up a few surprises. The public sector owns, for example, at least 20 cinemas.

The management of this diverse asset base presents councils with a difficult balancing act. On one hand, estate assets need to be seen as a resource for delivering services. They should be managed as efficiently as possible, with surplus assets treated as a liability and disposed of to yield capital receipts and reduce running costs. On the other hand, property and land assets enable councils to pursue much wider policy objectives, including stimulating economic growth, improving the quality of the public realm or providing affordable homes. Moreover, asset disposal, particularly at bottom of the market prices, rules out other solutions that may offer better value to the local community or the council in the long run.

## Smaller footprints

*Local government has not pro-actively managed its estate and has prioritised estate rationalisation over further investment. Internal tensions*

**26** See, CLG (2011) http://www.communities.gov.uk/documents/statistics/xls/2016375.xls. Explain book value of an asset

**27** See, http://www.communities.gov.uk/news/newsroom/1960942

*have hampered new approaches but these have in part been overcome by government programmes, including the Capital and Assets Pathfinders.*

The local government estate provides communities with a range of social, economic and environmental benefits. Parks, for example, are not only an important public space. They also provide eco-system and public health functions, reducing the risk of urban flooding whilst raising the general health and well-being of those who access the space. Their value is demonstrated by the fact that people are prepared to pay up to 19 per cent more for homes near a park.[28]

However, councils have often not managed their estate with such benefits in mind, taking a fragmented approach that has left them with expensive liabilities. Councils have, in the words of one interviewee, been left to manage the "estate they deserve.[29]"

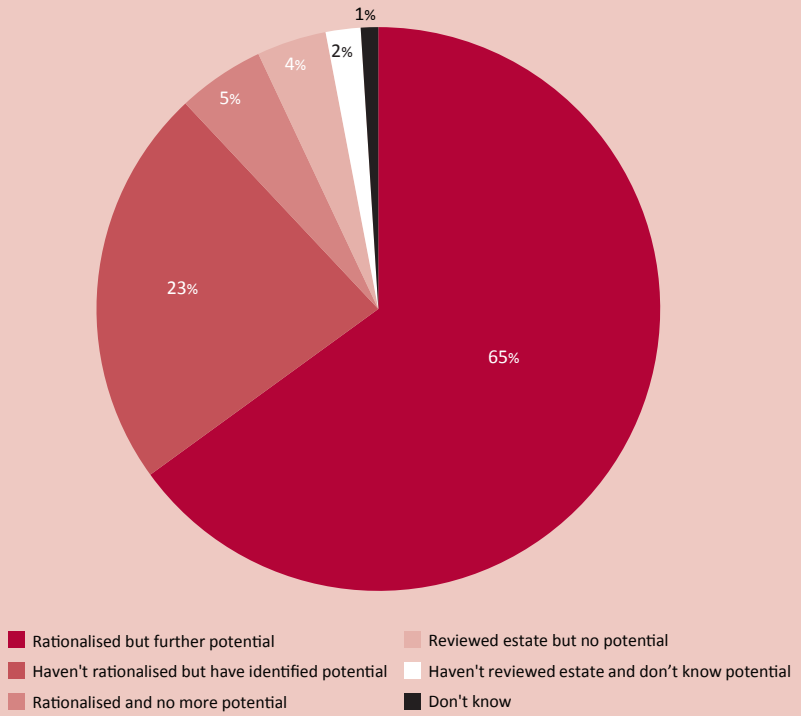
The lack of pro-active management explains why the Audit Commission found that only 1 in 14 councils is an exemplary manager of its assets, despite efforts to improve this situation following the Lyons Review in 2004. A separate survey found that only 1 in 12 councils reached the "advanced" level of asset management.[30] Most local authorities acknowledge that there is potential for them to improve their capability or bring in additional support in order to rationalise their estate (see figure 2).

**28** Natural England, *Microeconomic Evidence for the Benefits of Investment in the Environment* (2012)

**29** Interviewee

**30** A. Phelps. *Municipal Property Asset Management – A Comparative Study of UK and Russia*. - International Journal of Strategic Property Management (2011)

**Figure 2** How would you best describe your authority's operational estate?

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Councils have begun to improve asset management by taking a "Corporate Landlord" approach, removing property from the ownership of directorates and internally leasing the property back for service delivery. Both Birmingham City Council and Manchester City Council have developed a Single Property Management Function combining property teams within corporate services to provide a strategic approach.

A number of government programmes have been designed to encourage the adoption of new approaches. The Total Capital Pathfinders emphasised "alignment, procurement and asset management" to combat significant duplication in public sector delivery, barriers to service integration and the

31 Audit Commission, Telephone survey of 80 councils (2009)

failure to make the most of existing property.[32] In Durham, for example, the Total Capital Pathfinder identified 38 major public funding programmes, nearly a third of which were deployed by the Homes and Community Agency, impacting on housing and regeneration alone. The Coalition Government established the Capital and Asset Pathfinders (CAP) to move this agenda forward. DCLG selected 11 CAP authorities and other councils have been pursuing asset rationalisation strategies independently.[33]

The pathfinders emphasize the importance of reducing occupied space to reduce running costs. Where detailed figures have been provided, pathfinders have shown a reduction in operating footprint of between 10 per cent and 29 per cent is possible.[34] It is predicted that the seven projects evaluated in detail can deliver £155m worth of savings over 25 years from reduced floor space and revenue expenditure.[35]

Turning surplus space – whether property or land – over to commercial rent could give councils additional sustainable revenue streams whilst maintaining the asset base into the future. By way of example, One NorthEast, the former Regional Development Agency (RDA), established a joint venture with UK Land Estates for the transfer of surplus investment properties. The former JV 'Buildings for Business' manages and invests in the property. In return for contributing its assets ONE NorthEast received an interest bearing loan note from the JV. This provided security equivalent to the book value of the assets.[36]

## Cooperation and stewardship

*Historically the public sector has not been good at cooperating on local asset management. This has undermined service delivery and wasted public money. Fortunately, this situation is beginning to change due to better customer insight and realisation of the economic benefits of partnership working.*

**32** HCA, Total Capital (2010)

**33** Cambridgeshire, Hampshire, Solihull, Swindon, Wigan, Worcestershire, have all taken part in an intensive programme; Durham, Hackney, Hull, Leeds, Leicestershire & Leicester City were the laboratory authorities.

**34** DCLG, *Capital and Assets Pathfinder Programme 2010-11: Position Statement* (2011)

**35** Ibid.

**36** HM Treasury, *Joint Ventures: A guidance note for public sector bodies forming joint ventures with the private sector* (2010)

A major issue identified during the research was a continuing lack of clarity over the strategic use of public assets. This is despite DCLG's "ambition… for local authorities in England… to lead a pan-public sector approach to capital investment and asset management."[37]

At present the majority of local government directorates, central government departments, police and fire authorities or NHS services rely on their own in-house property and facilities management. Whether it is the Ministry of Defence or the Metropolitan Police, there is a lack of acknowledgement of the strategic importance of assets to local development. The public sector operates property portfolios without wider regard for the strategic importance of their holdings. This has too often resulted in assets being "sold to the highest bidder" rather than being used to deliver the best possible local regeneration outcomes.

Fortunately, there are signs of a change to this mentality, as demonstrated by the plans for the future use of RDA assets. The eight RDAs outside London owned land and property assets with a book value of £512m. The title to the assets was transferred to the Homes and Communities Agency in 2011. At the time, the Business and Enterprise Minister, Mark Prisk MP, announced that it was the intention to transfer the majority of the RDA land and property portfolio "into a 'stewardship' arrangement through which local partners, including local authorities, businesses, LEPs and others will be able to… ensure they are developed in a way which maximises economic outcomes for the area."[38] The HCA has expressed its intention that its management of these assets will be on the basis of a co-operation agreement with councils and any income from assets would be used to invest at a local level.[39]

Of those RDA assets that were sold, they achieved a net profit of £3.7m at 2011 market rates, or 7 per cent above book value.[40] At scale, this level of return could be productively used as a local revenue stream. It equates, for example, to £35.7bn above the accounting value of the assets currently held by local authorities.

**37** See, http://www.communities.gov.uk/documents/localgovernment/pdf/19535881.pdf page 5
**38** See, http://www.bis.gov.uk/assets/biscore/economic-development/docs/r/rda-assets-mark-prisk-statement-06-07-2011
**39** See, http://webarchive.nationalarchives.gov.uk/+/http://www.bis.gov.uk/rda-assets
**40** See, http://www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/1802/1802we02.htm

There are good examples of local partnerships in the East of England. Cambridgeshire County Council has realised savings of £350,000 through the co-location of council, NHS, DWP and library offices. The council is also investigating opportunities to make new development more attractive through the better use of site footprints.[41] The North Northamptonshire Joint Property Unit is a partnership of four district councils and Northamptonshire County Council. Its role is to coordinate a planning strategy that will deliver key infrastructure and 66,000 new homes in the region by 2026.[42]

Needs mapping can predict future levels of service demand to inform co-location. It can break down property-led mind-sets, ensuring that decisions are made on current and future priorities, rather than simply focusing on the estate as it currently stands. Library services are a good example of an asset designed to meet a need that is now better tackled through different means. The Victorians invested in libraries as a physical facility to allow access to books. The goal was to tackle illiteracy. Libraries were a particular solution to a particular problem.

Case Study

***Customer insight to identify future need: Hull***

*Kingston upon Hull City Council has developed a customer journey insight database, covering all public sector service providers in the city, in order to ensure that its asset management directly reflects service needs. This is based on census data combined with records from Hull's Customer Relationship Management system, linking every service request within the last two years to each segmented customer group. This was then linked to Hull's property database to highlight where services were being over subscribed or under-utilised.*

**41** See, http://www.publicfinance.co.uk/news/2011/05/central-government-should-join-in-property-sharing-plans/

**42** See, http://www.nnjpu.org.uk/

## Development of new and existing assets

*Local government can also use its assets to stimulate new development. It can catalyse the smarter use of privately held assets and capture value from new development beyond S106 agreements. Communities can be involved in an active role in asset ownership or stewardship.*

The local government estate, which makes up a large part of the local physical environment, can be a catalyst in local development schemes. Successful developments – of office and retail space, parkland or housing – can also increase the value of the original asset. The success of this will in part be dependent upon councils delineating assets held for commercial investment purposes and assets that are held for community purposes. This should facilitate a shift in focus from the construction of social infrastructure to the development of economic infrastructure. Councils will not be performing a role that could be otherwise performed by the private sector; they will be intervening to overcome a market failure using their unique combination of borrowing capacity and legislative ability.

Local authorities' powers over land assembly and compulsory purchase are of significance to new investment for economic infrastructure, as they can overcome the problem of fragmented development. This can dramatically increase the value of land and the potential of a site in direct council ownership or private hands. In Birmingham these powers were used, in the words of one interviewee, to "kick start redevelopment" at New Street Station.[43] The original train station was built in 1854 and altered in the 1960s; it is a significant gateway for the city but has suffered from platform overcrowding and under-utilisation as a retail space. Birmingham City Council used a Compulsory Purchase Order – the development had over 200 interested parties including commercial, retail and homeowners – to assemble land for the project.[44] The council also made use of PWLB borrowing to acquire the Pallasades shopping centre above the station, purchased for £91m from a property fund held by the Warner Estate. The shopping centre provides an income stream with

**43** Interviewee

**44** http://www.swcouncils.gov.uk/media/SWRA/RSS%20Documents/Planning%20for%20Growth%20and%20Delivery%20Events/Local_Authority_Powers_and_Resources_-_Report_of_Proceedings.pdf

which to pay back the initial borrowing costs and capital investment. It also unlocked the development site.

***Compulsory Land Purchase***

*Acquisition of land which was suffering from problems of "bad layout and obsolete development" was first authorised under the Town & Country Planning Act 1944. This was intended mainly to allow councils to purchase, on compulsory terms if required, land which had been made derelict through wartime bombing. However, its use has extended beyond the original purpose and it can now be used to meet the provision including in the Localism Act 2000 for councils to "promote or improve either the economic, social or environmental well-being of an area". In planning terms the main Compulsory Purchase Order is under Section 226(1)(a) of the Town and Country Planning Act 1990, enabling compulsory purchase of land if it will "facilitate the carrying out of development, redevelopment or improvement on, or in relation to, the land being acquired and it is not certain that they will be able to acquire it by agreement."*

However, land assembly approaches still suffer from the legacy of 1960s schemes that demolished historic town centres. The failures of the past mean that councils often do not use their powers creatively to capture value from planning gains. Instead, developer contributions currently take the form of S106 agreements or the recently introduced Community Infrastructure Levy.

These tools, consisting of a one off payment, fail to capture revenue streams from changes to land value throughout the property life cycle and do nothing to help overcome stalled development. In the current market, if local government is to take on a bigger share of the risk – bearing more of the burden for land assembly, infrastructure costs or phased development – then it should be looking to gain more of the long term reward.

Case Study

***Unlocking investment: Oxford Castle and Jail***

*In the last decade, Oxford castle and jail has been transformed into a mixed-use development that includes a hotel, residential apartments and restaurants set around public spaces. Oxfordshire County Council, who took over the site freehold from the Home Office, had a vision for the redevelopment of the site despite advice from property consultants who said "there could be no alternative uses for Oxford Castle with any positive value…the site is a liability…". After initially taking ownership the Council raised around £500,000 from renting out the site to film and television companies. This covered the initial cost of maintaining the site, and was able to attract private and public sector investors to the site. Total private sector funding for the project was £34.2m, resulting in a private: public funding ratio of 3.3 to 1. The council leased the site for 200 years to Oxford Castle Limited.[45] The site is now considerably more valuable than when it stood derelict, and the council will receive revenue as a share of the rental income received by Oxford Castle Limited from the hotel on the site. The project turned what was originally a constraint, the heritage aspect of the buildings into a more attractive proposition for tourism. Arguably, given the success of the project, the council could have considered a shorter lease period or a contract structure through which they received a greater percentage of revenues from the site.[46]*

A mechanism to share in the development profit of a site, for example, local government holding an equity stake, could be established that accounts for the new market value rather than the initial capital value of property assets. Councils may also want to consider an arrangement in which they receive a share of rental income from major tenants, providing a revenue stream alongside business rates. In return, they would have to be willing to take on more of the development risk. Equity stakes could be taken in private

**45** See, http://www.princes-regeneration.org/sustainableheritage/content/case-study-oxford-castle-oxford-0

**46** Grant Thornton, SEEDA: Evaluation of the Oxford Castle and Prison Project (2008)

development that on public land or makes use of publicly held assets. This would provide much needed development finance.

The government has also urged councils to consider the compulsory purchase of assets for transfer to voluntary and community groups. In the words of Greg Clark, Minister for Cities and Decentralisation, "local authorities – acting in the best interests of local people – should take seriously all viable requests put to them for the compulsory purchase of a threatened community asset". The Community Right to Bid has been designed to give local people more of an input into the future of their neighbourhoods, and will give people the chance to bid to buy and take over the running of assets – from a village pub to a local shop – that are of value to the community but have been held privately or publicly. The Community Asset Transfer programme, introduced by the 2007 Quirk Review, supports the free transfer of assets held by local authorities to third-sector organisations. However, in order for these approaches to work the community and voluntary sector will have to build its management capabilities. Therefore, time limited trusts could be established for community asset transfers, contingent upon community management capacity. The council would maintain the free-hold and give the community a free lease-hold for the site.

Case Study

***New use for old infrastructure: Friends of the high line***

*The New York City High Line was built in the 1930s as a way of raising freight trains above Manhattan's busy industrial district. When trains ceased to run in the 1980s, discussions took place between the city and local land owners over the potential demolition of the entire structure. In response 'Friends of the High Line', a non-for-profit community group, advocated the redevelopment of the tracks into a usable public space. The group's proposals showed the development of the High Line to be economically rational with the potential new tax revenues exceeding the costs of the project, convincing local officials to preserve and reuse the railway. With two sections now complete, and the construction of the final section underway, the transformation*

*of the High Line into an elevated public park has received universal praise for creating one of the most innovative and inviting public spaces in the city. New projects and businesses continue to form in the surrounding area, local property values have increased dramatically, and recent figures suggest that tax revenues are set to be double those that were initially predicted. The Highline has cost $150m to build so far, but an updated study shows that the city will see almost $900m in new tax revenues over the next 20 years.*[47]

## Housing

*England is facing a chronic housing shortage. Major investment is required if councils and private homebuilders are to meet demand. The government has introduced a range of incentives to encourage home building but new models for delivery and finance are under-developed. Land-lease agreements potentially provide a solution.*

It is estimated that over the next two decades England will require 232,000 new households per year. However, in 2011 only 109,020 new homes were built; the majority of which were private sector developments with housing associations and local authority accounting for just fewer than 25 per cent of new homes development.

Approximately half of the public sector land suitable for residential development is owned by local authorities (OFT 2008). To exploit this situation, and to exploit incentives such as the New Homes Bonus, Oxford City Council has developed a joint venture partnership to build around 1,000 homes on its own land.[48] Using public land for 'build to let' projects can de-risk developments and secure investment from large financial institutions for which extensive social housing waiting lists and low tenant turnover could present an attractive revenue proposition.

**47** See, http://www.newschool.edu/commencement/2012/remarks/robert-hammond/

**48** Through the New Homes Bonus, central government will match any council tax income from new build houses for a period of six years. It is estimated that almost £1bn will be allocated. In areas of low housing demand it will fall far short of Housing Market Renewal grant. In the North East, Gateshead's projected initial NHB allocation is £68,000 and Newcastle's is £455,000, compared to respective HMR grants of £10m and £14m in the last financial year.

In order to encourage the building of private and social housing, local authorities could enter an agreement to secure development finance through a sale-and-leaseback arrangement. They could also consider a gift-and-leaseback arrangement in areas where development is less financially viable and it is more difficult to raise capital. Where appropriate, HCA assets should also be included in such approaches.

The localisation of the Housing Revenue Account provides a further potential revenue stream. Councils will keep the rental income that their social housing stock generates in order that they can re-invest any surplus income. In the previous system there was insufficient funding to meet the decent homes standard. Local authorities will now be granted more maintenance funding and a direct financial motivation to control costs and meet local needs[49] The response from councils has been broadly positive, whilst other stakeholders, such as the Chartered Institute of Housing have suggested that the HRA reforms "will help considerably in finding the resources to maintain the local authority stock in the future." [50]

Case Study

***Long-term investment: Shropshire Council***

*The council is not a large landlord so has committed to maintaining and growing stock levels to deliver economies of scale in its management. Theoretically councils could borrow to invest more in local stock; however the HRA debt-ceiling means that they may have to explore other capital raising approaches. Shropshire is considering the potential sale of assets, with the capital receipt being used as a makeweight in a bid for HCA funding to regenerate 2 estates, of about 60 homes. The council is also looking to develop an individual brand identity to reflect the self-financing nature of the service: "This would…enable tenants to develop a loyalty to the service being delivered rather than to the Council as a whole."*

**49** In return for this new freedom they will be allocated a share of £28bn worth of debt that had previously been held centrally.

**50** Wilson, W., *The Reform of the Housing Revenue Account Subsidy,* House of Commons Library (2011)

In response to the introduction of the HRA borrowing-ceiling – introduced to limit levels of national debt – councils have been exploring models that would allow them to borrow off the public balance sheet. Gloucester City Council and Rochdale Borough Council have both developed Community Owned, Council Owned models for Arms Length Management Organisations (ALMOs). In Rochdale, the new 4,800-home body would be owned in three equal parts by the council, tenants, and independent members from within the community. It would no longer be a public body so could approach banks or the bond markets.[51]

## Recommendations and approaches

- A "Corporate Landlord" approach, removing property from the ownership of directorates and internally-leasing property back for service delivery, should be prioritised. This will help save councils money and support co-location strategies across the public sector.
- Local government could become a smarter leaser of property. For example, negotiating preferential rates for sites in which it is the long-term anchor tenant.
- Needs mapping should inform investment in the asset base. It can break down property-led mind-sets, ensuring that decisions are made on current and future priorities
- Local authorities could consider using Land Assembly and Compulsory Purchase Orders to overcome the problem of disparate development, working with developers and the community in order to create shared value.
- Councils could consider purchasing private assets that are crucial to urban redevelopment initiatives, realising a return on the initial capital investment through a rental income stream.
- Councils could take equity stakes in private development on public land or that makes use of publicly held assets. This would provide much needed development finance. The equity stake model would also allow

51 NLGN, Retail Therapy: Local Capital Finance and the Retail Bond Market (2012)

councils to capture some of the on-going 'market value' of assets.

- Time limited trusts could be established for community asset transfers, with the council maintaining the free-hold and giving the community a free lease-hold for the site.
- In order to encourage the building of private and social housing, local authorities could enter an agreement to secure development finance through a sale-and-leaseback arrangement in return for a capital receipt. They could also consider a gift-and-leaseback arrangement in areas where development is less financially viable and it is more difficult to raise private capital. Where appropriate, HCA assets should also be included in such approaches.

# 3 *Transport infrastructure*

**Economies have always been dependent upon the speed and extent of transport connections. This is increasingly important in a globalised marketplace. Connections between places matter as much as the connections within places.**

Transport assets include both fixed infrastructure, from highways to car parks, different modes of travel, from trains to bicycles, and information, such as timetables and journey mapping. Many of these transport assets are managed nationally or held in private hands, but local authorities still have a significant role to play in developing and delivering sustainable transport systems.

The roads network and other transport infrastructure represent the biggest asset that the UK public sector holds. Estimating the value of these assets is difficult. The nearest approximation is a figure in the national accounts for the value of local government 'civil engineering works.' These have an estimated value of £282.3bn, most of which appears to be attributable to highways.

In the wake of cuts to the Department for Transport's budget, Prime Minister David Cameron, in a speech earlier this year, signalled an interest in the potential for using private money and road tolling to improve the nation's road network: "To put it crudely, we've become good in Britain at sweating old assets. But if you do that for too long, there's a price to pay." Therefore, "We need to look urgently at the options for getting large-scale private investment into the national roads network, from sovereign wealth funds, pension funds, and other investors."[52]

## From A to B

*Local authorities have a significant role to play in developing and delivering sustainable transport systems. Transport infrastructure is crucial for local communities in making an area an attractive place to live, it is also essential for economic competitiveness and regeneration. Road travel is the dominant*

**52** See, http://www.guardian.co.uk/politics/2012/mar/19/david-cameron-sell-off-roads

*form of transport and road taxes account for the majority of revenue raised from the use of transport infrastructure.*

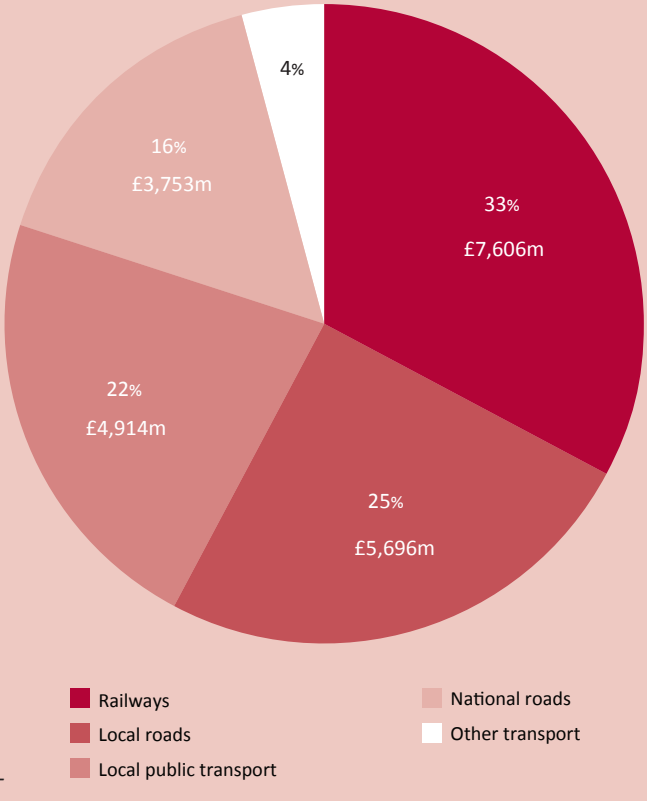
The UK is currently suffering from underinvestment in transport infrastructure and the resultant congestion is estimated to cost between £7-8bn per annum.[53] The current transport system is also failing on measures of environmental sustainability. Carbon emissions impose a cost to society equivalent to up to £4bn per annum.[54] The UK is facing EU fines over the levels of pollution in 12 cities and urban areas which have high levels of exhaust emissions, with London's air quality amongst the worst in Europe.[55] Councils have a statutory duty for the strategic coordination and direct maintenance of local transport infrastructure; ranging from capital investment in street lighting and pot hole repairs to provision of information about public transport. Total public spending on transport in the UK, including capital expenditure by public corporations, in 2010-11 was £22.9bn. Of this total, about 48 per cent was spent by local government of which a significant proportion was spent on local roads.

**53** NLGN, Transforming Universal Services (2011)

**54** DfT, Creating Growth, Cutting Carbon: Making Sustainable Local Transport Happen (2011)

**55** See, http://www.guardian.co.uk/lifeandstyle/2012/aug/05/air-pollution-should-stop-you-exercising

**Figure 3** Public expenditure on transport infrastructure assets, 2010-2011




*Source: DfT*

The Highways Agency is responsible for maintaining and improving England's strategic road network - 6,500 miles of motorway and trunk roads. A recent review has recommended that the agency work more closely with local government on local network issues.[56] Councils are also increasingly working together on regional highway plans and joint procurement in order to drive down costs.[57] The SE7, a partnership of seven local authorities in the South

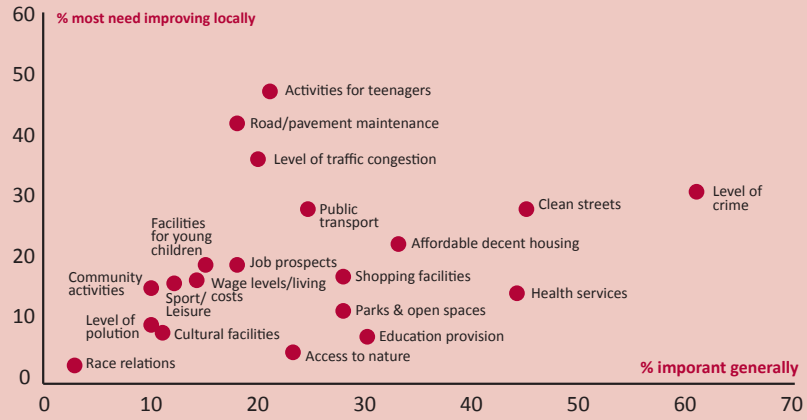
**56** Cook, A., 'A Fresh Start for the Strategic Road Network' (2011)

**57** The recently introduced British Standard, BS11000, Collaborative Business Relationships, will also provide a useful tool and framework of how to develop and maintain collaborative working.

East of England, for example, has improved winter gritting performance by sharing stockpiles of salt and planning gritting routes so that crews don't turn back at county boundaries, as they would traditionally have done. The majority of non-roads local transport infrastructure is already held in cross-boundary organisations, as either local authority companies or Passenger Transport Executives. The assets held in this way include London Underground, Greater Manchester Tramlink and the Tyne and Wear Metro.

Transport infrastructure is a priority issue at local level; residents believe that it should be prioritised by local authorities.[58] Road and pavement maintenance, overcoming traffic congestion and public transport connections are all very important in making somewhere a 'good place to live.' They are also amongst the things that residents believe most need improving locally (see figure 4). This is true for both rural and urban areas.

**Figure 4** Local salience of highways and transport 2008-2009




Base: 400,000+ adults 16+ across England

59

58 Fixing potholes and improving local roads should be the top priority of local authorities according to a survey of British adults. *ICM polled 2038 British adults aged 18+ using an online methodology. The research was conducted between 16th-17th May 2012.*

59 Ipsos Mori, Where next for Transport (2009)

Transport infrastructure is also crucial for local economic growth and development. 80 per cent of firms report that the quality of transport infrastructure effects their decisions on where to locate and invest.[60] By way of example, the Northern Hub is designed to overcome transport constraints and bottlenecks around Manchester and Leeds as a result of passenger growth of approximate 60 per cent. It could generate as much as £1bn in improved productivity, employment growth and structural economic changes, for the £530m initially invested.[61]

Case Study

***Social inclusion through transport connections: Medellin, Colombia***

*In 2004 Colombia's second largest city, Medellin, began to reconnect some of its most marginalised urban areas through an innovative approach to transport assets. The project was initially proposed as a potential tourist attraction linking together the city's panoramic sites via cable cars.[62] Instead a combination of pressure from local residents and the political will of a newly elected mayor[63] resulted in Medellin becoming the first city to use technology borrowed from the ski-slopes as a means of public transport. The technical proposals developed by the publicly owned metro company were designed to improve usage of the underused existing metro system whilst developing poorer regions of the city through improved access to transport.[64] Following its introduction the metro-cable has been credited with improving the quality of life for Medellin's urban poor, increasing commercial activity along routes and near stations and improving air quality.[65] The heightened visibility and accessibility of the previously stigmatised poorer areas has also led to an increased sense of local pride and social inclusion among residents.[66]*

**60** CBI/KPMG, Making the right connections, Infrastructure survey (2011)
**61** See, http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/Urban-transport-infrastructure-projects-O-201003.pdf
**62** Dávila and Daste, Medellín's aerial cable-cars: social inclusion and reduced emissions (2012)
**63** Dávila and Daste, Poverty, participation and aerial cable-cars: A case study of Medellín (2011)
**64** Dávila and Daste, Medellín's aerial cable-cars (2012)
**65** Dávila and Daste, Poverty, participation and aerial cable-cars (2011)
**66** See, http://www.bartlett.ucl.ac.uk/dpu/metrocables/dissemination/Davila-Daste-Naerus-2011.pdf

Despite increased rail use, road travel remains the dominant form of transport. Sixty four per cent of all journeys are made by car or van, with road taxation and expenditure decided centrally. Currently £36.3bn is raised from the three main taxes on road users. Fuel, vehicle and road taxes are a major revenue raiser for the Treasury.

Case Study

***Proactive, preventative maintenance: Northamptonshire***

*Northamptonshire County Council and MGWSP, a joint venture, introduced the New Highways Maintenance Initiative (NHMI), to focus on move from a reactive service to introduce a preventative maintenance programme. Rather than deal with the 'worst-first', priorities are determined on a 'whole-life cost' basis and a larger share of the budget is used order to stop roads reaching failure point in the first place. The number of residents reporting potholes has fallen by 23 per cent and the insurance claims made against the council for poor road surfaces have reduced by 48 per cent on the previous 12 months, saving over £1m. The council has been praised by the Department for Transport for the improvement in the condition of the county's roads, and recently received national recognition in the Highways and Transport National Survey.[67] Significant savings can be made in other areas through such approaches; in East Sussex an 18 per cent saving was achieved from an investment of £23m in network improvements.*

The current form of road taxation is controversial. As the taxes are not hypothecated only a little over 20 per cent of revenue raised is spent on the improvement and maintenance of the road network. They have not been shown to significantly change driving behaviours and problems of local congestion persist due to overconsumption of roads at peak hours. Equally, in response to a move towards more fuel efficient vehicles revenues from current taxes are likely to fall. A national road pricing system has been proposed as one solution. However, such tolling has been on the political agenda for at least twenty years and has proved unacceptable to the public;

**67** See,http://www.northamptonshire.gov.uk/en/councilservices/transport/roads/pages/dftpotrepairgrant1112.aspx

the starkest reminder being the previous government's failed attempt to introduce a national 'pay-as-you-go' road charge.

## Land value capture

*Transport assets increase land and property values. Land value capture mechanisms - such as Tax Increment Financing, Joint Development and Betterment Taxes – can fund the development of new infrastructure.*

Intelligent approaches to transport planning are complimentary to estates management strategies. Research has shown that accessibility to transport assets, all else being equal, significantly raises property value. In urban areas this particularly means access to good quality public transport. London's Jubilee Underground extension, for example, cost £3.5bn, raising the value of land in Canary Wharf by an estimated £2bn.[68]

In the late 19th century housing and business development was based on the expansion of the railways and, in London and Glasgow, the underground system; development was in some instances financed by uplift in land values at access points.[69] Land value capture mechanisms are a tax on some of this private benefit to provide a further contribution towards the funding of new development or maintenance of existing assets. It can involve a number of different mechanisms. These include Tax Increment Financing (TIF), Joint Development, Betterment Taxes and Impact Fees.

TIF allows local authorities to borrow capital against a future uplift in business rates resultant from a new development; this will be ring-fenced to pay for initial development. Due to the difficulty of measuring 'additionality' in business growth TIF is best suited to a site specific asset – such as rail or road access for an Enterprise Zone – rather than the development of inter-city connections. For example, Newcastle's City Deal includes a NewcastleGateshead Accelerated Development Zone to cover four key sites and invest in infrastructure through TIF. The new investment is expected to generate incremental annual business rates of up to £21m - £320m in total - by 2038, enabling borrowing to be paid back within two decades.[70]

68 Jones Lang LaSalle, Transport for London: Land and Property Study (2004)
**69** Cheshire, P., Urban Land Market and Policy Failures (2009)
**70** Newcastle City Deal, July 2012

Joint development at transport hubs includes air rights and ground-lease arrangements to promote estate development to the mutual benefit of public and private interests. This approach has been more widely used approach. The Metropolitan Transit Railway Corporation (MTRC) of Hong Kong uses the 'rail-property model,' purchasing development rights from the Hong Kong Government (the majority shareholder of the MTRC) at a 'before rail' price, and selling these rights to a selected developer at an 'after rail' price—which is significantly higher and covers the cost of railway investments.[71] In Washington DC a public private partnership was established to redevelop Union Station. Profits from new shopping and leisure facilities were shared between the developer, Amtrak and the District of Columbia.

Betterment taxes target increases in land value which result from actions other than those of the land owner. They have a long history in the UK, for example, in the 17th century they were a levy imposed on increased land values resulting from redevelopment in London following the Great Fire in 1666. In principal, Section 106 agreements are one such tax, however as a number of studies have noted, "agreements are far from transparent and have high transaction costs associated with them."[72]

Case Study

***Brownfield regnereation: King's Cross Central***

*67 acres of railway lands are currently being transformed into a mixed-use development at Kings Cross Central. Camden Council granted planning permission in 2006 to the programme, one of the biggest brownfield regeneration schemes in Europe, which builds on the existing transport infrastructure, refurbishing and upgrading the existing rail and underground stations, in order to support a wide-ranging renewal of the surrounding area. The scheme integrates several S106 funded projects including new public spaces and the building of affordable homes; the development also includes office space, university buildings and student accommodation. The total S106 value is estimated, by Camden Council, at £90m, within a*

**71** Zhao, Z.J., Joint development as a value capture strategy for public transit finance, The Journal of Transport and Land Use, 5:1, pp. 5-17 (2012)

**72** Cheshire, P., Urban Land Market and Policy Failures (2009)

*development scheme valued at about £3bn. In addition an on-site energy centre will meet 100 per cent of the development's heat requirements using combined heat and power engines, which also offset nearly 80 per cent of the site's power demand. The development is anticipated to produce large scale benefits for the local area, generating 25,000 jobs by 2025*[73] *and doubling passenger numbers through the transport interchange in 20 years.*[74]

The rationale for impact fees is that if development imposes costs on the community, requiring additional expenditure on public assets, then these should be paid for by the developer. The Community Infrastructure Levy is one such fee. Rates will be set by the local authority and do not need to be spent on the site they are collected from. The introduction of charges on new development in London to provide a £300m payment towards Crossrail is a high-profile example of this approach.

## Opportunities for investment

*The government has proposed a range of devolutionary measures to enable more investment and coordination of transport to take place at a local level. However, there has been significant political resistance to local charging schemes in the past.*

Under the previous government local authorities were required to produce Local Transport Plans (LTPs) every five years. However, outside of London, councils have enjoyed little control over the financing of major transport investment. To address this situation the government has proposed a new settlement whereby from 2015 local transport bodies will be able to prioritise local need through control over devolved local major transport scheme funding. Government is also consulting on proposals for rail decentralisation, and has provided some new money for local innovation through the Sustainable Transport Fund.

**73** See, http://www.kxrlg.org.uk/group/KXRLGpublicmeeting080410.pdf

**74** See, Major Projects Association, http://www.majorprojects.org/pdf/seminarsummaries/160summarykingscross.pdf

Half of the eight City Deals have prioritised matching local resources with devolved transport budgets to make strategic transport investments.[75] This money will be placed within investment funds to leverage in further private funding streams for infrastructure, recycling returns into the fund to loan for further projects.

Each of the devolutionary proposals offers councils the opportunity to develop new service offerings. The devolution of rail franchises could greatly improve the passenger experience through modal integration. Since TfL became the franchise authority for a series of heavy rail lines in Greater London, taking over from Silver Link in 2007, London Overground has been transformed through an investment programme of £1.4bn. Journeys have tripled since 2007, from 600,000 a week to 1.9m. TfL has now submitted a proposal for consideration to take over of Southeastern and West Anglia's inner suburban routes.[76]

The Sustainable Transport Fund provides an opportunity to focus on a package of hard and soft measures to achieve behavioural change and modal shift. For example, Southampton City Council's successful bid combines physical measures to improve the provision of active travel and public transport alongside targeted marketing, including personalised travel planning and corporate travel plans, covering workplaces and schools.[77] This could be complementary to centrally designed tax exemptions, such as the Cycle to Work scheme.

Such approaches are greatly needed, as beyond the City Deals, our research found that there is "not much happening at the moment" on innovation in local transport plans.[78] There was a sense that a number of avenues have been explored to implement revenue generating schemes, but have been too difficult to realise.

In addition, HMT and DfT are carrying out a study looking at "new ownership and financing models" for the road network, due to be published in the

**75** Cabinet Office, *Unlocking growth in cities: city deals – wave 1* (2012)
**76** GLA, *The Mayor's Rail Vision: Investing in Rail Services in London* (2012)
**77** http://www.internationaltransportforum.org/jtrc/DiscussionPapers/DP201201.pdf
**78** Transport Infrastructure Roundtable, April 2012

autumn. Suggestions are that this could involve a model of public private partnership, in which companies lease trunk roads or highways from the government and share in road taxes. This will be an extension of the existing Design, Build, Finance and Operate (DBFO) model which has encouraged the private sector to account for efficiencies achieved at each stage of the development process. The key issue for the success of these schemes is the apportioning of traffic risk and revenue risks; particularly, if 'shadow tolls' based on a share in road taxes differ greatly from forecasts.

Case Study

***Operating at a loss: The M6 Toll Road***

*The M6 Toll is a 27-mile privately financed motorway which runs around the north west of Birmingham. It opened in 2003 and was designed to reduce congestion in the West Midlands. The private concession agreement was based on forecast revenue of £100,000 per day. However, in 2005, the project made a loss of £26.5m, with traffic volumes of only 55,000 vehicles per day returning significantly less revenue than projected.*[79] *A revised tolling strategy was introduced in 2007 to address the deficit but the road continues to lose money – with operator Midland Expressway reporting a £41m loss in 2011. Meanwhile, traffic on the M6 has returned to pre-toll levels and substantially more hauliers use the M6 than the M6 Toll. The Road Haulage Association has argued that: "This is not the way to run an integrated sustainable transport system where assets are used properly."* [80]

New tolling and charging schemes have been limited by local politics. Many councils reported public and business hostility towards schemes that are viewed as a further tax on travel, particularly when fee payers are unable to see the direct benefit of increased costs. Residents of Greater Manchester, for example, voted 4 to 1 against plans for the introduction of a congestion charge in the region in 2008.[81]

**79** http://www.omegacentre.bartlett.ucl.ac.uk/studies/cases/pdf/UK_M6_PROFILE_021210.pdf
**80** Campaign for Better Transport, The M6 Toll, five years on: Counting the cost of congestion relief (2008)
**81** See, http://news.bbc.co.uk/1/hi/england/manchester/7778110.stm

Meanwhile, the British Chambers of Commerce and the British Retail Consortium are strongly opposed to the introduction of Workplace Parking Levies - a policy that enables local authorities to charge businesses for every employee who parks in the area – with the former arguing that: "With the economy now in recession and firms struggling with cash-flow, the tax will be detrimental for companies, towns and local economies."[82] Political resistance is a major risk in implementing any new revenue generation scheme. It is important that councils design schemes that make the most of their infrastructure assets, communicating the objectives and use of revenue streams to all local stakeholders.

Case Study

***"It's needed. It's workable. And it's fair:" London congestion charging***

*The issue of traffic and congestion figured prominently during the 2000 London mayoral campaign. Ken Livingstone, the only candidate to pledge to implement plans for road congestion charging, won by a comfortable margin and set about implementing the scheme during his first term. Livingstone's approach demonstrates the importance of political leadership in sweating existing assets for revenue and to meet policy objectives. A consultation process sought input from the 32 boroughs, more than a third of which were controlled by the Conservative Party, and gained acquiescence through guaranteed investment in local priorities alongside the new charging schemes. Business voices were also heard; for example, the cut off time for charging was brought forward to 6.30pm rather than 7.00pm in order to allow people to get to theatres in the West End.[83] This was all communicated through a well-coordinated public relations narrative, "It's needed. It's workable. And it's fair." An evaluation of the scheme has identified a benefit-cost ratio of 1.7 on the basis of the £8 charge. Congestion has been reduced by as much as 15 per cent. Time and reliability savings for road users are estimated to total between £224m and £260m a year.[84] Bus and bike travel has also dramatically increased.[85]*

**82** See, http://www.cumbriachamber.co.uk/newsdetails.asp?newsID=702
**83** http://www.reform.co.uk/client_files/www.reform.co.uk/files/Road%20To%20Recovery%20web%20final.pdf
**84** TFL, Travel in London Report 3 (2009)
**85** Ibid

## Reimagining assets

*In the face of public resistance to charging schemes smarter approaches are required that build on the potential of data sets and differential pricing models to offer new services. The management and distribution of data held by councils could encourage innovation, and generate revenue through new services for passengers and the private sector.*

Real time traffic data and live timetabling provide information to users in order that they can better manage their time and journeys, and to local transport operators in order that they can better manage traffic flows. This data will be crucial to the design of smart multi-modal transport networks; information on origins, destinations and route choice is important for investing in transport assets and for evaluating the impact of pricing policies. Given current spending restraints it is often wiser to manage demand and maintain an asset than invest in entirely new infrastructure.

Case Study

***Active Traffic Management: The M42***

*The Active Traffic Management scheme on the M42 monitors road conditions and allows traffic to use the hard shoulder as an additional live traffic lane and adjusts the maximum prevailing speed limit. This keeps traffic moving and reduces congestion. The scheme has a Benefit/Cost Ratio of 7:6 compared to a ratio of 2:3 for standard motorway widening; the pilot scheme had costs of £5.6m per km compared to £18m per km for conventional motorway widening. Overall the Active Traffic Management Scheme on the M42 cost £6.2bn less to build than widening the motorway.*[86]

E-ticketing is the most successful application of information and communication technologies in the public transport sector. Every weekday in London, 6.3m journeys are made on London's buses, 3.5m on the tube and by rail, and 0.2m on trams, light rail and river boats; of those journeys 80 per

**86** ITIS

cent are made using Oyster cards.[87] Where passengers choose to share their travel information it can build operators' understanding of requirements, allowing them to diversify service offerings. Users of Hong Kong's Octopus card or Hannover's mobilcard, for example, can use their cards to pay for all forms of urban transport, clock-in and out of workplaces, have food delivered and check out library books.[88] Tourists could be offered special services, such as journey planning for scenic routes – roadtrippers.com, a US website takes such an approach – to the benefit of local business and to reduce congestion on main routes.

New approaches to e-ticketing are making use of near-field technologies in mobile phones and switching business models. Pre-payment systems will be transformed into bank account based post-payment systems, bundling services into integrated 'mobility payments'. This creates a platform to design premium services, such as journey planning to avoid congested routes, or dynamic pricing models, such as those utilized by online flight booking. The latter could be crucial for the success of future congestion charging schemes. Prices could be lowered during quiet hours to ensure better utilisation of roads and empty parking spaces. Prices would then be raised during peak hours or traffic surges, which should reduce demand. Such services could sit alongside those that offered for free, such as bus tracker apps, and make use of open data sets. They could also inform DBFO models.

Another revenue stream, which could be more intelligently based on information on journey frequencies and preferred routes, are advertising receipts. TfL made £129.7m, or 3.1 per cent of total revenue, in commercial advertising for the financial year 2011-12. The information they hold could potentially be much more valuable. Facebook, for example, had revenue of $3bn from 'contextual' advertising in 2011. Data protection and privacy issues must of course be considered, but benefits should be offered to users in return for sharing their journey information. For example, personally tailored loyalty points and discounts, such as those available with leading supermarkets or frequent flyer miles, could be offered by retailers near

**87** TfL, Annual Report and statements of account 2010 - 11

**88** Liebenau, Jand Elaluf-Calderwood, S and Hosein, G and Kärrberg, P *Near field communications: privacy, regulation & business models.* LSE/Nokia research collaboration, Department of Management, London School of Economics, London, UK (2011)

frequently used transport nodes and refunds could be offered for disrupted services. In addition, business models could be built on 'freemium' approaches, where people get the basic service for free with advertisement or pay for ad-free extras.

There are also under-developed commercial opportunities for using public data sets to support private businesses by, for instance, providing beneficial information to the haulage industry to increase overall journey efficiency. Smart data has already been utilised by UPS – the American delivery company – to pre-plot delivery sequences for its 95,000 vehicles. It's 'no left-turn' policy cut 28.5m miles from its routes in one year, saving 3m gallons of fuel and cutting carbon dioxide emissions. In France, SNCF which operates 14,000 trains per day, including the high-speed TGV and major freight routes, has predictive maintenance systems to reduce delays and cut maintenance costs by an estimated 30 per cent.

## Approaches and recommendations

- Local authorities should jointly procure maintenance services for transport infrastructure in order to get a more competitive price.
- Councils should ensure that the land value capture mechanism that they employ is best suited to the site and transport infrastructure that they intend to develop.
- Councils should clearly communicate the purpose of local charging schemes with stakeholders in the business and community; this will require strong political leadership and in some instances the political mandate of a referendum or local election.
- Councils should prioritise pro-active investment strategies that actively manage road infrastructure assets for cashable maintenance savings.
- Passenger Transport Executives, such as Nexus or Centro, could use the newly devolved rail franchises as an opportunity to improve their inter-modal service offers.
- Following the lead of the City Deals, councils could consider matching local resources - PWLB borrowing, capital receipts, NHB - with

devolved transport budgets to leverage major investment in transport infrastructure.

- Risk management is crucial to the success of Design Build Finance Operate arrangements. Councils may need to improve their due diligence on expected revenue receipts in order that they are not locked into projects that lack commercial viability.
- Local transport providers could design local benefits for fee payers on public transport, the equivalent of frequent flyer miles, which could be spent at locally participating businesses.
- Councils and transport providers could assess the value of the data that they hold on journey routes and the potential that it holds for generating advertising revenue.

# 4 *Energy generation and efficiency*

**Renewable energy generation could provide a major revenue stream for councils. It also meets policy ambitions, from carbon reduction to supporting communities at risk of fuel poverty.**

The energy industries, and energy policy, are in the process of profound change. Energy prices continue to climb, fuel security and poverty remain major concerns, and the UK must meet a challenging set of goals to reduce its carbon emissions. At the same time, the low carbon sector is seen as crucial to economic development.

Councils have previously played an important role in energy markets. In the early twentieth century municipal energy companies were the most economically efficient and natural way to structure the energy market. Cheap coal and North Sea gas and oil changed this picture: local energy companies gradually disappeared and legislation was introduced to prevent local authorities competing with the private sector. Renewable technologies will see local government play a crucial role once again, as they are a viable means to make use of the natural and physical assets within council control.

Achieving the balance of maintaining supply and demand in a low carbon world will require good governance, technological solutions and incentive structures for business and consumers. If policies are designed correctly this could be a win-win situation. As Energy and Climate Change Minister, Greg Barker has said: “By becoming more self-sufficient we can create sustainable local energy economies. People and communities can save money on their fuel bills at the same time as generating an income and cutting carbon.” This section addresses current policy, the potential of supply-side renewable technologies for local energy and incentives to encourage local demand for energy efficiency.

## Sustainability for self-sufficiency

*Renewable technologies can utilise natural assets. Investment can also make the most of assets held by councils and provide a stimulus for local economic growth.*

Green technologies provide viable, micro-generation at a local level. Solutions range from the operational to the technological; leveraging purchasing power for the 'bulk buy' of energy on behalf of local communities, to the co-location of micro-hydro schemes to recover energy from waste water.

Renewables give local government an opportunity to exploit its natural assets and to realise value from assets previously regarded as liabilities, such as waste. They allow councils to generate revenue by moving into the marketplace as an energy supplier and retailer, providing energy for local communities and businesses. These micro-schemes are complementary to national policies and the national grid.

Investment also provides councils with an opportunity to support local economic growth. Low-carbon industries are significant employers of high skilled workers and developers of new technologies. Leeds City Region estimates that, with the requisite investment in low carbon industries, some 9,670 jobs could be created in the region over the next decade, adding another £442m to GVA growth and reducing carbon emissions by 40 per cent. The low carbon and environmental goods and services sector is worth some £3.2tn per annum. This is a market that provides growth opportunities for areas across the county.[89]

Case Study

***Renewable energy cluster: Freiburg, Germany***

*Freiburg has developed a reputation as Germany's green capital. In the 1980s the city had a vision for a sustainable city. Today its solar, energy generation and efficiency, housing and transport programs are among the best in the world. For example, it has for the last decade, operated its own Energy from Waste municipal anaerobic digestion plant – providing a third of the city's renewable electricity. Freiburg's success is testament to the importance of integrated environmental policy - 'the Freiburg Mix' - and the impact that this can have on the private sector and economic growth. Over a twenty year period CO2*

**89** The MJ, How low carbon cities could help kick-start the economy, April, 2011

*emissions have been reduced by more than 20 per cent per capita due in part to a 100 per cent increase in public transport use – with up to 35 per cent of residents choosing to live without a car. Environmental businesses in Freiburg employ 12,000 people adding €650m to the local economy. In the solar sector alone, the level of employment is three to four times the national average.*

## Targets without direction

*EU directives are shaping the market for renewable technologies. Government has responded to this situation through a range of incentive programmes, such as Feed-in-Tariffs. Local government has prioritised developing its capabilities in this market in order to gain new revenue streams.*

In the long-term, the UK faces a huge challenge to reduce emissions by 80 per cent by 2050 in line with the Kyoto Agreement. In the short-term, the transition to a low-carbon economy will also be demanding as detailed in the EU's 2009 energy-climate package. It includes the following goals for 2020: reducing greenhouse gas emissions by 20 per cent (from their 1990 level), improving energy efficiency by 20 per cent and increasing the share of renewables to 20 per cent. In addition, the UK will be bound by a Carbon Price Floor.[90]

Against this backdrop, the UK's heavy dependence on energy imports is a concern. In 2011 the UK had a net energy import dependency of 36.5 per cent, the highest level since 1976. Local renewable energy presents a way to reduce this dependency and to meet Government targets. Of electricity generated in the UK in 2011, renewables' share increased by 2.5 per cent on 2010 to a record 9.5 per cent.[91]

It is encouraging that of the recent City Deals, five of the core cities set out programmes that will support investment in green infrastructure and

**90** In March 2011 the Chancellor announced a Carbon Price Floor that would apply only in the UK. High carbon fuels such as coal would have a high tax, while lower-carbon fuels such as natural gas would have a proportionately lower tax. The scheme charges a "top-up" tax on emitters if the price of EU Allowances falls below the pre-determined price floor. The Government expects the scheme to raise £1.4bn in additional revenue by 2016

**91** Gas accounted for 40 per cent, coal 30 per cent and nuclear 19 per cent of the total.

technology, and accelerate reductions in emissions. In addition, the Local Government Association recently launched a Climate Local Agreement, to which councils voluntarily commit to in order to reduce their emissions. Eighteen councils have already signed up. Nearly half of the Enterprise Zones have emphasised the importance of low carbon industries. Those that succeed will make use of local assets and expertise, ranging from offshore wind in Great Yarmouth and Lowestoft to green technology and advanced manufacturing at Science Vale in South Oxfordshire.

In an attempt to provide further market certainty, the Government has introduced a range of policies and financing options to encourage investment in renewable schemes that take advantage of council assets. These include Feed-in-Tariffs (FiTs), the Renewable Heat Incentive (RHI) Scheme, the Renewables Obligation, the Low Carbon Network Fund and the Green Investment Bank Government. It has also targeted demand reduction through the forthcoming Green Deal scheme and Energy Company Obligation.

A draft energy bill, its ambition to set a new framework with a guaranteed price for low-carbon electricity to encourage investment, is expected in late 2012. However, it has been delayed and as a result we were told on a number of occasions during our research that a "national sustainable energy policy does not exist."[92] This lack of clarity can undermine long-term planning and confidence for both councils and the private sector.

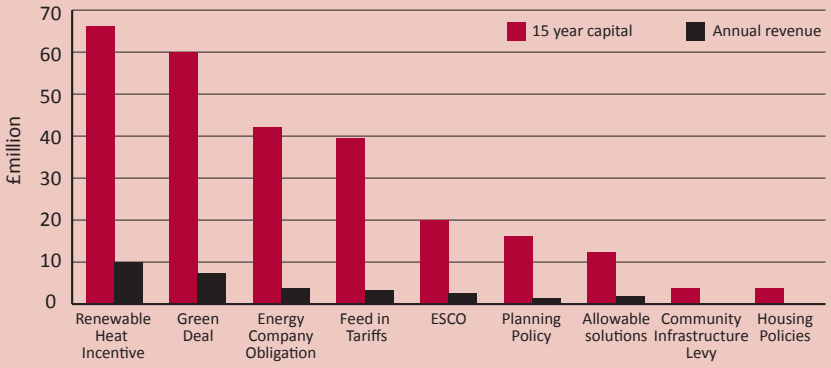
Councils had been prevented from selling electricity not produced alongside heat by the Local Government Act 1976. But this ban was recently overturned and as a result when the FiTs mechanism was introduced in April 2010, the solar industry took off. An increase in councils adapting property for solar PVs is arguably the most widespread and visible manifestation of their move into energy generation.

The specifics of these schemes will be discussed in more detail later in this chapter, but taken together they could unlock significant revenue for local government. A recent study for Warwick District Council, found that

**92** By way of example, DECC had originally proposed that the government would underwrite new long-term contracts in order to reduce the cost of capital for investment. However, this proposal did not make its way into the draft bill.

by utilising these incentives it would be possible to secure over £250m of investment for the district over the next 15 years and to save the community's residents and the council more than £25m a year from their ever increasing fuel bills.[93]

**Figure 5** Warwick potential capital investment and revenue streams




## Technological solutions

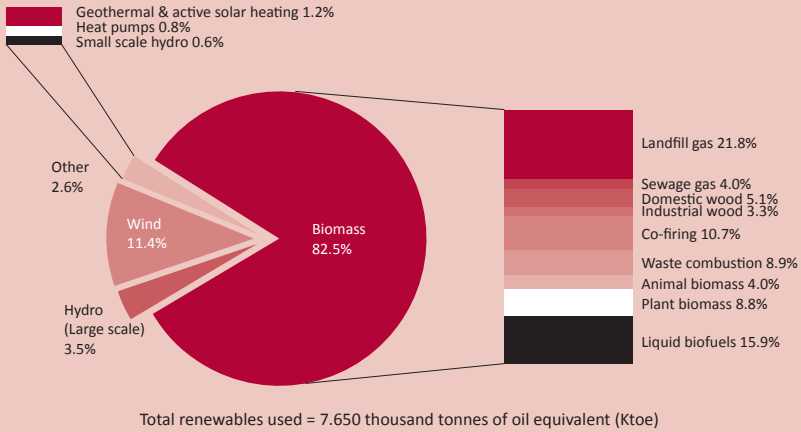
There are a number of proven renewable energy technologies. Their development will be influenced by European and central government policy. Exploring the full range of these solutions will avoid the problems of central government picking winners, allowing the UK and its localities to build on its inherent advantages.

Biomass is currently responsible for the majority of renewable energy generation, but there are other technologies that could make use of the UKs assets. Offshore wind will have a crucial role in the UK's renewable technology mix. European offshore wind capacity dramatically increased in 2012, rising 50 per cent in the first half of the year compared with the same

**93** Encraft, the Power you don't know you have (2012)

period in 2011. One hundred and thirty-six wind turbines were connected to the grid in first six months of the year, 114 of which were in UK waters.[94]

**Figure 6** Renewable energy sources. 2010




*Source, ONS and DECC, Energy Trends (2012)*

External factors will shape technology developments in the renewables market. UK landfill is no longer cheap and abundant.[95]Landfill taxes are rising sharply and allowances for local authorities are set to decrease, with fines for these allowances exceeding £150 per tonne. Recycling and Energy from Waste are increasingly financially attractive.

Due to a far-reaching recycling strategy Surrey County Council reduced the amount of waste it sent to landfill from 64 per cent to 33 per cent over a three year period from 2007/08, saving approximately £12.8m in taxes alone.[96] It also allowed the council to take a more flexible approach to energy-from-waste and gasification, with lower capital costs for new smaller

**94** See, http://www.businessgreen.com/bg/news/2192598/uk-buoys-up-booming-offshore-wind-market

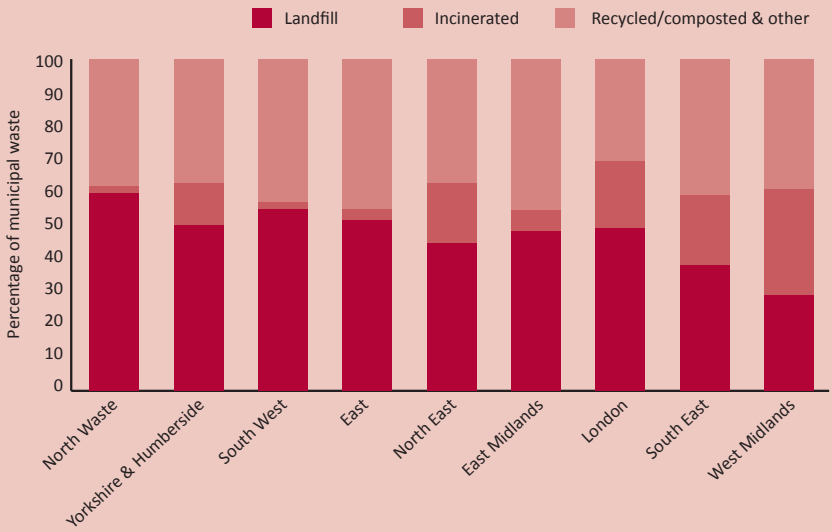
**95** The 2005 EU Landfill Directive sets out targets for reductions in biodegradable municipal waste going to landfill.

**96** WRAP, Gate Fees Report 2012

plants. Bristol City Council's new waste and recycling service is expected to save the council around £2.5m a year, using the MaGos system; recycling at the kerbside. This will contribute towards the council's goal of sending zero untreated waste to landfill within three years.

Waste management strategies exemplify the disparities in council approaches to renewable energy. In 2009/10, the West Midlands incinerated with energy recovery 33 per cent of waste. The South West incinerated only 1.7 per cent (as shown in chart below). The Environmental Services Association estimates that if £1bn was invested nationally in waste infrastructure then 4m tonnes of carbon savings would be made, 1.4m tonnes of material recycled, 300 Gigawatts of renewable energy generated and 3,000 permanent jobs created.[97]

**Figure 7** Management of Local Authority Collected Waste, England 2009/10




*Source, Defra, WasteDataFlow*

**97** Environmental Services Association, Green Growth: Don't waste the opportunity (2011)

A further benefit of decentralised energy systems is that local distribution networks mean less power is lost during transmission. They can also make use of waste heat, created during the generation process, for district heating schemes. By way of example, Sheffield's district heating network, established in 1998, generates 21 Megawatts (MW) of electricity per annum, enough to power 22,000 homes, and 60 MW of thermal energy in the form of super-heated steam, which is pumped around the city in a 44 km network of underground pipes. It saves an equivalent of over 21,000 tonnes of CO2 each year when compared to electricity from the national grid and heat generated by individual boilers. There are currently 140 buildings connected to the network, these include city landmarks such as the Sheffield City Hall, and 3,000 homes.

Such Combined Heat and Power (CHP) approaches can also produce additional revenue streams. By way of example, in the Finnish capital, Helsinki, CHP scheme generates more electricity than the city requires, so Helsinki Energy sells surplus power to the Nordic grid. At the same time, it produces 92 per cent of the city's district heating.[98]

Case Study

***Dutch partnerships: Energy from Waste in Amsterdam***

*Amsterdam is a world leader in district heating and cooling, and generates energy through EfW. To deliver its ambitious municipal energy policy the city's waste and energy company AEB (Afval Energie Bedrijf) and Dutch energy company Nuon cooperate in a joint venture called Westpoort Warmte. In 2005, the Amsterdam City Council passed a resolution to implement district heating in all feasible locations. In 2010 the system had 50,000 consumers. Westpoort Warmte is tasked with implementing Amsterdam's policy to double this number. Amsterdam's heat and power is in part provided by the conversion of 99 per cent of the city's industrial waste into energy, the 1m megawatt hours of electricity created from 1.3m tonnes of waste each year is worth around E47m. Next door to the EfW plant is a water treatment*

**98** World Economic Forum, Slim City (2009)

*plant. The two work together: the incineration plant supplies energy and heat for water treatment; the water plant injects biogas into the incineration plant as an additional fuel resource.*

## Enough of an incentive?

*Renewable technologies are capital intensive. They typically require comparatively high levels of start-up finance, yet unlike fossil fuels they have low and stable running costs over the lifetime of the asset. Cheap and patient finance is required and this is difficult to find.*

Green investment in the UK in 2009-10 totalled some £12.6bn, with investment between public and private sectors fairly even. Although this is a significant amount, it is under 1 per cent of UK GDP and will need to be raised if the UK is to meet its 2050 targets.

Incentives such as the FiT have been designed to encourage further investment with returns over the lifetime of the asset.[99] Solar PVs have been located on physical assets in the shape of public buildings, ranging from council houses to town halls. The scheme guarantees a minimum payment for all electricity generated by the system, as well as a separate payment for the electricity exported to the grid.

Councils can borrow from the PWLB in order to finance the initial capital investment. To take a theoretical mid-size development, approximately £1.5m is required to cover installation costs of PV at between 40 and 50 premises. The amount invested is repaid over the 25-year life of the project, and the FiT level is guaranteed for the life time of the project. After debt servicing an excess cash flow can be generated of approximately £750,000.[100]

By making the most of local property assets there is the potential to greatly expand the renewables market. To take just social housing, there are 3,784,000 dwellings in England. The National Housing Federation estimates that if just 25 per cent of these – houses with roofs rather than flats - were

**99** Under the scheme, energy suppliers make payments to councils and communities that generate their own electricity from renewable or low carbon sources.

**100** PwC, Localised Energy Generation Route Map (2012)

fitted with solar PV systems, the size of the investment opportunity would exceed £8.5bn, generating a net present value of £1.5bn.[101]

Case Study

***Working together: Eco-schools in Southampton***

*With its ambition to become a leading authority on energy policy, Southampton City Council has undertaken a £700,000 programme to install photovoltaic's on the civic centre, 14 school sites and 5 social housing sites. It was initially established to meet the spiralling cost of school energy bills, which had increased by 35 per cent in Southampton from £1.44m in 2003/04 to £1.94m in 2007/08; a cost equivalent to 14 teaching posts. Schools were also identified as playing a key role as community hubs with the potential to lead on sustainable behaviour change. The project was initially established on the back of £350,000 match-funding from the DCSF's Low Carbon Buildings Programme. To take one example, the Freemantle School used this money to finance projects including the installation of solar PVs, cavity wall insulation and biodiversity in order to make estimated annual gas savings of 24 per cent. Freemantle School is in the process of installing further solar PVs, with the school capturing the savings and the council taking advantage of the revenue from the FiTs.*

But, government's ability to manipulate incentive structures has hampered market development. For example, the decision to cut FiTs for new solar panel installations, from 43.3p to 21p per KWh of energy generated, has seen installations fall by 90 per cent since 1st April 2012. Even if the reduction was necessary, the short notice given damaged industry, public and investor confidence. This in part explains the lack of confidence in the potential for the Renewable Heat Incentive, a subsidy for every unit of heat that is produced from renewable heat. Only £500,000 of the £890m budget has been paid out so far. An over-complicated process has slowed down initial applications, and Government confirmation of in-year caps and the ability to suspend the subsidy have further dampened the market.

**101** National Housing Federation

The FiT which was designed to increase the rate of return at which renewable projects are viable, is now too low for many technologies, such as micro-hydro, unless supported by further grant funding. However, current interpretation of a European Commission decision on State Aid means that many projects will not be able to source enough grant money in order to allow them to proceed.

## Go with the flow

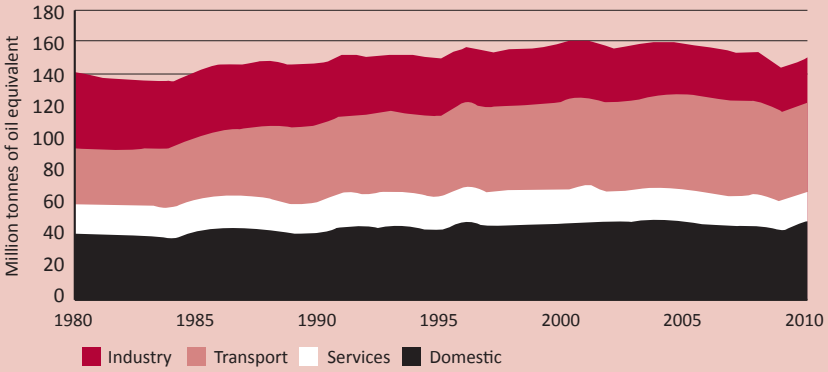
*Public grants have played a key role in the development of revenue-generating renewable projects to date. Energy subsidies and price caps create market distortions and supply disruptions. Councils can begin to combat this by focusing on local distribution and consumption, alongside generation.*

Global demand for power and fuel are projected to push up energy prices over the next five years, with estimates of increases ranging from between 14 per cent and 25 per cent. Councils have a crucial role to play in area-wide leadership for schemes that can reduce costs, such as district heating. There is a large market that local government could look to service in both the private and public sector. By way of example, transport is a major consumer of energy and this has grown significantly over the last decade. Councils are also significant energy consumers. Energy bills account for approximately 2 per cent of the total budget for local government, or £2.4bn in 2011. At current levels of consumption, projected price rises would push the local government energy bill up by between £343m and £613m by 2020.[102] Average savings from energy efficiency schemes are approximately 15 per cent. If local government was able to save this amount it could be worth £0.36bn, or an average of £1-2m per council.

Understanding the energy demand trends of a locality is essential before investing in attempts to encourage the uptake of renewable energy. For most cities it would be relatively straight forward to obtain historical energy use data and break down the demand trends by sectors or possibly even further by end use where the data exists, e.g., for residential lighting.

**102** See, http://www.nottinghamcity.gov.uk/CHttpHandler.ashx?id=13455&p=0

**Figure 8** Final energy consumption, 1980 - 2010




*Source, ONS and DECC, Energy Trends (2012)*

Domestic energy accounts for a high percentage of overall consumption. Councils have a ready market in the local electorate, particularly those residents in council owned property. Currently 99 per cent of all consumers receive their supply from one of the 'big six' energy companies and recent policy has focussed on market diversification through widening consumer choice. Yet, energy prices have risen significantly in the last five years, outstripping RPI and taking up more of the household budget.

A recent NLGN publication identified opportunities for councils to save residents money through the bulk purchase of energy. This approach has been exploited by initiatives such as the Dutch, *Met de Stroom Mee* - roughly translatable as 'go with the flow' - to save consumers approximately 20 per cent on their energy bills. Even if local authorities were only able to achieve a 10 per cent reduction on average annual dual fuel bills this would result in a saving of £125 per household per annum.[103] Therefore, if councils were able to charge sufficient rates to cover capital investment and running costs, local renewables could become a significant feature within the energy supply chain.

**103** NLGN, Going Dutch (2011)

Case Study

***Marketing local savings: District heating in Nottingham***

*Nottingham has a long history of energy generation; the Eastcroft waste incinerator was established in the 1970s and now generates both heat and electricity for 4,600 homes as well as major city centre buildings including shopping centres and the universities. It will be central to the city's Smart City agenda and target of 20 per cent of energy generation from low or zero carbon sources by 2020.*[104] *Nottingham are looking at the commercialisation of energy and waste policy in order to raise capital, expand provision and develop smart grids. They will focus District Heat and Power Schemes on specific business districts, such as the Creative Quarter, in order to market savings to the owners of premises. The council is also exploring opportunities for local businesses to sell into local grids at an improved rate than they would receive through the Green Deal, whilst still realising savings for domestic users. At the moment the major barrier to increased take-up is the design of incentives for businesses, solutions could include business rate discounts with costs absorbed by the council in order to guarantee a revenue stream through local grids.*[105]

## A virtuous circle

*Local authorities should use the planning system to encourage new developments to produce on-site renewable energy. They should also look at ring-fencing specific capital finance for the funding of energy generation and efficiency projects.*

The National Planning Policy Framework establishes that local authorities should develop a positive strategy to promote renewables in new development. This involves actively supporting energy efficiency improvements in new buildings and identifying opportunities where development can draw its energy supply from decentralised, renewable

**104** See, http://www.miltonkeynespartnership.info/MKP_Projects/project_detail.php?Key=10
**105** Interviewee

or low carbon energy supply systems. Although this doesn't go as far as the Merton Rule – so called for the London borough that since 2003 has stipulated that 10 per cent of energy for new developments must be produced by on-site renewable sources – it certainly gives councils a lever through which to shape local developments.

London RE:FIT, provides another example, of a 'spend to save' programme. Energy conservation measures are installed in existing built assets, with risk performance transferred to the ESCO to "guarantee the energy savings to be made over the agreed payback period."[106] Early adopters of the programme – including the Metropolitan Policy Services – are anticipated to make an average reduction of 28 per cent in their energy consumption. Total spend of the project is £7m with a simple payback period of 7 years, i.e., a saving of £1m per annum.

Councils may want to take the lead on financing green investment and capture the value from the savings, rather than rely on inconsistent national subsidies. They could borrow from the PWLB, issue a bond or draw down EU money to be invested against future savings. In London, such investment has included wider environmental services, and the Greater London Authority has established the London Green Fund with a £100m pot to invest in schemes that will cut London's carbon emission. The fund is made up of £50m from the London ERDF Programme, £32m from the London Development Agency and £18m from the London Waste and Recycling Board. Such models could also attract private money alongside public funding.

Case Study

***Off the grid: Woking's Energy and Environmental Services Company***

*Woking Borough Council has pioneered a network of local energy generation and reduced CO2 emissions associated with the operations of its own estate by over 70 per cent in just 15 years. Woking was able to raise capital for energy infrastructure through projected energy efficiency savings. A green fund was established against which*

**106** Turner & Townsend, Mayor of London, RE:FIT – London's building retrofit programme

*savings accruing from energy efficiency measures were recycled for further energy-saving initiatives. This allowed the council to attract investment from Danish pension companies who recognise the steady low-risk return the initiative offers. Thameswey Energy Ltd, an Energy and Environmental Services Company (ESCO), managed the Woking project. Its assets are now worth in excess of £25m.*[107] *The ESCO uses private networks and is therefore exempt from "use of system" charges and obligations levied on the grid supply. As part of the ESCO business plan, projects outside the borough are investigated, of which profits can be used to improve the environment within the Woking. One example is a Combined Heat and Power energy station for a mixed-use development currently under construction in Milton Keynes.*[108]

Similar Revolving Investment Funds were identified as a key tool for economic growth in previous NLGN research.[109] A number of councils have already used EU JESSICA money to establish funds for urban development and a number of localities are now establishing major funding structures for transport infrastructure. Across the Atlantic, Chicago, meanwhile, has launched a new Infrastructure Trust and intends to work with investors to finance an effort to reduce energy consumption in city assets by 20 per cent.

In order to encourage capital investment local authorities should consider establishing and ring-fencing green revolving investment funds; these would make investments in assets for energy generation and consumption, and could draw down funding from the Green Investment Bank.

## Approaches and recommendations

- Councils should treat energy generation and energy consumption holistically. They are central to 'place-shaping' for future sustainability and economic growth.

**107** ecsc, Climate Change and Decentralised, Renewable and Low Carbon Energy: An Evidence Base (2010)

**108** http://www.decc.gov.uk/assets/decc/11/consultation/green-deal/3607-green-deal-energy-company-ob-cons.pdf

**109** NLGN, Grow Your Own: Infrastructure and Skills for Local Economic Growth

- Different technologies will be suitable for different localities; whether that means supporting nascent marine energy sectors in the North East or installing Solar PVs on council property along the South Coast.
- The financial viability of local energy generating schemes is dependent upon charging tenants nearer market rates for energy, rather than heavily subsidising communities. Discounts could be designed for group purchase or to incentivise other behaviours, such as recycling.
- Councils could consider using their discretion over business rates and council taxes to incentivise businesses and residents to buy local energy and connect on to district heating schemes; they could target specific areas such as Enterprise Zones or Business Improvement Districts.
- Local authorities could work with private sector developers to expand the 'Merton Rule' and encourage the development of an energy retail offer, establishing Combined Heat and Power and selling excess energy locally.
- In order to encourage capital investment local authorities could establish and ring-fence green revolving investment funds; these would make investments in assets for energy generation and consumption, and could draw down funding from the Green Investment Bank.

# 5 *Leadership, intangibles and future councils*

**This report has focused on three types of local authority assets – estates, transport infrastructure and energy generation – with specific approaches and recommendations for each. But, as discussed in the introduction, these thematic distinctions are somewhat arbitrary. Not only are there overlaps between different assets groups (for example, energy generation from the "south facing roofs" of civic buildings) but specific insights on each asset class are illustrative of general best practice approaches in local asset management.**

## Local leadership and collaboration

*If councils are to generate maximum revenue from the local asset base then they will need to adopt a whole-place approach, incorporating council owned assets, public sector assets and assets in private management.*

The Capital and Asset Pathfinders identified the potential of estate rationalisation to realise operating efficiencies and respond positively to local service transformation. Where services from across the public and voluntary sectors can all co-locate, significant capital can be released and on-going revenue costs reduced through better asset utilisation. Co-location can also provide improved service delivery for local communities and break down internal bureaucratic barriers.

Historically, public services have been delivered by different organisations in different locations, therefore local profiling and customer insight must inform new approaches, avoiding the silos of property management or specific service delivery. Councils and their partners should use asset management as a key tool for improving services to customers. Equally, "paramount…is a mindset that views the agreed combined property assets as common public assets."[110] Memorandums of Understanding and Joint Asset Management

**110** See,http://www.localpartnerships.org.uk/userfiles/file/Publications/Capital%20Investment%20Regeneration%20and%20JV.pdf

Boards - that would take a 'Corporate Landlord' approach to all public assets - are tools through which to formalise local agreements.

Alongside savings, revenue streams can be unlocked through Special Purpose Vehicles, such as LABVs, that bundle local assets into joint ventures with the private sector. Capital investment will be delivered, but this is only one part of a partnership agreement that could also be designed to meet wider public policy goals such as improving skills for local employability. Other outcomes could include specific targets on energy generation for new development, air-rights for retail development at hubs of transport infrastructure and councils taking equity in privately-led urban development schemes.

## Borrow and invest to save

*Councils will need to invest if they are to develop, or in some instances just maintain, their asset base. They can borrow money from the PWLB or even the bond market and ring-fence funds for specific asset classes, if required. Borrowing repayments can be made through revenue streams or significant savings in the management costs of existing assets. Therefore, the development of new and reimagining of existing assets should be considered as investment opportunities.*

Local government has the opportunity to borrow to invest if it believes it can generate revenue or bankable savings. This gives councils the freedoms to enter into more creative conversations about development, rather than re-hashing debates about the closure of assets, such as libraries. It also gives local government the option of keeping hold of the "family silver."

The London congestion charge required major up-front capital in new infrastructure but is now returning a revenue steam and meeting public policy goals to reduce urban congestion and increase bus use, which would never have been achieved without the initial investment. The Oxford Castle and Jail regeneration scheme was able to leverage public money, including a grant from the Regional Development Agency, to attract private investment of £34.2m, resulting in a private: public funding ratio of 3.3 to 1. In the current climate the council would have to consider borrowing that grant money and investing in a manner through which they received commercial returns.

Renewable technologies are capital intensive but they can generate significant revenue and savings, make use of physical and natural assets and even have impacts on local economic growth, as in Freiburg in Germany. A council that borrowed £1.5m to install solar PVs, for example, could repay this amount over the 25-year life and after debt servicing generate an excess cash flow of approximately £750,000. Equally, councils could look to install energy efficient heating systems to cut down on usage and make significant savings on ever increasing fuel bills.

Land value capture mechanisms are also a means through which councils can make investments against future returns. At present these receipts come in the form of retained business rates or developer contributions, but they could potentially include revenue streams. If joint ventures could negotiate an equitable risk sharing and DBFO model councils could consider taking equity stakes in estates and transport infrastructure assets developed by the private sector. This would provide much needed finance to leverage private sector finance, and allow councils to capture the 'market value' rather than 'book value' of new projects.

## Intangible value

*Management literature and accounting practice is dominated by physical, tangible assets. However, if the value of these assets is to be realised it will be heavily reliant on intangible assets – the knowledge of council staff, data held by authorities and the social capital of communities. Councils can generate revenue through capitalising on its intellectual property, the value of its brand and through designing premium services. Authorities can also save money and get better outcomes through community engagement.*

Local authorities' main asset is arguably their staff and intellectual property. Councils are repositories of knowledge. Finding a way to harness this intellectual property could generate a new source of income. Councils may develop specific knowledge in certain areas and lead in providing services to third parties – Northamptonshire and Cambridgeshire Local Government Shared Services are already offering services under the banner of 'by the public sector for the public sector.'

There are a number of examples of councils taking this approach. Kent County Council has set up a trading body to sell a package of IT services for schools to other authorities. Lancashire County Council has established a BT subsidiary company, One Connect, to provide IT services for the council with a target of making £100m worth of savings. Birmingham City Council has established Acivico, a company to trade in back office services with other public bodies, and made £300,000 income through trading in legal services.

Councils are also exploring opportunities to generate revenue through advertising. For example, Nottingham City Council's website, attracting about 200,000 impressions a month, has been able to generate up to £1,500 per month since introducing Google AdSense. Residents view the advertising positively as it illustrates that the council is actively pursuing opportunities to raise revenue and subsidise costs.[111] A poll undertaken by the Guardian in April 2011 suggested that 61.1 per cent of readers were in favour and 38.9 per cent were against advertising on council websites.[112] With regards physical assets, each year, local authority sites generate £100 – 150m of revenue for media owners, who pay £25 – 50m in rent to local authorities. According to the Office for Fair Trading: "Many local authorities do not appear to be aware of the advertising revenues that sites on their land generate… This makes it difficult for them to negotiate from an informed position."[113] Councils will have to become more commercially aware if they are to capture this value. However, given the relatively small magnitude of the sums involved they will need to consider advertising within the scope of more wide-ranging strategies for the management of intangible assets.

Local authorities have a wide range of customers from individuals, to families, special interest groups, private or public sector bodies. In order to provide extra services whilst working in the interests of the community, councils should design incentive structures that work with local economic priorities, such as discounts for group energy purchases or tailored workplace travel plans. Another lucrative approach may be to exploit 'brand recognition' amongst local communities. Local government should be looking to capitalise on this in

**111** http://gbawards.governmentbusiness.co.uk/awards-categories/3-awards-category-one/118-revenue-generation-award

**112** http://rds.eppingforestdc.gov.uk/Published/C00000316/M00006641/AI00032763/FED014Appendix1PWCRevenueIncomeOptimisationReport.pdf

**113** See, http://www.oft.gov.uk/shared_oft/market-studies/oft1304.pdf

any public private partnerships. However, councils do not have a particularly sophisticated understanding of brand value at present.

Councils also need to be aware of opportunities to build loyalty to specific services. Shropshire County Council, for example, is looking to develop an individual brand identity to reflect the self-financing nature of collaboration with the HCA, investing in housing stock using capital from council asset sales: "This would…enable tenants to develop a loyalty to the service being delivered rather than to the council as a whole."

The information held by councils should also be regarded as an asset if it can be used intelligently to redesign services. For transport infrastructure, real time traffic data and live timetabling is useful to users of both public and private transport and to local transport operators. For energy generation and consumption, smart grids and smart metering can be employed to strategically manage local demand and give consumers more insight into their own usage patterns.

Local authorities must also seek to mobilise intangible assets outside of their direct control. Consideration of community collaboration is particularly important given the government's emphasis on community asset transfer and neighbourhood plans for development. Physical assets – from land to property – can be transferred by leasehold or freehold to support the activities of community groups and build these social assets. Councils could also creatively explore opportunities to be aggregators for the sharing of privately held social assets, such as gardens or parking spaces. Peer-to-peer groups - campinmygarden.com, for example, advertises private gardens as micro campsites - have already established such asset leasing strategies.

## The 2020 council

*Councils that pursue the approaches outlined in this report will look very different in the future. They will be pro-active in place shaping and more financially independent. So what will they look like in 2020?*

The 'green development' council, a large southern county, prioritised sustainability and town centre growth. In 2010 it took advantage of its

position on the south coast to invest in solar photovoltaics, alongside further capital investment in energy efficiency measures and the upgrading of its existing boilers. Initial installation was on council owned property, but they also worked with local schools, registered social landlords and public service providers to achieve economies of scale. Agreements were signed through which the council received feed-in-tariffs and renewable heat incentives to pay back the initial capital, financed through a PWLB loan. Cashable savings were in the magnitude of £25m per annum, with £250m generating over the life of the projects - a significant revenue stream after debt servicing.

The 'green development' council targeted 20 per cent energy generation from low or zero carbon sources and engaged the private sector to achieve this. It has established a green investment fund in order to finance the connection of local residents and businesses to a district heating scheme, and developed an energy retail offer. It implemented kerbside recycling scheme, saving £2.5m per cent, and 99 per cent of the city's industrial waste is now turned into energy in EfW plants, worth around £35m per annum. All of the schemes are operated by a public private ESCO, which has signed agreements with a number of neighbouring counties in order to collect their waste.

In addition, the council purchased a private retail development to anchor a regeneration scheme, which also includes the town hall and a city centre park. To encourage private development around this site, the council assembled public and private land. It also took an 'equity stake' in the new development to provide finance and in return receives a portion of the rental income from the successful new mixed-use development. All businesses moving in to the development were incentivised, through a targeted business rate discount, to install on-site renewables and connect to the district heating scheme. This provided further revenue security for the council. It has marketed its brand as the greenest urban council to attract innovative green SMEs that work with the research and development department of the local university and a major automobile manufacturer.

The 'connected' council, a metropolitan borough, emphasised the importance of transport infrastructure for local economic development. Along with neighbouring authorities it held a major share in a local airport, which gave it a significant revenue stream from yearly profits of £80 – 100m.

It also successfully cooperated with neighbouring councils, both district and county, on road maintenance issues, which included the filling in of pot holes and road gritting during winter months. This cooperation gave the authority the confidence to match its own financial resources - PWLB borrowing, capital receipts, and New Homes Bonus - with the transport budgets that were devolved in 2015. Money was pooled with neighbouring councils and they cooperated with the Highways Agency to develop a strategic transport plan.

The investment strategy focused on better public transport for city centre businesses, which resulted in a 100 per cent increase in public transport use and significantly reduced C02 emissions. This smoothed the way for an urban congestion charge with which to finance continuing improvement in the public transport network and the proactive maintenance of strategic highways. The council made use of near-field technologies for fee payers and designed a multi-modal scheme that encouraged walking and cycling. New infrastructure was developed in a public private partnership through a DBFO arrangement. There has been a significant increase in the value of the council's industrial assets in the vicinity of the new development.

The 'regeneration' council, a rural district, had an ambition to make the best use of its limited asset portfolio to improve the locality for residents and tourists. It initially adopted a "Corporate Landlord" approach to rationalize its own estate, removing property from the ownership of directorates and internally-leasing this back for service delivery. Surplus property that was not of commercial value was placed in a trust for the local community, and supported the delivery of community services. The 'regeneration' council also sold a number of its property and land assets to a private pension fund, before leasing these back for a preferential rate through a long-term tenancy agreement.

The capital the authority received was ploughed into the acquisition of a number of derelict local assets, which included a heritage site, disused transport infrastructure and a large tranche of parkland. The authority worked with a private developer, placing the property and land within a Local Asset Backed Vehicle, to regenerate these sites. This unlocked a new revenue stream, through a golf course and hotel, and significantly increased the value and desirability of residential property in the area.

Each of these councils employed what we have termed 'creative commerciality' in their asset management. It will be crucial to the future of local government. As Joseph Chamberlain and other civic leaders understood in the 19th century, assets are critical to successful communities and places.

# *Conclusion*

**Local government leaders have a long history of understanding the importance of the local asset base. Those at the forefront of new thinking, such as Birmingham, Northamptonshire and Woking, are prioritising it once again.**

From homes and neighbourhoods, to commuting or the climate, the management of public assets impacts on daily lives across the country. 'Creative commerciality' will allow councils to work pro-actively with other authorities, public sector partners, the private sector and the community in order to address local concerns, create prosperous places and unlock revenue streams.

Reimagining public asset management can meet pressing social need, on issues such as public health, and support jobs and employment opportunities, by boosting the local economy. As one interviewee described it, the productive use of assets provides an "essential means to the end" of achieving the strategic ambitions of local government.[114]

This report has focused on the specific asset classes of estates management, transport infrastructure, and energy generation. They are each interdependent. They are also each dependent on natural, social and intangible assets.

Councils should build from the asset base they have and make use of any advantage this gives them in meeting local priorities. This may mean they invest in green urban development, maintaining and developing transport infrastructure, regenerating heritage assets or any other combination of approaches.

At the same time, local authorities can also learn lessons from successful strategies implemented across the country, developing an active community of learning. Since the days of Joseph Chamberlain, civic leaders have made the most of the public asset base. Such vision and ambition is again needed. It will be crucial to the future success of local authority enterprise.

**114** Interviewee

# **Appendix 1** *Methodology*

**A high-level advisory group,** including practitioners developing new approaches to local asset management, offered strategic insight on the research, report and recommendations.

**A desk-based literature review** to summarise the latest theoretical thinking and policies for local economic growth.

**Engagement with key stakeholders** including senior council officers and politicians, the private sector, Whitehall officials through three roundtable conversations and in-depth interviews. This group was also very helpful in supporting ideas generation.

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