

Written evidence submitted by Core Cities UK

This submission is based on and summarises our research report:

- the Future of Urban Centres, commissioned jointly by Core Cities UK and Key Cities, and carried out by Metrodynamics, launched May 2021;
- and City Investment Analysis, carried out by Eunomia and commissioned by the UK Climate Change Investment Commission (UKCCIC) for Core Cities UK and London Councils, launched on 21 October.

1 About Core Cities UK

- 1.1 Core Cities UK is an alliance of 11 cities - Belfast, Birmingham, Bristol, Cardiff, Glasgow, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield. Its mission is to unlock the full potential of our great city regions to create a stronger, fairer economy and society.
- 1.2 Core Cities city regions deliver 26% of the UK economy, 20% of trade and are home to more than 20 million people and 37.5% of university students.

2 Our response

- 2.1 We welcome the committee's focus on climate change and what Government can do to achieve Net Zero. Covid-19 has caused unprecedented economic disruption and cities - which tend to be hubs of culture, office space and retail - have been particularly badly affected.
- 2.2 Structural changes in city centre economies, accelerated by the pandemic and further restrictions has hit sectors like retail, hospitality, culture and tourism very hard and highlighted the vulnerability and the precarious nature of employment in these sectors. These sectors have been disproportionately affected where freelancers and many on short-term contracts were unable to access income support schemes; they will take the longest to recover, and leisure and hospitality and its supply chain sectors who are more likely to have restrictions imposed or closed. Core Cities need funding to look at sustainable ways to support these sectors and to promote better employment in hospitality. Town and city centres have played a critical social and economic role in supporting the economy, employment and cultural experiences of surrounding areas, and must now be supported to transition through a challenging period.
- 2.3 The shockwaves from economic stalling in our urban centres have affected every other place across the UK, including surrounding towns with which we are closely linked. It is therefore critical that the economic infrastructure of big cities is protected as far as possible in order to ensure that the UK has the means at its disposal to return quickly to growth.
- 2.4 As cities emerge from the pandemic a major uncertainty is the extent to which homeworking becomes a permanent feature of city living, or whether urban centres will revert to something resembling life before the pandemic. As city centres reopen and the furlough scheme draws to a close, we will begin to see the full extent of the social and economic harm left in the pandemic's wake. As with previous shocks, the pandemic has accelerated some trends already in flux whilst also generating its own specific effects.
- 2.5 The long run effects of social distancing on cities, whose raison d'etre is social proximity, are still unknown. Yet what feels more certain is that we have reached Peak Retail much faster than expected. This is alongside the wider impacts of the pandemic have added to pressures on city authority finances, which now face the twin challenges of increased spending demand and reduced tax revenue.

- 2.6 Footfall is almost back to normal in many cities, although there is a challenge with office and retail sectors and cities need time and flexibility to adapt. Towns, cities and smaller settlements are parts of interdependent economic networks wholly reliant on each-others performance. As the OECD¹ have set out, the most successful urban areas create a 'borrowed agglomeration' effect, which enables the surrounding region to benefit from the success of cities, whilst building and exploiting the distinctive economic assets of each place within that network. Cities and towns across the region want to create attractive urban environments where people want to live and can connect easily to access amenities, jobs, cultural offer, etc. aka the concept of 15-minutes cities and investment in public transport can better connect communities in cities and towns. If we don't help cities and towns to adapt, it will impact on wider urban area and levelling up communities across our interdependent economic networks.

The solutions cities can offer

- 2.7 Core Cities can help deliver the Government's agenda on economic recovery, levelling up, achieving net zero carbon and making the country more resilient. But we need long-term financial security and the space to trial and experiment with new approaches to do so. This relies on a combination of: investment into preventative services to reduce dependency on public services in the long term; supporting jobs and business growth; and doing so through place-based policy and commissioning approaches. It is therefore critical that Government continue to devolve powers to cities and city regions, and find a sustainable solution to the crisis faced in local government finance. With greater powers and sustainable finance, Core Cities can unleash the potential of the UK's city regions.
- 2.8 Export businesses tend to be more productive than those which supply locally consumed services (such as cafes and gardeners), owing to their superior ability to absorb new innovations, access economies of scale and reach larger markets. Most of the Cities contain fewer exporting jobs, and are less productive than the national average. Interventions to support place-based clusters of exporting businesses such as innovation districts and even joined up innovation corridors (such as the corridor linking Newcastle and Blyth, connecting submarine engineering expertise in Newcastle, wind turbine production in Dogger Bank, and the BritishVolt lithium battery Gigafactory in Blyth) will help address this. Cities are able to leverage their comparative advantages to develop innovation clusters in diverse fields from advanced manufacturing to life sciences.
- 2.9 Cities should build on existing levers, such as Freeports, to test innovative financing and incentive approaches for business and investment with new trading arrangements. They should also develop a culture of co-investment to build Special Purpose Vehicles (SPVs) and utilise current investment.
- 2.10 Government should enable special purpose vehicles for co-investment and flexibilities for 'free' innovation zones that can be implemented in city centres for innovative business clusters: helping to spur innovation for the future economy. Cities also need greater flexibility to invest with private investors and business to meet a number of challenges including economic growth and climate adaptation.
- 2.11 Government should build on Green Bonds, the UK Infrastructure Bank and Future Funds to expand co-investment models for municipally designed investable projects, combining local core grant and additional funds with TIF style and impact investment, and municipal bonds. And it should explore use of Tax Increment Financing (TIF), often used in US cities, to stimulate investment and development in designated regeneration areas.
- 2.12 Government should also consider reform of retailer taxes (from business rates to sales tax) to recognise shift of economic value from the physical high street to online with revenues linking back into city revenues through.

¹ [OECD Policy Responses to Coronavirus \(COVID-19\)](#); Cities policy responses; July 2020

For further information

2.13 Core Cities UK would welcome the opportunity to answer follow-up questions from the Committee or appear at an upcoming oral evidence session.

3 Core Cities UK and Achieving Net Zero

3.1 Core Cities, London Councils and the Connected Places Catapult jointly established the UK Cities Climate Investment Commission to address the issue of finance and drive investment into low and net zero carbon projects across all of the UK's largest cities and this report focus on the UK's Core Cities² and London and its findings are widely applicable to the rest of the UK.

3.2 The transition of our existing carbon intensive systems to Net Zero will require significant up front capital, and presents unique challenges for the UK's cities:

- **Scale:** This report estimates that £206 billion (in a range of £112-£334 billion) must be spent to achieve Net Zero pledges across the UK's Core Cities and London Councils, representing around one quarter of the UK population.
- **Urgency:** Implementation must accelerate as soon as possible to meet Net Zero deadlines and mitigate temperature increases.
- **Complexity:** The systemic transitions required within cities are complex and interlinking and are unlikely to be achieved successfully through individual decision making.
- **Just Transition:** Already stretched social inequalities risk being exacerbated if the outcomes of policy changes are not appropriately considered.

3.3 The quantity of capital that must be deployed is beyond the reach of public finances. If this funding gap is met only by citizens and businesses there will be damaging impacts on the poorest sections of society, counter to the levelling up agenda.

3.4 Furthermore, existing financing and delivery systems have not been designed to deal with the complexity of coordinating action locally in multiple sectors – the built environment, energy, transport, waste, and green infrastructure. Tweaking these existing financing structures is unlikely to deliver the scale and speed of transition required in these interlinked systems in a just and equitable way.

3.5 The Opportunity

3.5.1 In this context, the UK Climate Change Investment Commission (UKCCIC) sees private sector finance as a critical tool for achieving the Net Zero transition. Alongside supporting substantial GHG reductions, integrating private finance into the Net Zero transition will support the UK's levelling up agenda, create local jobs, deliver clean and inclusive places to live, and prompt greater collaboration between all stakeholders in local places.

3.5.2 The scale of private finance available is sufficient to support substantial progress towards Net Zero. However, there is a need to understand where private finance can play an effective role, and where hurdles must be overcome to unlock this resource.

3.5.3 New approaches are therefore required to deliver this multi-intervention and place-based transition. In this context, this report has:

- Assessed the magnitude of investment needed to take the UK's Core Cities and London to Net Zero;
- Investigated the opportunities and limitations for private finance to play a leading role in financing key Net Zero infrastructure for cities: commercial real-estate, domestic housing,

² Belfast, Birmingham, Bristol, Cardiff, Glasgow, Leeds, London, Liverpool, Manchester, Newcastle, Nottingham, and Sheffield.

transport, renewable electricity generation, waste management and green infrastructure;
and

- Provided recommendations for how flows of private finance into city-based Net Zero infrastructure could be enhanced.

3.5.4 In doing so the intention of this report is to support the acceleration of Net Zero financing, particularly through the bringing together of private and public sector bodies to support decarbonisation of the UK's Core Cities and London. This has the potential to create a £300-£500 billion investment opportunity for long term capital such as pension funds and insurance companies.

3.6 Key Findings

Economic incentives across most sectors are challenging stand alone

3.6.1 Conclusions regarding the present viability of private finance across each of the individual Net Zero infrastructure sectors. These can be grouped as follows:

- **Renewable electricity generation offers the greatest opportunity for private finance at present.**
 - Large scale solar and battery storage schemes can provide good financial returns.
 - Equally, onshore wind has the capacity to deliver good returns, but local planning hurdles are often insurmountable.
 - Hydro power is also capable of delivering acceptable returns, but the availability of suitable sites is scarce, mostly in Scotland.
 - Other novel technologies such as tidal power and geothermal are attracting investment but heavily dependent on Government support.
- **Domestic building retrofit, commercial building retrofit, and transport decarbonisation all offer some direct return on investment, but to a limited extent.** There is therefore a need for enabling actions to deliver additional financial incentives and to structure Net Zero projects in a way to scale and blend financing sources.
 - In the **built environment** emissions can be reduced through a range of demand reduction and heat source changes, but the financial returns are very poor. Subsidies of around 80% are needed solely to cover financing costs, let alone create a financial incentive.
 - Incorporating solar PV and battery storage increases the overall capital cost but materially improves the combined return profile for the interventions.
 - For **transportation**, EV cars increasingly demonstrate a beneficial financial return through Total Cost of Ownership. Range anxiety and installing sufficient EV charging infrastructure remain key challenges. Economic cases for public charging points are currently negative and will need sustained subsidy support.
 - EV buses can demonstrate an economic return if the true cost of carbon reductions is incorporated, but from a purely financial return, have negative returns without subsidy.
 - Active travel schemes such as dedicated pedestrian walkways and cycle lanes can demonstrate strong co-benefits through improved mental and physical health. However, with limited income streams they deliver a poor financial return.
- **Green infrastructure and waste management decarbonisation** present the greatest challenges for private sector investment. Conventionally considered 'public service' infrastructure, using private finance to initiate these projects will require substantial policy development and restructuring of delivery models.

- **Green infrastructure** deployment can attract co-funding from organisations that see cost reduction as a result. This includes water companies who see reduced volume yet higher quality water flowing into their infrastructure, as well as developers seeking biodiversity offsets, or corporates looking to offset residual carbon footprints.
- **Waste infrastructure** is largely paid for through taxation, presenting more limited avenues for private sector investment in the current market. This may change with the establishment of Extended Producer Responsibility (EPR) schemes. Policy changes are central to creating financial incentives for private sector investment in this sector.

Implementation requires delivering interventions across multiple sectors in single places

- 3.6.2 'Sector-by-sector' consideration of Net Zero interventions is inefficient, impractical, and lacking in vision. It overlooks the potential for aggregating revenue streams and therefore finance, delivering economies of scale, and maximising the climate benefits of implementation through a multi-intervention, place-based approach.
- 3.6.3 Collectively, transitioning a neighbourhood to Net Zero will deliver financial returns in the form of direct savings, additional revenue streams, and a wide range of other social and environmental co-benefits. Aggregated and monetised in the right way, these returns can attract a blend of large-scale capital sources. The transition has the potential to create overall economic value while also delivering better, healthier places to live and work.

Capacity and capability building is required for delivery

- 3.6.4 There is a gap in available headcount within Local Authorities to deliver this work as well as some gaps in capability and skills across a number of specialist areas such as low carbon technology and financing. Nor are there centralised resources adequate for Local Authorities to draw upon.

Policy changes will be necessary to maximise the role of private finance

- 3.6.5 Even in scenarios where the economic incentives of projects are more attractive, stronger policy incentives for lower carbon infrastructure would further enhance the attractiveness for private sector investment.

3.7 Recommendations

- 3.7.1 To maximise the potential for private investment to support the transition to Net Zero, this report recommends:
- 1. Placed-based investment demonstrators:** This will involve piloting the implementation of multi-intervention, place-based Net Zero delivery models. In practice, this would be likely to include local electricity generation, local renewable heat provision, more efficient buildings, increased green infrastructure, electric charging infrastructure, provision of local service provision to reduce travel requirements, access to lower carbon travel options, and lower carbon waste management services.
 - 2.** Piloting these models will demonstrate whether it is possible to wrap interventions together, to obtain an overall package which can attract private investment by capturing cash returns and co-benefits into a blended finance structure.
 - 3. Incentivise public-private partnerships, building on existing structures:** Develop the necessary structures and services to enable collaboration between local public bodies, private sector investors, local businesses, and local residents. Whole neighbourhood change of the type that would maximise the possibility of investment requires effective partnership working. At present there are few examples of structures and services that enable the type

of collaboration necessary between all of the relevant stakeholders. This is critical for enabling any investment to be a success.

- 4. Support advanced planning and creation of investable propositions:** Allocate further resource to understanding Net Zero infrastructure needs and developing plans to advanced stages. Whilst Local Authorities have developed Net Zero action plans, these have so far had to be high-level in nature due to limited resources. They set out the direction of travel but will need to be augmented by more detailed planning to secure investment. This requires resourcing and support to Local Authorities, including detailed local Council capacity analysis.
- 5. Accelerate specific policies to support delivery.** In particular, attaching financial disincentives to activities associated with higher GHG emissions, whilst ensuring these are designed to not disproportionately impact vulnerable or low-income consumers. In addition, enabling other co-benefits (such as health improvements and biodiversity enhancements) to be effectively monetised and deliver real revenue streams. These will often drive the economic case for action.

3.8 Summary

- 3.8.1 This report concludes that there is a positive economic case for investing rapidly in the decarbonisation of neighbourhoods, which will contribute to levelling up through significant investment in place-making. The Net Zero transition offers UK cities the opportunity for green jobs, increased demand for UK businesses and suppliers, and further enhancement of the UK's thriving urban environments.
- 3.8.2 Unlocking this potential will require new models of co-ordinated delivery and combined financing from multiple sources. Financial benefits must be aggregated to support repayable finance and significant improvements in fuel poverty, health care and even carbon emission reductions must be evaluated and harnessed together in a precise financial framework. Standardisation of reporting, governance, billing and legal structures will be required to encourage private investor confidence and allow aggregation for scaled investment.
- 3.8.3 The Net Zero transition can deliver an economic outcome that will attract both financial, return driven, capital as well as capital with socio-economic outcomes as its core focus. A model for delivering a multi-intervention, place-based route to decarbonisation is mapped out in this report.

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