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'The governance of local infrastructure funding and financing'

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Abstract

The governance of infrastructure financing at the city and city-region scales is critical to the search for new and innovative funding mechanisms for infrastructure systems. The global financial crisis and economic downturn have focused attention on the role of infrastructure renewal and development in economic recovery and stimulus. Austerity and the fiscal consolidation of public finances have reinforced government efforts to reduce expenditure and debt, and secure private sector engagement and resources. Local actors in cities and city-regions have been compelled into finding new sources of private and even international capital, developing innovative business models for infrastructure provision and establishing new institutional and governance arrangements. This article analyses the context and emergent infrastructure funding and financing approaches, models and practices being formulated as part of a review of the City Deals in the UK. The experience of the City Deals raises critical questions about the emergent and recombinant forms of urban leadership and governance in cities and city-regions and the nature of centre-local relationships in the austerity state.

Keywords: Cities; City Deals; City regions; Financialisation; Governance; Infrastructure

Background: Speculative urbanism and austerity

In response to the global financial crisis, from 2008, the G20 economies implemented a programme of co-ordinated economic stimulus activity, with up to US$600 billion invested in infrastructure (OECD 2009). However, changes of government, coupled with rising budget deficits and overall debt, saw several governments in 2009/10 change tack and introduce fiscal consolidation measures in an attempt to rebalance public finances (Donald et al. 2014). Peck (2012) argues that fiscal consolidation or austerity forms part an ideological blueprint where budgetary pressures are used as a rationale for introducing smaller state settlements, and where an evolving model of neo-liberal urbanism (re)shapes the landscapes of urban economic development and governance (see also Peck et al. 2013).

One of the features of contemporary globalisation has been the growth of cities and city regions, but growth is uneven and distributed across urban systems in different ways (Barca et al. 2012). Consequently, cities represent a key site to examine empirically the practical impacts of austerity. Cities also provide a valuable tool for strengthening our understanding of how different places are responding to economic and fiscal crisis whilst embarking on sourcing, managing and delivering new investment in the critical urban infrastructure assets and systems, which are essential for enhancing economic growth and improving quality of life (Dawson 2013; Hall and Jonas 2014).

Infrastructure networks are the main physical and technological assets that bind cities and city regions together into functional economic geographies (Graham and Marvin 2001). Since the 1970s, there has been a shift away from integrated, bundled infrastructure networks (Graham 2000) towards specialised, privatised and customised products. The result being that infrastructure, which was previously viewed primarily as a 'public good', has now been opened up to private and quasi-state owners embedded within global flows of finance capital (Graham and Marvin 2001). As the urban infrastructure landscape has become interlinked with specialist global infrastructure funds, international actors are playing an influential role in the governance and regulation of cities and infrastructure assets and systems (Torrance 2008; Pagano and Perry 2008).

Greater collaboration between local state actors and private interests has been evident in the material appearance

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and evolution of 'urban entrepreneurialism' (Harvey 1989). This new era has resulted in the boundaries between the public and private sectors being recast across service provision, infrastructure finance, delivery and operation (Whitfield 2010). A more extensive and intensive commodification of space and the public sphere has followed, accelerated by recent waves of austerity, where cities are encouraged to adopt and embrace private sector models of urban governance and agency (Meegan et al. 2014). As the modus operandi of urban development and governance since the early 1980s (Davidson and Ward 2014), speculative urbanism draws private actors and the state together in a symbiotic process of continual negotiation and transaction (Goldman 2011), and is framed within a broader context whereby cities are prepared to engage in riskier forms of urban development policy and strategy (Peck et al. 2013), and formulate new territorial alliances (Ward 2013). In the face of increased fiscal constraints, and yet bound up within a pervading system of financialisation, cities are required or compelled to seek greater flexibility in order to demonstrate financial innovation (Harvey 1989). In terms of infrastructure investment, this greater engagement with finance capital is evident in the willingness and ability of local actors to borrow against existing assets or future revenue streams in an attempt to stimulate or 'unlock' additional growth and development.

In this article, we illustrate how the governance of local infrastructure funding and financing has been moulded by the broader processes of financialisation, and is evident in the desire of governments and private investors to (re)-define infrastructure as a new asset class. We argue that the leveraging in of private finance, at the city and city-region scale, is shaped by three factors. First is the nature of the power and inter-relationships that exist in decentralised and centralised systems between national and sub-national governments. Second is the ability of places to produce coherent strategies and prioritised delivery plans that can attract and embed national and international private investment. Last is the effectiveness with which public and private institutions manage both mature and fledgling city-region-wide governance coalitions.

The article draws upon the findings and initial analysis of a review of the UK Coalition Government's City Deals programme. Between January and July 2014, 30 semi-structured interviews were conducted with senior national and local officials who were responsible for negotiating and implementing City Deals, supplemented by analysis of relevant government and other policy documents. We describe how the UK Government has invited a select number of cities to flirt with risky, speculative, complex and potentially more expensive investment activity, only to step back, at the eleventh hour, from agreeing to some innovative proposals. We argue that, despite the current rhetoric of localism and devolution, the reluctance of national government to sign up to some specific aspects of City Deals is a symptom of the overly-centralised nature of the UK political economy, and a reflection of the overwhelming economic and political objective of the Coalition Government to pursue fiscal consolidation and deficit reduction.

Background: Centre-local relations and governance

The nation state has played a pivotal role in the aftermath of the global financial crisis (Dicken 2011) during a period when longer-term, qualitative transformations have been taking place in how the state discharges the functions of local and regional development. Such changes are complex, uneven and uncertain, and include forms of territorial 'rescaling', and sub-national and local governments assuming additional policy and fiscal responsibilities (Lobao and Adua 2011). We suggest, on the basis of our research findings, that the pattern of how these developments are evolving in the UK reveal a continued tension between centralisation and the drive for a more autonomous local state defined through a relationship with private finance.

One of the more visible illustrations of state rescaling (Pike and Tomaney 2009) has been the increase in the number of cities and regions competing against each other for investment, jobs and resources; based on the uncertain premise that all places can be winners if they follow similar market-led development and growth policies (Bristow 2010). This approach underplays, at best, the evidence that capitalism is spatially-variegated (Peck and Theodore 2007; Peck et al. 2013), and that contingency shapes and reshapes local and regional development policy interventions (Dicken 2011).

Our interest in the governance of local infrastructure funding and financing stems from the uneven economic geographies in which these processes are unfolding and taking root as well as the specific role and function of local and regional institutions in promoting or hindering economic growth (Martin 2000; Rodríguez-Pose 2013; Tomaney 2014).

Within the processes of territorial decentralisation, the city region has emerged as a significant framework of sub-national economic analyses and development planning (Coombes and Champion 2011). This focus has received additional impetus recently by the promotion of 'Regional Urbanisation' (Soja 2000), 'Metropolitan Regions' (Katz and Bradley 2013), and the apparent linkages between city-region governance systems and economic performance (Ahrend et al. 2014). Academics and policy-makers have long been concerned that "metropolitan regions are chaotic and ungovernable" places (Storper 2013: 1). Often, the planning and implementation of economic interventions at the city-region scale requires the co-ordination of many

different institutional actors (Brenner 2004), and the alignment of local institutional arrangements with functional economic areas (Crouch 2011). The result is that local public authorities have to spend considerable time building and maintaining city region-wide governance and leadership in order to establish effective municipal cooperation (Ahrend and Schumann 2014; Nelles 2013).

Background: Infrastructure as an asset class and emergent infrastructure funding and financing practices

Faced with an increasingly influential [neo-liberal] policy agenda (Peck et al. 2013), whose advocates argue that direct national public borrowing and taxation should not provide an exclusive source of infrastructure funding, and grappling with growing (and competing) immediate demands and pressures on local public budgets, cities are turning towards national and international private capital for urban development and infrastructure investment. Whilst these relationships may generate potential new finance, they also pose fundamental questions about the governance and regulation of local infrastructure funding and financing.

The ability of cities and city-regions to source and deploy new private capital is diverse (Peck and Theodore 2007). For example, some cities are able to mitigate the inherent risk that certain securitised financial models contain, whereas others lack sufficient scale, size or market conditions to adopt and implement such complex initiatives, and are therefore exposed to greater fiscal stress if and when schemes fail (Weber 2010).

With traditional sources of infrastructure funding and financing under stress, attention is turning to alternative investment mechanisms (OECD 2013). Institutional investors, including pension funds and insurance companies, have been identified as new sources of infrastructure financing (PwC 2008) as investors look to infrastructure assets as a means of generating long-term, inflation protected returns.

A variety of urban infrastructure funding and financing practices have emerged recently (Strickland 2014) (Table 1). Traditionally, UK local government, which has extremely limited fiscal autonomy in an international context (OECD 2015), has been a major recipient of infrastructure grant funding from UK and European governments. This situation contrasts with the US, where there is a long history of municipal borrowing from the private sector to finance infrastructure investment. In 2008, the Core Cities Group (at the time representing the eight largest cities in England outside London) identified a set of financial tools that could enable local authorities to deliver major regeneration projects that required investment in 'enabling' infrastructure (Core Cities/PwC 2008). The measures included: Business Rate Supplement; Community Infrastructure Levy; Recycled Infrastructure Funds, Accelerated Development Zones and Tax Increment Financing (TIF) (Table 2).

UK local authorities have undertaken prudential borrowing from the Public Works Loan Board (PWLB) to finance capital investment; a body administered by the Debt Management Office, which itself is an agency of the UK Treasury. One of the benefits of the PWLB is that it provides simple and immediate access to finance, as the UK Government deploys the national sovereign balance sheet to undertake direct borrowing from international markets on behalf of local authorities. In 2013, 75 % of all UK local authority borrowing was provided by the PWLB (Andersson 2014). The extent of the PWLB's influence as a lending facility was illustrated when the

Table 1 Infrastructure Financing and Funding Practices

Temporality	Type	Examples
Established, 'Tried and tested'	Taxes and fees	Special assessments; User fees and tolls; Other taxes.
↓	Grants	Extensive range of grant programmes at multiple levels (e.g. federal national, province, state, supranational)
	Debt finance	General obligation bonds; Revenue bonds; Conduit bonds; National Loans Funds (e.g. PWLB).
	Tax incentives	New market/historic/housing tax credits; Tax credit bonds; Property tax relief; Enterprise Zones.
	Developer fees	Impact fees; Infrastructure levies.
	Platforms for institutional investors	Pension and Insurance infrastructure platforms; State infrastructure banks; Regional infrastructure companies; Real estate investment trusts; Sovereign Wealth Funds.
	Value capture mechanisms	Tax increment financing; Special assessment districts; Sales tax financing; Infrastructure financing districts; Community facilities districts; Accelerated development zones.
	Public private partnerships	Private finance initiative; Build-(own)-operate-(transfer); Build-lease-transfer; Design-build-operate-transfer.
	Asset leverage and leasing mechanisms	Asset leasing; Institutional lease model; Local asset-backed vehicles.
Newer, 'Innovative'	Revolving infrastructure funds	Infrastructure trusts; "Earn Back" / "Gainshare" funds.

Source: Adapted from Strickland, T. (2014) The financialisation of infrastructure funding and financing in the UK and the US, CURDS: Newcastle University

Table 2 'New' Funding Tools and Vehicles proposed by Core Cities/PwC

Tool/Vehicle	Description
Business Rate Supplement	A tool that will enable cities to levy an additional supplement on the national business rate within their area. Funds generated would be retained locally, and used to underpin borrowing and other forms of capital financing to generate additional infrastructure investment.
Community Infrastructure Levy	A standard charge levied by local authorities on new development to ensure that developers contribute to the infrastructure improvements.
Recycled Infrastructure Funds	Funds that invest (in whole or in part) in physical infrastructure, which in turn enables associated land to be released for development over time. Key infrastructure can be delivered early in the development process. A proportion of the value of the development land released is used to pay back the Fund for its initial investment.
Tax Increment Financing/Accelerated Development Zones	Allows local authorities to capture incremental value in the form of tax revenue generated from new development. Cities need to retain long-term local tax revenues generated from development, such as business rates, allowing funds to be raised for investments through securitisation of those revenues.

Source: Core Cities/PwC (2008) Unlocking Growth: Interim Findings on New Funding Mechanisms, a report by the Core Cities Group and PwC, Manchester, Core Cities/PwC

Coalition Government increased the PWLB interest rate in October 2010, and local authority borrowing fell by 93 % the following year (LGC 2011). This resulted in the Local Government Associations of England and Wales commissioning feasibility studies into the development of a new municipal bond agency to provide local government with an alternative source of investment finance to the PWLB (LGA 2012).

Background: The local growth agenda

In May 2010, the UK Coalition Government professed that 'radical devolution' would be one of its central objectives (Cabinet Office 2010). The 2010 Local Growth White Paper (and subsequent 2011 Localism Act) laid the ground for the Coalition's approach to sub-national development in England. This agenda is framed around: shifting power to local communities and business; enabling places to tailor approaches to local circumstances; providing incentives for growth; and supporting investment in places and people to tackle barriers to growth. The Local Growth agenda also links geographical understandings about scale and place with political analysis interpretations of decentralisation, participation, and community and managerial approaches to efficiency and market-orientated public service delivery (Clarke and Cochrane 2013).

On a policy level, Local Enterprise Partnerships (LEPs) have replaced Regional Development Agencies in England (Pike et al. 2013), and reforms to strategic planning have been enacted alongside changes in local government funding. These elements have been shaped, to varying degrees, by the Government's central macroeconomic objective of reducing the UK's structural budget deficit by implementing a fiscal consolidation package worth £113 billion per annum over 5 years (IFS 2014).

Public spending reductions, which comprise 80 % of fiscal consolidation, have resulted in local government spending fall by nearly 30 % in real terms and a tightening squeeze on revenue budgets (CIPFA 2014). A new system of local government funding in England will see local authorities retain 49 % of locally-raised business rate income, with the remainder 'passed' to Central Government. The new scheme – the Business Rate Retention System (BRRS) – will be 'reset' every 10 years (DCLG 2012), and local authorities will become increasingly dependent upon locally-generated business rate revenue for future income (HoC 2013).

Case Description: City deals

As a complement to the Local Growth agenda, the Coalition Government has been considering the role of cities in supporting economic recovery, rebalancing and infrastructure planning and delivery. In parallel to its deficit reduction and public service reform agendas, and coupled with a desire to adopt a 'business-led' relationship with

Table 3 Wave 1 and Wave 2 agreed City Deals

Wave 1	Wave 2
Greater Birmingham and Solihull Bristol and West of England Greater Manchester Leeds City Region Liverpool City Region Nottingham Newcastle Sheffield City Region Liverpool Mayoral Deal	The Black Country Thames Valley Berkshire Plymouth Brighton and Hove Preston and Lancashire Greater Cambridge Southampton and Portsmouth Coventry and Warwickshire Southend Hull and Humber Stoke and Staffordshire Greater Ipswich Leicester and Leicestershire Sunderland and the North East Greater Norwich Swindon and Wiltshire Oxford and Central Oxfordshire Tees Valley

Source: Cabinet Office

particular cities, the Government invited the largest cities (with the exception of London) in England to prepare strategies for supporting growth and job creation (using public/private investment), and to also identify the practical measures that national government could undertake to support delivery of the plans. Significantly, the 2011 Localism Act introduced the 'Core Cities Amendment', which the Core Cities Group argued would enable individual cities to negotiate bespoke agreements with national government on securing greater local control over public spending, the pooling of resources across functioning economic areas, and the planning and delivery of strategic local infrastructure investment. This innovative approach to urban policymaking was explained as:

> The deal-making approach is in the political DNA of Greg Clark [Cities Minister] and other Coalition Ministers. It is about offers and making deals – a kind of transactional relationship. The Core Cities gave this a practical edge (Senior Ministerial Adviser, Authors' Interview, 2014).

Infrastructure has been a significant feature of the City Deals (Cabinet Office 2011), which were launched in December 2011, and has emerged at a time when there has been a noticeable shift in the UK and Europe away from grant-based mechanisms in favour of investment-type infrastructure and regeneration projects and programmes focused on loan-based revolving or recycled funds (CLES 2012). The City Deals, provide an instructive account of how the governance of local infrastructure funding and financing in the UK is evolving:

> We want powerful, innovative cities that are able to shape their economic destinies, boost entire regions and get the national economy growing. The aim of these Deals is to empower cities to forge their own path, to play to their own strengths and to find creative solutions to local problems (Nick Clegg, Deputy Prime Minister, Foreword, Unlocking Growth in Cities, 2011).

The focus of the first Deals on the 8 largest cities outside London (i.e. the Core Cities) (Cabinet Office 2011) saw cities specialise in a distinctive policy area and identify a further set of specific issues that were said to represent barriers to local growth. Liverpool was unique, compared to other cities and city regions, in that Liverpool City Council agreed an exclusive Deal with Government, which led to an Elected Mayoral system being introduced by the city authority. The Liverpool City Region (including Liverpool City Council) agreed a separate City Deal as part of Wave 1. In October 2012, the Government invited a further 20 cities to submit expressions of interest in negotiating City Deals, of which 18 were agreed (Table 3). The Government proposed two elements in the Wave 2 Deals: a bespoke element, reflecting specific city needs; supplemented by a 'Core Package' of powers that recognised some of the common challenges facing most cities – and which had been identified earlier by the Wave 1 cities. The UK Government also announced, around the time of the 2013 Autumn Statement, that a Glasgow City Deal would be taken forward (HMT 2013).

Discussion and Evaluation: Infrastructure funding and financing in the city deals

In an attempt to help prospective Wave 2 cities, the Government published a 'menu' of infrastructure finance-related options for cities to consider including in their Deals. The options were: giving cities one consolidated capital investment pot; access to TIF; the pooling of business rates across local authority areas; devolving local transport major funding to cities; increasing cities' control over rail services; developing specific proposals for introducing greater accountability to local communities for local bus services; enabling cities to strengthen their use of local assets to invest economic development; devolving Homes and Communities Agency funding and responsibilities to cities; and providing £100 million for broadband infrastructure (Cabinet Office 2011).

Each Wave 1 City Deal contains a specific infrastructure financing element (Table 4), such as an integrated investment fund, the devolution of local transport funding, and TIF or 'Earn-back' mechanisms where cities borrow against future business rate revenue or tax receipts.

The emergence of TIF within the City Deals is linked to the new approach to local government funding and finance in England. In their respective Deals, Newcastle, Sheffield and Nottingham have been given 'permission' by Treasury to borrow up to £150 m between them against long-term business rate income to invest in local infrastructure and regeneration projects. Significantly, the three City Deals do not contain a reset mechanism, unlike the BRRS, in an attempt to provide the cities with increased certainty around future business rate revenue.

Whilst TIF offers a potential tool for supporting local growth, it also draws cities further into a financialised economy (Strickland 2011; Weber 2010). Strickland (2013) identifies a number of important differences between TIF in England and in the US, where the model originated. He notes that Chicago has been able to transfer risk to private developers and financiers. By contrast, TIF in the City Deals takes development and construction risk away from the private sector because the costs are financed up-front by the local authorities, which bear most of the risks.

Table 4 Infrastructure elements in the Wave 1 City Deals

Instrument	City Deal	Detail
'Earnback'	Greater Manchester	A payment by results infrastructure investment approach that is based on raising GVA growth, from which Greater Manchester earns back a return of national tax take.
Tax Increment Financing (New Development Deals)	Newcastle, Sheffield City Region and Nottingham	Borrowing to finance critical infrastructure against future business rates.
Economic Investment Fund	All City Deals	Pooled funding and business rates.
Rail Devolution	Greater Manchester, Bristol and West of England, Leeds City Region and Sheffield City Region	Commissioning and managing local and regional franchises.
Local Transport Major Funding	Greater Manchester, Greater Birmingham and Solihull, Bristol and West of England, Leeds City Region and Sheffield City Region	10 years devolved transport funding matched locally for strategic transport investments.
Low Carbon Pioneers	Greater Birmingham and Solihull, Leeds City Region, Greater Manchester, Newcastle and Nottingham	Local programmes to reduce carbon emissions and invest in green infrastructure and city district heating systems.
Superfast broadband	Bristol and West of England, Greater Birmingham and Solihull, Greater Manchester, Leeds City Region and Newcastle	£100 investment fund.

Source: Adapted from Marlow, D. (2012) City Deals – Implications for Enhanced Devolution and Local Economic Growth, Policy Briefing, London, LGiU

One of the 'innovative' measures agreed in the City Deals is the 'Earn-back' mechanism in the Greater Manchester City Region. Greater Manchester will invest £1.2bn through local transport levies and borrowing in transport infrastructure and then 'earn back' up to £30 m per year for 30 years from Central Government in national tax receipt transfers, subject to Greater Manchester's economy growing above a set baseline (LFC 2013). Negotiating the Deal took nearly two years to conclude. This raises questions about the effectiveness and timeliness of the deal-making process and whether sufficient capacity national and locally exists to conduct such negotiations:

> The Government's capacity to work with 8 cities on a meaningful basis on the devolution agenda is stretching them. It needs resources from Central Government and our side to make it happen. Not just in terms of signing deals it is working through the barriers you hit after the Deal has been signed (Local Authority Officer in a Wave 1 City Deal, Authors' Interview, 2014).

An interesting question is whether the Deals represent an innovation or if they simply provide an opportunity for existing local projects to receive Government backing at a particular point in the economic cycle, thereby reinforcing central national Government control and providing the cities with modest additional support:

> If you were using the City Deal to finance something, which you already had on your books, which you could convince the civil servants actually met the criteria as they were applying them on that day, then you could fly out of the door on some of this (Local Authority Officer in a Wave 1 City Deal, Authors' Interview, 2014).

The local infrastructure financing initiatives within the City Deals appear to have set a pattern, for the foreseeable future, and perhaps longer, of how public funds in the UK will be coalesced alongside an attempt to leverage differing forms of private investment and resources. Further evaluation and scrutiny is required in order to assess the ability and success of places to invest in specific projects that generate recycled funding, or are able to bear the speculative risk of undertaking initial borrowing against capturing the value of future land and property uplift.

City deals as governance mechanisms

The City Deals are having a profound impact on the governance of urban economic development in England (Table 5). One of the pre-requisites for Government agreeing to sign individual City Deals has been for local authorities to take steps to strengthen and reform local governance and decision-making arrangements (Cabinet Office 2011):

> Anybody that doesn't have a governance structure that will make it [the City Deal] work, isn't getting a City Deal (Senior Ministerial Adviser, Authors' Interview, 2014).

The expectation of 'stronger' local governance has since been re-emphasised through the recent LEP Strategic Economic Plans and Growth Deals, with Combined Authorities or Elected Mayors at the city-regional level

Table 5 Governance mechanisms in Wave 1 City Deals

Governance model	City Deal area	Outline Description
Elected Mayor	Liverpool, Bristol	Mayor plus 'strong decision-making across wider economic area', Skills Board (Bristol and West of England) and Transport Board (Liverpool City Region).
Combined Authorities	Greater Manchester, Leeds City Region, Sheffield City Region, Liverpool City Region and North East (Newcastle)	In Leeds and Sheffield City Regions these are West Yorkshire and South Yorkshire-based – not for whole city region/deal area but for metropolitan unitary authorities.
LEP-led	Greater Birmingham and Solihull	'Particularly strong private sector leadership', plus Capital Board and Housing and Growth Board. Discussions have taken place on the creation of a 'Greater Birmingham' City Region Combined Authority.
None specified/city council	Nottingham	City Deal is focused on the City's 'Creative Quarter' and a new private sector led Economic Growth Board has been established.

Source: Adapted from Marlow, D. (2012) City Deals – Implications for Enhanced Devolution and Local Economic Growth, Policy Briefing, London, LGIU

cited by Government as the preferred governance models. However, for some cities, the Government's favoured governance arrangements have not been viable options:

> We very quickly had to say to Cabinet Office, look the governance arrangements that were typical in Wave 1 deals were not going to work for us. So we had to persuade the Cabinet Office that alternatives were necessary (Local Authority Leader in a Wave 2 City Deal, transcript of LGA debate on City Deals, 4 April 2014).

The Government pushed for Wave 2 Deals to encompass wider geographies and a stronger element of competition between cities (Fahnbulleh 2012). This may have limited the scale of ambition in Wave 2 (Marlow 2014), whilst the emergence of Local Growth Deals, based on the recommendations of the Heseltine Growth Review (Heseltine 2012), has also cut across some of the Wave 2 Deals as negotiations reached their conclusion in spring 2014. The principle difference between the City Deals and Local Growth Deals is that Local Growth Deals involve primarily the allocation of Local Growth Fund monies to all 39 LEPs across England. Wave 1 and Wave 2 City Deals did not have a defined set of national resources to allocate to cities and have been weighted towards negotiating policy and fiscal freedoms and flexibilities. One of the key differences between Wave 1 and Wave 2 City Deals is how far the Government has been willing or able, despite the initial rhetoric, to agree to genuine devolutionary measures. Whereas Greater Manchester secured the Earn-back mechanism in Wave 1, the efforts of Greater Cambridge in Wave 2 to secure a similar 'invest and reward' model, known as 'Gain-share', were curtailed by Government after 15 months of negotiations:

> Wave 1 was more comprehensive and probably able to be more ambitious. The Cities Policy Unit was able to get greater changes out of the Departments in those early stages and by Wave 2 the Departments had caught up and were less prone to accept radical change (Local Authority Officer in a Wave 2 City Deal, Authors' Interview, 2014).

It is possible to identify a number of common features in how the City Deals have been designed to operate as governance mechanisms for local infrastructure funding and financing. First, the Deals are predicated on a 'something for something' transactional arrangement between the centre and a locality that is akin to a 'payment by results' model of public service delivery (DWP 2014). Second, the Deals represent a move, in theory at least, towards greater self-help and reduced reliance on central government, with more locally-led funding, financing and risk-bearing. Third, underpinned by cost-benefit-type appraisal, the Coalition Government wants the City Deals to demonstrate that they can support economic recovery by delivering infrastructure and regeneration projects that have maximum additional impact on city-region economic potential (e.g. GVA, employment and productivity). Fourth, the Deals have been couched as greater 'freedoms and flexibilities' for local innovation. How far and how wide this has materialised in practice is debatable. Fifth, significant emphasis has been placed upon governance reforms at the city-region scale, with the Greater Manchester Combined Authority seen as a model of good practice, although for some cities such models are not feasible. Finally, the Deals have been conducted against the constraints of austerity and fiscal stress within the UK's highly centralised system. Despite recent reforms to local government funding, UK local authorities have limited fiscal freedom compared to cities internationally (Travers 2012). With fiscal consolidation and deficit reduction the overriding priority, the Government has been reluctant to back some innovative infrastructure financing mechanisms in the City Deals (Table 5).

Conclusions

The governance of infrastructure financing at the city and city-region scales is critical to the search for new and innovative funding mechanisms for infrastructure systems. The UK City Deals initiative has encouraged cities, at least initially, to consider experimental and speculative strategies and models to finance infrastructure investment at a time of significant austerity. Echoing Harvey's (1989) identification of an entrepreneurial urbanism, cities and city-regions in the UK have sought to transcend public and private sector boundaries and interests in an attempt to gain competitive advantage and attract new investment predicated on future growth and revenue. Such shifts are framed within the context of emergent city region-wide governance arrangements to cope with the decentralisation of austerity through the enhancement of local decision-making to respond to the financial challenges facing individual authorities. However, local states are not simply passive, inanimate objects in the face of international and national private sector interests and agents (Weber 2010). Some cities are better at engaging in urban entrepreneurial activity than others, which itself creates and reinforces uneven and unequal outcomes between places.

And yet the UK nation state remains pivotal to enabling and hindering the ability of UK cities and city regions to invest in local infrastructure. Central Government has controlled the extent to which local authorities have been able to use the strength of the UK's sovereign balance sheet to borrow for capital investment purposes. The Government's public approach has been to encourage cities to flirt with risky, complex and potentially more expensive investment activity. However, steps have also been taken to reduce local government borrowing from the PWLB, although there has been a reversal recently of this stance. Our review and initial analysis of the City Deals suggests that the Government has been uncomfortable at the prospect of too many cities engaging in innovative and speculative activity at the same time. This illustrates the depths to which deficit reduction remains the overriding economic and political objective of the Coalition Government, albeit within a proclaimed era of localism and devolution. It also demonstrates the highly centralised nature of the UK political economy.

It is too early to assess the overall performance of the City Deals (NAO 2013), because it will be some years before the Deals produce tangible outcomes (Nathan 2011). We can, however, offer some tentative conclusions that the City Deals, when viewed in an international context, and considered as a collective, do not represent radical decentralisation. A small number of cities have embarked upon speculative investment to finance up-front infrastructure, and austerity has amplified the risks these local authorities are taking amidst a background of the squeeze of declining local revenue. However, the UK Government has instigated a strict set of fiscal rules around mechanisms, such as TIF and Earn-back.

At some point we should discover if the City Deals represent a genuine step change from previous attempts at sub-national devolution and governance (Ayres and Stafford 2009). As a consequence of the Deals, city and city-regional actors are (re)configuring their institutional, governance and leadership arrangements in new ways to cope with a rapidly changing and uncertain context. What remains unclear, at this stage, is whether the UK's highly-centralised system is willing and able to build upon the experience of the City Deals, and embrace broader and more permanent decentralised central-local relations.

Abbreviations

BRRS: Business rate retention scheme; GVA: Gross value added; LEP: Local enterprise partnership; PWLB: Public works loan board; TIF: Tax increment financing.

Competing interests

The authors declare that they have no competing interests.

Authors' contributions

The two authors (POB and AP) co-designed the research upon which the article is based. POB and AP undertook the interviews that were conducted as part of the study, and both analysed the interview transcripts. POB carried out further analysis of secondary data of official and policy documents. POB drafted the article, whilst AP provided comments and contributions on drafts. Both authors have read and approved the final manuscript.

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