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Delivering change

Making the most of public assets

Louise McGough & Hugo Bessis

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About the authors

Louise McGough is a Policy Officer at Centre for Cities

l.mcgough@centreforcities.org / 020 7803 4325

Hugo Bessis is a Researcher at Centre for Cities

h.bessis@centreforcities.org / 020 7803 4323

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Executive Summary

Since the recession, UK cities have suffered the impacts of the global downturn, with development drying up and struggling to return in many places, as well as dramatically reduced budgets to fund local services and invest in growth. The shrinking local government funding settlement, combined with a gradual devolution of powers and responsibilities to local areas, raises questions about the role of local government and its ability to shape and support economic growth.

The combined impact of the recession and local government funding cuts has made publicly owned land and property assets an increasingly important tool for local authorities to support economic growth, as well as to generate revenue funding.

While national asset management strategies and policies have been targeted at reducing the size of the nationally held public estate to reduce outgoings and release surplus land, the priorities for local authorities are different.

The distinction between local authority revenue and capital budgets has driven the move to maximising the contribution of assets as sources of long-term revenue funding, rather than generating one-off capital sales. Shrinking budgets – for public service delivery, day to day spending and to fund investment – have created financial pressures for local authorities to reduce expenditure as well as finding new ways of funding public services and day to day spending. Rental incomes from publicly owned offices, as well as from residential investments, for example, can provide a source of revenue funding to support public service delivery and local authority funding in the longer term. Land and property assets are also being used to support economic development locally, in order to meet strategic goals in different city economies. This report draws on research and in-depth interviews to explore how places are maximising the value of local public assets. It finds three broad approaches that places are taking to put assets to more productive uses in order to support economic growth as well as provide financial returns:

- Leading development – Swansea , Sunderland (pages 13-14)
- Shaping development – Birmingham, Camden, Bath, and Bournemouth (pages 16-19)
- Unlocking development – Cambridgeshire, Bristol (pages 20-23)

In cities with relatively weak economies and property markets, public assets are being put to work to underpin regeneration efforts, with local partners actively **leading** development to stimulate growth and economic activity in core urban areas. In other cases, partners are using public sector assets as a means of guiding and **shaping** the type of development that takes place, in order to meet local priorities for housing, or employment space, for example. Meanwhile, other places are **unlocking** difficult sites through more coordinated and strategic city and city-region wide approaches to managing and investing in assets, rather than on a site by site basis.

The evidence from interviews with partners in cities suggests that there are four important elements that support local authorities to put public assets to more productive use. Localities should focus on developing:

- A more strategic approach to managing assets. For example, by **developing city-wide or city-region property boards and land commissions**, with support from Government, in order to improve coordination and investment between organisations and across local authority borders.
- The **data and information** required to inform a city-wide and cross-public sector strategic approach to asset management.
- **Strong local relationships** between places, between public sector organisations, as well as with the private sector, in order to capitalise on the opportunities that public assets present.
- **A more entrepreneurial organisational and political culture**, which can support a more commercial role for local government to engage with private sector partners.

While some places are already developing these approaches outlined above, there are constraints on their ability to take a fully strategic approach to public sector assets. This is due to the fragmented ownership of different assets, the lack of comprehensive and accessible data on assets across the public sector, competing incentives between places and public sector bodies and the lack of influence to shape how assets are utilised.

In order to support localities to put public assets to more productive use – to support local economic growth and develop funding streams, as well as delivering more efficient public services and reducing wasteful expenditure on assets – **national policymakers should focus on:**

1. **Improving intra-public sector cooperation by abolishing stamp duty on asset transfers between local bodies.** The stamp duty charged on transfers of assets between public sector organisations acts as a significant disincentive to places taking more strategic approaches to managing public assets. For example, the tax is currently charged on the transfer of an asset from a local authority to a city-region public sector property company set up to improve strategic use of public sector assets. Policy should encourage local authorities and public sector to bring their assets together across a locality, in order to package sites and offer more attractive development opportunities to the market.
2. **Giving local areas more control over national level asset disposal strategies for land and property in their area**. In many cases, however, there are different and competing priorities for different public sector partners (local and national) who own land or property in the area, which can make it difficult to align strategies. National organisations, such as the Homes and Communities Agency (HCA) and other land-owning bodies and departments, should be required to be members of city-region property boards or land commissions, in order to facilitate and speed up the release of sites that are of strategic importance to localities.
3. **Reforming national permitted development rights policy** in order to provide more flexibility and control for local areas to shape the type and balance of development that needs to take place to support economic growth.

Introduction

The role of public assets in cities has changed from the Victorian heyday to today. Many of the grand buildings and town halls that dot the largest UK cities were built in the second half of the 19th century, the legacy of a period where local political leaders and wealthy industrialists invested heavily in the physical fabric of their cities. Since then, globalisation and technological change have caused the decline of the industries that previously supported public and private investments in the built environment of UK cities. And there has been a progressive shift over time of more policy and funding decisions being made at national, rather than local, level. This has changed the role of local government as a custodian of place and its ability to invest in and shape urban growth.

Nonetheless, local authorities remain the owners of a large portfolio of assets which include operational stock such as council office buildings, schools, housing and in some cases museums, leisure centres and libraries, as well as investment portfolios that vary in size and type from place to place. Recent estimates put the value of the local government estate at about £170 billion[1] – or about 46 per cent of the total value of land and property owned by the public sector overall in 2012-13 – with the rest owned by a combination of central Government departments and national agencies, such as the Ministry of Defence, the NHS and Network Rail. While local authority estates and property teams have always maintained and managed these assets, since the recession there has been a significant shift in both how local government views publicly owned assets in the local economy, as well as the role of asset management within councils.

The combined impact of the economic downturn and local authority budget cuts has been a catalyst for places to make better use of public sector assets to support economic growth. In the first instance, the recession caused speculative property development in many cities to dry up, often requiring a more proactive role for local government in supporting physical development and regeneration. Meanwhile, shrinking local government budgets have created an incentive for all local authorities to both reduce costs and find new ways of generating revenue.

The response to these shifts has meant a greater focus on treating public assets more strategically at local level. Government policy in this area has tended to focus on disposal of publicly owned land and property, as well as reducing costs and improving the public service delivery through co-location. But the priorities for local authorities, and the opportunities that public assets present in terms of supporting local growth, are quite different.

Publicly owned land and property can be both a strategic as well as financial asset to local authorities. It can enable them to capitalise on existing assets to deliver more housing or employment space to support economic growth (or improve public service delivery),

1 Audit Commission (2014) *Managing council property assets*, London: Audit Commission.

as well as providing a revenue funding stream in the context of reducing budgets. While disposal of land and property might remain the right response in some cases, strategies that include investing to refurbish old assets or acquire new ones in the right places are also appropriate responses for cities seeking to proactively support economic growth and regeneration, as well as generate revenues.

This report explores how different cities are shifting from a focus on asset management as a means of maintaining investment portfolios and reducing costs to a more strategic approach, in order to support local economic growth and financial returns. In-depth interviews were conducted with partners in cities across England and Wales to explore what approaches partners are taking to put publicly owned assets to work for the local economy. The partners interviewed were selected from cities that stand out as having taken a proactive and interesting approach to using the public asset base as a tool by which to support economic growth. This is by no means an exhaustive list: most, if not all, local authorities across the country have asset management investment strategies of some form.

The next section sets out how the role of public assets has changed in the context of austerity and reduced budgets.

Box 1: Who owns what? The challenge of mapping the public estate

The public estate is the body of land and property assets owned by different public sector bodies. It includes the central Government-owned estate – including port facilities and flood defences, the NHS estate, Defra rural estate and the defence military estate[2] – as well as GP surgeries, schools, police and fire stations, the Crown Estate, land owned by other public sector organisations such as Network Rail and Transport for London, and the land and property owned by local authorities.

Currently there is no single comprehensive way of mapping the entire public estate. This restricts the ability to take a strategic approach to how land and buildings are managed and to optimising the value of the combined public estate in a place, rather than acting on a site by site approach.

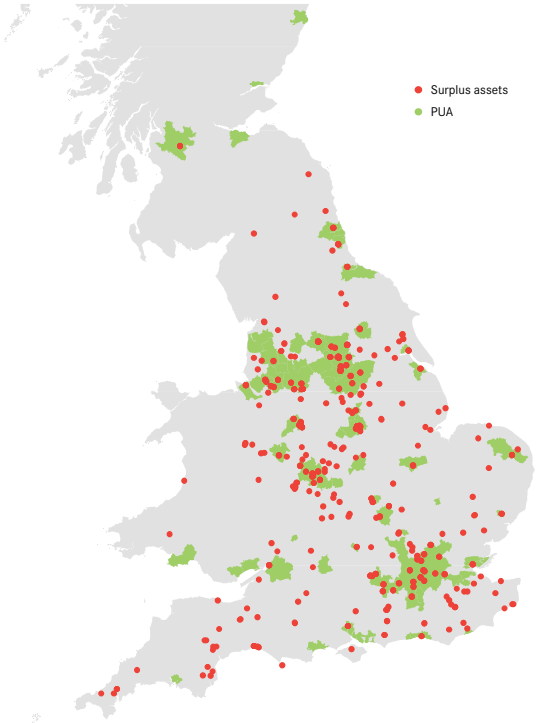
Most individual local authorities use mapping software to map their own assets and some places have improved the availability of data and information about locally land and property assets through Government programs such as Capital Asset Pathfinders and the One Public Estate programs. But anecdotal evidence from the interviews suggests that there is significant variation in quality and use of mapping data across different local authorities.

The Government's e-Pims register seeks to improve the availability of data at the national level by providing information on assets owned by government departments and their

2 Cabinet Office (2015) *State of Estate in 2013/14*, London: HM Government.

sponsored bodies which fall under the responsibility of English Ministers, as well as on a voluntary basis by NHS Trusts and Welsh Government. For example, the map below shows the sites that are surplus to requirements and have been made available on the Register of Surplus Public Sector Land across the country – about 40 per cent of these sites are in British cities.[3]

Figure 1: Surplus government land and property assets



Source: e-Pims, Register of Surplus Public Sector Land

This is a positive step towards providing information that can support a more strategic approach to managing public assets. However, few local authorities and non-departmental organisations include their data on the register, which provides only information on the size and location of the asset rather than market value or an indication of the 'size of the prize' in terms of the contribution to the local economy. **This means that there is a lack of comprehensive cross-public sector mapping which would provide an accurate picture of the public estate (both locally and nationally owned) in different places.**

3 Using Primary Urban Area definitions – see website for more information http://www.centreforcities.org/puas

Asset management in UK cities

The public sector asset base looks different across the country

The nature and value of assets vary according to the historical legacy of assets held by different bodies and in different places. Some local authorities own more than others, while in some cities there is a more significant presence of nationally held assets than others, such as Ministry of Defence land in Portsmouth for example, or a large NHS health estate in Leeds. And within what is owned by local government, the mix and type of assets varies from place to place, between commercial and residential property, and in some cases even agricultural land.

Within this context, it is important to remember that publicly owned land and buildings can be both assets and liabilities, depending on their location and value to the local economy. Commercial property on brownfield sites that require decontamination will not hold the same value as high value office space in a city centre, for example. In turn, this means that the value of public assets and the contribution they can make to supporting economic growth also vary between places. Different types of assets can be thought of as:

- **Liabilities:** assets with little strategic benefit and / or low income generating potential – which sometimes incur a net cost to just hold onto;
- **Financial assets:** good income generating assets, through rental yields and / or their potential to generate business rates;
- **Strategic assets:** sites held or acquired for a strategic economic growth purpose where the investment decision is not driven by direct financial returns.

Property markets, as well as the governance, capacity and financial situations of local government, vary greatly between localities. This sets the context in which public assets can be capitalised on to support local priorities and shape the strategy for managing public assets to support growth and generate revenues. Local authority-owned housing stock in cities with thriving residential markets such as London and Oxford might be an asset to the local authority, while publicly-owned empty houses in less desirable areas of Liverpool are being sold for £1 because the cost of refurbishing them outweighs their market value, for example.

However, there are commonalities in the processes that take place within local authorities. Asset management continues to involve a combination of the following:

- **Refurbishing and repurposing** buildings in order to make better use out of them and ready them for sale;
- **Selling** off to generate receipts, or liabilities to reduce costs;
- **Acquiring** new assets to meet local council or civic needs, to deliver where the market cannot or to grow the investment portfolio.

While asset management and the practices above are not new, the factors driving many cities to make better use of their public sector assets – through new asset management and investment strategies – have changed and have caused cities to respond in different, often more proactive, ways, than previously.

The recession and budgets cuts have been a catalyst for change

Weakened property markets and the pressure of budget cuts in most UK cities have been a catalyst for local partners to make better use of public sector assets than before.[4]

Economic downturn and weakened property markets

The economic downturn created a need for a more proactive approach from local government in the way it intervened to support and drive economic growth. The recession badly affected already marginal property markets, with projects interrupted or abandoned and stalled building sites a common sight in UK cities. The nature of the impact on the economy in different cities shapes the approaches that cities are taking:

- **Cyclical damage:** proactive and interventionist asset strategy required for a short period of time, in order to ride out the storm and prepare for the market to recover;
- **Structural damage:** as the impact of recession on the property market continues to be felt, there is continued need for city partners to actively intervene in order to get development and regeneration projects off the ground.

Government austerity and budget cuts

The Government's approach to managing the deficit has also significantly changed the local government funding landscape. Grants from central government to local government (excluding specific housing, education and fire and rescue funds) have been cut

4 From interviews

by over a third between 2009-10 and 2014-15[5] and this has contributed to a change in how local government public land and property assets are viewed by local government. And taken altogether, these factors create a different set of priorities for local government.

Within this context, national policy has focused on shrinking the size of the public estate in order to create savings. The Chancellor has pledged to make £6 billion efficiency savings by 2020 through asset rationalisation, for example.[6] Meanwhile, policies such as the Capital Asset Pathfinder and One Public Estate have also been introduced to encourage land and property asset 'savings' at local level – see page 28 for more information. The Government has also identified disposing of public assets as a means of delivering more land for housing.

Understanding public land and property as financial assets

Local government faces a different set of priorities to central Government in how it maximises the value of public assets. Beyond short-term cost reduction, the question for local areas is about how to move public sector assets into more productive use, capitalising on the value of a publicly owned plot of land or building as both a strategic and a revenue generating asset.

The distinction between revenue and capital in local government funding drives the growing need to create a longer term financial return from assets. UK accounting convention states that revenue costs incurred by local authorities – which include staff salaries, day to day running costs and bills – can only be funded from specific revenue resources. Capital funding, which includes the revenues generated by the sale of assets, for instance, can only be used for capital expenditures, such as infrastructure investment. In other words, selling off a piece of land or a building can reduce outgoings as well as generate a capital receipt in the

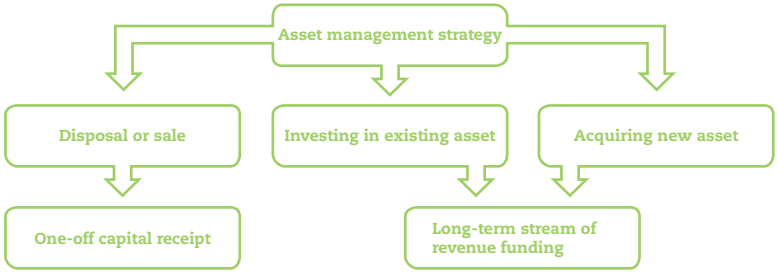
5 Innes D and Tetlow G, (2015) *Central Cuts, Local Decision-Making: Changes in Local Government Spending and Revenues in England, 2009-10 to 2014-15*, IFS Briefing Note BN166, London: Institute for Fiscal Studies

6 Pickard J, (2015) 'George Osborne begins hunt for another £20bn of savings'. *Financial Times* July 21 2015 http://www.ft.com/cms/s/0/a2f87734-2f0c-11e5-8873-775ba7c2ea3d.html?siteedition=uk#axzz3gQClriGC

short-term but it cannot support local authorities' day to day expenditures.[7] The availability of capital funding is not a challenge per se for localities, with money available to borrow at low rates from the Public Works Loan Board.[8] More problematic is the ability to repay and continue to deliver public services in an era of diminishing budgets.[9]

The move towards thinking about assets as financial assets reflects the need to generate additional sources of revenue funding in an era where revenue budgets to fund local public services are shrinking. Reduced budgets have created financial pressures for local partners to reduce expenditure as well as find new ways of funding public services and day to day spending. Rental incomes can provide a source of revenue funding to support public service delivery and local authority funding in the longer term. This might actually require an upfront investment (and additional cost), such as to refurbish or renovate an office building in order to generate higher revenues from rental income from leasing out employment space.

Figure 2: Asset management approaches and local government funding



Many partners are taking this more active approach to creating secure revenue streams to support council funding in the long-term from public assets. Leeds wants to make the most of its large investment portfolio, and the city council is working on getting rid of its older office stock and acquiring new buildings, which are more cost-efficient and generate better incomes, with the aim of transforming the portfolio to generate higher revenues and reduce running costs. In Bournemouth, partners are using prudential borrowing to acquire new investment properties to develop a more formal income stream approach. In Camden, meanwhile, the council is exploring developing housing for private rent, which will deliver a revenue income stream.

7 NB. Following a consultation in 2013 and reforms announced at 2014 Autumn Statement, local authorities were able to bid for to use £200 million from asset sales made between April 1 2015 and 2017 to pay for one-off costs of service reforms. A clear aim of this policy is to encourage asset sales and the assets do not need to be directly related to service reforms themselves.

8 DCLG, Proposals for the use of capital receipts from asset sales to invest in reforming services: a consultation document, July 2013

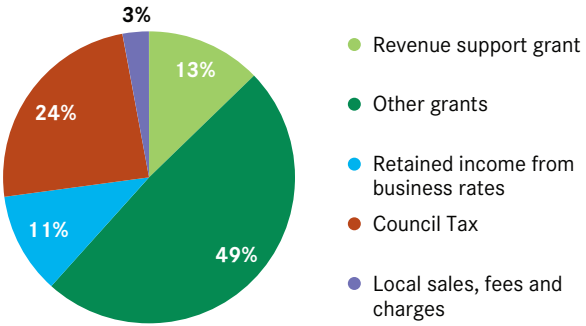
9 From interviews

Eastleigh Borough Council, near Southampton, stands out as having taken this investment and revenue driven approach to public sector assets for a long time. Taking advantage of the low property value and low interest rates, Eastleigh Borough Council initiated an asset acquisition strategy in 2011 to support city centre regeneration and create jobs. By identifying assets that could generate the best economic and financial benefits, and acting very proactively in the market, Eastleigh built up a commercial portfolio yielding over £2.5 million a year in income, which more than covers borrowing costs.[10] Partners are keen to stress that this successful strategy has been possible thanks to a shift towards a more commercial culture within the council. Such strategy obviously bears more risks, which is why it requires commercial awareness and skills, and strong and stable political support.

Box 2: Sources of revenue for local authorities

Local authorities are funded through a combination of grants from central government, redistributed income from business rates and the income from the council tax collected in their area.

Figure 3: Primary sources of local government revenue in England, 2014-2015



Source: DCLG 2015: Council Tax and Business Rates Collection rates, Revenue Outturns and Local Government Finance Statistics.

The next section draws out the approaches to asset management and investment that cities across the country are taking, driven by sets of varying motivations and underlying economic conditions, before drawing out common challenges and tensions that partners across cities interviewed face.

10 From interviews

How are cities making use of public sector assets to support economic growth?

Evidence from the interviews

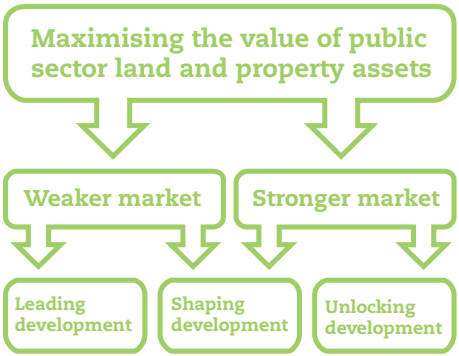
Three broad approaches to managing and optimising the value of public sector assets emerged from the research and interviews:

1. Leading development
2. Shaping development
3. Unlocking development

Though not mutually exclusive, the approaches **reflect specific market conditions and priorities in each place**, with the role of the public sector and need for intervention required for different reasons in different places.

In cities with relatively weak economies and property markets, public assets are being to work to underpin regeneration efforts, with city partners actively leading development to stimulate growth and economic activity in core urban areas. In other cases, partners are using public sector assets as a means of guiding and shaping the type of development that takes place, in order to meet local priorities for housing or employment space, for example. Meanwhile, other places are unlocking difficult sites through more coordinated and strategic city and city-region wide approaches to managing and investing in assets, rather than on a site by site basis.

Figure 4: Approaches to asset management and investment in UK cities



1. Leading development

In some cities, the market is too weak to deliver physical development and regeneration without public sector intervention and funding. Partners are purchasing and/or using the existing asset base to pump-prime development that will support economic growth.

Case study...

Swansea: Investing in assets to support a weak private sector market

In Swansea, the city's asset management and investment strategy is driven by an objective of revitalising and boosting jobs in the city centre. Due to the relatively weak economy and poor market conditions, private sector-led development is not forthcoming in Swansea, so city partners are investing in and acquiring assets as a tool to spur on activity and plug the gap where the market is not providing opportunities for employment space and retail.

The focus on boosting the attractiveness of the city centre and creating more modern, fit for purpose office stock reflects particular concerns about the lack of highly skilled and better paid jobs in the city centre. High skilled jobs make up 37 per cent of jobs in the city centre compared to a city average of 53 per cent – this puts Swansea as the 18th lowest ranking city in the UK for high skilled jobs in the city centre while it ranks 15th highest for its share of low skilled city centre jobs.[11] The ambition is also to retain graduate entrepreneurs from Swansea and Trinity St David's universities who currently move out of the city due to a lack of appropriate office stock to house expanding start-ups, incubated out of the universities.

The council has acquired properties along the Kingsway, a struggling retail area, to create new office space, and is acting as a developer to deliver and updated business stock. The city is exploring agreements with TechHub Swansea, a start-up office space provider, to take on the lease on completion.

Similarly, the city is in talks to lease another building to Swansea University. Both of these schemes align with the strategic goal of bringing more jobs, footfall and economic activity into the city centre. The city has also acquired land to develop a mixed-use leisure and retail scheme, with the aim of providing additional amenities and facilities to revitalise the city centre. To support this goal, the council plans to move from the beachfront Civic Centre offices to the city centre, releasing an attractive beachfront plot of land to the market while bringing additional footfall and activity to the city centre.

11 Census 2011

Public assets in Swansea are being put to work, and invested in, within the context of a clear ambition to boost the economic performance of the city centre. Partners are delivering this strategy through existing public assets and funding investment through a combination of council finances, Welsh Government and EU funding.

Box 3: Local Asset Backed Vehicles: partnering with the private sector to lever in investment

Local authorities use a range of funding sources (from local authority prudential borrowing to accessing European funds such as the European Development Fund) to facilitate regeneration. Many cities also build partnerships and vehicles to support their ambitions.

Local Asset Backed Vehicles (LABV) are increasingly popular financial tools allowing local authorities to deliver regeneration projects through collaborating with private investors and developers. They are designed to bring together a range of public and private sector partners in order to pool finance, land, planning powers and expertise, ensure an acceptable balance of risk and return for all partners and to plan and deliver projects more strategically. LABVs also allow local authorities to retain a long-term stake in development and by packaging multiple sites, enable a more strategic, rather than site by site, approach to development.

A LABV enables local authorities to unlock land and deliver projects that could not otherwise be developed, due to a lack of either public funding or private sector engagement. For private investors, this is a way to gain access to public land and benefit from local government's planning and regulatory support. The agreement leads to the creation of a board, which usually grants equal representation to both partners. Revenues and risks are pooled, therefore mitigating investors' exposure in case of unsatisfactory outcome, and generating an income stream for local authorities otherwise.

Local Asset Backed Vehicles are usually developed for regeneration purposes, but the nature of the projects varies (housing, office spaces, public facilities, etc.). LABVs often operate on a bundle of projects of different expected yield, in order to even out risks and incentivise under-valued land development.

Case study...

Sunderland: Packaging sites to deliver viable development

In Sunderland, the city is taking a proactive approach to boost the performance of the city centre by investing in and acquiring sites, led by its Opportunity Acquisition Strategy. They have created a public-private partnership, packaging sites into a single property vehicle which will lead on development to support city centre regeneration and renewal, where the private market alone would not have come forward.

A clear aim of the strategy is to create jobs and enhance city centre attractiveness. Only a third of city centre jobs in Sunderland are highly skilled compared to over half nationally[12] and this poses a challenge to the longer term success of the economy as city centres are becoming increasingly more important to attract high skilled jobs and growth.[13]

After the recession, partners in the city started to investigate options for leading regeneration and development themselves. The private sector was not coming forward and sites were becoming available where developers had halted schemes during the downturn. One of the sites, the former Vaux brewery, was acquired by the council with plans to create jobs and enhance city centre attractiveness by developing high quality office space with complimentary residential, retail and leisure uses. This site has been packaged together with housing developments in Chapel Garth and Seaburn seafront sites into a joint Local Asset Backed Vehicle (LABV) called Siglion with the council and Carillion, managed by Igloo Regeneration. In addition, the council has had to agree to take on the head lease on the first building delivered at the Vaux site in order to make development viable.

The value of entering a LABV to Sunderland has been to improve the ability of the portfolio to support employment, resulting in improved rents and rental income back to the council. The LABV model enables partners to focus on acquiring sites and building with low occupancy or a poorer offer and improving their performance.

In Sunderland, the formal partnership between the public and private sector matches the expertise and finance available in the private sector, with the de-risking through planning that the public sector can bring.

12 Census 2011
13 Swinney P and Sivaev D (2013) *Beyond the High Street: Why our cities centres really matter*, London: Centre for Cities

2. Shaping development

In other places, the private sector property market (residential or commercial) is stronger. The focus for partners is using the public asset base to influence how and what kind of development takes place in ways that align with their vision for the city.

Case study...

Bournemouth: Partnering with the private sector to lever in investment and boost development

Bournemouth has a growing market in digital and creative jobs and the council's property is supporting economic development strategy to target so-called 'Silicon South' through its asset management and investment approach. To do so, partners in Bournemouth entered into a public-private partnership with developer Morgan Sindall, creating the Bournemouth Development Company (BDC) with a specific focus on improving public realm and boosting development in the city centre and north of the city. The BDC was created during the economic downturn and partners report the importance of timing. Sites and opportunities packaged together and brought to the market in the earlier years were subsequently ripe for development as the economy and the property have picked up again in the city.

The motivation for creating the company was to have more influence over how sites are used in the city centre. Prior to the BDC being created, the council realised they were good at selling sites but could do more to ensure that disposed sites were subsequently developed and to attract inward investment into the city. The BDC is a local asset backed vehicle (LABV) whereby 16 council-owned sites were entered into a vehicle with Morgan Sindall, in order to leverage finance and develop key sites.

To improve the attractiveness of the city centre – and create the type of environment that will attract new jobs – ground level car parks in the city centre are being replaced with new student accommodation (serving University of the Arts Bournemouth) and developing a mixed-use residential and retail site, with parking space capacity consolidated into new multi-storey car parks. Partners interviewed in Bournemouth believe that beyond delivering on the developments agreed as part of the LABV, the partnership itself has acted as a catalyst, encouraging wider regeneration and private sector activity in the city centre.

Case study...

Birmingham: Using public assets to shape the fabric of the city and capitalise on growth opportunities

Birmingham's city centre property market is relatively strong. Demand for office space has surpassed pre-downturn levels and improved rents have spurred on new and previously stalled developments, with 900,000 sq. ft. of new space forecast for 2018.[14] The council has a large existing property portfolio, which including parks covers about 26,000 acres and is worth about £2.25 billion (excluding council dwellings).[15] This portfolio is enabling the city to take a strategic approach to shaping growth opportunities.

Within this context, partners in Birmingham report that their asset management strategy has less to do with acquiring new sites, and more to do with keeping a presence in order to maintain a guiding role in what is developed and in shaping the nature of the city. The council owns a number of office buildings on the periphery of the city centre and partners are now looking to release some of these for residential development, in order to re-invest and update commercial stock to meet demands of the modern workplace.

In the Jewellery Quarter, for example, the council is retaining a number of sites, part of a strategic decision to help sustain and revitalise the area, whilst ensuring that the distinctive nature of the area is not damaged from development perceived to be inappropriate. Meanwhile, the city has also taken a very proactive approach in aligning its asset management and investment strategy with wider opportunities in the city, and investing in major civic buildings such as the new Birmingham library which partners report has spurred on regeneration of the wider area, specifically the old Paradise Forum shopping centre which will be replaced with a new street scape and grade A office space.

In anticipation of the arrival of HS2 in the city, the city council has also supported development of Birmingham New Street station, in close cooperation with Network Rail. This includes supporting the metro extension and funding the acquisition of the Palisades shopping centre above the station – now Grand Central shopping centre – recently opened with John Lewis as the flagship tenant. Along with the indirect economic benefits induced by the new development, this project will also generate direct income to the city council through business rates.

14 Savills (2015) Market Watch: Birmingham Office Market, Savills World Research – UK Commercial
15 From interviews

Birmingham has a large asset base and city-wide approach has enabled partners to shape development in different areas, according to the vision for the city as a whole and not on a site by site basis. But investing in some places has meant prioritising how to spend public money on land and property assets and their related services. Several public buildings such as museums and leisure centres have been put into trust in order to safeguard their future and reduce public expenditure.

Case study...

Camden, London: Using public sector to deliver more affordable housing

The London Borough of Camden is using publicly owned land and property to shape development in their area, specifically to ensure that more affordable housing is supplied than would be through the private market alone. This is driven by a desire to ensure that the borough remains affordable to people on lower and medium incomes that are increasingly being priced out. Average house prices are nineteen times higher than average earnings in Camden, the fourth highest house price to earnings ratio in London[16] – which is the second least affordable city in the UK.[17]

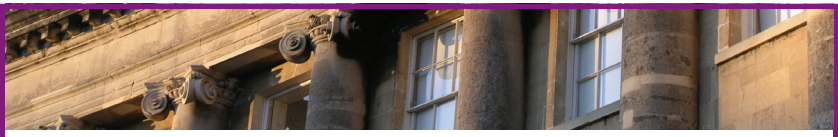
The Community Investment Programme is a 15 year asset investment plan aimed at building new homes – many of which are for shared-ownership – and schools, funded through the selling of part of those new developments. The council identified outdated assets that were put on sale to generate capital receipts which were then used alongside prudential borrowing to redevelop existing estates and to build new properties.

The timing was important, as partners report that the economic downturn provided a good opportunity to start being more proactive on what was a quieter property market at the time. The budget cuts faced by the borough have also been an additional incentive to find innovative ways to deliver growth and social services more efficiently. Through this building and selling approach, the council managed to build the first new council housing in the borough in 30 years, as well as to redevelop existing estates.

Although the strategy has proven effective so far, partners in Camden are looking to other financial models as the London market becomes more challenging. It is becoming more difficult for the council to act as developer: in addition to increasing construction costs, a shortage of skilled construction labour is increasing the competition from larger and established private developers, who are able to attract skilled labour with a longer pipeline of work.

16 Land Registry, Ratio of House Prices to Earnings February 2015, DCLG
17 Clarke E, Nohrova N and Thomas E (2014) *Building homes where we need them*, London: Centre for Cities

Fears of being saddled with a significant sales risk are also pushing partners to exploring options including developing housing for private rent. This option would continue to provide affordable housing, as partners feel even shared-ownership is not an accessible option for enough people. Rental income would also provide a source of revenue to fund local services and re-invest locally.



Case study...

Bath: Using public sector assets to deliver office developments in a constrained commercial market

Bath council is actively encouraging commercial property investments in a city that faces strong development constraints for office buildings, by using public land and buildings in the city centre and riverside Enterprise Zone to develop employment space.

The combination of high demand in the residential and retail property market and a national policy that has struggled to ensure the delivery of new office stock has posed a challenge for partners in Bath. Partners fear that the shortage of new and modern office space threatens to damage the economy of the city in the long-term. Alongside an absence of new office stock being built, the city has experienced a decrease in office stock in recent years, in part due to the relaxation of permitted development rights which have made it easier for existing offices – many of which are old Georgian houses in the city – to be converted into housing.[18]

The green belt and the heritage status of the city also constrain the supply of housing in the city, pushing up prices and attractiveness to developers of residential development further. Indeed, partners report that most of the applications for property development received by the council concerned private residential development or student housing delivery, but that commercial property projects were rare. The council's asset management and investment strategy is focused on maintaining the success of retail but increasingly also on the need to provide office space in order to support economic development and job creation.

In the city centre, a council-owned car park is the focus of a project to deliver a mixed-use development, which will include both residential, much needed modern grade A office space and retail. To deliver the scheme, the city is putting together a proposal to use £25 million of European development funding to put in the necessary infrastructure and de-risk private investment. The council also owns a number of sites included within the Bath City Riverside Enterprise Area, through which the it will seek to promote the provision of employment uses.

18 From interviews

3. Unlocking development

Finally, localities focus on removing the barriers to particularly difficult individual sites and projects, by working together to formally coordinate asset management and investment within cities (across local authorities and public sector agencies), which creates new opportunities for releasing valuable land in strategic locations within urban areas.

Case study...

Cambridge and Cambridgeshire: Developing cross-boundary and agency public asset strategies

In Cambridgeshire, partners identified pressures on land use and the need to use public buildings more effectively as a key priority for delivering more housing growth in the high demand southern part of the county, as well as for regeneration in the northern part of the county. Delivering a supply of housing to meet increasing demand is a particular concern in the area – the city of Cambridge is the third most expensive city in the country, with average house prices almost thirteen times the average wage.[19]

To address this, partners developed one of the earliest pan-local authority asset mapping and management approaches, which includes assets from different public sector agencies. The programme, called Making Assets Count, initially supported by the Government's Capital Asset Pathfinder project in Cambridgeshire, is run across the county council, five district councils, the fire and police services, voluntary sector and health sector (which now includes five separate organisations since the Primary Care Trust was disbanded). Assets from the different authorities and agencies were put into a public sector property company, which then packaged up sites and took them to the market. In turn, this pan-authority and agency approach has enabled stronger links with the Cambridgeshire Public Sector Asset Management Strategy, which was launched in 2011 and runs for 10 years. At the time of launching it was the first cross-boundary strategy of its kind.

A key element of the programme has been to undertake data collection of all assets owned by the public sector – across all the individual local authorities and public agencies in the county (including Ministry of Defence, Crown Estate, Government Civil Estate, NHS and other public sector agency land) – in order to map the information. Partners report that the mapping was a catalyst for subsequent discussions and workshops and project development, as well as serving as a resource for day to day inquiries about vacancies and joint working opportunities.

19 Clarke E, Nohrova N and Thomas E (2014) *Building homes where we need them*, London: Centre for Cities

The programme was set up with the aim of rationalising the public estate and making it 'work smarter' to reduce running costs and size by approximately 20 per cent by 2020.[20] Partners report that one of the most significant, if unanticipated, results, alongside opening up more sites for development, has been to significantly improve public service delivery through co-located services that were better delivered in close proximity. This then delivered associated savings in revenue expenditure from improving social outcomes and reducing the demand for public support.

In Cambridgeshire, partners have brought public sector bodies and local authorities together in order to map public assets, which then enabled them to develop a more integrated approach to identifying opportunities and packaging up sites for housing growth and regeneration across a wide area, rather than on a site by site basis.

Case study...

Bristol: Formal collaboration with other public sector partners

In Bristol, partners across the city formed the Bristol Property Board (BPB), which by bringing together different local public sector land and property owners (such as blue light services, the HCA and the NHS) has enabled partners to work together to bring to the market previously unviable and difficult sites.

Set up in 2013, via the Bristol City Deal and supported by funding through the One Public Estate programme, the board provides strategic guidance on asset management and investment. It is chaired by the Mayor and composed of six persons, representing government bodies and businesses. Along with the board, a wider stakeholder group – including ambulance, police, and fire and health asset representatives – provides additional support to deliver a shared asset strategy.

There have been some important successes to date, that partners are keen to stress could not have happened without the enabling role that the BPB played. On the edge of the city centre, a site previously owned by the British Rail Residuary Board and then taken over by the HCA had lain derelict for twenty years because there was no access to the site. Through the BPB, partners identified council-owned Highways land adjacent to the site and were able to de-risk it by providing planning certainty on access to the site, which is being developed to deliver 300 homes and a new Bus Rapid Transit station. Elsewhere in the city centre, the BPB enabled partners from the ambulance service, council and HCA to parcel together a previously unviable site, which included a council-owned car park with

20 From interviews

the (no longer fit for purpose) ambulance station. They identified new locations for the ambulance service and brought the combined sites to the market to build more homes.

The Board has also been a catalyst for building up more trust among partners and partners stated that as relationships and trust continue to be built over time, the impact of formal collaboration and cooperation on strategic asset management will be seen even more widely. The ultimate goal of the board is to be able to take strategic decisions on assets that benefit the city.

The benefits of the BPB have been to de-risk small and particularly difficult developments by developing cross-public sector portfolios, as well as provide planning certainty, to an otherwise strong private property market.

Box 4: The Land Commission model

Reflecting the importance of taking a strategic and cross-border as well as cross-public sector approach to optimising the public estate, many cities are creating Land Commissions. By formally bringing together public sector owners to develop combined registers of public assets across multiple local authorities and public organisations, **the Land Commission model enables a strategic approach to managing public sector assets across a city and city-region rather than acting on a site by site basis.**

Greater Manchester's Land Commission was introduced as part of the 2014 devolution agreement with Government and brings together all ten local authorities that make up the Greater Manchester Combined Authority. The first task of the Commission has been to develop a comprehensive Greater Manchester-wide and cross-public sector property register which will enable partners across the city region to identify opportunities for growth within the existing map of public sector land and property assets – as the council and other public sector property owners did in Bristol, for example. An additional incentive for partners in Greater Manchester is the devolution of control over NHS budgets to the city-region. This provides an opportunity to optimise how they use the current social care and health estate across the entire city region, as they will stand to gain from financial efficiencies as well as the results of better public service delivery.

The London Land Commission was announced in February 2015 as part of the Mayor's Long Term Economic Plan for the capital. The focus in London is also on collecting data, specifically in order to identify land for housing, as well as schools and infrastructure.

Meanwhile, there is an **appetite from many other places to have their own Land Commissions**, with Leeds City Region and Hampshire specifically referencing the

importance of local assets belonging to agencies such as Network Rail, NHS, Highways England, the MoD and other public assets currently not controlled by the HCA to be included within a Commission-type arrangement.[21]

The next section looks at the common challenges that places face in putting public assets into more productive use.

21 Leeds City Region LEP and West Yorkshire Combined Authority devolution asks – September 2015. Launch statement for the West Midlands Combined Authority – July 2015

Common challenges across all cities

The diversity of approaches to making better use of public assets outlined in the previous section reflects the diversity of economic contexts, as well as asset bases and public sector organisations in different places. Some cities are also further ahead than others in how they approach local public assets as a means of supporting economic growth and generating revenue.[22]

Nonetheless, there are **common tensions and challenges** that emerge from speaking with partners across cities, which shed light on the difficulties for all cities to be doing more with public sector assets:

- **Difficulty in aligning objectives of different public sector owners through the lens of place.** The ability for cities to maximise the contribution and value of public sector assets to the local economy requires strategic and joint working between public sector agencies and across boundaries. In many cases, however, there are different and competing priorities for different public sector partners (local and national) who own land or property in the areas, which can make it difficult to align strategies. The national drive to reduce the size of the public estate and drive down costs means that the priorities for Government is for departments and national public bodies to sell off assets, rather than be more strategic about the contribution to local economies. Partners from many cities speak about the challenges in aligning local authority and departmental, NHS or Network Rail priorities, for example. **Cities need more ability to shape and control the strategy for nationally owned assets with strategic value to their local economy.**
- **Lack of cross-public sector and cross-boundary data and information to inform asset management and investment strategies.** Many partners have recently or are currently undertaking asset reviews, which includes a mapping exercise in order to better identify opportunities. But there remains a lack of comprehensive information and data available at the cross-authority and cross-public level, which would help unlock more opportunities for productive use of assets in more areas. In order to improve the alignment of national and local objectives, as discussed above for instance, there needs to be the data available at the city-region wide level.
- **Difficulty in adopting an entrepreneurial approach, working to commercial timescales and accepting risk**. Partners interviewed say that a commercial culture was important in enabling a more proactive approach to maximise the value of public sector assets to support the local economy. Indeed, many feel that local government as an institution is not nimble enough to respond in commercial timescales to the market. A commercial outlook also requires local authorities to have a mentality that is more accepting of financial risk, and therefore the possibility of losing money. However, in

22 From interviews

the current system local government is naturally cautious, especially as budgets are stretched to breaking point to deliver even statutory services. This raises important questions about the ability and capacity of local authorities going from being primarily public sector delivery bodies to commercial developers.

- **Tensions and trade-offs between short-term financial gain and long-term economic growth benefit.** Reduced budgets and the impact of the economic downturn have created a sharper incentive for places to do more with publicly owned land and property. In many cases, the value of a publicly owned plot of land or building is both financial and strategic – with the two reinforcing over time. **But in some places there is a tension for local government between revenue generation and the long-term strategic vision of supporting economic growth**. For instance, the priority for ensuring the continued success of the city centre might require investing in relatively less lucrative office development over residential development. The longer-term approach might involve investing money to refurbish a building to release value in the long-term through rental income or using assets to prioritise office development to attract new jobs. This is good for growth but has little direct impact on council financing in the short-run given the current system.

The key elements that enabled partners to maximise their assets

Four key elements emerge from the interviews as being crucial for local authorities looking to put public assets to more productive use.

1. Economic growth strategy focused on core growth areas
2. Good data on all local public sector assets
3. Relationships across places and between organisations
4. Commercial culture underpinned by leadership buy-in and support

1. Economic growth strategy focused on core growth areas

Almost all partners interviewed talked about their approach to asset management within the context of a **clear strategy for supporting local economic growth, in most cases focused on the city centre and core urban areas**. This in turn means that partners have been able to identify the potential value and contribution of land and property assets within the broader economic context of the city, rather than on a site by site basis.

In some places, the focus is on boosting jobs and supporting the performance of the city centre - tackling the impact of recession and weak property markets, for instance. In others, the approach is shaped by the need for more housing and office development in the city centre.

This city-wide approach is present across most of the case studies presented in the previous section. In Slough, for example, the goal for city partners is to improve the attractiveness of the city centre in order to fully capitalise on the opportunities that Crossrail will provide. In this context, the asset management and investment strategy is aligned with economic and regeneration goals, to revitalise the city centre and improve its attractiveness to potential new companies and residents.

2. Good data on all local public sector assets

Partners who have been able to be most strategic with public sector assets have at their disposal, and regularly use, high quality data and information about their own public sector assets. This is spite of the relative lack of comprehensive data and information on public sector assets held at national level, or by other public sector bodies. Even where local authorities have good information about their own operational estate and investment portfolios, the challenge is aligning this with data from other public sector bodies as well as across city-regions with other local authorities.

Where it has been possible (even if only at local level), mapping this data has enabled partners to think and act more strategically about the opportunities that public sector assets present in their area. The benefits for those places where more data is available has been to enable

partners to look across the wider public estate to think about it in a coordinated, strategic and city-wide approach, rather than a site by site basis. With better data, partners have been able to make more informed decisions about whether to sell, invest in, or acquire an asset that fits with wider priorities and objectives.

This is the case in many localities, including amongst those that have taken part in Government programmes that support improved data collection and mapping, but not exclusively. In Bournemouth, for example, extensive mapping of council-owned public sector assets was undertaken when the authority became a unitary authority in 1996. This has allowed the city to think and act strategically, looking across multiple sites to package for development, rather than managing sites and acting on a site by site basis.

3. Relationships across places and between organisations

In addition to data, good relationships across different teams and organisations, as well as with different public sector organisations, are a crucial factor in the ability of partners to align asset strategies. While data is important, the relationships and partnerships that enable this information to be used in a way that optimises how assets are used – in a strategic cross-border and cross-public sector way rather than a site by site basis – are vital. In Birmingham, for example, a significant cross public sector mapping exercise was undertaken a few years ago but partners report that the full value of the mapping was not realised because the necessary relationships, partnerships and strategic thinking across the council were not sufficiently developed at the time to make the most of it.

Specifically, a majority of partners interviewed state that **closer working between asset management teams and regeneration, or economic development teams, has been a key ingredient in their ability to be more strategic.** Interestingly, reductions in staff numbers due to budget cuts also seem to have been a catalyst for the creation of broader speciality teams that bring property, planning and regeneration functions together with economic development. In Leeds, for example, a newly formed asset management team has been created to deliver strategy that cuts across operational asset management, property investment and regeneration. Meanwhile, in Sunderland, the asset management team used to focus primarily on operational asset management, but in the past five years, this has expanded to also include regeneration and strategic decision-making.

Box 5: The role of Government programmes as a catalyst

In many cases, Government programs have been a catalyst for collecting better data and undertaking mapping for the range of locally owned public sector property assets in an area, as well as for building more collaborative relationships between public bodies.

In Leeds, for example, partners report that they have been able to build stronger relationships and collaborate with other public sector bodies in the locality, in part through the role of the One Public Estate programme. They say that the programme has helped them to:

- Establish more formalised conversations between public bodies (as opposed to occasional ad-hoc discussions);
- Think more strategically across the whole public sector estate and take coordinated decisions;
- Gain a better understanding of public assets across the city through several mapping exercises.

2010 – Capital Asset Pathfinders. The Capital and Asset Pathfinders was a Government programme aimed at helping local authorities to make better use of their assets and improve service delivery. The programme was first launched in April 2010 in 11 chosen local authorities, followed by two other waves of local authorities in 2011 and 2012. The programme encourages the use of new approaches to asset management – such as streamlining local authorities' asset portfolio, reducing property costs, or developing co-location of services - with a strong focus on understanding customer demand. Working on customer insight allows to link practices and needs to asset rationalisation, for instance by encouraging the co-location of services where a set of customers tend to go.[23]

2013 – One Public Estate. The One Public Estate (OPE) programme was created in 2013 and delivered in partnership by the Government Property Unit and the Local Government Association. Building on the Capital and Assets Pathfinder programme, OPE focuses more specifically on fostering collaborative work between councils and other public sector partners. The programme offers financial as well as technical support with the aim of helping local authorities to develop asset rationalisation strategies, generate capital receipts and decrease running costs.[24] A key element of the OPE programme is the identification and mapping of all publicly-owned assets within a participating area, usually including assets owned by the NHS and blue light services.

23 DCLG, (2011), *Capital and Assets Pathfinder Programme 2010-11, Customer demand workstream*, London: Department for Communities and Local Government. Local Government Association, (2013), *Customer insight case study – Hull City, Capital and asset pathfinder project*, London: Local Government Association.

24 Local Government Association & Cabinet Office, (2015), *One Public Estate Phase 3 – Invitation to apply*, London: Local Government Association.

4. Commercial culture underpinned by leadership buy-in and support

A recurring theme from the interviews is the growing **need for local government to be more commercially minded** in how it creates value from public sector assets. Traditionally, the public sector is risk-averse, incentivised to do so by the system in which it operates. But within these constraints, some localities have succeeded in being more proactive, with a more commercial and risk-taking culture in place supported and enabled by the political leadership.

In Eastleigh (highlighted above as having taken a proactive approach to investment in order to generate revenue streams) partners report that they have a market-oriented asset management and decision making process. This has been made possible because of the very stable political environment, with councillors supportive and understanding that this type of strategy bears more risk than a more traditional public sector approach. Meanwhile, in Sunderland, partners report that the acquisition of strategic sites in the city centre as part of a more strategic asset management and investment approach – adapted to the financial and declining property market of the time – would not have taken off without strong support from the council's executives and the political leadership in place.

Conclusions and policy recommendations

The role of assets and asset management varies across localities, informed and shaped by the historical legacy of public assets (or liabilities) in each individual place, as well the mix of specific cultural, political and financial contexts in different local authorities. But there are common themes that apply across all places:

Market conditions shape the approach taken by different cities to maximising the contribution of public sector assets to economic growth. The nature and purpose of public sector intervention in order to support economic growth differs according to market conditions in each place. In some cities, the market is too weak to deliver physical development and regeneration without public sector intervention and funding. Here, partners are investing in and acquiring assets purchasing to pump-prime a weak private sector property market, in order to achieve their growth and regeneration activities. In others, the role of the public sector is to guide and shape the specific type of development, often in stronger economies, that would not have been delivered by the market alone.

Austerity has been a catalyst for better making use of assets – from a place-shaping and strategic perspective as well as a means of securing revenue streams. The recession caused speculative property development in many cities to dry up, creating a stronger role for local government in supporting physical development and regeneration in many city centres, with public land and property an important strategic asset in doing so. Meanwhile, shrinking budgets – for public service delivery, day to day spending and to fund investment – have created an incentive for all local authorities to both reduce outgoings and costs associated with maintaining buildings, as well as look to their assets as a means of generating revenue streams.

Local authorities face different priorities and incentives in managing public sector assets than central Government, driven by the need to create revenue streams rather than capital receipts. With shrinking budgets, the priority for local government is to move public sector assets into more productive uses that can support economic growth as well as deliver sources of revenue funding to fund public services. The sale of an asset (or liability) might sometimes be an appropriate response, but there is a shift away from focusing on cost-reduction and disposal *above all else*. The appropriate responses to managing public land and property assets should be assessed through the lens of place and the contribution an asset can play in the local economy, rather than a silo-led approach to disposing of assets by sale on a case by case basis as standard.

Thinking about the role of public sector assets and the extent to which cities are able to maximise the contribution of the public asset base for the local economy raises broader questions about the place-shaping role and ability of cities in the current policy context. One of the rewards or incentives for investing in and managing public assets in such a way as to support economic growth is the improved revenue from business rates that local authorities stand to receive. The recent announcement of full devolution of

business rates in 2020, replacing the current 50 per cent retention, will sharpen this incentive. At the same time, diminishing budgets will increase the appetite from local places to make their assets work as sources of revenue, as well as supporting economic and business growth.

Devolution provides an opportunity to align incentives at local level and support more productive and strategic use of public assets. With more budgetary control at local level, there is an increased incentive to intervene in one area which might deliver savings in another. In Manchester, for example the devolution of NHS health budgets to the Greater Manchester combined authority create much sharper incentives for city partners to do more with public land and property.[25]

Recommendations

The evidence from interviews with partners in cities suggests that there are four important elements in supporting local authorities to put public assets to more productive use. **Localities should focus on developing:**

- A more strategic approach to managing assets. For example, by **developing city-wide or city-region property boards and land commissions**, with support from Government, in order to improve coordination and investment between organisations and across local authority borders.
- **The data and information required** to inform a city-wide and cross-public sector strategic approach to asset management.
- **Strong local relationships** between places, between public sector organisations, as well as with the private sector, in order to capitalise on the opportunities that public assets present.

25 From interviews.

- **A more entrepreneurial organisational and political culture**, which can support a more commercial role for local government to engage with private sector partners and which is more accepting of risk.

While many places are doing this, there are constraints on the ability of local authorities to take a fully strategic approach to public sector assets because of the **fragmented ownership** of different assets, the **lack of comprehensive and accessible data** on assets across the public sector, **competing incentives** between places and public sector bodies and **too little influence to shape** how assets are utilised.

In order to support localities to put public assets to more productive use – to support local economic growth and develop funding streams, as well as deliver more efficient public services and reduce wasteful expenditure on assets – **national policymakers should focus on**:

1. **Improve intra-public sector cooperation by abolishing stamp duty on asset transfers between local bodies.** The stamp duty charged on transfers of assets between public sector organisations acts as a significant disincentive to places taking more strategic approaches to managing public assets. The tax is currently charged on the transfer of an asset from a local authority to a city-region public sector property company set up to improve strategic use of public sector assets, for example. Policy should encourage local authorities and the public sector to bring their assets together across a locality, in order to package sites and create more attractive development opportunities to the market.
2. **Give local areas more control over national level asset disposal strategies for land and property in their area**. In many cases, however, there are different and competing priorities for different public sector partners (local and national) who own land or property in an area, which can make it difficult to align strategies. National organisations, such as the HCA and other land-owning bodies and departments, should be required to be members of city-region property boards or land commissions, in order to facilitate and speed up the release of sites that are of strategic importance to localities.
3. **Reform national permitted development rights policy** in order to provide more flexibility and control for local areas to shape the type and balance of development that needs to take place to support economic growth.

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Centre for Cities
Second Floor
9 Holyrood Street
London SE1 2EL

020 7803 4300
info@centreforcities.org

www.centreforcities.org

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