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City Solutions: Delivering Local Growth

Local Asset-Backed Vehicles

Ben Harrison and **Adam Marshall**

Summary

The 2007 Comprehensive Spending Review made progress on providing local authorities with a range of new revenue-raising tools. Business Rate Supplements, Local Authority Business Growth Initiative (LABGI) reform and a new Planning Charge were all either proposed or taken forward.

But new tools are only half of the solution. Cities don't just need to raise the revenue for infrastructure improvements; they have to be able to deliver those projects successfully too. Specially structured vehicles which leverage the value of land assets may enable cities to finance and deliver the infrastructure required to underpin large-scale regeneration and housing projects.

This report considers the existing delivery arrangements currently available to local authorities, and asks whether new delivery vehicles – such as Local Asset-Backed Vehicles (LABVs) – are needed to lever in the resources and skills required to deliver local growth.

The report provides local authorities with new tools to evaluate whether to adopt an asset-backed vehicle, and outlines the main barriers that must be tackled by city leaders, business and central government if England's towns and cities are to successfully implement these kinds of arrangements. Additionally, it challenges local public and private sector leaders to evaluate whether LABVs are genuinely right for their needs, and not just the 'flavour of the month'.

The report is part of the joint *City Solutions* project undertaken by Centre for Cities and PricewaterhouseCoopers LLP.

Key Points

- Local authorities currently use a range of partnerships and vehicles, such as Public Private Partnerships (PPPs), Urban Development Corporations (UDCs) and Urban Regeneration Companies (URCs) to facilitate regeneration, but these are often criticised for lacking sufficient resources to deliver growth. Most existing models facilitate, but do not directly deliver, major projects.

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- Unlike other models, LABVs are arrangements where local authority assets are used to lever long-term investment from the private sector for a stream of development projects. 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
    - plan and deliver projects more strategically.
- LABVs could make a difference in a range of cities – and allow them to:
    - retain a long-term stake in development
    - retain a share of the returns from any uplift in land values
    - plan development citywide – or even across local authority boundaries.
- LABVs are not right for every local authority. But for those cities or city-regions that can identify a portfolio of assets, a pipeline of regeneration projects and suitable institutional investors, they offer a means to unlock additional private sector investment for regeneration and housing programmes.
- Asset-backed vehicles (ABV) are already in action today at the regional level, including the East Midlands and the North East. British Waterways also uses an ABV, ISIS Regeneration, to regenerate specific types of sites. And a number of towns and cities are now interested in the LABV model. Newcastle-Gateshead, Liverpool and Croydon are all actively investigating the possibility of pursuing LABV arrangements of their own.
- LABVs have the potential to make a contribution to economic development projects in some local authorities. Before going ahead, however, cities must be clear on how they plan to use a LABV alongside other financial tools as part of a coherent and overarching economic development strategy.
- Barriers to the implementation of LABVs remain. Important issues around political support, governance arrangements, local authority capacity, investor interest and stakeholder engagement need to be tackled if local authorities are to successfully implement their own LABV arrangements.
- Cities need to evaluate their land holdings alongside their strategic development priorities – and assess whether a LABV might help to leverage additional investment, and in turn to support local economic growth.

1. Do we need new vehicles to deliver local growth?

In recent years, many British cities have enjoyed a renaissance. But while this may be true of some urban areas, the picture across the country is less straightforward. The performance of our cities is uneven. Some have been more successful than others in generating economic growth, and even those that have done well have often found it difficult to extend their success to every part of the city (Athey, Webber and Lucci 2007).

Due to financial constraints, most British cities continue to find it hard to attract investment to difficult sites, deliver essential infrastructure projects and create high quality business environments – all of which are fundamental to successful urban development. And the recent Comprehensive Spending Review (CSR) made clear that cities are facing these challenges against a backdrop of tightening government budgets and an increased emphasis on housing provision (HMT 2007).

"Over the past two decades, successive governments have encouraged local authorities to engage in greater collaboration with the private sector when delivering regeneration and economic development projects"

Over the past two decades, successive governments have encouraged local authorities to engage in greater collaboration with the private sector when delivering regeneration and economic development projects. As a result, policy frameworks for financing and delivering urban regeneration, housing, and economic development have undergone significant change.

The current government has generally adopted an incremental approach to this kind of reform. Recently we have seen progress on long-awaited new financial powers for local authorities. After lengthy consultation, the government has just published a new white paper on Business Rate Supplements – the power for local authorities to levy a supplement on the national business rate in order to provide additional funds for investment in infrastructure development [1]. The CSR also included proposals for new local planning charges, and a reformed Local Authority Business Growth Initiative (LABGI).

These new powers could provide additional revenue streams for key infrastructure projects and encourage closer relationships between local authorities and the local business community.

But new financial tools are only part of the solution. Regeneration, housing and economic development programmes do not just require additional investment, they need to be successfully delivered. This paper asks whether new delivery vehicles – such as asset-backed vehicles – are needed to lever in the additional resources and skills required to deliver local growth.

1. The Centre for Cities first proposed Business Rate Supplements in its **City Leadership** *report 2006. The first paper in the* **City Solutions** *series (Harrison and Marshall, 2007) illustrated the potential benefits that supplements could deliver for 34 large towns and cities across England, and can be downloaded from the Centre for Cities website – http://www.centreforcities.org.*

Existing delivery arrangements

However, before asking whether local authorities need new delivery vehicles, it is important to consider the range of existing delivery mechanisms currently available to them. One option for local authorities looking to finance and deliver a project is to enter into agreements or partnerships with other public and private sector bodies – such as Development Agreements and Public Private Partnerships (PPPs).

Site-specific **Development Agreements** are generally used to establish co-operation between partners on issues like planning, finance, land acquisition, transport and the public realm. These kinds of arrangements can be seen in action today in Milton Keynes, where English Partnerships and Milton Keynes Council have established a framework to provide a unified planning service for investors, developers, and businesses in central Milton Keynes. (Milton Keynes 2007)

“One option for local authorities looking to finance and deliver a project is to enter into agreements or partnerships with other public and private sector bodies”

PPPs are established to leverage additional private sector investment and expertise into the development of physical infrastructure and the provision of public services. By requiring the private sector to put its own capital at risk and to deliver clear levels of service to the public over the long term, PPPs are intended to deliver high quality public services on time and to budget. The most prominent example of these arrangements has been the government’s Private Finance Initiatives in health and education [2]. But models for regeneration PPPs are becoming more developed too, and can now be seen operating successfully in the East Midlands and the North East, with local authority-led partnerships under consideration in Bradford, Leeds and Sheffield, amongst others (Mills and Atherton 2006).

However, in instances where local authorities require either a more formalised structure, or a more diverse range of partners with a greater range of skills, councils often choose to establish new vehicles to facilitate and deliver outcomes.

Existing economic development vehicles

Economic development vehicles afford two major advantages.

- **They can facilitate long term relationships.** Because of their formal structure, partners are more likely to enter into long-term relationships with each other. This allows for greater degrees of stability, confidence, and reliability, all of which are key to securing significant investment from the private sector over time.

- **They can handle numerous projects over a longer period of time.** Because of their more stable nature, vehicles allow local authorities with a ‘pipeline’ of regeneration projects to manage them all under the same umbrella organisation, and so pursue a more coherent and coordinated development strategy.

2. Private Finance Initiative (PFI) schemes are a specific type of government backed public private partnership.

Local authorities have also been presented with a number of more formal models of delivery vehicle by central government during both Conservative and Labour administrations. There are currently over thirty local delivery vehicles in operation across the country, with different models used in different places (Hackett 2007). In the box below, we consider the main characteristics of three of these – Urban Development Corporations, Urban Regeneration Companies and City Development Companies.

"There are currently over thirty local delivery vehicles in operation across the country, with different models used in different places"

Urban Development Corporations (UDCs)

What are they? Established under the Local Government, Planning and Land Act of 1980, UDCs were limited-life bodies tasked with a broad remit to secure the regeneration of their designated areas (HMSO 1980). The first wave of UDCs were wound up by the mid-1990s, although a new generation with somewhat lesser powers have been designed since 2003.

The objectives of the old and new UDCs are broadly similar, and encompass:

- bringing land and buildings into effective use,
- encouraging the development of existing and new industry and commerce,
- creating an attractive environment, and,
- ensuring that housing and social facilities are available to encourage people to live and work in the area.

Where are they being used? The first wave of UDCs were implemented in a number of English regions, including Merseyside, Teeside and Tyne and Wear. The latest generation has been launched in Thurrock, London Thames Gateway and West Northamptonshire.

What powers do they hold? The first wave of UDCs had significant planning powers and central government resources. The new UDCs were established under the same 1980 Act and therefore have some of the same powers as the earlier UDCs, including the ability to acquire, hold, manage, reclaim and dispose of land and other property. However, they do not have the extensive planning powers held by first generation UDCs.

Urban Regeneration Companies (URCs)

What are they? Initially proposed by Lord Rogers' Urban Task Force in 1999, Urban Regeneration Companies (URCs) are independent companies established by the relevant local authority and Regional Development Agency that work alongside English Partnerships and other local stakeholders including employers, amenity groups and community representatives (ODPM 1999).

Where have they been used successfully? The first three pilot projects were launched in Liverpool, East Manchester and Sheffield. There are now a total of 20 URCs in operation around the country, but they have had varying degrees of success.

What powers do they hold? URCs are not statutory, and they lack planning and compulsory purchase powers. As a result they have to concentrate on convening and building consensus between public and private sector partners in order to construct a sustainable and coherent regeneration strategy, and stimulate new investment into areas that have experienced economic decline.

"Existing economic development vehicles are often criticised for being overly complex, and lacking sufficient financial and political resources to deliver growth"

City Development Companies (CDCs)

What are they? Launched in 2006, City Development Companies (CDCs) are designed to refresh the concept of special purpose vehicles.

CDCs are intended to be independent companies, limited by guarantee. They are charged with delivering transformational economic change in cities by marshalling public and private sector resources, but with the flexibility to adapt to the needs of specific places (CLG 2006).

Where have they been used successfully? The first CDC to launch was 'Creative Sheffield' which is now the single economic lead for the city, having integrated Sheffield First for Investment, Sheffield One and the Cultural Industries Quarter Agency (Creative Sheffield 2007). Other cities, including Newcastle, Hull and Plymouth are also drawing up proposals for their own CDCs.

What powers do they have? Despite playing a pivotal role in the economic development strategy of the city, Creative Sheffield does not hold extensive planning powers, land or funding directly. It remains unclear whether CDCs will be permitted to hold more extensive powers, with the agreement of the local authority – although guidance from CLG suggests this is unlikely.

Existing economic development vehicles are often criticised for being overly complex, and lacking sufficient financial and political resources to deliver growth. Because of these concerns, there has been a growing debate around whether additional types of vehicles are required to deliver challenging local growth objectives.

In the next section we discuss a delivery model – Local Asset-Backed Vehicles – in more detail.

2. Local Asset-Backed Vehicles Explained

What are they?

Unlike those discussed in the previous section, Local Asset-Backed Vehicles (LABVs) allow local authorities to use their assets (usually land) to lever long-term investment from the private sector for regeneration projects. They are designed to bring together a range of public and private sector partners in order to pool finance, planning powers, land and expertise; to ensure an acceptable balance of risk and return for all partners; and to plan and deliver projects more strategically.

Area-based ABVs are already in action today at the regional level, including the East Midlands and the North East. British Waterways has also created an asset-backed vehicle, ISIS Regeneration, to unlock development on its own complex sites. And a number of towns and cities are now interested in the LABV model. Several towns and cities, including Liverpool, Newcastle-Gateshead and Croydon, are actively investigating the possibility of pursuing LABV arrangements of their own.

"given the varying capacity, assets and ambitions of local authorities across the country, each LABV must be specifically tailored to their individual needs"

How do they work?

There is no uniform method for designing LABV arrangements. In fact, given the varying capacity, assets and ambitions of local authorities across the country, each LABV must be specifically tailored to the individual needs of a local authority or city-region, depending on the scale of the vehicle.

Nevertheless, there are certain phases that all LABVs are likely to go through in their formation. Generally, when attempting to establish a LABV, local authorities and other public sector bodies will first collaborate to identify a portfolio of assets and a pipeline of regeneration projects which require funding. The assets may be related to the regeneration and economic development projects in question, although this does not have to be the case. Finding the right mix of assets is important however, and they should be bundled together specifically with the aim of attracting particular private sector partners.

In order to simplify the public-private relationship and make it easier to attract private investment, this collaboration is then formalised into one company with a single governance structure – the LABV. Summary details of the portfolio, together with an outline business plan for each individual asset and each regeneration project, are produced and circulated to potential investors, who then submit outline bids for the portfolio. Once investors have been secured, a hands-on management team is formed to oversee the running of the company.

Any number of specialist partners can be introduced further down the line, whether they are developers, infrastructure delivery companies, contractors or other bodies.

Box 1: What do different groups bring to a LABV?

Local Authority	Private Sector Investors	Other Partners (English Partnerships, Developers etc)
• Land assets • Project expertise • Local stakeholder engagement and support • Planning and regulatory powers	• Finance • Project financing expertise • Management expertise • Risk management	• Land assets • Project design and delivery expertise • Finance

"LABVs allow local authorities to gain access to additional resources such as extra finance, skills and capacity"

What can a LABV be used for?

Regeneration projects

By bringing together land, finance and expertise, LABVs have the potential to be particularly useful for regenerating contaminated or under-developed urban areas. They allow local authorities to use sometimes unproductive assets, gain access to additional resources such as extra finance, skills and capacity, and ensure that their development strategies are well-focused and coherent.

In particular, LABVs have the potential to:

- **Unlock significant additional investment for urban regeneration projects.** By encouraging local authorities to make best use of their assets (without necessarily giving them up), increased investment from the private sector for urban development can be secured.

- **Create a 'self-sustaining cycle' of regeneration funding.** Packaging assets and developing them sequentially allows for the establishment of revenue streams that support development over time. LABVs provide returns to both the private and public sector partners, with a share of the profits being reinvested in future urban regeneration programmes.

- **Help raise the standard of management for regeneration projects.** By ensuring the public and private sector are firmly engaged with one another, LABVs offer the potential for local authorities to draw on the skills of the private sector, improving efficiency in asset management, and enhancing leadership, creativity and delivery for projects at a local level.

Box 2: An Existing Regional ABV – Blueprint in the East Midlands

What is it? Blueprint is a 'property regeneration partnership' set up to deliver new financial solutions for physical regeneration in the East Midlands.

What does it aim to do? The purpose of Blueprint is to generate revenue streams from existing and future regeneration assets to provide future investment in regeneration activity. Its primary activity is targeted at revitalising declining neighbourhoods through regenerative property development. Its focus is the East Midlands' six Priority Urban Areas.

How does it work? Blueprint is a 50:50 public-private partnership that holds investment property and develops land and property. After a competition, Igloo Regeneration (Morley Fund Management) joined and helped establish an investment and development fund.

The fund supports existing industrial property dedicated to the venture by the East of England Development Agency and English Partnerships and seeks out and invests in new mixed-use land opportunities in priority urban areas, initially in Leicester, Derby and Nottingham (Nottingham Science Park pictured). (English Partnerships 2007)

But not all cities are likely to be able to use LABV arrangements to finance and deliver regeneration projects. Question marks remain over some authorities' willingness to give up full control of their land assets, and their capacity to initiate and manage these arrangements. For more on the challenges associated with LABVs, see Section 4.

Housing projects

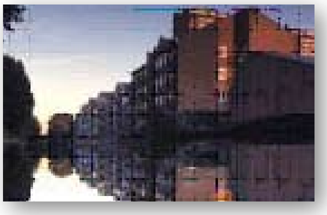
As well as being useful in the delivery of regeneration and economic development schemes, it has been argued that LABVs could also help the government meet its new housing targets in certain parts of the country.

Published in July, the new Housing Green Paper pledged £3 billion in new resources to fund 60,000 additional affordable homes by 2010, and outlined the government's target of delivering three million new homes in England by 2020 (CLG 2007a).

"LABVs could help the government meet its new housing targets in certain parts of the country"

These new targets represent big challenges for local authorities, particularly in the Greater South East where much of this new build is likely to be concentrated. Given their increasingly central role in 'place-shaping', local authorities will need new ways to deliver housing projects and the infrastructure required to support them. Where land assets are available, but local authorities lack financial resources, LABVs could provide a formula to unlock additional investment.

Box 3: An Existing Thematic ABV – ISIS British Waterways



What is it? British Waterways possesses a range of land holdings near to canals. ISIS is a property regeneration partnership established in 2002 by British Waterways, AMEC and Igloo Regeneration Fund to transform this land into mixed-use developments.

What does it aim to do? ISIS aims to deliver sustainable property regeneration schemes by bringing together public sector ethos and assets with private sector capital and expertise.

How does it work? It is a 50:50 public-private partnership that holds investment property and develops land and property. Its key objective is to develop the country's waterside places, offering well designed, affordable, high quality business spaces and homes. Half of all returns are re-invested by British Waterways with aim being to refresh Britain's rivers and canals.

Projects are currently underway in Manchester and Leeds, while other developments are planned for a range of cities across the UK, including Glasgow, Brentford and Birmingham.

Many cities are already experimenting with new models for delivering housing growth. Recognising the pressures its new targets are likely to put on local authorities, the government has recently unveiled plans for a new kind of LABV – Local Housing Companies (LHCs).

Local authorities have been invited to set up LHCs in a joint venture with English Partnerships and other organisations, into which authorities will invest public land. Each Local Housing Company will act as the 'master developer' for communities within a designated area, working in partnership with other investors and contractors. The local authority will also play a full part in agreeing the development plan, and will work with other partners to determine the mix of housing, including the proportion of affordable and social housing.

In return for taking the land cost out of the equation, private sector partners such as housing builders, including the Registered Social Landlord sector, will provide equivalent investment and the construction expertise needed to build the homes. Local authorities could also benefit from the increasing value of land on the site with some returns being reinvested into providing more affordable homes.

"Local authorities have been invited to set up LHCs in a joint venture with English Partnerships and other organisations, into which authorities will invest public land"

Box 4: A Proposed LABV – The Croydon Urban Regeneration Vehicle (URV)

What is it? The Croydon URV will be a joint venture between the council and a private sector partner, currently in the final stages of selection.

The URV will take charge of a number of council-owned town centre sites including the existing civic centre complex. As well as a means of investing in regeneration, maintaining a stake and influencing the development process, the URV will also provide new Council offices.

How will it work? The two URV partners will have a 50:50 deadlocked stake, with the Council providing the land and property assets and the private sector providing cash for investment. The URV will have a business plan setting out the purpose of the vehicle, and the Council will commit to feeding through a pipeline of new development sites.

The company structure will be a Limited Partnership or Limited Liability Partnership (LLP), with shared control, shared profit extraction and day to day management by the private sector. The deadlock structure means neither Croydon Council nor their partner will control the assets unilaterally, but the business plan for the URV will safeguard objectives around regeneration, profit generation and extraction.

What next? Croydon also plan to use later versions of the URV model to move beyond town centre developments and drive regeneration in its less well-off neighbourhoods (Croydon 2007).

According to ministers, each LHC could have the potential to deliver up to 1,000 new homes, and the government hopes that they will be able to contribute to the development of new mixed communities, meet specific needs such as affordable and family housing, and deliver additional properties for shared ownership without Government grant (CLG 2007b). Fourteen pilots are currently being launched across the country, in cities as diverse as Bristol, Wolverhampton and Sunderland.

But with targets of 240,000 new homes to be built each year over the next decade, the impact that LHCs can have is likely to be marginal (CLG 2007a). And a number of clear challenges to their implementation exist. Many local authorities will find it difficult to assemble an attractive portfolio of assets suitable for housing development, and it is not clear that asset-backed models will be viable solutions in more marginal housing markets, where land values are not increasing in the way that they are in the Greater South East.

Nevertheless, while LABVs might not be suitable for every city, they do have the potential to make a contribution to the delivery and financing of regeneration and housing projects. With this in mind, the next section outlines a series of questions that local authorities should aim to answer before opting to pursue LABV arrangements.

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3. A LABV Toolkit

It is vitally important that councils consider their options carefully before deciding whether a LABV is right for them. LABVs require in-depth project appraisal, feasibility studies and master planning, all of which require significant financial and time commitments from local authorities.

In order to assist cities seeking to decide whether LABVs offer an advantage to deliver local growth, the table below sets out a tool-kit that cities and private-sector partners can use to evaluate the LABV model.

Step 1 – What does your authority want to achieve?

It is vitally important that local authorities have a clear focus on why they are setting up a LABV in the first place. They must be able to answer a series of key questions before deciding whether the model is right for them. These include:

- What are our principal economic/regeneration aspirations?
- Could we pursue these goals directly as a council or through some other existing delivery vehicle? (URC, UDC, CDC, Development Agreement, joint venture company, PPP)
- If not, how could a LABV help to deliver aspirations and create additional value?
- Do we have a detailed pipeline of regeneration projects that require additional funding?
- Do we have the right kind of assets to attract private sector partners and investors?

Step 2 – Do we have the asset portfolio needed to secure investment?

Local authorities also need to consider very carefully which assets to place in the LABV. Ensuring a good mix between sites that are attractive to the market and other surplus, under-valued, or under-developed land is critical. Appropriate assets could encompass any of the following:

- Surplus properties
- Public sector 'brownfield' sites
- Investment properties
- Sites for development
- Operational assets
- Income-producing assets

Step 3 – What types of finance and partners can we attract?

Local authorities must be clear regarding the type of partners required to make a LABV a success. In order to do this, local authorities should:

- Evaluate the resources and skills they require
- Target specific private sector groups that are likely to be interested in their particular assets
- Ensure the aims of the LABV link well with an existing coherent city development plan
- Be clear on the role of the public sector in the governance of the LABV
- Consider the level of risk they are willing to take on, and expect their partners to share

"LABVs require in-depth project appraisal, feasibility studies and master planning, all of which require significant financial and time commitments from local authorities"

- Display a high level of public ambition, and strong civic leadership, ensuring that there is sufficient cross-party support for the LABV and its underlying aims to be achieved over the medium to long term

Those authorities with a strong track record in delivering major infrastructure/ regeneration programmes are likely to find attracting partners easier than others.

Potential partners can include any of the following organisations:

- Regeneration investors
- Pension funds
- Banks/financial institutions
- Property developers

Step 4 – What governance structure should we propose for the LABV?

Councils and private sector partners must work carefully together to devise the necessary governance structures that will allow all parties to achieve their short and long term aspirations. This will require local authorities and interested financial and delivery partners to consider the following questions:

- What projects will the LABV undertake?
- How will the overall ownership of the LABV be arranged?
- How will the returns and risks be split between different partners?
- Will partners be able to extract profits from the vehicle at different times?
- Will the value of the assets and revenue contained in the LABV be borrowed against?

Step 5 – Once established, how can specialist delivery partners be brought in?

Any number of specialist partners can be introduced once the structure of the LABV is agreed.

Delivery partners can include any of the following organisations

- Developers – operational or specialist
- Infrastructure delivery companies
- Contractors
- Other public/private sector bodies

LABVs are unlikely to be suitable for every city. Even if local authorities can successfully work through these steps, a series of legal, technical and financial challenges must still be overcome in order for the LABV model to deliver local growth.

"Councils and private sector partners must work carefully together to devise the necessary governance structures that will allow all parties to achieve their short and long term aspirations"

4. Challenges to LABVs

Even if local authorities have successfully negotiated the steps in the previous section, there remain a series of challenges that they will need to overcome if they are to successfully implement LABV arrangements of their own.

These challenges revolve around several themes, including political buy-in, governance, capacity, and the need to maintain stakeholder support. Below we explore each in turn, before raising some key questions for further discussion.

Securing political buy-in

Due to the need to attract private sector investors into long term partnerships, and the fact that LABVs are likely to outlive the lifetime of any individual local administration, stable cross-party political support is essential.

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This is often difficult to secure, however, given that entering into a LABV will involve either partially or fully relinquishing control of local authority assets. There remains a good deal of scepticism within some local authorities of the private sector, and there is reluctance on behalf of some cities to cede ownership of key strategic development sites.

Furthermore, because some local authorities can only assemble a viable portfolio of assets by working with neighbouring authorities, effective cross boundary collaboration is also important. Some authorities have more experience in this regard than others, who may find it more difficult to generate and maintain the level of political cooperation required to develop and implement a city-regional or sub-regional LABV.

Ensuring the LABV creates additional value

In order to generate and maintain political buy-in, councils must also demonstrate that the LABV will generate additional value.

The potential for creating value will vary depending on the nature, quality and range of assets local authorities choose to put into the LABV. Attracting private-sector partners to engage in a LABV will be easier in areas where there is a buoyant investment climate, for example. Local authorities must also be sure that investing their assets in a LABV is preferable to other options, such as selling the assets to the highest bidder and then investing the returns into selected economic development projects.

Detailed project appraisal, feasibility studies and master planning will be required to ascertain this, and this is likely to be a very costly process. And in addition, many of the assets that cities are likely to put into a LABV may be generating some sort of income already. This means a LABV could initially leave a funding gap which would need to be filled.

Getting the governance right

Establishing the right governance structure for a LABV is also essential to its success. But, because LABVs would bring together a diverse range of highly skilled partners, each with different objectives, there is a danger that relationships could be characterised by a lack of understanding of one another's priorities and ethos.

These kinds of tensions can be particularly acute between the private and the public sector, where the public sector often fails to understand the need to share the burden of financial risks with the private sector, and the private sector often overlooks the local expertise that authorities have to offer.

The right governance structures would help overcome these kinds of scenarios, and facilitate positive working relationships between all of the partners involved.

Maintaining stakeholder engagement

Maintaining stakeholder support and engagement in the LABV is absolutely critical to ensuring cities enjoy successful partnerships with private sector bodies and developers. It is therefore essential to establish mechanisms that allow for extensive and robust consultation between local residents, the local authority and their financial and development partners.

"The capacity of local authorities to successfully set up and manage their own LABV arrangements varies across the country"

This is likely to be easier to achieve if the geographic scope of the LABV is smaller, but is still likely to be challenging given the lengthy timescales associated with developments.

Capacity and skills

The capacity of local authorities to successfully set up and manage their own LABV arrangements varies across the country.

This means that some local authorities will require specialist help to package together an attractive portfolio of assets, secure private sector partners, and establish a LABV. This is likely to be expensive, and may deter or preclude many of them from going any further – particularly since there is no guarantee that they will see tangible returns on their assets for some years after the LABV has been set up.

And other concerns remain surrounding the capacity of the public sector to understand, assess and manage risk – a critical factor in attracting private sector partners, and determining whether it is viable to pursue a particular project.

Using LABVs alongside other financial tools

While LABVs do have the potential to make an important contribution to local growth in some cities, they may need to be implemented alongside other financial tools and delivery mechanisms if cities are to meet their economic development challenges. LABVs are not a panacea for a city's long-term economic needs, but rather are likely figure as part of a wider portfolio of economic interventions.

A key challenge for cities considering LABV arrangements is to ensure that they form part of a coherent economic development strategy that makes the most of the range of financial tools unveiled in the recent Comprehensive Spending Review, including Business Rate Supplements, statutory planning changes and an improved LABGI. Other revenue streams, such as Section 106 receipts, must also be considered.

And other questions remain around how a cross-boundary LABV might fit together with other vehicles for city-regional or sub-regional working - such as Multi-Area Agreements.

Financial treatment of assets

Another factor critical to the success of proposed LABV arrangements is the financial treatment of local authority assets once they have been placed in the delivery vehicle.

It is important that LABVs are constituted as private companies, and that the assets involved are taken off the local authority balance sheet. Doing this will afford the LABV the commercial freedom to borrow against the value of the assets, which is critical if these arrangements are to help cities raise the significant sums of money necessary to invest in major economic development projects.

It is still unclear whether LABVs will be considered 'on' or 'off' the public-sector balance sheet – a decision which could constrain their ability to lever in investment capital. Cities and central government must work together to clarify this issue.

"Another factor critical to the success of proposed LABV arrangements is the financial treatment of local authority assets once they have been placed in the delivery vehicle"

5. Making LABVs work: questions to resolve

So, several important issues must be tackled if LABVs are to be useful delivery vehicles for cities pursuing regeneration or housing-led growth. We have identified the following headline questions for further discussion, and will continue to work with local policymakers and stakeholders to determine how the LABV model could work in practice.

MAKING THE CASE FOR LABVS:

What would LABVs allow cities to deliver – above and beyond the existing approaches to local economic development?

AN ENABLING FRAMEWORK:

Can the Government create a framework for LABVs that can then be tailored to specific local circumstances?

JOINING UP THE PORTFOLIO:

How can cities make use of LABV arrangements alongside other financial tools, in order to deliver economic growth and regeneration? And how might a cross-boundary LABV fit together with other vehicles for city-regional or sub-regional working - such as Multi-Area Agreements?

CAPACITY:

A number of barriers remain to the up-take of LABVs have been identified. How do capacity and the availability of financial partners, specifically, constrain the use of this model in delivering local growth?

LOCAL HOUSING COMPANIES:

How big a contribution will Local Housing Companies be able to make for cities aiming to meet the governments new targets for house building? Which parts of the country will they be most viable for?

"How can cities make use of LABV arrangements alongside other financial tools, in order to deliver economic growth and regeneration?"

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PRICEWATERHOUSECOOPERS

1 Embankment Place
London, WC2N 6RH

t 020 7583 5000
f 020 7804 6644

www.pwc.co.uk

centreforcities

Enterprise House
59 - 65 Upper Ground
London SE1 9PQ

t **020 7803 4300**
f **020 7803 4301**

www.centreforcities.org