Construction Industry Council

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- Regeneration which is focussed on locally-driven initiatives (rather than a top-down approach) is a logical policy progression in line with similar Government moves such as: the general direction of the Localism Bill; the New Homes Bonus and the LEPs strategy. It is also in line with the over-arching aims of the "Big Society".

- While much policy details is still outstanding, a key element in the success of any such strategy has to be the ability to access new sources of finance, as public spending will be limited.

- The transition from, (the soon to be abolished) RDAs, to LEPs needs to be carefully managed. If the nine RDAs were simply replaced by up to six times as many LEPs, they may be too small to be effective. A larger co-ordinating mechanism may be required for large scale urban regeneration projects. In this way, some regional specialisms developed under the RDAs may be retained.

- Localism might quickly degenerate into parochialism especially in competition for scarce resources. Regeneration funding to kick-start private/public sector partnerships needs to have an element of targeting. An urban regeneration, growth hub strategy is preferable to a counter-productive proliferation of LEPs.

- The devolution of power to LEPs has been announced in a piece-meal uncoordinated way. While there is much information as to what they could do, it is less clear what they actually will do. One thing certain is that the level of funding will be much less than with the RDAs.

- Regeneration as an on-going, self perpetuating, largely privately funded exercise will depend on an initial kick-start from public sources, with the construction sector a key element in this process. Clear strategic direction, the co-ordination of activities and the creation of innovative funding mechanisms are other elements in the process.

- Structural frameworks (such as Enterprise Zones) are potentially a step in the right direction and initiatives such as Tax Incremental Financing are to be applauded, but the best approach is probably the creation of a range of tools which could for instance include local tax raising powers, taking localism to its logical conclusion.

- A commitment to Regeneration is a vital part of the declared intention of encouraging development outside the south-east of England.

- There must be a commitment to “seed funding” regeneration. The amounts committed in the Regional Growth Fund (RGF) are much less than those received by the RDAs. There also needs to be a commitment to the RGF for more than three years.

- Meaningful consultation at community level needs good information. Whether large scale urban regeneration or neighbourhood plans the Planning Aid scheme run by the RTPI needs to be continued. Under present plans, it is to be abolished.

Regeneration is a cyclical process with on some levels is constantly occurring. Buildings and infrastructure have to be constantly renewed and employment patterns change over time.

There has been a long history of urban regeneration in the UK. In the past, the focus tended to be on physical regeneration, particularly in relation to housing. Examples of substantial projects particularly involving regenerated dockland areas are in London, Cardiff and Liverpool, although in some of these cases, there are those who question the degree of involvement of the existing local communities within the new developments.

Regeneration within the built environment is a multi-stranded task. Transportation infrastructure, neighbourhood renewal, the treatment of “brown field” land (often contaminated); the creation of funds for land assembly, re-cycling buildings, the creation of the mix of housing, and attracting the all-important new jobs are part of a complex urban planning process. Co-ordinating all this on a large scale requires the establishment of a suitable organisational framework and innovation in raising finance. In this context, news of a renewed interest in the concept of “Enterprise Zones” and the establishment of the UK’s first Tax Incremental Financing initiative for Edinburgh’s Waterfront are encouraging developments.

Funding regeneration in a regime of spending constraints will depend on targeting for maximum effect. Essentially this will involve a focus on urban regeneration, probably involving some sort of growth hub strategy. If, for instance, the UK is serious about carbon targets and wishes to develop an off-shore wind industry, development of coastal manufacturing hubs would be a positive development. These could be centres for producing the turbines, towers and cable needed, as well as acting as a base for shipping. In the 1970s and 1980s, Aberdeen performed this function for the North Sea oil and gas industry. With a certain amount of regional planning, the off-shore renewable industry can have a profound multiplier effect. Money could be accessed from the new Green Investment Bank or from the European Regional Development Funds, formerly administered by the RDAs.

The current situation

Commenting on regeneration issues at present is difficult as the structure which formerly facilitated regeneration is in a state of flux. The Regional

Development Agencies which operated on a top down basis are soon to be abolished. Their role to an extent may be taken over by Local Enterprise Partnerships, although the scope and funding of these new bodies is not yet clear.

In addition to this, the Localism Bill, currently going through Parliament, has abolished regional spatial planning and also the concept of housing targets. While this Bill takes account of nationally significant infrastructure programmes, and discusses the concept of local neighbourhood planning at length, the position of "larger than local" planning is still in some doubt. There are fears that the Bill allows a "strategic gap" between the neighbourhood level and the national one. It is true that within the Localism Bill, there is a duty on local authorities to co-operate but it is not clear how this will work.

Underlying all this confusion is the effect of the recession. Nowhere is this more evident than in relation to house-building. The credit crunch has made borrowing difficult for developers and buyers, the result being that the national level of house-building is at a record low. In 2010 there were just 102,570 completions, the lowest level of house building in peace time since 1923. As a reflection of this situation, some mechanisms, such as the Community Infrastructure Levy (CIL) and the so-called Section 106 agreements, by which private sector developers undertook to fund infrastructure development and even some affordable housing, no longer work in the way in which they did in the past.

Regional Development Authorities

The Regional Development Authorities (of which nine were established from 2000) were set up specifically to promote employment and further both economic development and regeneration. These statutory bodies are now going to be abolished.

At present the core activities of the RDAs are financed through a single pot of money from contributing Government Departments such as BIS, CLG, DECC, DEFRA, DCMS and UKTI. RDA budgets for 2009- 2010 were £2, 263m and £1,748m in 2010-2011. RDAs also have responsibility for managing the distribution of the European Regional Development Fund (ERDF) and the Rural Development Programme for England (RDPE), which both run from 2007-2013 and combined are worth £9 billion over the period. These programmes operate on a regional basis and there have been some concerns regarding administration and the securing of match funding under new arrangements.

Some £1.4 billion has been identified over the Spending Review period to wind down the RDAs. This funding will see that economic development contracts are concluded, along with money for redundancies, cancelling facilities contracts and closing down buildings. The stated intention of the Government as indicated on the BIS website is that the "wealth of knowledge and experience" of the 3,000 RDA staff is captured and handed over to Local

Enterprise Partnerships and other successor bodies. The Regional Development Agencies will be wound up by March 2012.

Local Development Partnerships

The shape of the landscape to replace RDAs is not yet clear. A key element in the new situation will be the newly established Local Enterprise Partnerships (LEPs). These are joint local authority/ business bodies, which will have a private sector chair in most cases. Local enterprise partnerships are supposed to provide strategic leadership in relation: housing; planning; local transport and infrastructure priorities; employment and enterprise and; the transition to the low carbon economy.

Local Enterprise Partnerships (LEPs) will fill some but not all of the roles formerly exercised by the RDAs. The Government is not proposing that local enterprise partnerships should take on all existing RDA functions, as some are best led at the national level. These include inward investment, sector leadership, and responsibility for business support, innovation, and access to finance. However, the intention is that local enterprise partnerships will support the local delivery with many of these functions.

To date 31 LEPs have been approved in England, which collectively represent 87% of England's population. The economic geography of some of these LEPs is a little curious and there are certain gaps in coverage. For small-scale regeneration projects, LEPs may have a role, provided they can assess funds but the major limitation is that most of the funding will require privately generation. One possible route for public "seed funding" may be through the Regional Growth Fund, which has been set up specifically for areas that are overly dependent on the public sector. This however is only a three-year fund, running from January 2011 and only has £1.4 billion. Long term commitment to sustained regeneration will require public funding, to generate momentum in economically depressed areas.

The Local Growth White Paper published last October made clear that LEPs will be self-financing in terms of day-to-day running costs. It also stated that, although they may bid for the Regional Growth Fund, they would not receive preferential treatment. How the new LEPs will rise to the challenge is uncertain but reports in February 2011 that just two LEPs have firm intentions to lead on strategic economic planning, are not encouraging.

Further clarification on funding will come in the budget due on March 23 2011. This will set out a new delivery structure for ERDF funds. In relation to the disposal of RDA assets, CLG will be in charge of disposal. It is claimed that this exercise will however, not be in favour of either local councils or LEPs.

Leeds City Region LEP councillor, Stephen Houghton, summarised the situation when he said that "There is going to be very little money, so government has to let go of powers instead. LEPs have to be thin and small, acting as commissioners, because of the current economic circumstances." Houghton also urged ministers to decentralise powers over skills, housing and transport to LEPs – perhaps, through three-year franchises, while they prove their worth.

Some of the ideas that are emerging which will play a part in filling the funding gap include: Tax Incremental Funding; Enterprise Zones; and the proposal to allow councils to keep locally-raised business rates.

Tax Incremental Financing

Tax Incremental Financing (TIF) is a tool to use future gains in taxes to finance current improvements (which theoretically will create the conditions for those future gains). When a public project such as a road or school is constructed, there is often an increase in the value of surrounding land and perhaps new investment (new or rehabilitated buildings, for example). This increased site value and investment sometimes generates increased tax revenues, which are the notional "tax increment." Tax Increment Financing dedicates tax increments within a certain defined district to finance debt issued to pay for the project.

Widely used within the US, TIF is to be welcomed as another tool in relation to regeneration but is probably only applicable in relation to very large projects. Questions are already being asked how the numbers “stack up” in relation to the regeneration of the Battersea Power station, a leading TIF site in London. With this project, there seems to be a funding gap between the £1059 million infrastructure costs (£563m for the Northern Line Extension and another half billion for new roads, bridges, services, schools and clinics) and the £1001 million anticipated income from a development levy.

Locally raised business rates

Ultimately, reducing local authorities’ heavy reliance on central funding might only be possible if other sources of local funding such as: local sales and fuel taxes; reformed parking levies and; wider borrowing powers, are developed. Within the coalition these are matters of some contention. The debate as to how far localism will go has only just begun but it is of profound importance for regeneration.

One idea discussed at present is to cut many richer local councils loose from Whitehall control. At present business rates are collected by local government, but then all sent to central government for redistribution using a complex and little understood formula. Business rates raised £24bn in 2009-10; £20bn of this applies to England. It is estimated that at present about 300 councils receive subsidies from business rate redistribution and approximately 80 councils, such as Westminster and the big metropolitan authorities, put money in from the business rate.

The Conservatives and the Liberal Democrats have differing views on these matters and it is a topic of lively debate at present. It should be noted that business organisations want to maintain a nationally set uniform business rate. Whatever happens, an effective form of cross-subsidy has to be retained so that poorer councils with a low business base are not damaged.

The development of local financing options needs to be opened up. A much larger basket of measures is needed. Local bond issues, tax breaks for infrastructure financing and perhaps even regional stock exhanges are options which need to be investigated for regeneration programmes.

Enterprise Zones

As a way of encouraging growth without funding either the purchase of land or expensive secretariats (as in the old RDA model), it is interesting to see that the 1980s idea of the Enterprise Zone is being recycled. George Osbourne promised that the March 23 budget would include an announcement introducing these zones.

The idea behind Enterprise Zones is simple. For small areas, tax would be cut and planning rules stripped back to attract new businesses and create jobs. The Government is planning to invest at least £100 million in this idea before the next general election, targeting mainly poorer areas of the Midlands and the North of England. Up to ten zones are to be created in England and the idea is that councils will be allowed to keep all the business rates they raise in these zones.

Thirty eight enterprise zones where created between 1981 and 1996 and some (most famously the Isle of Dogs – now Canary Wharf were very successful) but reports from the Centre for Cities and the Work Foundation, which were issued before the Chancellor's recent announcement, argued that these zones were expensive and ineffective. In response to this, it can be said that the new zones are supposed to be sited in areas of high growth potential rather than simply those just in physical decline, although no definite locations can be identified as yet.

The Enterprise Zone approach can be criticised in that while on one hand, it encourages early action and the concentration of resources, on the other it serves to suck finance from "harder to treat" areas. Infrastructure provision (generally mostly publically funded) and skills development so that the local population are not left behind in the new environment, are other elements in what needs to be a "wholistic approach". Large-scale regeneration cannot simply be a "gentrification" exercise with an imported labour force.

Creating the right structure

As noted earlier, there is a history of urban renewal and redevelopment going back many years. Entire new towns were created by Urban Development Corporations (URCs), although these bodies were taken over by the Homes and Communities Agency (HCA) in 2008. Up to April 2010, there was a complex evolving architecture of Urban Regeneration Companies (URCs) and Economic Development Companies (EDCs) which worked with the HCA. This approach has now changed completely. The HCA budget has been drastically reduced and the HCA itself has been refocused to that of a smaller, more strategic body, working at the request of local authorities and their communities.

As with the RDAs, there is still a legacy of the former approach. One key element in the future will be how HCA deals with some 8,500 hectares of land, which it has inherited. Much of this land is in former new towns and regeneration areas. The announcement, of a new model for the disposal of publically owned sites under the Public Land Initiative, with the public land owner sharing in the rise or fall of house prices when homes are completed, is an interesting model of how public land might be disposed of in future.

While the last Government thought in terms of a very large scale approach, the new emphasis is on efficient working on a local or sub-regional level. One interesting template for the new approach might be the example of the Cricklewood, Brent Cross regeneration in North West London.

Cricklewood Brent Cross regeneration

The Cricklewood Brent Cross regeneration project is one of London's largest regeneration schemes (covering 150 hectares) which aims to create 27,000 jobs, 7,500 homes, 3 schools, new health facilities, high quality parks and open spaces together with more than £400 million in improving transport. The whole project will take around 20 years to complete. Delivering the scheme in stages is designed to help to minimise disruption to local people, while a series of agreed 'triggers' will ensure that community and other facilities are delivered in parallel with the new homes, shops and offices. Construction is planned to start around 2012/13.

This scheme is also an interesting collaboration between the private and public sector. The private sector is represented by Brent Cross Cricklewood Partners which brings together the owners of Brent Cross Shopping Center Hammerson and the Standard Life Investments UK Shopping Centre Trust, with a separate joint venture between Hammerson and Multiplex. All three principal partners are global companies with a formidable track record. They are working with the London Borough of Barnet in relation to this project.

In 2004, Barnet Council adopted the Cricklewood, Brent Cross and West Hendon Development Framework as Supplementary Planning Guidance. This framework was drawn up in collaboration with the Council's partners in consultation with local residents, community groups, businesses and statutory organizations. It includes the key strategic principles for future development in the regeneration area and serves as a working document to guide developers, prospective purchasers and investors.

Barnet Council owns the freehold of the shopping centre, and much of the land to the south of the North Circular Road. This gave the Council considerable leverage in negotiating a £1 billion Section 106 agreement in

December 2010 which will provide major new transport and community facilities including state of the art waste recycling.

In March 2010, the Mayor of London gave his support to the project but in the same month, Labour Minister John Denham called a halt to it, perhaps a reflection of the considerable local opposition to the scheme. However, in June 2010, Eric Pickles the new Secretary of State for Communities and Local Government confirmed that he would not call in the £4.5 billion scheme for further scrutiny on the grounds that the planning issues identified had been properly addressed by the council and "the application did not raise issues of more than local importance which would be more appropriately decided by him rather than the local planning authorities".

The Brent Cross Cricklewood regeneration is proof that large scale projects are possible but it should be noted that the whole scheme was ten years in preparation and there was considerable effort put into communicating with the local residents. Would such a model work within more economically deprived areas outside of the South-East, it might be asked?

Looking towards the future

While we may be in a time of constrained public finance, there are some interesting pointers ahead. One device for stimulating urban regeneration in more marginal economically challenged area involves a European financing mechanism known as Joint European Support for Sustainable Investment in City Areas (JESSICA).

European Funding

JESSICA has been developed by the European Commission and the European Investment Bank (EIB), in collaboration with the Council of Europe Development Bank. It allows the use some ERDF grant allocation as a source of loans, equity investment and guarantees that, alongside complementary resources from the EIB and others, will help de-risk developments in regeneration areas currently considered too marginal for commercial lenders or investors. A range of activity that directly supports employment can be supported through JESSICA; along with measures to support growth industries, such as renewable energy.

The fund has the potential to lever in additional sources of public and private investment; and to create a sustainable fund to support regeneration activity well into the future. The underlying principle is to use ERDF to invest in projects with the expectation of a return on the investment, rather than following the traditional grant approach that allocates ERDF funding with no expectation of repayment.

Planning Obligations

Financing social infrastructure is always an issue in large scale regeneration. All the political parties in recent years have favoured the use of tariff schemes whereby a planning obligation is introduced so that there is payment by a land owner to the local planning authority. The use of planning obligations (such as Section 106 agreements) were a feature of the Brent Cross Cricklewood regeneration which the new Government has said will continue but will be scaled back so that they relate directly to the proposed development. The report Valuing Planning Obligations in England: Update Study for 2005-6 published by Sheffield University in 2008 showed that only six per cent of planning permissions made any contribution to the cost of new infrastructure via planning obligations.

The last Government also launched the Community Infrastructure Levy (CIL) just before the election in April 2010. On November 18 2010, CLG announced that it will retain CIL but it will be amended to allow more control for councils over the levy. There is, however, to be a system of independent examiners to ensure councils do not set unreasonably high levies.

Other Mechanisms

Smaller scale regeneration can be facilitated through “design, finance build and operate” arrangements. While there are examples within the transportation sphere, the concept can also be used on a multi-scheme basis. The Kent ‘Better Homes Active Lives’Care PFI Project was a design, build, finance and operate contract consisting of 12 schemes over 16 sites providing extra care sheltered housing for older people, and supported living for people with learning disabilities and other health problems. The project is one of the largest of its type consisting of 340 specialist homes, receiving £72 million in PFI credits and was the first of its kind to be procured in partnership with 11 local authorities when finished in 2007.

Where construction fits in

Construction is at the core of any regeneration effort and construction activity produces jobs at many skill levels throughout the country from unskilled through to high specification design work. Research by the economic consultants, LEK, have shown that every £1 spent on construction output generates £2.84 in total economic activity when the knock-on effects of manufacturing, real estate and business services (such as architecture and surveying) are taken into effect. This research also showed that of every £1 spent, 92 pence stayed in the UK, which still retains a major construction products’ industry.

Construction lies at the heart of any physical regeneration of any area, but physical regeneration will only work in conjunction with economic regeneration and in tandem with a functioning social infrastructure. The complexity of producing co-ordinated re-development in sequence and in tandem requires extensive consultation with local communities. These communities can only give a meaningful contribution if they have adequate information and the means to evaluate it. Whether in the context of large scale urban regeneration, or just neighbourhood plans, the Planning Aid scheme run by the RTPI ought to be continued. Under present plans, it is to be abolished.

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