Regeneration in a time of Austerity

Discussion note from Localis workshops with Cheshire West & Chester Council on 24 March 2011 and the Barnet London Borough Council on 11 November 2011

Introduction

The Government's simultaneous public spending cuts and emphasis on local autonomy, particularly with regards to financial capabilities, have created a new paradigm for regeneration. There has been a significant level of policy change since the last election, including wholesale reform of the planning system and upcoming changes to local government finance, putting the emphasis firmly on growth.

Despite this, there remains a major challenge for the public sector to make the most of regeneration projects in a time of austerity. The millions of pounds in public funding invested through regional development agencies and other government bodies have vanished and local authorities are trying to meet unprecedented savings targets. Business too has had to face a difficult operating climate, leaving traditional methods of financing new developments inadequate for the task.

Localis recently hosted two workshops to help understand the current situation, bringing together a mixture of key councillors, council officers and external partners involved with local regeneration projects. These workshops used two regeneration case studies, Chester and Barnet, to highlight some of the challenges of, opportunities for and solutions to making regeneration work in a time of austerity. This discussion note reviews some of the barriers that regeneration efforts are facing in the current climate and asks questions of the national policy agenda, with a view to improving the availability of tools for local regeneration.

Case Study A – Regeneration of Chester's city centre

With the development of the out of town Business Park in the mid-1980s, there has been a "black hole" effect in central Chester, resulting in Government bodies and small and medium sized enterprises occupying most of the city centre. However, Chester aims to become a world class city, supported by an attractive and distinctive environment and culture.

Chester is hoping to attract larger corporate occupiers to hopefully drive a higher value added economy. Despite the difficult economic climate, Cheshire West and Chester Council is confident that opportunities for growth in the office economy exist – in particular growth in the energy sector and the relocation of organisations, both governmental and corporate, from London and the South. Recent regeneration plans focus specifically on the railway station and improving the surrounding environment. Chester wants to use these transport links to help develop a new Business Quarter into one of the most attractive office locations outside central London, with 50,000m^2 net of new office space developed over the next fifteen years, creating 3,500 new jobs plus ancillary employment in the retail, leisure and construction sectors.

Case Study B – Regeneration in Barnet

Despite some deprivation in the south of the Borough, Barnet is relatively affluent with positive growth prospects. The Borough plans to build 7,000 new homes by 2016 and is currently refreshing current growth agenda documents to further specify their developmental framework.

One of the on-going regeneration projects is the Brent Cross shopping centre, which it is projected to start in 2012. The development will provide approximately 20,000 new jobs as well as several thousand new homes. Aiming to stimulate more transit-oriented development, there will be a new northern line station at Brent Cross. This will also hopefully reduce the amount of car use in the Borough, an important factor in successful regeneration efforts as low car use levels have the ability to foster foot traffic and vibrant city centres. It will also help to solve the lack of available parking within the shopping centre. The A5 corridor is another possible location for transit-oriented development as proximity to the motorway provides the potential for increased access to once remote areas.

Barriers to local regeneration examined in case studies that suggest a UK-wide trend

During the discussions, participants identified a number of potential barriers to local regeneration efforts.

Shortage of finance

Clearly in the current economic climate, financing regeneration schemes is a major potential challenge. Public sector financing, such as that invested by the former regional development agencies, is no longer available.

- In **Chester**, the panel cited that £4 million of seed funding would be required to finance the regeneration project; as this could not be provided by the developer due to the compressed profit margins the project would return, the funding will have to be raised by the council or from an external source.
- In **Barnet**, the panel highlighted the opportunity of converting publicly owned assets into capital funding.

In a recent report on financing infrastructure, Localis has argued that mechanisms such as local asset backed vehicles (LABVs) are a feasible mechanism for sharing risk and reward with the private sector, and incentivising investment.

Strength of the markets and sequencing

While these mechanisms may be the future solution, both panels repeatedly raised the point that development is required to boost investor confidence to free up funding to complete the project. Low levels of market confidence combined with uncertainty about the future make investment in general a riskier prospect.

The market must improve to not only increase confidence but also to release capital.

Legislation

Planning and other legislative measures can become a barrier to regeneration, for example the £2 million limit for 'best consideration' disposals. As such, it is important to understand how these can be modified for best use and to help drive regeneration in coming years.

- In **Barnet**, the panel commented that whilst the recent abolition of RSSs (Regional Spatial Strategies) allows greater freedom when planning regeneration projects, the assessment stages that have replaced the RSSs are still restrictive.
- The panel in **Barnet** also noted that whilst allowing TIF (Tax Increment Funding) for local regeneration from April 2012 is a positive step, tight Treasury controls such as caps on borrowing and final Treasury sign-offs could make attaining adequate funding difficult.
- In **Chester**, the panel raised the issue that there should be more of an incentive to prepare brownfield sites, such as allowing councils to charge a levy on greenfield sites, thus encouraging redevelopment.

The National Planning Policy Framework, while streamlining planning in the long run may create short term delays and increased costs if applications are dragged through the courts.

The lack of major anchor tenants

Both panels agreed that in uncertain economic times, it is harder to engage key landowners in large scale regeneration plans.

- In **Chester,** the panel thought that a significant challenge to development was persuading key landowners to come on board with some of the specific proposals within the development plan, for a range of reasons.

Local authorities or government agencies could take the lead here, sharing assets and providing a major anchor to help give investors confidence in the development. Indeed, this is an opportunity for local authorities to show local leadership, but convincing major private sector tenants will remain difficult.

The need to build community support

Both panels recognised that community support for regeneration projects was vital. However, there was a question around whether local authorities and residents can accurately determine the needs of the local community.

- In **Barnet**, the panel noted that whilst the recent abolition of RSSs allows greater flexibility when planning regeneration, care must be taken to avoid causing tension in communities regarding neighbourhood and housing planning, which would put a strain on growth.

Capturing and integrating grass roots enthusiasm and ideas is vital to bringing about successful regeneration. In times of austerity, it may be that social regeneration is more cost effective than physical and economic regeneration that the public purse will no longer be funding.

Changes in demand

Global economic changes could lead to a decline in the demand for new office space, which would have a significant impact on the feasibility of office- and business-led regeneration projects.

- In **Chester**, the panel noted that as the regeneration was focused around the CBD, this may prove to be a hard barrier to overcome, as such trends may be impossible to predict over the lifespan of a regeneration project (for example, the Chester programme will run for fifteen years).

National Policy Questions

This section summarises the panels' questions around key national policy issues, with a number of suggestions they arrived at for how local authorities and central government could improve the tools available.

Local Enterprise Partnerships (LEPs)

Questions were raised about what the role of LEPs should be in regeneration, and at what point their roles should be limited with powers left in the hands of local government. One answer given was that local areas should agree the delineation of powers between local authorities and local enterprise partnerships. Also, local authorities might wish to embrace the advocacy role of LEPs, who were seen as having significant marketing clout regionally, nationally and internationally.

However, some panel members expressed the belief that LEPs and the Regional Growth Fund are inadequately resourced at present, though admittedly the Growing Places funding may go some way towards mitigating this.

New Homes Bonus (NHB)

A panel member asked whether the £200m per annum new homes bonus will deliver, or alternatively would its funding composition disadvantage those areas that do not need new homes, but still require economic development. One answer given was that local areas should consider the New Homes Bonus as just that- a bonus. But between central government and local government, an alternative primary incentive would need to be found for housing growth and renewal. Council mortgages, for example, might be a way of reinvigorating the housing market.

Overall, the panels believed that effectiveness was likely to be patchy: while the bonus would make some impact, this is not likely to be enough across the country.

Community Infrastructure Levy (CIL)

A panel member asked whether the new style CIL will help local government to deliver better developments and improve regeneration efforts. One suggestion was that local authorities should use CIL to implement more flexible arrangements for incentivising growth and regeneration, pooling resources to invest in major schemes where these are seen as priorities for investment; and using this as leverage for additional private sector investment. Community budgets might provide a mechanism for expanding the scope of the local public sector vision to bring in additional investment.

Also, the panels both raised questions about what impact the new CIL will have on regeneration and agreed the long term effects of the levy are hard to predict.

Tax Increment Financing (TIF)

A question was raised about whether TIF would free up resources for new development, and if so, how it could be used most effectively for this purpose. An answer offered was that TIF might be another useful mechanism for local government in developing a suite of funding solutions, but given the strict requirements of the borrowing (i.e. that local authorities will need to show that a given development would not occur without TIF but that, equally, TIF would bring about a significant spike in business rate revenues) it is unlikely to be the most convenient or complete solution.

Panel members agreed that TIF will be a positive measure for encouraging regeneration projects but raised questions about the practical applications of the theoretical scheme.

Local retention of business rates

Some panel members questioned the extent that a reduction in business rates will encourage new development in areas most in need of regeneration, and whether local retention would allow for sufficient long term planning for local authorities. In addition, they asked whether the scale of incentive would be sufficient in practice, particularly in areas with low business rates and in need of regeneration; they also questioned how fiscally feasible it would be for councils to reduce rates.

An answer offered was that combined with TIF, ambitious authorities with the right structures in place may well benefit from the revised policies. However, where there is market failure in private sector-led growth and regeneration, other mechanisms would be required. Having greater control over business rates is an important step towards true localism and some authorities may be willing to compromise their funding stream to boost future growth. In future, government should review how effective this freedom has been in incentivising growth.

Enterprise Zones

A key issue for panel members was whether Enterprise Zones will detract from the economies of CBDs in town centres. A major question raised was whether the growth resulting from Enterprise Zones would spread out into other neighbouring areas, or put them at a disadvantage by sucking in business. This then led to the secondary question of how this would contribute to intra- and inter-city competition.

One response was that local authorities should be prepared to use the financial benefits arising from enterprise zones for investment outside of the zone to regenerate other areas. However, the government should review the policy if enterprise zones prove to be simply taking business from other areas, rather than genuinely creating new jobs.

Business Improvement Districts (BIDs)

Panel members discussed the track record of BIDs and their value in regeneration projects, and suggested further improvements to enhance their function as a mechanism for regeneration. Their discussion revolved around the two questions of whether BIDs have proven to be useful in supporting new development, and whether they were a useful additional tool, or did they just distract from fundamental issues around development.

An answer offered was that cross-authority BIDs required approval from the Secretary of State, but they would have greater potential if local authorities could make local arrangements without having to apply to central government for assent.

Neighbourhood planning

Some panel members asked whether councils and regeneration partners are ready for the large-scale reform of neighbourhood planning regulations. Some asked whether councils and developers are prepared for the changes, and how local planning will be used to make development quicker and easier (and hence cheaper) for local communities. In response, it was generally agreed that there needs to be an efficient use of public sector resources on the local level: the least amount of resources should be used. Also, neighbourhood planning, as well as other localised regeneration efforts, might be the best way to determine what exactly can be delivered.

A national regeneration agenda?

Localis believes that successful wholesale regeneration with positive community engagement can only be developed and led at the local level. If locally-led regeneration efforts are to continue and thrive, local authorities must be trusted to know what is right for the successful regeneration of the local community and to effectively implement the appropriate growth policies.

National policy should focus on devolving enough freedom and responsibility to the local level to enable this to happen. If the government were to take three key recommendations from these discussions, they should be:

1) Joint vehicles are seen as important delivery and marketing models for the future – both LABVs and LEPs received praise from all sources. However, there are still national constraints that need resolving, such as the role of LEPs in planning and limits around 'best consideration' when negotiating LABV investments – both of these should be tested and determined locally.

2) To consider alternative freedoms for local councils, such as allowing a greenfield development levy, to help fund regeneration proposals, and simpler independent regeneration assessments to replace the now-defunct RSSs.

3) A bigger percentage of funding will need to come from the private sector, but it remains to be seen how to private sector confidence in investment can increase. Government needs to continue to strive to build confidence in UK investment opportunities.

Conclusion

While the Government has taken a number of significant steps towards localism and removing barriers to local authority-led regeneration efforts, there is still further to go. Local government needs to step up to the plate as while the Government arguably has a coherent localism agenda, the regeneration agenda is unclear. The opportunity is there for local government to take the lead.

The panels recognised the need for a change in the relationship between the public and private sectors, not just with regard to delivery and funding models but also in how local authorities work with LEPs. To have the best chance of capturing local feeling and objectives, local authorities are best placed to broker these deals. However our panels acknowledged that determining community needs was difficult even for local authorities.

Either central government, or perhaps local government as a sector, will need to monitor the effectiveness of key national policies such as enterprise zones, the community infrastructure levy and ultimately the local retention of business rates, to ensure that growth and regeneration efforts are being adequately incentivised.