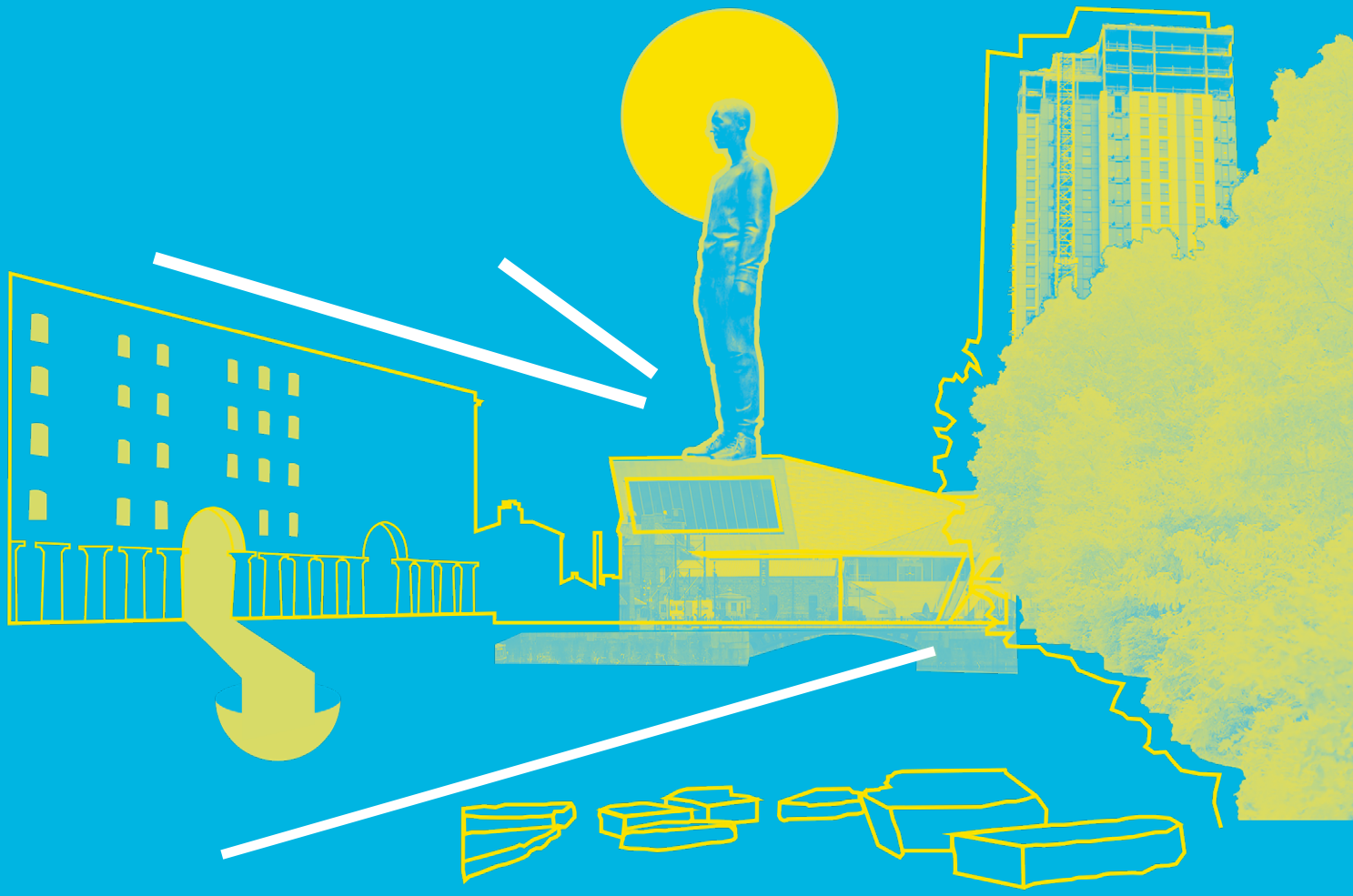
MONTAGU EVANS

UNLOCKING VALUE FROM COMPLEXITY



UNLOCKING URBAN POTENTIAL:

THE NEXT PHASE OF UK REGENERATION

INTRODUCTION

OUR CITIES HAVE SEEN A REMARKABLE REINVENTION OVER THE PAST FEW DECADES, THE RESULT OF LARGE-SCALE, TRANSFORMATIVE REDEVELOPMENT PROJECTS GUIDED BY THE PUBLIC SECTOR AND DRIVEN BY THE PRIVATE: OUR DEFINITION OF REGENERATION.

The fabric of decaying Victoriana and post-war brutalist redevelopment has been replaced by a combination of repurposed heritage and new buildings; they are often now places to live in or to explore and savour, not just to commute to, work in or shop in. But there is still work to do; many cities and towns still struggle with productivity and economic inequality.

There are ambitious plans and an exciting pipeline of projects across the country, but progress since the pandemic has been sluggish. Rising construction and debt costs have stalled projects and there is a growing perception that Britain's urban fabric is beginning to fray.

OUR CENTRAL CONCLUSION IS THAT A NEW PARADIGM IS SLOWLY EMERGING IN THE SECTOR, BUT IT NEEDS NEW WORKING METHODS AND POLICY INTERVENTIONS TO BRING IT TO LIFE. GIVEN THE NATIONAL PROBLEMS OF SLUGGISH GROWTH AND LOW PRODUCTIVITY, THIS IS A CRITICAL ISSUE. BRITAIN'S CITIES, AFTER ALL, ARE THE ENGINE ROOMS OF ITS ECONOMY.

This report provides insight into the complex challenges faced by urban regeneration schemes across the UK. Based on visits to eight ongoing projects and interviews with those involved, as well as input from Montagu Evans experts, this research seeks to understand how those complex challenges can be unlocked and long-term value created. While the picture is sometimes a little bleak, there are also plenty of new ideas and reasons for optimism.

After all, cities and towns are the drivers of economic growth. By bringing together people of similar talents and interests in close proximity, by providing the space in which collaborative work can be done effectively and by providing the vibrancy and diversity which inspire new thinking, they are the engines of human progress.

For a variety of historical reasons, Britain has struggled sometimes with seeing cities as central to progress. The squalor of the Victorian city meant it was a place to escape from rather than live in and government policy has often reinforced this through an emphasis on garden cities and new towns, a theme that can still be observed today.

But we need to accept that the future of Britain's economy is deeply entwined with the future of our cities; in other words, if we want to fix our economy, we have to carry on fixing our cities. Of the 25 neighbourhoods (MSOAs) seeing the largest growth in private sector employment between 2018 and 2023, all but three were in Inner London or the centres of Manchester, Birmingham, Glasgow and Bristol. This job creation might stall if we do not continue to invest in urban areas.

The next few pages provide some ideas on how this might be achieved given today's barriers – but starts with a look at the models of the past and how the sector has consistently reinvented itself.

DECADES OF REINVENTION

A SHORT HISTORY OF UK REGENERATION

UK'S TOWNS AND CITIES

The first signs of an economic shift back towards cities can be dated back to 1964, when the sociologist Ruth Glass noticed young people buying dilapidated Georgian houses in Islington – then a run-down area – and renovating them, a process she dubbed 'gentrification'. But this was small in scale and piecemeal, confined to the more attractive areas of Inner London.

The real turning point arrived in the mid -1980s. London's booming financial industries accelerated the process noted by Glass. At the same time, the plight of the 'inner cities' – where deprivation had become disproportionately concentrated – became more of a recognised social problem.

Together, this led to government policy shifting from a focus on suburban development and new towns such as Milton Keynes towards urban revitalisation. The term 'regeneration' began to be used to describe government-led efforts to improve urban environments, economies and outcomes – from Canary Wharf to Liverpool.

1980S TO EARLY 1990S

PHASE ONE: THE PUBLIC SECTOR TAKES THE REINS

- Emergence of Urban Development Corporations (UDCs) with financing, land assembly and CPO powers, all aimed at preparing sites for development by the private sector.
- Docklands and Merseyside UDCs responsible for two of the iconic developments of the late 1980s, Canary Wharf and Albert Dock.
- Beginning of urban revitalisation in Glasgow and Birmingham, based around public sector funding of concert or exhibition halls and public realm improvements.
- Tram schemes in Nottingham, Sheffield and Manchester.

MID 1990S TO LATE 2000S

PHASE TWO: THE PRIVATE SECTOR DRIVES URBAN REINVENTION

- Strictly began under John Major (1990–1997).
- Single Regeneration Budget unified various programmes under one umbrella, supporting regeneration of e.g. Deptford in London.
- Urban regeneration at the forefront of New Labour's policy agenda in 1997 with the 'Urban Task Force' led by Richard Rogers.
- Emphasis on the need for denser, more walkable cities, with better quality housing, public spaces and transport systems.
- Stricter planning controls on greenfield development, explicit encouragement of private sector urban projects.
- Strong economic performance drove private sector development in most big cities and more affluent towns, with retail, then offices, then residential, as the anchoring sectors.
- Typified by the regeneration of Manchester after the 1996 IRA bombing.
- Beginning of large-scale inner city private sector residential schemes, with Montevetro in Battersea, the first such example since the 1930s (outside Docklands).
- Local authorities provided visions and masterplanned sites, but Urban Regeneration Companies (URCs) such as Sheffield One and Liverpool Vision lacked the powers of UDCs.
- Less activity in some smaller towns and industrial areas, arguably leading to resentment.

2010S TO EARLY 2020S

PHASE THREE: AUSTERITY AND THE TOWNS AGENDA

- Coalition government elected after the Global Financial Crisis (GFC) slashed budgets for regeneration and affordable housing.
- Devolution to city-regions and combined authorities and creation of Mayoral Development Corporations alongside a new emphasis on 'localism' elsewhere.
- Ultra-low interest rates made property development very attractive to both domestic and international investors, so despite dwindling public sector resources, activity continued.
- Brexit vote triggered a new focus on left-behind areas and smaller towns – 'levelling up'.
- These locations were encouraged to bid for centrally held pots of money – the Towns Fund, the Future High Streets Fund, and the Levelling Up Fund – but they lacked the scale and ambition of earlier programmes.
- Nominal council spending on planning and regeneration fell by 54% (48% in real terms) between 2011/12 and 2018/19.
- Although there has been a rebound, spending remains 26% below 2011 levels in real terms.

WHAT NEXT?

THE PANDEMIC AND ITS AFTERMATH UNDERMINED THE ASSUMPTIONS OF FOUR DECADES OF REGENERATION POLICY - RISING CITY CENTRE SERVICE EMPLOYMENT AND POPULATIONS, THE PROFITABILITY OF DEVELOPMENT AND AN ACTIVE PUBLIC SECTOR.

IN SHORT:

- Between the start of 2022 and the end of 2024, build costs increased by 28% for residential and 24% for commercial, according to the UK government's construction output price indices. This compares to 13% and 11% for the years leading up to 2020. This level of cost inflation alone has made many projects unviable.
- Debt costs have also climbed. Average interest rates on new business loans, for example, increased from 2–3% pre-pandemic to 6–7% in recent years, putting further pressure on development appraisals and overall viability.
- Returns from other investments have increased, while property yields remain relatively low. For example, 10-year gilt yields have risen by 4 percentage points since the end of the pandemic, while property yields have only risen by between 1.5 and 2 percentage points.

BUT THERE ARE CLEAR OPPORTUNITIES, TOO:

- While the **office market** has become more centralised in big cities, there are signs of a recovery amid a more widespread 'return to the office.'

- **The residential market,** perhaps the most important sector in more recent regeneration schemes, continues to struggle with weaker effective demand planning and regulation delays, which have been particularly pronounced for high-rise schemes. But this is now an area receiving significant government attention and there are signs that the market is starting to improve from an extremely low base.

- **Defined Benefit (DB) pension schemes** are moving towards the end of their life and are no longer significant investors in large-scale urban schemes. The exceptions are local government DB pension pots, which continue to grow. New policies are encouraging them to aggregate, as well as invest in socially valuable local projects such as regeneration.

- **Defined Contribution (DC) schemes**, which have largely replaced DB in the private sector, remain too small to invest in property and development. Increasing scale – and new structures such as Long Term Asset Funds (LTAFs), which provide regulated structures for illiquid asset investment – mean they could be more significant in the future.

- **The Labour government elected in 2024** has not yet introduced transformative new urban regeneration policies. The Plan for Neighbourhoods, announced in March, will provide £1.5bn of funding for 75 places, but the targets – high streets, local parks, youth clubs, cultural venues and so on – suggest it is a continuation of the Levelling Up agenda. Important catalysts will be provided, but there is still an opportunity to provide a vision from the centre.

- **Urban matters** are treated as the responsibility of devolved authorities – mayors and combined authorities. They are slowly gaining the tools to realise plans for regeneration. Ongoing local government reorganisation will also help provide the scale needed in more parts of the country.

NEVERTHELESS, THE BROADER PICTURE IS THAT THE PUBLIC SECTOR STRUGGLES WITH CAPACITY WHILE THE PRIVATE SECTOR STRUGGLES WITH VIABILITY. THERE ARE CLEARLY STILL OPPORTUNITIES, BUT A NEW OVERARCHING APPROACH IS NEEDED: A PHASE FOUR OF REGENERATION. FORTUNATELY, PRACTITIONERS IN THE FIELD HAVE PLENTY OF IDEAS ON WHAT THIS FUTURE MIGHT LOOK LIKE.

THE EMERGING PHASE FOUR

The landscape of regeneration is evolving, shaped by a complex interplay of economic, social and policy factors. Our research across eight locations highlights both persistent challenges and emerging opportunities, suggesting that a new phase – characterised by greater complexity and the need for deeper engagement – is underway.

Against this backdrop, we explore how practitioners are adapting, and what models may define the future of regeneration in the UK.

THESE INCLUDED:

- **Three very different London schemes: Elephant Park, Old Oak Common and Royal Albert Dock.**
- **Three smaller cities with aspirations for major regeneration: Bradford, Dundee and Liverpool.**
- **A progressing scheme in one regional city: Brabazon in Filton near Bristol.**
- **A new town seeking change: Harlow.**

> "THE PUBLIC SECTOR IS GOING TO HAVE TO MOVE UP THE RISK CURVE AND TAKE A MORE ACTIVE ROLE IN REGENERATION - A BIT LIKE IT WAS IN THE EIGHTIES AND NINETIES, BUT MORE LOCALLY LED."
>
> LOCAL AUTHORITY HEAD OF REGENERATION

THE OVERWHELMING CONCLUSION:

A NEW MODEL WILL INVOLVE GENUINE PUBLIC - PRIVATE RISK SHARING - JOINT VENTURES OR CONTRACTUAL STRUCTURES THAT CAN LEVERAGE THE CAPABILITIES OF BOTH TO MAKE DEVELOPMENT VIABLE.

Intelligent phasing and masterplanning, and a broader and more creative mix of uses, will be important too – although there may be a need to focus on a smaller number of more viable sites rather than spreading funding too thinly.

THE PUBLIC SECTOR'S ESSENTIAL ROLE

- **Taking on more risk:** not being afraid to engage in joint ventures or to remain as 'master developers' if they have the land or can feasibly assemble it.
- **Mayoral Development Corporations,** which have the planning, financing and land assembly powers of the old UDCs, came into law in 2011, but have been scarcely used outside a handful of locations in London, Teesside and Greater Manchester. There is an opportunity for them to be used more outside the capital, particularly as city-region and mayoral structures extend over more of the country. They seem particularly appropriate for large sites, areas of cities with concentrations of sites, or those crossing local authority boundaries.
- **Reducing lot sizes:** as the private sector cannot invest at the scale of previous regeneration models, the public sector will need to consider careful phasing and masterplanning to release smaller chunks to the market over a carefully planned programme.
- **Being more resourceful:** examining landholdings carefully and where value can be unlocked.
- Being more adventurous: considering what financial options, such as income strips involving major funds, are open to them.
- **Applying tailor-made planning policies** to specific sites and/or establishing cross-boundary partnerships where appropriate.
- **Engaging with local landowners** to understand whether these approaches would inspire development.
- **Considering what options are available** for improving the local public realm, streetscapes and infrastructure;
- **Taking a flexible interpretation of the rule of 'best consideration'** when a site is offered to the market. This means not necessarily accepting the highest price – it should be interpreted as the most credible proposal with the greatest long-term benefit for the community and the economy.
- **Focusing** on a smaller number of more viable sites rather than spreading limited resources too thinly.

Difficulties with offices outside Central London and retail and residential more generally also mean that regeneration specialists will have to think more carefully about what uses might catalyse improvements:

- **Urban logistics is undervalued as a regeneration anchor; the industry is still short of appropriate space in the right locations.**
- **New large-scale uses might be necessary for the largest sites; think advanced manufacturing and testing, sports stadia, e-sports, urban mobility, next generation media and of course more general leisure & F&B (Including food markets). The suggestions at the GLA's site at Royal Albert Dock (Royal Docks) are a good example of inventive thinking.**
- **Meanwhile uses are more important than ever: think music venues, art galleries, events, F&B.**
- **Shopping centre values have stabilised and there is a renewal of interest in retail: this is not on the scale of in the past, but now might be the time to consider reconfiguring centres for more focused retail alongside other uses.**

THE ISSUES IN DETAIL

FRUSTRATION WITH PRIVATE SECTOR INACTIVITY

The main issue as seen by most was the lack of activity in the private sector. There was a belief that **"the private sector had bought a lot of sites before the pandemic. Based on the values, they are no longer viable, and they are sitting on their hands."** Local Authority Leader

A private sector player might respond to this by arguing that it is affordable housing and other planning gain requirements that are sometimes blocking development and the difficulty in renegotiating these is the real problem. More flexibility would help all round.

Generally, though, there was a recognition that the problem is ultimately the cost of money and a difficult residential market – things beyond the control of either party, unless some form of assistance for buyers is reintroduced.

> "HELP TO BUY WAS A BIG SUPPORT FOR THE RESIDENTIAL MARKET, PARTICULARLY OUTSIDE LONDON. PERHAPS THERE'S ROOM TO THINK ABOUT A SIMILAR SORT OF PACKAGE, PERHAPS BASED MORE AROUND NEW BUILD CITY OR TOWN APARTMENTS OR TOWNHOUSES, OR SPECIFICALLY ONES IN REGENERATION AREAS."
>
> RESIDENTIAL SPECIALIST

There was some resignation in that it takes time for values and markets to adjust, and at the moment.

Part of the issue remains in section 123 of the 1972 Local Government Act, which forces Councils to dispose of land for 'best consideration'. This is too often considered in monetary terms rather than in the more flexible way it could be, through longer-term economic benefit. If bidders offer too high prices, this can lead to inactivity down the line and higher accompanying economic and social costs.

Sometimes lower bids, accompanied by greater expertise and an understanding of longer-term value creation, may be desirable. Some more experienced local authority property specialists – a scarcer resource in the industry today – can action this, but most will opt for what is seen as the safest option.

A review of s123 rules, or guidance on how they can be interpreted, might help to secure more impactful regeneration projects in the longer term. It would also allow local authorities to work with more innovative, long-term models.

There was some resignation in that it takes time for values and markets to adjust and at the moment any form of development outside, say, Central London, some logistics, or prime greenfield residential. A more innovative approach will be required.

FRUSTRATION WITH BUILDING SAFETY ACT COSTS AND DELAYS, AND LACK OF INFRASTRUCTURE FUNDING

"The regulations around second staircases and the delays in the Gateway 2 process are putting off potential investors and postponing schemes." **Residential Specialist**

Many also pointed to further complications around the residential market, which had been driving development up until relatively recently. While the market slowdown was recognised, the Building Safety Act and the delays around the Gateway 2 process were identified as putting investors and developers off flats (disproportionately in regeneration schemes) and pushing them towards suburban development. In Scotland, it was felt that the issue of rent controls had further put off many investors.

> **THE BUILD-TO-RENT MARKET IS NO LONGER AS ACTIVE AS IT WAS, AND RECENTLY THAT HAS BEEN THE MAJOR DRIVER OF DEVELOPMENT IN MANY AREAS.**
>
> RESIDENTIAL SPECIALIST

At a policy level, many argued that there are insufficient incentives for development. The issue of VAT differentials between new build and refurbishment was mentioned as a perennial issue holding back the reconfiguration and reuse of urban properties. Reliefs targeting properties in particular locations would be helpful.

High affordable housing requirements or Community Infrastructure Levies (CILs), while understandable and practical in a thriving market, are now too high in many locations. In some cases, they are one of the major factors preventing development from occurring.

The situation in London is further complicated by late-stage reviews which not only slow activity, but also make investors wary of committing as their appraisals may become outdated if requirements change. A review of the income ceilings for certain intermediate projects – which have not changed for several years despite rising incomes – would also help viability.

Considering the wider picture, there were three broad concerns. One was that infrastructure remains key to unlocking many schemes in the longer term, and that funding – outside major cities at least – remains lacking. More worryingly, there was a feeling that even where developers were prepared to fund new stations or similar, it was extraordinarily difficult to navigate the various bodies involved in approving or assisting this.

"It takes so long to get projects through National Highways and Network Rail – particularly if anything is a bit different." **Private Developer**

It is an old complaint, but there is still a real need to align economic strategies, public sector estates, transport, regeneration, housing funding and planning; something that happens relatively easily in some other countries – perhaps a reflection of the fragmentation of governance at local levels.

TOO FEW PRIVATE SECTOR BIDDERS
BUT SIGNS OF MORE ACTIVITY

Secondly, there were worries about who is going to fund schemes. With many longstanding regeneration actors no longer having such a market presence, there is a question mark over where the level of investment required will come from. English Cities Fund – the joint venture between L&G, Homes England and Muse – is seen as a very strong model as shown in Bradford, but as one practitioner said, **"we need several more versions of it working across the whole country."** Regeneration Specialist

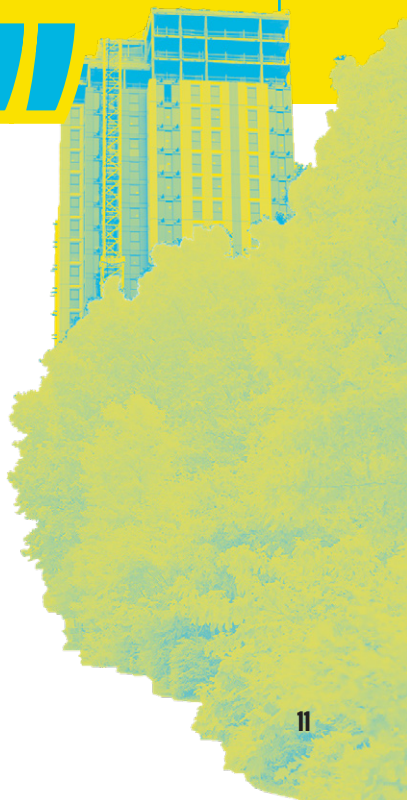
> THE ANNOUNCEMENT THAT THE CROWN ESTATE WILL BE WORKING WITH LENDLEASE ON ITS REGENERATION PROJECTS IS ONE OF THE FEW BITS OF GOOD NEWS FOR THE SECTOR.
>
> RESIDENTIAL SPECIALIST

Another model mentioned was the Bruntwood Sci-Tech joint venture between Bruntwood and L&G which often also works with universities. These are also potential catalysts, able to use their land more effectively to raise money for themselves while driving wider regeneration objectives.

"English Cities Fund is a great model, but we need several more versions of it working across the country." Local Business Organisation

International investors of the right type seem to be central to many schemes that are moving ahead at present, such as Bristol's Brabazon. Some are simply larger and have the resources to engage at a scale unfeasible for most domestic funds. Their cost of capital may also be lower, and the priority of diversifying may outweigh the sheer weight of expected returns.

> OVERSEAS INVESTORS SOMETIMES HAVE THE 'VISION THING', PERHAPS EVEN 'BUILD IT THEY WILL COME', MUCH MORE SO THAN DOMESTIC PLAYERS. AND THEY GET FRUSTRATED WITH THE LACK OF AMBITION AMONG OTHER PRIVATE AND PUBLIC SECTOR PARTNERS.
>
> LOCAL BUSINESS ORGANISATION



RESIDENTIAL WILL BE THE DRIVER
IF NOT IN THE SHORT TERM

There was a belief that the urban residential market will come back and will be the major driver of regeneration, once the ongoing issues around the Gateway 2 process are resolved. After all, all locations – not just suburbs and towns – need to provide housing and there is still a great deal of demand among younger, single people for urban living. Investors remain interested in the sector in principle.

Some form of support for urban buyers – along the lines of help-to-buy – could help stimulate this market, although there are issues with such schemes. Meanwhile, providing more support through planning and viability for build-to-rent would help encourage delivery, but this faces a degree of political resistance. Dundee in particular faces problems relating to historic Scottish Government policies in this area.

The provision of senior living in the right city locations is also an underexplored potential driver, given the potential scale of the market and the housing equity involved. Orientating development around particular parts of the community can help drive residential and commercial growth, although this needs to be organic rather than forced. Elephant Park's popularity with the local LGBT community is a good example.

> **"WE ARE GOING TO HAVE TO BE CREATIVE IN THINKING ABOUT HOW SCHEMES GET OFF THE GROUND. THERE ISN'T A 'COOKIE CUTTER' MODEL ANYMORE; WE NEED TO THINK MORE DEEPLY ABOUT PLACE AND FUNCTION."**
>
> LOCAL AUTHORITY HEAD OF PLANNING

As well as the potential around local government pension funds, L&G and Aviva Investors' use of their own balance sheets to invest directly in regeneration, often to generate attractive assets for their investment management division, is a further source of optimism.

In short, while the current landscape for urban development looks bleak, the contours of a new model are beginning to emerge. It involves more risk-sharing and a greater role for cross-boundary vehicles and city-region and regional government in strategy and masterplanning. But it still needs to harness the capital, innovation and dynamism of the private sector.

A NEED TO BUILD CAPACITY AND SHARE BEST PRACTICE WHILE FOCUSING ON FEWER, MORE VIABLE SCHEMES

There was a concern that many local authorities, even some of the bigger city ones, now lack the older, experienced staff with the skills and expertise to guide areas through major schemes, or work out how to overcome today's serious barriers.

This could be intensified by reorganisation and made more critical through the devolution of critical powers. Mechanisms for training and sharing best practice and innovative approaches among combined and mayoral authorities, need to be created. The role of Homes England, the government's national housing and regeneration agency, needs to be considered in this context. This was a particular concern at Old Oak Common, given the scale of the proposed development.

> **WE NEED A NATIONAL OR VIRTUAL REGENERATION ACADEMIES TO TRAIN THE NEXT GENERATION OF PRACTITIONERS.**
>
> REGENERATION SPECIALIST

Programmes such as the Towns Fund and the Plan for Neighbourhoods were praised for their ability to provide new amenities or improve streetscapes, which might act as catalysts. But the sums involved – and the tendency to '**spread it all too thinly**' – meant that in many quarters its effects were viewed as cosmetic rather than transformative. In Harlow, however, the impacts are regarded as a significant step in kickstarting a wider scheme.

SOME FELT IT MIGHT BE BETTER TO CONCENTRATE ON A FEW AREAS AND THE MORE VIABLE SCHEMES.

THERE NEEDS TO BE MORE OF A CENTRAL VISION

There was a belief in some quarters that the government's prioritising of housing delivery means it will prioritise greenfield development. There does not appear to be as much of a focus on regeneration and cities as with the last Labour government and there is not a 'philosophy' of city renewal as there was in 1997.

Initiatives created by the last government, such as Locally Led Urban Development Corporations (LLUDCs) failed to gain traction. Mayoral Development Corporations have been more successful, but so far remain limited in scope and numbers. The current Government has yet to provide any radically new thinking or policies in this area, which is problem for cities with large-scale regeneration plans which do not yet have mayors.

> **APART FROM COUNCIL REORGANISATION, AND THE VERY SLOW ROLLOUT OF MORE AND DEEPER DEVOLUTION, IT'S NOT CLEAR WHAT THIS GOVERNMENT'S STRATEGY IS FOR CITIES AND TOWNS AT ALL.**
>
> REGENERATION SPECIALIST

Continuing devolution and the creation of larger local authorities is one strand, although some felt that this was a way to devolve responsibility without providing any new funding – taking it off the government's in tray without really dealing with the issues. However, the creation of larger authorities will provide the scale and resources that are required to make regeneration happen.

NEW FUNDING STREAMS ARE POSSIBLE

One exciting possibility is a tourist tax, which has been introduced in Bournemouth and Edinburgh, and through BIDs in Liverpool and Manchester. It offers opportunities as it is an income stream independently managed by the city.

At the moment, revenues will be modest, but it does demonstrate the potential for using this to improve streetscapes, public realm and so on as a step to regeneration. The scheme looks to have the potential to be more significant in the devolved administrations (Scotland and Wales), which have more latitude; English systems have needed to be framed as service charges led by BIDs.

"Tourist taxes are exciting developments, but we need other income streams; we are a long way away from the sort of options they have in the US or France." Local Authority Leader

One interviewee pointed to systems such as the Versement Transport in France – significant local taxation aimed at improving public transport or new systems. The VT has been instrumental in rolling out tram systems in most medium-sized and large French cities over the past few decades.

> **"THE GOVERNMENT APPEARS TO HAVE KICKED THE REGENERATION AGENDA INTO THE DEVOLUTION BOX, BUT I'M NOT SURE THAT EVEN IN MANCHESTER THE POWERS ARE REALLY THERE YET TO MAKE A DIFFERENCE."**
>
> LOCAL AUTHORITY HEAD OF PLANNING

With central government focused more on housing delivery than civic renewal and in any cases short of cash, these forms of revenue raising may become more important in the future. A more decisive step would be to allow councils to borrow to fund regeneration, using future land value improvements (via business or council tax) to repay the debt.

This **'Tax Increment Financing'** is used widely in the US, where city-level taxation is a greater component of the total, and would require some genuine shifts to work on a large scale. But its use with some supplementary local taxation, such as a tourist tax, offers interesting options. Ultimately, though, many admitted that what is really needed is more central government assistance – which would need to be very targeted, given wider constraints.

Ultimately, infrastructure problems cannot be solved by clever financing alone. More central government funding is required; it is hard for cities such as Leeds or Birmingham to compete when they lack the public transport or road networks that comparable sized cities elsewhere might have. Fortunately, the reform of Treasury Green Book rules suggests it will become easier to justify such public investments outside of the South East.

LOCAL GOVERNMENT REORGANISATION AND PENSION FUND AMALGAMATION ARE HUGE OPPORTUNITIES

One policy area that provides more optimism in the shorter term is the role of Local Government Pension Schemes. Unlike private sector Defined Benefit schemes, many of these are still investing. Moreover, in May the government issued a consultation paper that suggested it wanted to accelerate their 'pooling' into what effectively would be eight 'megafunds' managing at least £25bn.

> **CLEARLY, THEY WILL HAVE THE SCALE AND RESOURCES TO INVEST MORE HEAVILY IN DEVELOPMENT.**

More importantly, the consultation states that the government wants these funds to boost their investment in their local areas, prioritising the schemes and initiatives identified by local and city-regional governments. Local authorities need to think ahead now for how to produce attractive opportunities or engaging with relevant schemes at an early stage. This is already evident in Liverpool and Dundee, where the cities have thought seriously about their strengths in sectors such as Life Sciences and Gaming and how this can be the basis for wider success.

As the Mayoral model expands outside the larger city-regions, the use of Mayoral Development Corporations may provide a model for coordinating the various strands of funding and activity, particularly with large, complex sites or multiple sites across adjacent authorities.

WHAT COULD CENTRAL GOVERNMENT PROVIDE?

A KEY REPEATED THEME WAS THAT THE GOVERNMENT NEEDS TO DEVELOP A VISION FOR A NEW URBAN RENAISSANCE, ONE THAT RECOGNISES THE IMPORTANCE OF CITIES AND CITY CENTRES IN PARTICULAR.

This will involve shifting the 'vibes' on city centres, meaning that softer initiatives such as the Plan for Neighbourhoods remain important. But there is a gap in 'harder' regeneration plans on the scale of some previous administrations.

KEY STEPS INCLUDE:

- Mandating the development of planning and regeneration strategies linked to industrial strategies at both local and regional scales.
- Actioning the recent review of Treasury Green Book appraisals, which suggests giving a greater priority to place-based and other objectives, and reducing the emphasis on Benefit-Cost Ratios which can be skewed by high land values and population densities in London and the South East. This would encourage more infrastructure projects in urban areas outside the capital.
- A review of rules around Best Consideration (as laid out in s123 of the Local Government Act). This should provide local authorities with more flexibility to adopt more innovative and complex models of delivery, moving away from 'fixed/certain land price' approaches.
- Setting up dedicated academies for regeneration at regional level, which share best practice and support city-region or combined authorities which may lack the relevant experience.
- Encouraging or at least permitting the development of tourist taxes and other local income streams.
- More gap funding, but focused on the most viable and impactful projects, rather than spread too thinly.
- Dealing with the problems related to the Gateway building safety process, which is disproportionately affecting housing delivery in urban areas.
- Continuing to devolve power to government at the right geographic scale.
- Progressing the aggregation of public sector pension funds and their potential use in relevant regeneration schemes.
- Monitoring uptake of LTAFs and their use in property investment and development.
- Re-introducing some support for buyers – perhaps a city-focused version of help-to-buy – to support an ailing urban residential market.
- More explicit encouragement of build-to-rent, although this is understood to be politically difficult.
- Pushing city-region and combined authorities to adopt the Mayoral Development Corporation model to accelerate development, assemble sites, co-ordinate public sector land, planning, transport housing policy and work across council boundaries.

SUMMARY
WHAT'S NEEDED TO MAKE 'PHASE FOUR' WORK

PARTNERSHIP

Public and private sectors must share risk more equally. Opportunities are provided by partnership models such as English Cities Fund, policies aimed at amalgamating pension funds and the continuing interest of overseas capital. This may involve a relaxation or review of s123 'best consideration' rules.

PUBLIC SECTOR AS MASTER DEVELOPER

Councils and combined authorities should take a stronger lead. They can invest early in the public realm as a catalyst, use phasing to create value and release the smaller lots that now suit private sector requirements. In selected locations, Mayoral Development Corporations may be well suited to this role, as the Mayoral model becomes more widespread.

COORDINATED STRATEGIES

Regeneration should be tied to housing, transport, industrial policy, and the management of public estates at regional level. This may require more action from central government around infrastructure, supported by the new guidance around Treasury Green Book appraisals.

CAPACITY BUILDING

National or regional 'regeneration academies' could help train new professionals and share best practice and innovative approaches, supporting local authorities who may have lost expertise during the years of cost-cutting

POLICY REFORM

The government is focused on housing numbers, but some basic reforms could help urban delivery: VAT parity for refurbishment, streamlined planning and infrastructure approvals, a much faster Gateway process, more flexibility around affordable housing and greater fiscal autonomy and new revenue streams for local government.

While the state of the regeneration sector sometimes looked a little bleak, there is a huge amount of talent and optimism in the sector. There are also clear opportunities emerging. With the right choices, the sector can help to continue the progress of the past few decades. The task of improving Britain's urban fabric is more central to its economic future than ever before.

THIS REPORT DRAWS ON OUR EXPERTISE IN UNLOCKING VALUE FROM COMPLEXITY, PROVIDING CLIENTS WITH THE INSIGHT AND CLARITY NEEDED TO NAVIGATE A RAPIDLY EVOLVING REGENERATION LANDSCAPE.

TO DISCUSS HOW YOU CAN PARTICIPATE IN OR BENEFIT FROM THE FOURTH PHASE OF REGENERATION, CONTACT OUR TEAM FOR A TAILORED CONVERSATION.

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