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PUBLIC SECTOR ASSET MANAGEMENT

NEW PARTNERSHIPS FOR DELIVERY

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Before joining the DCLG, David was a Director of Arup, the international design and development consultancy, and led the firm's consulting business in development, planning, economics, transport planning, and environment. He was responsible for a wide range of project and policy advice for the public and private sectors, including central and local government, European Commission, development agencies, developers and landowners in UK and overseas. This included advising developers on schemes at King's Cross, Stratford, Paddington, Greenwich Peninsula and Wembley, advising on projects such as the Eden Project and London Olympics bid, as well as undertaking regional development and regeneration policy evaluation for Government and URCS.

Previously he was a director of Pleda plc, the planning, economics and development consultancy where he established DETR's external property appraisal team. David is a board member of the RSL East Thames Housing Group and chairs the RICS Public Sector Advisory Board.

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INTRODUCTION

By way of background I am a surveyor, economist and planner. I have been with the Government for a couple of years and I look after regeneration, land and property, a broad brief these days. This encompasses everything from English Partnerships and URCs at one end through to commercial lettings policy, REITs and PGS, and working with the housing industry.

This paper will cover

1. Context: themes and considerations
2. Current investment frameworks and regeneration
3. Forward view: opportunities for the future.



We are not free agents:
we hold these assets in trust.

CONTEXT

MAJOR THEMES

- Finite public sector funding. There is a Central Spending Review (CSR);
- The Government is looking at grant and investment approaches;
- Public asset management and associated leverage is high on the agenda;
- There is growth in housing, transport, and regeneration;
- There is a local government White Paper in preparation dealing with cities and their policy, direction, ambition and governance;
- There is a broader economic context of economic stability and growth, strong returns from property investments and regeneration;
- There is sustained demand for opportunities in property investment;
- We have changing perceptions in funding and financial institutions as to investment in regeneration and infrastructure.

SOME CONSIDERATIONS

From the Government perspective we are increasingly looking at a broader range of larger and more complex projects. This means that we now often have to look at more sophisticated funding arrangements in the timing and the nature of the public sectors investment, whether it is grant, cashflow support or equity (typically sites). The issue of value for money is important, and how it can be measured including set up and management costs, risk premium and growth potential. In addition, a lot of broader issues come into play when working with public assets such as issues of expertise, issues of governance, regulation and finance and the whole issue of public sector accounting. We are not free agents: we hold these assets in trust.

INVESTMENT FRAMEWORKS AND REGENERATION

The following are examples of some the tools that we are working with at the moment involving local authorities.

Sometimes authorities are leading; sometimes they are working as part of wider partnerships.

PPP/PFI

PPP/PFI is now spread widely and there are many current initiatives.

- **Education**
DfES: Building schools for the Future
- **Primary Care**
PCTs, Partnerships for health, LIFT
- **Transport**
Trunk roads, Single Capital Pot, rail
- **Social Housing**
PFI credits, Housing Transfer Programme, ALMOs
- **Leisure**
LA single capital pot, DCMS

PPP/PFI projects should not be treated in isolation, as they are usually part of a wider package of policies that an authority is trying to deliver, for example as part of area regeneration or economic growth. With regeneration, the focus should not be on just the local authority's assets as it is important to look at those projects as part of a broader perspective. Within the PPP/PFI context we are now looking at LIFTs (Local Improvement Finance Trusts) which brings in the health agenda into a broader regeneration framework; a mix of NHS, Department of Health and PCT inputs. But also too there is plenty of scope to look wider and see where these schemes should really act as a focus for a bigger project, a longer-term programme.

RINGMASTER

We are working with local authorities and English Partnerships (EP) in the public sector to co-ordinate and deliver strategic infrastructure where we “cashflow” elements such as roads and infrastructure and see that this financial support is repaid over time, and sometimes with interest as development proceeds. Therefore we do not necessarily have to gap fund these schemes.

West Bedford

One example of Ringmaster that has just started is West Bedford. This comprises

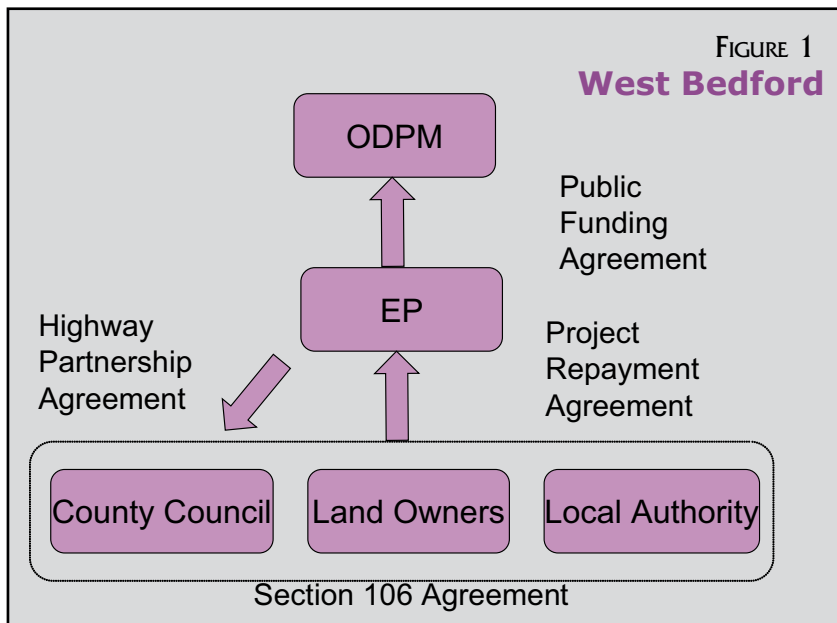
- 2,250 new homes
- Land owned by private developers and the County Council
- Infrastructure expenditure by EP; bypass £23.9 million
- Net public sector cost; £2 million
- Strategic role; co-ordination, contract and asset management

Figure 1 shows the West Bedford funding structure that we hope to apply in other growth areas and bids are currently under consideration. The West Bedford approach has the county council as highway authority under contract to procure and deliver the road with English Partnerships funding part of the cost. The cost is repaid as housing development releases receipts from the land owned by the district council and private land owners and through Section 106 agreements. This may be a model that other authorities could use.

GAP FUNDING

Gap funding still exists but its application has changed. Large and complex schemes are not suited to the traditional gap funding approach because the grant cost is maximised as we provide money at the start of the project, when the risk is greatest, but as values rise we see very limited return-particularly on long term projects.

We are now looking to set up major projects so that we take as much of the risk as we possibly can before engaging with the private sector- for example securing the planning and design principles through site briefs. Joint ventures





with the private sector can then be used to provide a framework against which finance can be phased and progress monitored, rather than just writing a cheque at the beginning when the projects are most risky and walking away. And where a long-term interest in the scheme is retained by the public sector this can ensure effective implementation and control.

Park Hill, Sheffield



A current project using this approach is Park Hill where the council, EP and Pathfinder came together in a consortium with the private sector and an RSL partner. Here, EP secured planning, engaged an RSL partner and working with the council (and English Heritage) set a clear design and development brief which removed significant elements of risk. The private sector then bid against the brief as to the minimum gap funding required to undertake the scheme.

JOINT VENTURES

In joint ventures there is a need for up-front investment and a partnership approach to planning and social objectives. For some projects we are now looking much more at a 50/50 based approach where we will actually work alongside our partners and take risk in some areas.

Barking Riverside

Barking Riverside is a major project through English Partnerships, but with local authority involvement. This is a 15-year programme. The

project comprises

- A site of 150 hectares
- 74 hectares suitable for residential development, associated commercial space and community use
- Balance to be developed as public realm and open space
- With or without DLR, site has potential for over 10,000 dwellings
- 35% affordable housing: 3,500+ homes
- High quality social infrastructure,
- 3 schools planned

DEVELOPMENT COMPANIES

The characteristics of some of our development ventures are

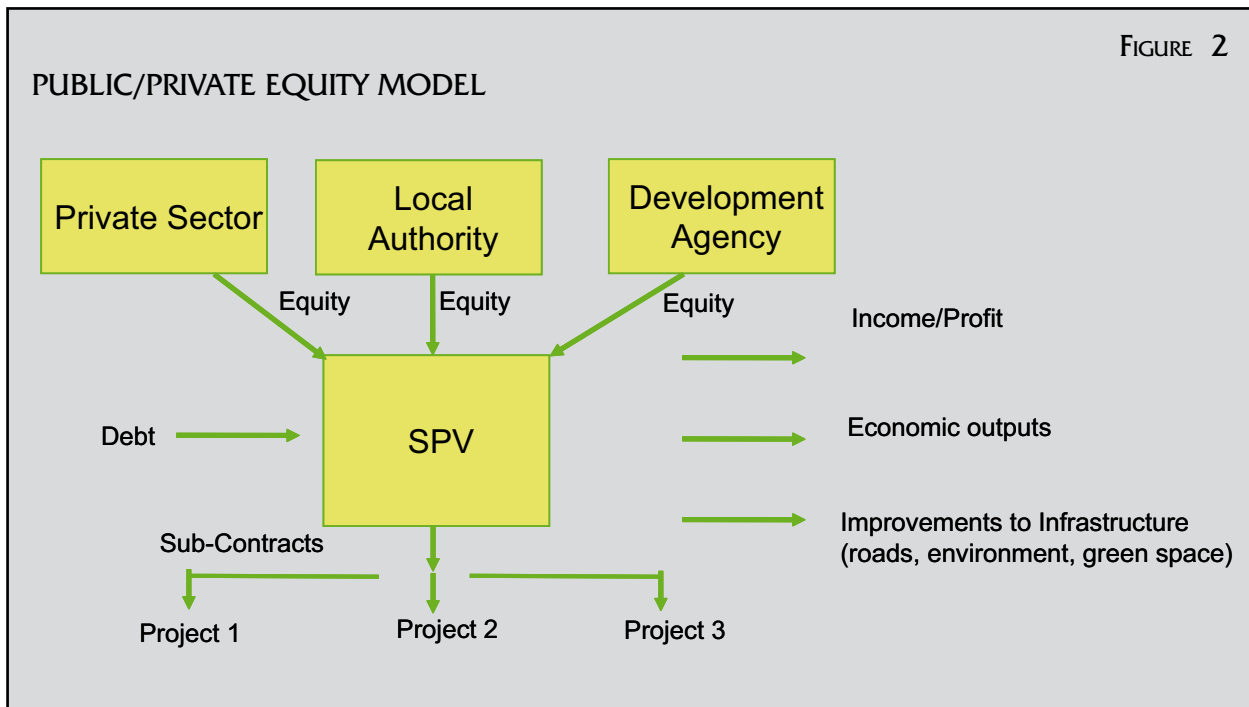
- Joint venture partnership
- Long-term relationship and continuity
- Mix of skills and expertise
- Potential to address complex planning and policy
- Financial capacity
- English Cities Fund and Priority Sites

This is a rolling programme in terms of involvement and importantly these partnerships are not just about funding, although the private sector could not deliver this on its own. It is about the relationships and working, the planning, the involvement with other agencies that you as the public sector bring – a critical interface which the private sector in many areas would otherwise find extremely difficult to engage.

Priority Sites

We now have the involvement of the Royal Bank of Scotland and English Partnerships on Priority





Sites. This gives us

- Long-term relationship and continuity
- Mix of skills and expertise
- Potential to address complex planning and policy
- Financial capacity

Their range of projects focussed initially on business space generation that will

- Offer companies a choice of property types, sizes and tenure
- A focus on manufacturing space/high quality specification
- Sizes typically range from 3,000 sq ft to 30,000 sq ft
- Hi-tech/office units for service-sector 1,000 sq ft to 30,000 sq ft flexible space (office/assembly/laboratory)
- Available to rent or buy (90% of occupiers buy)

So far, with this initiative, we have

- Built more than 2 million sq ft of floor space
- Invested more than £105m in the regions
- Created opportunities for 5,000 people
- Helped establish viable markets

We are now looking at town centres and mixed-used schemes. We want to bring in the private sector as a

funding partner but also to work with local authorities and their assets and schemes. Our objective is to drive things further and faster in terms of really getting public assets working.

INVESTMENT FUNDS

Much work has been done on investment funds. Two or three RDAs have put their assets, some of them involving English Partnerships, jointly, 50/50, with the private sector into funds on which debt can be raised. This will have the following benefits

Operational

- Concentrate on core operations
- Improve quality and efficiency of property portfolio
- Transfer risk
- Certainty of costs
- Occupational flexibility

Financial

- Raising capital receipts
- Realising balance sheet value
- Operational cost savings

PUBLIC/PRIVATE EQUITY MODEL

The structure in Figure 2 shows the private sector, the local authority and the development agency all putting in their equity into a Special Purpose Vehicle with then the ability to raise debt and undertake a series of projects. Profit can be taken out or used to further drive regeneration or infrastructure projects.

There are now three examples of these one of which is

ISIS One NorthEast EMPIF/Blueprint

The features of this example are

- Strategic disposal of property portfolio.
- Financial vehicle that holds the assets with a private sector partner taking an interest.
- Investment and development sites
- Diverse portfolios - mainly industrial
- Other RDAs are pursuing this model

Isis is effectively operating as a regional developer and funder. Local authorities should consider this model as a potential partner if the RDA establishes one in your area.

TARIFF-BASED STRUCTURES

The features of tariff-based structures are

- Business plan led approach for investment - the Prospectus
- Greater leverage for both public and private sector investment
- Linked to effective and up to date development plans
- Requires a 'banker/ring master' but may not require public sector gap funding

We are looking closely now at tariffs. I was involved with the Milton Keynes scheme and we are going to be doing more of this type in the growth areas. If we can have a complete range, say half a dozen, we may even be able to set up a fund to securitise and pay for infrastructure and to assist in growth areas. Although only a prototype Milton Keynes is working well and I am sure that, in the future, we can encourage enhanced developer contributions and public sector investment and co-ordination.

FORWARD VIEW

OPTIONS FOR THE FUTURE

- There will be more prospectus-based Tariffs
- Revolving Infrastructure Funds; this concept can be developed further
- Joint ventures (eg Northstowe)
- Local Asset Backed Vehicles (LABV's); the latest initiative where we are working with local authorities on how to structure assets and improve working with the private sector
- Accelerated receipts/deferred receipts; discussions are taking place with banks and the financial institutions
- Underserved Markets Project
- ALMO/PFI Housing schemes
- Wider agenda: New Deal for Cities; Mixed Communities; funding and delivery

PROSPECTUS-BASED TARIFFS

This work focuses on growth areas and we have selected five areas to develop business plans. We will be looking for public sector investment and enhanced Section 106 contributions. But there are always issues and risks. Planning gain supplement is on the horizon and we have to work out how to engage with the changes that will bring.

REVOLVING INFRASTRUCTURE FUNDS

The South West RDA review has been working on this concept for about a year and already there is interest from the private sector wanting to get involved and support infrastructure through these sorts of vehicles.

JOINT VENTURES

North Stowe, Cambridgeshire

We have just transferred what was a Defence of State site to English Partnerships; there is the potential for 10,000 homes. This is a significant joint venture. There will be a long-term delivery vehicle working with the private sector and partnering with other landowners.

More importantly we are pursuing here a wider agenda. A Joint Treasury/DCLG Taskforce has been set up to see how we can deliver more with public sector assets whilst getting full value and agreed policy outcomes. Initial discussion is with government departments but we want

to involve local authorities as soon as possible.

LOCAL ASSET BACKED VEHICLES

LABVs are a Department for Communities and Local Government, English Partnerships, Partnerships UK initiative. Currently we are considering partnering with five major local authorities. The intention is to see if we can set up not just regional funds but city funds or indeed consortia of local authorities to work together to pull in private sector investment. The initial response is supportive.

CONCLUSION

CONCLUDING THEMES

Our major advantage is economic growth and stability. Government and local authorities are looking further than just patching up things up or random regeneration and are considering how to take economies and communities forward. Development is a key element of that. There is now a sustainable communities agenda and it is critical that public assets are used to deliver sustainable communities, place making and an attractive environment. If public assets are not used in this way it will be difficult to encourage the private sector to participate.

Asset management is all about value and delivering wider objectives. It is also about leadership and delivery and quality and investment.

Partnership is concerned with strategy and engagement with delivery agencies and partnerships; and working with private sector and creating the right framework. An important issue is integrating strategic planning and funding streams

FINALLY: CHALLENGE 1

A senior Ministerial political adviser asked me about a month ago, "David I have just been to an area where there is a housing estate which is failing and next to it there is a school that is doing well. Next to that is a derelict site owned by the council. Who is responsible? Who is going to take that forward? Who is going to put all those pieces together to get me and to get the community the results it really deserves"?

My open question to you is this. Is that person the Chief Estates Officer? Who, in that local authority, can bring these three basic problems together and deliver a result?

FINALLY: CHALLENGE 2

The department has just concluded a £60K Home competition- building high quality homes at a construction cost of £60k for a 2 bedroom flat for sale, shared-equity and social rent. The starting position was that the market said it could not be done. But we have done it and the industry intends to take this on board. So if you have housing sites for sale why can't we have more £60k homes on them? The work has been done. English Partnerships will be delighted to give you the details. Why not deliver local affordable homes and homes for sale on your sites using the expertise that has now been developed.

David Edwards
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