Future of London: Policy in Focus
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New Delivery Models:
How to get regeneration projects delivered in a new fiscal environment

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What new approaches to delivery can meet the challenges presented by the current climate? Last week leading practitioners came together to discuss the merits of asset-backed vehicles, the HCA delivery panel and council-led development in a breakfast seminar organised by Future of London.

Introduction

The Future of London Breakfast Seminar Series has continued to attract strong interest from across London councils with over 50 people attending the event on 27th July to consider "New Delivery Models: How to get Regeneration projects delivered in a new fiscal climate."

Speakers from two London local authorities outlined their experience, from the council acting as master-developer set out by Andy Donald, Assistant Director of Regeneration in Brent, to the use of an asset-backed vehicle in Croydon as detailed by Malcolm Lyon from Croydon. Helen O'Doherty of the HCA, explained the role of their Delivery Partner Panel and the speakers were joined for a panel discussion by representatives from solicitors Eversheds, and from developer First Base.

David Lunts, HCA London Director opened the seminar and stressed three key precepts to observe when considering new delivery models:

- Always be clear about why one is setting out to do something – Are there clear objectives and is a new approach going to be a more effective way to achieve these than conventional approaches?
- Simplicity of operation – It is often the case that delivery mechanisms can get bound up in hugely complicated structures – The more complex the model the more difficult it is to operate.

- Thirdly, and most important of all: If, by new delivery models we mean bringing parties together – public sector, private sector, the not-for-profit sector, central and regional government – there must be transparency, confidence and openness in these relationships.

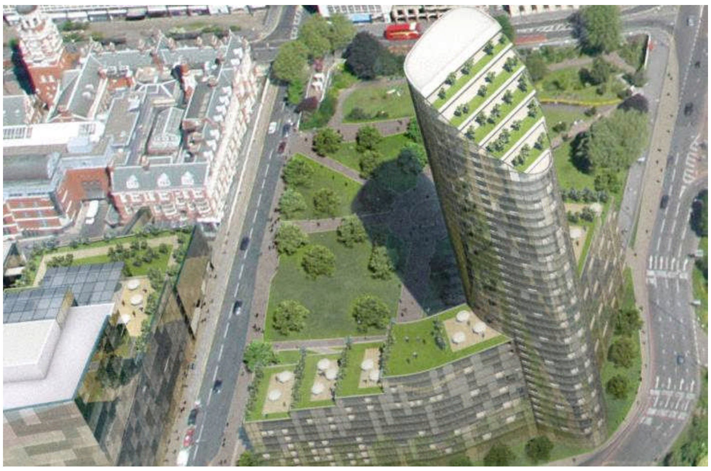
Looking ahead to the challenges of the spending review, David stressed that there will be great interest in making programme budgets work longer and harder, and that long-term partnerships and relationships built around using local authority land and investment assets alongside private sector capital are going to be very important. Future arrangements are going to be a lot more devolved than previously, and there will be greater appetite, on the part of HCA London, the Mayor and the boroughs for trial and experimentation.

With the challenges in the private sector likely to continue for the next few years, and a lack of public sector money, there will be renewed interest in asset-backed vehicles and in long-term partnering arrangements, where more can be done with less. As the borough investment plans are progressed through the autumn into agreements, and as more devolved arrangements evolve, David noted that there will be reward for those who can devise arrangements that give greater certainty and better quality outcomes.

Andy Donald, Assistant Director for Regeneration at Brent Council described their approach to the regeneration of South Kilburn where the local authority is acting as Master-developer. Andy began by stressing that it is times like these – when the market is difficult - that the public sector needs to take responsibility to find new ways of delivering regeneration. He described South Kilburn - an amalgam of estates built in the 50s, 60s and 70s that lies in the south of the borough. It has everything you'd expect high rise, poor bison-construction blocks, a disenfranchised community, high crime, poor health. But the location is by Maida Vale, Queens Park – with values 4 or 5 times higher in the surrounding areas than on the estate: "If we can't make regeneration happen here we might as well all pack up and go home", Andy concluded.

Three years ago, South Kilburn had a failing NDC, a stalled stock transfer and even at the height of the market the project was struggling, and when the market moved away it could not proceed. The community was hugely frustrated – their top priority was to see their housing sorted out and this hadn't happened. In fact, the council had effectively out-sourced responsibility for the housing to the stock transfer consortium and for the community to the NDC.

Since then the council had taken back responsibility: it had come to a clear and shared view in-house as to what they wanted to achieve; looked clearly at options to take the project forward and decided to act as the Master-developer; and critically the council had invested in proper project management. An important shift for the council was to look at it as less a housing estate and more as "real estate" which has residents on it to whom they have a duty. The approach now was one of incremental and phased delivery, with the council assembling sites through leaseholder buy-backs and demolition, taking design forward and taking to the market cleared sites with planning permission - this approach maximised value and this value is being recycled and re-invested in the next phase of South Kilburn. Procurement of a developer framework for the next sites is underway to encourage a mixed economy on south Kilburn and to reduce procurement costs for developers and RSLs. A key challenge, he noted, will be to get the management right and that will be a critical test for the success of the approach. Concluding with some key lessons learnt, Andy Donald stressed that the Local authority must be the champion of quality, that momentum was critical, clear parameters for community engagement were essential and that cash flow – and flexibility to maintain it – was essential.



Croydon have taken a contrasting approach with the establishment in 2008 of an asset-backed vehicle for the mixed-use redevelopment of a number of council-owned premises to drive the regeneration of the town centre. Their asset-backed vehicle, the CCURV is a limited liability partnership between the council and John Laing. Malcolm Lyon, who heads the vehicle, explained that the vehicle provides for shared control and 50 / 50 ownership. The council contributes its land assets – whose transfer value is established through the bidding process - and John Laing match this with funding, with the vehicle drawing on 3rd party debt as required. The private sector partner provides development management services under contract to the vehicle. The advantages for the council are the potential to maximise and share in the value realised from the assets, to retain a share of control, the scope to develop a pipeline of assets in this way and to retain influence over how and when development proceeds.

The final speaker, Helen O'Doherty of the HCA described how their Delivery Partner Panel (DPP) offers local authorities a streamlined and efficient route to a panel of developer/contractors for a wide range of services including construction, development and sales. The DPP framework was established through an EU-compliant procurement in early 2010. There are 3 super-regional panels with the one for London and the South having 17 members. The panel runs for 3 years but, where local authorities have entered into contracts under it, these can continue beyond that time. Helen stressed the ease of use of the panel with only a mini-competition required – and it can take as little as 6 or 7 weeks to select a partner, with considerable time and resource savings for both councils and the private sector.

Helen also reported on the HCA's Public Land Initiative programme. This delivery model, which is being implemented across a range of HCA and other public sector sites where public sector land for housing is provided on a 'deferred payment' basis, provides for a balance of risk and reward between the public and private sectors. Under this approach the HCA takes a degree of revenue risk, to a pre-set limit, but in turn shares equally in cost savings and scheme overage above the initial base land value. Whilst the direct funding for the programme has been committed, the principles of operation may have potential for local authorities, and a legal toolkit of key documents has been put in place as a resource.

In the panel discussion that followed, Ben Denton, Director of First Base stressed that when schemes fail it's not normally the vehicle that's wrong, but the project. It's vital to get the first principles right before rushing forward. A vehicle might produce 2 or 3 or 4% efficiency but that is not going to make the difference if a scheme simply doesn't work. He said that there is private sector appetite for long term partnerships with the public sector, and the funding world is keen to invest in residential development in London now the market has bottomed.

Kuljeet Hothi, Partner at Eversheds solicitors agreed that council's mustn't choose a structure and try and shoehorn the project into it: The first considerations are: what do you need to deliver; what can you put in and what do you want the market to put in – and then what kind of partnership with the private sector is appropriate. Kuljeet also highlighted the issue of procurement: in the current market many developers will steer clear of complex and protracted procurement processes. Full design procurements – as used for Croydon's LABV - will deter interest. Developers will do due diligence on local authorities in terms of procurement efficiency and resource, just as councils do to them. The HCA Panel and other frameworks have definite advantages in the current climate. And, in answer to concerns raised, it was stressed that the lack of RSLs on the HCA panel can be overcome by their partnering with panel members. David Lunts counselled that local authorities should take locally-tailored approaches but should also look to draw on the resources that have been put in place - whilst a few authorities in London are considering using the panel, interest so far has been very limited and David Lunts pointed out that panel partners will ask what the point was.

The panel also discussed some of the difficulties Local Housing Companies had encountered and their implications for asset-backed vehicles generally. Reflecting on Barking & Dagenham's experience, Ben Denton advised to stress the similarity of an approach to extant models, not its novelty, and "stay under the radar". David Lunts saw the market's collapse as a key factor in the retreat from LHCs but added that models that are seen as "novel, contentious or repercussive" invite prolonged scrutiny. A lot of lessons had been learnt from the LHC pilots and these had real application to proposals for asset-backed vehicles.

The Future of London Breakfast Seminar Series is supported by Navigant Consulting. For further information contact: jon.lloyd-owen@navigantconsulting.com