ALL-PARTY URBAN DEVELOPMENT GROUP

MINUTES OF PROCEEDINGS

at a

PARLIAMENTARY HEARING

on

REGENERATION AND THE RECESSION: UNLOCKING THE MONEY

held in

Room 20, Palace of Westminster

on

Thursday 14 May 2009

Before:

Mr Clive Betts (Chairman)
Baroness Hamwee
Mr George Howarth
Alison Seabeck

(From the Shorthand Notes of:
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Witness: **PROFESSOR MICHAEL PARKINSON**, Liverpool John Moores University, gave evidence.

CHAIRMAN: Good morning everyone. I am Clive Betts, MP for Sheffield, Attercliffe and I am Chairman of the All-Party Urban Development Group. I had hoped to introduce one or two of my colleagues this morning. I am not sure whether in fact they will be coming. I apologise but it is an interesting time in the House of Commons at present and things are not quite functioning as normal or usual, so if you just bear with me. I am sure nevertheless the witnesses will be able to give us the benefit of their expertise. Catherine Glossop of the Centre for Cities, who has worked with the Urban Development Group and has provided us with great assistance, is going to be helping us this morning and probably asking some of the questions as well. Thank you very much. Mr Kurt Mueller from the British Property Federation has also worked closely with the Group and supports us with administrative and other support, and we thank them for that as well.

I think that it is an opportune time to pause and reflect on where we are at with the regeneration of many of our towns and cities. Some have had a great deal of work in the last few years but are looking for further schemes to progress. Others have had little and are looking to replicate what they have seen elsewhere. Many of the schemes, as we know, are currently frozen by the effect of the credit crunch and the recession that we are now in. Indeed, I have personal experience of it because the office which I have for my constituency purposes in Sheffield was going to become part of a new retail quarter and currently work has paused on that. We hope that it will start at some point but certainly nobody is giving any guesses as to when the “some point” will be. I think we have all got those sorts of experiences and we have all read in the press and the media of schemes that have been put on hold for very obvious reasons.

I think therefore it is appropriate that Professor Michael Parkinson from Liverpool John Moores University is our first witness today. He has just made a report on regeneration financing for the Department of Communities and Local Government. There are some big and new issues to be addressed about how we can get schemes underway either in the near future or certainly in the medium future in a very different financial and income climate. Professor Parkinson, it is over to you.

PROFESSOR PARKINSON: Thank you, Chairman. I am indeed Michael Parkinson. I take the absence of MPs not as an editorial comment but because they are very busy. A couple of health warnings on this. I did indeed do the report for CLG and I did the work last autumn. This is a moving target and things have probably changed and got worse since I wrote it. I would probably be a little less optimistic today if I were writing it now. Secondly, just to say I am a generalist not a specialist and I know about regeneration, not so much about the credit crunch, but you have got witnesses on that and I will give you my thoughts.

I think I was probably asked to address three or four different kinds of questions. First of all what has happened? The crunch does not respect place or people. It is mixed but it is bad all over and it is getting worse. In terms of places which are affected I think the big point is that marginal places, marginal projects and marginal people have been most badly affected. The impact came to them sooner, it will be deeper and it will last longer.

This is not a middle-class southern recession. It is a traditional recession in the sense that London and South East development has been so far better protected because of “global London” and because of more value in deals and therefore you can get profits even if they are reduced. Of course that will be affected in due course as financial services are cut and bite into the real economy but, in terms of development, London and the South East are better protected.

As ever, it is the North and the Midlands which have found it much, much tougher. As the Chairman has said, it is a mixed story. In the bigger cities you are better protected where you have got a more robust economy - Manchester and Leeds perhaps. The one-horse towns are very vulnerable. Public sector employment will help in the short term but in the long term as we go off the cliff it is going to be difficult. Local authorities are being squeezed and here the consequences are growing.

In terms of projects, residential is very difficult. City centre apartments, buy-to-let and volume house builders are pretty much under the water. Mixed use is incredibly difficult now. I think retail is slowing down badly. Offices and industrial is less bad but worsening. That is what I take to be the current position, Chairman. I can go on to talk about other matters if you wish.

I think the big question is is it broken, is it fractured or is it just a bit poorly? Is this cyclical or is it structural? Has the world changed forever or is it going to be back to business as usual? People who tell you the answer to that probably do not know what they are talking about. I think you have to unlock the difference between the economic downturn, the property crisis and the fiscal crisis.

This is still essentially a liquidity crisis. Banks are not lending even to good people, even for good projects, even in good places. They are banking their money with the Bank of England that they got from the Bank of England. My judgment is that the real economy will come back in due course, and we are seeing some evidence and some arguments that we may be seeing the bottom. The property market will come back but I think it will be very different. I think retail will be very slow to come back. Commercial may be better. I think housing will be very difficult. House builders are recapitalising and getting a lot of money but they are buying the land and not building houses. I think really, for the purposes of this Committee, regeneration, mixed use, making places - they are the most vulnerable. I think we are going to have great difficulty getting that going again.

I think the world has changed financially in this sense: there are some things which we have operated upon over the last ten years which we will not be able to operate upon in the next five years. I think we are going to have to change the way we do business. I do not think a model which is based on stay investment for residential is going to work in the future as it has done in the past.

Secondly, I do not think a model which is based on section 106 where developers’ returns are big enough to pay local authorities for social infrastructure in the public realm will work. I think that is broken.

Thirdly, I do not think there are going to be big returns for developers investing in poorer, deprived communities in the future.

Fourthly, unhappily, there is not going to be the same amount of loan and credit on inflated property values and land values. Quite clearly the renaissance and regeneration of our cities in the last 15 years, which is real and is to be welcomed, has been based on two assumptions of a booming national economy and large levels of public expenditure, neither of which will apply in the future, particularly public expenditure which will probably go off a cliff.

We are going to have to find new ways of doing this, I think. It is a big challenge for us all. As I said in the report, in difficult times you realise that the good principles which were good then are good now. We should not be throwing the baby out with the bath water. I have got a couple of thoughts really on that. One is about what I call the fundamentals and principles and one is about the tools. There is a lot of discussion about tools and these tools come and go and some new tools are actually quite old tools but I will come to that.

I think some key fundamentals for financing regeneration are, first of all, I think regeneration has been a niche market for investors in the past, and we are going to have to diversify the sources of income, and I think we need to look to other investors - whether it is pension funds, whether it is sovereign funds, whether it is international investors - to increase the flow of resources into regeneration, and I think in particular there is one opportunity there which is in the private rental market in this country which is very underdeveloped for a whole variety of reasons. We have a very bipolarised housing market which I think is undesirable. There is a lot of appetite for major investors to get into a well-managed private residential market. That would serve two goals of diversifying our places and housing stock and make them simply more sustainable, but also, in these difficult days, would bring new money into the system. I know a conversation is to be had between HCA and the big investors on that. I think that it is a good idea. I think there are tricks involved. I have to say I suspect they will go to longer term, safer projects which I think will mean not in the North and the Midlands.

The second thing is simplification. Regeneration is a very complex business and very difficult for people to navigate and it deters investors. If we can simplify that and make easier routes that is better.

Thirdly, back to the old basics - investors go to places which have got a clear story of their place, who know what they are going to do, who are business-friendly, who make the system operate, and I think long-term master planning, visioning, all of those things which are almost clichés will be more important in the future if you are trying to get the private sector investment. It is particularly important in places which are marginal and I think that means for regeneration, which are marginal areas by definition, we are going to have up our game there.

I think the fourth fundamental principle here is we are going to have to move away from (not abandon) the grant culture and move towards an investment and risk culture where public sector resources are invested in projects over the medium term and take their profits along with the private sector. There are lots of examples of this. There is a small example in terms of JESSICA, the EIB EU initiative, but I think public resources should be moving in terms of debt, equity and guarantees in future.

Those are the principles. In terms of a couple of tools - and colleagues here will know much more than I do about this - and again these are really clichés - in terms of maximising public assets, I think the notion of Local Asset-Based Vehicles is well worth exploring. It means long term, it means partnering, it means having a clear picture of who is investing what and what the risks are to different parties. I have heard different people say different things about LABVs in difficult days. Some are saying that the property values that local authorities have are no longer sufficient: I do not know.

In terms of what I might call the new financial wheezes, if I could put it like that, they would probably be Tax Increment Financing and Accelerated Development Zones. Tax Increment Financing is used very much in the United States - used and abused, as we say. I think, in principle, it is a good idea. It gives incentives to long-term development. I think it breaks the link between land prices and development. This is part of our problem. It gives continuity and addresses risk. I think Tax Increment Financing, which effectively is anticipating future income, are well worth while exploring. I think the particular model which the Core City developed and the Accelerated Development Zones, in which you retain part of business rates for future growth, is all well worth thinking about. I will shut up, Chairman. It is mixed; it is bad; it is going to be more difficult; it is not going to come back in the long term; some bits of the model are broken. However, I am sure there are sufficient clever minds to get investors back in and it seems to me again the message of the report was to keep the faith, and I would advise colleagues to do that.

CHAIRMAN: Thank you very much. We have been joined by two colleagues, Alison Seabeck and George Howarth. Thank you for coming.

Can I pick up one of the things that you said there about the days of 106-led developments or schemes probably being in the past. We have got the Community Infrastructure Levy somewhere out there. I am not sure at what stage it is in terms of completing its formulation. Do you think there is going to have to be a re-think about that as well?

PROFESSOR PARKINSON: I agree with you, Chairman, I am not quite sure where it is. I agree in the sense that the principles were probably quite good for the good days. When I talk to investors they say anybody who is hoping they are going to get payment from the private sector for community infrastructure in the future is whistling in the wind. I just think it may be a principle which would operate far better in the good times than in the bad times. I think we need to work that out.

ALISON SEABECK: Would you not agree that developments are far more likely to progress if there is good community infrastructure in place, and therefore it is in developers' interests to look at this and therefore I cannot quite follow your argument through that either section 106 or the Community Infrastructure Levy are necessarily going to be a dampener on investments.

PROFESSOR PARKINSON: There are developers and developers and not all developers are necessarily interested in the kind of infrastructure that you and I might be interested in. They are interested in profits. They are worried about their long-term profits and so, in my experience, some are very keen on this and also are very biddable people but their willingness to pay for this is much reduced in these difficult days.

ALISON SEABECK: But the smart ones are much more likely to get their development off the ground and get people to buy if there are things in place for the community around it. We have just done a section 106 down in Plymouth on our airport with huge transport benefits as a result of that one. It will make that development much, much, much more attractive and people will actually want to buy into it. It is a plea really to people to open their minds a little bit to this.

PROFESSOR PARKINSON: Let me be not misunderstood. I could not agree more about the necessity of building places rather than house. I could not agree more that we have not put sufficient investment into infrastructure. All I am saying is that on the evidence of getting major developers to support that infrastructure in future is going to be more difficult. It is not less desirable and the better developers who are staying in the business and are working through their projects fully understand about long-termism. I think essentially you have got a distinction between what one might call house builders and developers. The good people in this room who do careful regeneration, who understand this completely, are a minority. I have to say that there is a minority of firms who have done tremendously good work in cities in the last ten or 15 years who are highly vulnerable in this recession. We may lose those people and the risk is that as we come back into growth and confidence that we start building low-grade development. That is the risk.

CHAIRMAN: One other thing, it is maybe not within your particular expertise but we are looking at the proposed changes to planning guidance PPS6 on retailing and some concerns that a change in the regime, the abolition of the needs test and the bringing in of a stronger impact test could create an element of uncertainty which might not be the most helpful thing to have in the current climate. Have you picked anything up about that about whether we should be changing the planning guidance in any way or not in the current situation?

PROFESSOR PARKINSON: Just reflecting on the prospects for retail, they are very difficult. Talking to the analysts and listening to the analysts talking about what is going to happen in retail, it is going to be very difficult indeed to get big schemes going again. I do not want to talk about in terms of the planning regime but the more certainty that investors can get on that front, the better it will be.

CHAIRMAN: Thank you very much for that information, that is most helpful. And thank you Baroness Hamwee for joining us.

Witnesses: **MR PETER VERNON**, Chief Executive (Britain and Ireland), Grosvenor; **MR PETER MILLER**, Chief Operating Officer, Westfield; **MR CHRIS BROWN**, Chief Executive, Igloo Regeneration; and **MR RAY MILLS**, Partner, PricewaterhouseCoopers, gave evidence.

CHAIRMAN: Thank you very much indeed for joining us. It would be helpful for our record if you could all introduce yourselves and say who you are.

MR MILLER: I am Peter Miller and I am Chief Operating Officer for Westfield in the UK.

MR MILLS: I am Ray Mills, I am a partner in PricewaterhouseCoopers.

MR VERNON: I am Peter Vernon, Chief Executive of Grosvenor in Britain and Ireland.

MR BROWN: I am Chris Brown, Chief Executive of Igloo Regeneration.

CHAIRMAN: Just a general starter: what impact is the recession having on your businesses at present or the businesses that you deal with? Do you think that impact is going to continue beyond the short and medium term and change things for the longer term?

MR MILLER: We are in the retail business. Westfield, just for everybody's benefit, have just completed Westfield London, which is on the west side of the city. We are also in the enviable, or maybe some people may think unenviable, position of being involved in the Olympics project and we are building another big retail scheme at the other end of the city of London on the east side investing well over £1 billion in that. We are also involved and we are investing in schemes outside of London. It is a very different landscape. London is quite resilient and retail sales are quite positive, retailers are still doing reasonably well, whereas outside of London it is a whole different landscape. That was echoed by our colleague over here.

There are a number of issues that are affecting business and one is the availability of credit. Retailers naturally live pretty close to the wind and require credit for the operation of their business in terms of operating capital. They also need credit in order to expand their business and in order to take leases in new premises. Without that credit they cannot expand and, as we have seen from the beginning of the year, there have been a lot of administrations and insolvencies, so it is putting enormous pressure on the demand and supply equation in the retail economy, which is obviously making retailers less inclined to take additional space in new schemes. It is giving them the opportunity, as you would in business, to negotiate much tougher deals, which is in many respects making a lot of schemes unviable.

To a large extent, especially outside of London and particularly outside of London, and you have seen this right across the country, a lot of schemes have actually been put on ice. We have announced that we have stalled a scheme up in Bradford. Certainly a couple of schemes that we had on the starting blocks or pretty close to it in Guildford and also in Nottingham have been postponed for the current term because of this. In London we are forging ahead. We have still got strong interests in London. There is still, obviously, quite a lot of hype and positive feeling towards the Olympics and towards retailing in London. That is one side of it, so obviously we cannot lease schemes as readily. We have not got the confidence that we can actually lease the last 20 to 50 per cent of the scheme (rather than the first 20 per cent), and that is where it is affecting our business.

The other thing is that there are a lot of other factors like empty rates, like section 106 contributions, and other taxes on development that also make us nervous because for those developers that are prepared to put their foot forward and take risk and invest in schemes, at the back end of the scheme if you have got vacant space you are suddenly faced with a position where you are being penalised for taking that risk because you are facing having to pay empty rates on the units that you have not leased, so that is a real disincentive.

The other factor I mentioned, and has been mentioned in your previous discussion, was 106 contributions or infrastructure contributions. In the more buoyant times, in the past, developers were probably keener to proceed with developments and much more prepared to take risk and thereby fund major infrastructure as part of development. I think going forward that definitely will not be the case. In fact, on all our schemes we are now going back to local authorities to talk about renegotiating development agreements, 106 agreements, with a view to, hopefully, when the green shoots start appearing in due course being in a good position to proceed. I think that the days are over when we can fund millions of pounds worth of bus stations, public transport, roads and all that sort of thing because developments are less viable and there is a lot less confidence.

I think that is certainly how it is affecting our business. It is affecting our ability to lease schemes. It is therefore affecting viability, and the other side of it, which we are more fortunate with I suppose, is funding for development. A lot of our funding is off our balance sheet but a lot of other developers in the market-place are finding it very difficult to raise debt as retailers are to raise capital for their businesses, so until the debt markets or the credit markets open up there will not be a lot of development happening in the UK and until developers are confident they can get occupiers for their developments there also will not be a lot of development happening in the UK market.

CHAIRMAN: Mr Howarth?

MR HOWARTH: It was not on that particular point, it was a separate point I wanted to raise.

CHAIRMAN: Do other people want to follow on and we will come back.

MR VERNON: I would just like to develop a little bit this point about viability and really talk about the fact that regeneration is different from greenfield site development, in the sense that there is an existing use value which exists for regeneration sites which is based on the current economic use and activities that are taking place on those sites. In order for a regeneration scheme to become viable it needs to generate a site value which is greater than the existing use value and if it is not able to do that then the site will remain an existing use site and regeneration will not happen. It is really a very straightforward equation. There is a forecast value on completion which a developer will attempt to estimate. There are then a series of costs which need to be funded in the form of construction cost, finance cost and importantly, as Peter has said, contributions to infrastructure or other planning benefits, including the forthcoming CIL if it were to arrive. If that equation results in a money value which is below existing use value regeneration will stop. I think that is what has happened.

Just to try and put some flesh around the way in which that equation has changed in the last year or so, the futures market for property values, which is a pretty good guide as to where values are likely to go (this is where people think values are likely to go) is currently forecasting a peak to trough fall in commercial property values of 54 per cent, of which 40 per cent has already happened. That is the steepest fall in commercial property values that we have seen in the UK since the Second World War and is the steepest fall in values that we at Grosvenor have seen in any of our markets around the world except Ireland. Residential values have probably fallen by about 20 to 25 per cent. Construction costs have also fallen to a degree, probably by about ten per cent, and, as Peter said, the cost of finance or the availability of finance is likely to rise. The risk premium that banks will charge will probably rise.

The final point, I guess, is that the requirement from local authorities and others for contributions to infrastructure and planning benefits has increased significantly over the last few years and has not changed in response to the recession, so hopefully it is quite easy to see from that picture that schemes which would have been viable two years ago are just not viable any more because the residual land value that is produced is below existing use value, and therefore they stop.

The one point that I would quite like to emphasise is the difference between plugging that gap through some form of gap funding and risk. Any developer looking at a project will be working out what the likely outcome is going to be. The range of outcomes could be very wide with a very big downside or possibly upside or it could be relatively narrow. The wider it is, the bigger the downside risk, and the less likely it is to go ahead. Professor Parkinson touched on this also - the extent to which we can find ways or mechanisms whereby the allocation and distribution of risk between public and private sectors is adjusted so that the downside risk for the developer is controlled in some way and the better it will be. I think there are ways of doing that. One would be for local authorities to recognise that schemes can be phased, they cannot necessarily be developed in one go. They can be built out over time in a more organic way rather than one hit and that makes a significant difference in terms of risk, which I think is not always recognised.

The other way in which risk could be reduced is for example by the upfront funding of site acquisition or upfront infrastructure and taking some risk around the cost of those two things.

In my view, to the extent that risk can be worked on by the private and public sector working together I would argue around a very open book approach, then I think that could make a very significant contribution.

ALISON SEABECK: I am very interested to hear your comments and I understand the argument about phasing and there is some sense in that. But developers seem to want it both ways, in a sense. If you look at the Greenwich Millennium development, planning permission was given for that site and for the housing on that site an awful long time ago. How much of that is still to be built out? There is virtually nothing. That land has been sat on and sat on and sat on and housing has not been built and the commercial sector has not gone up (although bits of it are popping up) because developers thought they would get a better deal if they hung on to it for a little longer in terms of what they could recoup from housing. They think, “We have got the Olympics coming, thank you very much.” And the local council at this time who were banking on a large proportion of affordable homes in that particular development are not getting them. Now developers are going to the local council and saying, “We are having a hard time,” and you are - there is no question about that - but when the good times come back again can we rely on you if we offer you support now and help spread your risk now to actually build out what you said you are going to build within a timescale that actually means something for those local authorities? Greenwich is just waiting and that dampens the sympathy people have, if you know what I mean.

MR VERNON: The question I am trying to answer is how can we make regeneration schemes happen that would not otherwise happen? If there is a requirement on a developer to build out the whole scheme come what may, that makes the project much less attractive because it is significantly riskier. The only point I am making is that if the two parties can work together around a development which can be completed eventually but is not forcing a developer into a situation of having to build out into a market which clearly does not make sense then the greater likelihood that the schemes will get off the ground.

ALISON SEABECK: On that sort of phasing where it is likely to happen you are more likely to want to build out private sector non-affordable homes first because that is where your upfront profit comes from, and again I understand that, but that must be difficult for local authorities who are desperately trying to house people in more affordable property. Can I ask what discussions developers have been having with the Homes and Communities Agency about how potentially you might move forward some of this phasing?

MR BROWN: I will pick that one up but I would like to distinguish myself from my two property developer colleagues! What I do is urban regeneration which is not what these guys have been describing. What they describe is property development: if it makes money you do it. Urban regeneration is much more what the Home and Communities Agency are about, which is doing things for public policy reasons which require public financial assistance. I can remember in the old days with the Prescot Shopping Centre back in the depths of history which required an urban development grant, as I think it was in those days, and which would never have happened otherwise.

I think the HCA are working very hard but with at least one hand tied behind their back. They have not got the single pot flexibility that the RDAs have got and because they have rushed into being with a 1 December date rather than the April date (which was great because we needed them) it means that they are also caught in their own reorganisation difficulties and they have not, I do not think, been able to react as quickly as the market would have liked. The people in my world who are developing these urban regeneration projects, we have done some survey work and based on that we think that by the summer, 90 per cent of the staff will have been made redundant from those firms. Based on what happened in the 1990s 90 per cent of the staff of similar firms like Inner City Enterprises who were affected by that recession never came back into the industry. We think that three-quarters of the firms will cease to operate by the end of this year, and so there is an urgency to respond to that. The HCA are doing things like HomeBuy Direct, which is very helpful in getting product off people’s books. They are tendering for Developer Panels which are going to allow them and their partners to pay regeneration developers to take stalled schemes forward. They brought forward on Friday the Kick Start initiative. They have got expressions of interest out for the Private Rented Sector Fund. All these are very positive developments but the speed of the collapse of the market is moving a lot faster than the speed of the response.

MR MILLS: I am not a property developer but I recognise everything that colleagues have said. Just keeping it brief, the whole issue of viability is obviously at the core of everything, whether you put a grant in or whether there is enough confidence for the private sector to invest. A big part of that for me is the question of how do we invest in enabling infrastructure and who carries the burden of that and the risk of that around the delivery? This question of who shoulders the burden in the new economic world that we are going to have in the next year or two is an important question, not least because if the public sector can share more of that burden, it is going to bring confidence to the private sector and allow more development to happen, whether it is regeneration or property development.

Also from the public sector's point of view, in taking that action and having what you might term some "skin in the game", then I think the ability to influence outcomes and the speed of delivery afterwards is going to be greater if they do not have any involvement or investment in the project. I think we are going to go on to talk about a number of mechanisms or tools both that are out there now or what might be there in the future that might just enable the public sector to both participate in and deliver development alongside the private sector. I think that is a key question for me.

CHAIRMAN: Do you want to answer the question then?

MR MILLS: About the recession? Which question?

CHAIRMAN: The one about the new mechanisms or existing ones. We have had some information about what I used to call Tax Increment Financing but you now call these Accelerated Development Zones. That is one possibility, as I understand it, but maybe there are others as well you might be able to describe?

MR MILLS: What have we got out there at the minute? We have the Local Asset-Backed Vehicles LABVs. There is the Community Infrastructure Levy which is going to be introduced soon we think. There is section 106 and I guess some more sophisticated versions of 106, strategic tariffs like they have got in Milton Keynes. There is quite a bit out there. The question for me is do they work in the circumstances that we have got now? I think most of them were developed at a time where we had rising values and a lot of profitable schemes and they were brought in as an attempt to capture value from private sector development to reinvest into public realm and other infrastructure. The issue for me is in a recession where you are not generating the same amount of value or you have not got the same confidence, then in something like a LABV, which is effectively a joint venture, you face exactly the same issues that property development colleagues face: how do you get the finance for it; how do you get the money at the right time and in the right place? Again with the Community Infrastructure Levy it is predicated on development, making enough returns such that the public sector can capture it at a point in time in the future. "In the future" is a very important point here because the whole issue about the development of some of the new ideas is about when do we get the cash and how do we get the cash at the right time to invest in an enabling infrastructure. The Community Infrastructure Levy arrives in two, three, four, five, six or seven years, it does not arrive upfront, so how can you use the funds to create the catalyst to make the development happen?

This question of who is the banker and who takes on the burden of that initial catalyst investment is an important one and I think it is more important in a recession, so the new ideas based on the principles of TIF which are pretty straightforward: you put a red line around an area; you look at the additional development which will have been created by that catalyst investment and then you capture the taxes for the long term, securitise those, raise finance against that (it could be the public or private sector but I think at the minute the public sector) and you invest upfront. That investment puts in the infrastructure which reduces some of the burden on the private sector side, increases confidence, improves deliverability of development but also, crucially I think, gives the public sector that skin in the game that I talked about first to negotiate better deals with the private sector, whether they are joint ventures, 106s, or development agreements, but also gives a much better chance of generating the value that might give the opportunity to capture the Community Infrastructure Levy et cetera in the future. It would also be something that would very much help a LABV model, a joint venture model, because you have a much better chance of creating value with that upfront investment.

The final point, clearly the ADZ model is predicated on prudential borrowing, certainly in the most recent discussions. Why is that? It would have been difficult for any new mechanism to be privately financed anyway, even in the good days. Now I think it would be impossible, frankly, but the public sector can step in through prudential borrowing, it offers value for money and a lot of my clients in the big cities and towns are confident that they are happy to shoulder some of that burden and take that risk.

I guess the point as well is in five or six or seven years once the development takes place and the revenue streams are more certain then there is obviously the opportunity to re-finance into the private sector. The main issue is that that allows towns and cities and local authorities to get the cash upfront to put in the enabling infrastructure so that we do not have a hiatus in development for five or six or seven years that is going to impact on their competitiveness.

BARONESS HAMWEE: It is related to that. These are questions that were sparked by slightly earlier comments. Mr Vernon made a plea for local authorities to understand the problems and I do understand, but if you are seeking local authority agreement to phasing how can local authorities be assured if they have gone for phase one, what guarantee is there that phases two, three, four and five will follow? Rather related to that, the discussion about section 106 agreements and developers seeking to relax those, I take the point that it is not the same as regeneration. I would be interested to know whether that might be the start of a really vicious circle that if the infrastructure is not provided then the wider development perhaps merging into regeneration is actually jeopardised? They are both really guarantees, I guess.

MR VERNON: I am very happy to comment on this point. I do understand the issue around phasing. I guess the worry is that the profitable parts of the scheme will be delivered and the less profitable parts will not be delivered. I can see that for a partnership to work there would need to be some reassurance around that. Perhaps the scheme moves forward such that both the wider benefits and the benefits which deliver economic viability for the developer move forward step-by-step.

The point I am really trying to make is that regeneration schemes are complex and risky and, to the extent that one is being asked to commit to deliver into the future, the further into the future it is, the less predictable the market will be, and therefore the greater the impact on viability, so I think one needs to try and find a way through this where everybody believes that it is a fair and sensible way forward.

BARONESS HAMWEE: That is what I was seeking.

MR VERNON: To me it is more about the organic development and organic regeneration of cities rather than looking at very large one-hit projects which I think are harder to make work. I hope that answers your question.

MR HOWARTH: My question is to Peter Vernon as well. As a nearly local MP, I am aware that Liverpool ONE, whether you define it as regeneration or just as a development, has nevertheless been successful in creating a modern piece of space in the City of Liverpool and has in those terms, I think, been successful. My concern, however, is that obviously there is a huge investment in there from Grosvenor but how can you justify combining with Liverpool City Council to try to kill off development in neighbouring boroughs? You will know specifically I am referring to the Tesco Everton development in Kirkby. It seems to me grossly unfair that once you have a flagship project on the scale that you have with your development at Liverpool ONE the power that generates, both in terms of the local authority and the company, is then used to say to neighbouring local authorities actually there should be no regeneration in your area because it might just conceivably pose some competition for us.

MR VERNON: Can I make two comments about Liverpool ONE. The first one is our point is about continuing to comply with adopted planning policy. That is really our point. There is a planning environment in which we took forward Liverpool ONE and we would like that planning environment to remain intact. That is my first point. The second point is if I could come back to the point about TIFs or ADZs in relation to Liverpool and perhaps just use it as an example. This is a rough estimate but, broadly speaking, the increase in uniform business rates which will go back to the Treasury as a result of Liverpool ONE is about £20 million a year. I think the point about TIFs is that the economics are such that that value that has been created by the development is lost to the development economics. It goes somewhere else. It has to be found from somewhere else.

The central point about TIFs and ADZs is that we are saying let us recognise that value that has been created and let us try and use it to make projects work which would otherwise not be viable, and it is as simple as that, as I see it, and that is why I believe, as I think a number of others have said, that TIFs and ADZs are a very sensible way forward. They bring back into the development economic value which is otherwise being lost.

MR MILLER: I would like to elaborate on that.

MR BROWN: Can I go second because I think they may say the same thing and then I will come back!

MR MILLER: I would like to go a little bit further than that and just paint a picture. For those of you who are familiar with this maybe it is preaching to the converted, but using a specific example like Bradford where we have got a scheme in Bradford which could generate something in the order of £10 million in business rates, not only does it generate £10 million in business rates per annum but it also generates PAYE tax, and it also generates 17.5 per cent (or 15 per cent at the moment) in VAT for the government. It also saves by the jobs it creates, say 2,500-3,000 jobs, in potential social benefits that the government has to pay out to people who are unemployed because retail has a very low barrier to entry. It also generates potential corporate taxes and other things that flow. If you look at the overall equation it potentially creates - and I have done the numbers and I am happy to give you some numbers after the session - about £100 million in taxes which flows from a development like this over a five-year period. That to me is essentially UK Inc or the government investing in a region to regenerate and creating taxes that help public spending.

If you take TIFs and ADZs and so on and you redivert some of that £8 million that potentially was not there if you had not taken that money, and used it to pay for some of the infrastructure to facilitate that regeneration, you would not get that £100 million and that is the basis. If you take that £8 million and ring-fence it for a period of, say, five years, and you borrow against that income stream, you do a prudential loan or whatever it is, and you rechannel that into paying for the infrastructure that might have been levied against that development to pay for the roads and the utilities and whatever else is required in order not necessarily to only facilitate that development but potentially to facilitate per se in that region, that would give you £40 million over a five-year period that you can potentially spend. That is a huge amount of money to create infrastructure. If you roll that model out to all the cities in the country it is an incentive. Who loses? I do not think anyone loses. Let us look at all the stakeholders. Firstly, as far as the government is concerned it is potentially promoting regeneration. You might argue that it is going to lose out in the rates revenue but it is not really because all it is doing is bringing forward cashflow that might not have happened in any event.

Secondly, you look at the community and the community benefit because they get the regeneration and get better facilities. The local authority benefits in the same way. Businesses that pay the rates will be paying it anyway and the developer gets the development and gets the potential to create profits, so I do not think there is anyone that has a disbenefit in the whole equation.

MR BROWN: That was the point I wanted to pick up. I am certainly not going to cross the Everton football supporters; I have been there before! The reason TIFs have gone very badly wrong in the States is exactly that argument: property developers coming along and saying my scheme is going to generate $100 million and not saying that it is just being sucked from somewhere else. Cities in the States compete with each other to get property developers by offering them TIFs and as a result their local property taxation base is completely decimated and the school board and the fire board and the police miss out on the funding. The key thing about TIFs is that you have got to ration them and you have got to have some very coherent basis for rationing the use of TIFs. That is up to government to do. They could say it has got to be urban regeneration. I think you can make a case for the shopping centre in Bradford but you would have to be very clear why you are putting TIF money in because essentially you are hypothecating and it would be used by government somewhere else for some other good purpose, so you have got to have a real understanding of what the public benefits are from that investment.

CHAIRMAN: We are reaching a conclusion I think.

MR HOWARTH: Could I just have a very quick come back to Peter Vernon. My concern is - and you have stated it slightly more baldly than it is - is that having secured a development on the scale that you have in Liverpool ONE, is it legitimate then to say any new investment within a ten-mile radius (in the case of Kirby it is about seven miles) we will use every effort we can and we will enlist the local authority, in this case Liverpool, to prevent any investment going in that is in any way similar? We have got a once-in-a-lifetime opportunity in Kirkby for £400-million worth of investment. Nobody else is going to come up with a package like that and your company are leading the charge against that happening. How can you justify that?

MR VERNON: I will just repeat the answer I gave before which is that there is an existing planning environment and there are existing planning policies and we are just advocating that those are followed.

MR HOWARTH: So one of the most deprived communities in Britain is going to have investment stopped because it might have a marginal impact on your development? That is basically what you are saying, is it not?

MR VERNON: We will not make the decision obviously, this decision will be made by the local authorities. We are just pointing out what the existing planning policies are and are asking that they be followed. That is really all I can say.

MR HOWARTH: Actually, the decision, as you well know, will be made by the planning inspector and, as I understand it, you are threatening to take any decision she takes that does not suit you to judicial review. That is pretty heavy-handed, is it not?

MR MILLER: Just to support Peter Vernon's response, if I may ---

CHAIRMAN: Very briefly then.

MR MILLER: Development is about certainty and Westfield do the same thing, we invest in major developments like Liverpool ONE. We have invested in Westfield London for example £1.7 billion. We are doing the same thing in Stratford for almost £1.5 billion. We do it with certainty. We would not want somebody to come along and change the planning framework that we have invested in and erode what retailers, what all the occupiers, what our investors, what our shareholders what everyone had relied upon in terms of creating that investment and making sure it was sustainable.

MR HOWARTH: Even if it was a very small departure from the original plan?

BARONESS HAMWEE: You might rule this out but we have been talking about pretty large-scale development and I am sure we are all concerned about the much smaller scale deteriorating high streets. Are you able to say what role the private sector can have in helping us to keep our high streets going or do we just have to shrug our shoulders and say they are dying and we have to move to - sorry, forgive me - things like the new Westfield Shopping Centre? I do not know if you want to rule that out.

CHAIRMAN: Can we keep comments very brief.

MR MILLER: Most of what we do in the UK is about urban regeneration, which is city centre development; it is promoted by the government and local authorities. The whole idea is to bring life and vitality back into town centres. In doing so, by reinforcing the town, by putting big development in there it anchors the centre and anchors the city. It has been demonstrated that it helps to uplift and support high streets and there is evidence of that.

MR MILLS: I am a fan of the Westfield Shopping Centre and I am a fan of smaller streets with different shops on them. I think it is much more difficult to think through how we can support business on the high street, smaller businesses. To my mind that is as much a support for the shopkeeper as using regeneration funding models, but the ADZ model was not designed purely for major investment; it was designed for public realm investment and anything that is going to involve retaining or increasing the ability of business to thrive in a particular area, and that includes retail, commercial or industrial. We have not looked at an example on a smaller scale but I think it is a fair challenge and there is no reason why the principles could not work.

CHAIRMAN: We are going to have to bring things to a conclusion if that is appropriate. Thank you very much indeed for expressing your different views on some of the issues. Thank you very much indeed for coming and giving evidence to us.

Witnesses**: MR DAVE ANDERSON**, Director of City Development, Edinburgh City Council; **MR VINCE TAYLOR,** Head of Strategic Economic Development, Sunderland City Council; and **MR TREVOR BEATTIE**, Corporate Director for Strategy, Policy, Performance and Research, Homes Communities Agency, gave evidence.

CHAIRMAN: Thank you very much for coming. Perhaps for the sake of our record you could introduce yourself and say who you are and who you represent?

MR TAYLOR: Vince Taylor, I am Head of Strategic Economic Development for Sunderland City Council.

MR ANDERSON: I am Dave Anderson, I am Director of City Development for the City of Edinburgh Council.

MR BEATTIE: Trevor Beattie, I am Director of Strategy, Policy, Performance and Research at the Homes and Communities Agency.

CHAIRMAN: Perhaps you could begin by saying what impact the recession has had on your particular area of concern and responsibility and how you are trying to cope with it.

MR TAYLOR: In Sunderland we have had a number of schemes stalled but probably not as many as other cities or as dramatically. We have one abandoned orange steel frame in the city centre. It is an apartment building where the developer defaulted on the loan and the bank is seeking repossession. We tentatively enquired about buying it but they wanted silly money, although purchase is not ruled out in the future. We have got a small number of things like that. We have a development on the edge of the city centre which is offices and residential. The retirement flats, the residential bit, will be going ahead; the office part is stalled and it will only really proceed if there is a prelet on that. We have a major registered social landlord formed a number of years ago to take on the council house stock called Gentwo. They are midway through a major programme of renovation, clearance and new build. The new build elements have slowed considerably and the timing is very unfortunate because they had accelerated the clearance, so that has left the city with a gross housing shortage which we cannot easily repair. We have one of our major strategic sites where the preferred development has stalled because it is a mixed use development - office, residential and hotel - and the office will not go forward without a prelet, the residential has stalled for market reasons, and the hotel on its own would leave the scheme very incomplete. Fortunately, in that area we have interest from a public institution, Her Majesty’s Court Service, who are looking to develop a courts complex. Those of you who know the Newcastle Quayside will know of the impact that the courts complex has had. It is right at the end of the Millennium Bridge and it drove a lot of the commercial development even before the Millennium Bridge was put in place. It is quite an important potential boost to the local economy and it will bring in additional investment, and we are actively pursuing that. So what we are doing is getting down to a number of schemes which we are able to concentrate on and letting others wait until the market comes back. There is one in particular that I can give you as an example but I might come back to it and let my colleagues give you their overview first.

MR ANDERSON: The position in Edinburgh is that we have four priority development zones - the Airport zone, Edinburgh Airport has been expanding and continues to grow with the proliferation of low-cost carriers; the Waterfront, which is a 500-acre largely brownfield area of former industrial dockland; the City Centre, and particularly the revitalisation of Princes Street and an £850 million scheme proposed by Henderson Global for the St James Centre; and then what we call the Edinburgh Bio Quarter which is a cluster of life science R&D facilities in the south-east of Edinburgh around the Royal Infirmary and the University Teaching Hospital.

Our position is that a number of schemes have slowed down. One or two have been abandoned. There have been fairly dramatic falls in land value, in particular along the waterfront, a some 60 per cent drop from peak. We are also experiencing challenges within the Council with falling capital receipts coming from land and asset sales, falling revenues from planning fee income and building warrant income and increasing pressure on welfare and social budgets within the council. So the Council itself as an authority has had a bit of a double whammy - losing its sources of income but having greater demands and pressures placed upon it. We are increasingly working with developers on section 75 agreements, which are the Scottish equivalent of 106, to look at whether we can reduce, defer, delay or otherwise share risk and reward in moving forward. We are also exploring the possibility of Tax Increment Financing in relation to Leith Docks first phase development.

MR BEATTIE: As you know, the Homes and Communities Agency came into being on 1 December and the downturn has had a very profound effect on our business since then. Fundamental to it has been the loss of liquidity that has already been discussed and people have already raised. I want to draw attention to the impact on house purchasers, members of the public. We have talked a bit here about the impact on developers, which has been severe, but we have had equal problems with the problems of housing associations accessing finance and house purchasers simply unable to access finance, with the result that activity is grinding much more slowly.

We have also had a direct impact on the receipts we are able to raise from our property and regeneration activity. For instance, receipts in 2007-08 for the old English Partnerships were £328 million; last year they fell to £147 million and we are projecting about £81 million from our property regeneration activity in the current year. This has had a direct impact on the resources available to us.

On the other hand, there is a good deal that we have done over the past five months to respond to that and I might get a chance to talk about that later. The particular point I would like to pick up now is a theme that Professor Parkinson raised, and that is the balance of risk and the importance of readjusting risk between the public and the private sectors. We are doing quite a bit of phasing, taking equity stakes in developments, and putting our investment in upfront to provide the certainty that the private sector needs to go ahead, but we are only doing that in return for some very clear undertakings from the private sector in terms of the quality that is being provided, the commitments to start and commitments to build out. I entirely agree with the points that were raised about timescales, transparency, open relationships and, crucially, the relationship with local authorities and the delivery alongside and with the planning system rather than in opposition to the planning system. Crucial to that is the Single Conversation with local authorities that we have launched and we published the guidance for this on Tuesday.

ALISON SEABECK: It is interesting to hear Vince Taylor talk about problems in Sunderland and the fact that a lot of clearance had gone on therefore causing the City Council quite a problem. You are not unique. There are a number of other large sites around the country, not in my constituency I have to say, but I am aware of others, and I suppose my question in a sense comes back to Trevor: what can you do to assist in those circumstances where you have got large sites that have been earmarked for development and there are a number that have not gone down the stage of demolition but they have gone down the stage of clearance and you have some that are thinking about going down the stage of clearance, what messages are you sending out to local authorities to say re-think your timetables on this one at this particular moment in time? Is there anything that you can do to help kick-start those that have stalled?

MR BEATTIE: There is a lot we can do. The first thing is to set the right priorities, as you say, to pick the right sites, and that is why we are consulting on a series of regional investment strategies designed to do just that. Each of our regional offices is looking at the stalled projects and working out which are the ones that need that support now, the ones that need to go ahead. Once we have established the right priorities we need to reach an agreement with the local authority because it is much more than just bringing a particular site forward. It is being sure that all the right capacity is there, that the local authority has consulted the community properly, that we have got the right support and buy-in from the wider community. In that situation, as we have already said, we are happy to consider more flexible tailored packages of funding. We are willing to consider putting National Affordable Housing Programme money in upfront as a kick-start to the development. We are willing to put in the infrastructure ourselves in return for an equity stake in the development. These are all things we can do to bring forward the key schemes.

ALISON SEABECK: But you have to have an end date for the build out, do you not?

MR BEATTIE: Absolutely and that is part of the deal. If we are offering the private sector greater certainty, if we are taking some of the up-front risk, in return we shall expect a more transparent relationship with the private sector and a very clear commitment to build quality and to timescales.

CHAIRMAN: Can I pick up on the ADZ idea that we talked about before which I think Edinburgh are having a look at. How do you respond to the criticism that Chris Brown made earlier that, to some extent, the tax that comes in from these schemes would have come in from somewhere else if they had not been built so really you are almost double-counting and you have to be very careful about measuring the additional regeneration benefit and revenue when we do these schemes?

MR ANDERSON: I would share Chris's view. I think the whole principle upon which TIF is predicated needs to be looking at additional investment and acceleration of investment and the incremental revenues are the gap between those revenues that would otherwise have been expected to have been created and the ones that will be created as a consequence of enabling infrastructure going in.

Our focus in Edinburgh, as I mentioned earlier, there is about 500 acres of former dockland which is on the harbour at Leith Docks, which is a relatively small part of that. Within the harbour the prioritised assets that we were seeking to fund upfront are an extension of a road, Ocean Drive, an esplanade around an existing shopping terminal where

Britannia is currently berthed, a new finger pier for *Britannia* and for cruise liner ships coming in, and also dock gates to allow cross-Forth ferry crossings. The estimated cost of those assets is circa £50 million and we will work with Forth Ports PLC, the port operator, on an open book basis to ensure that they will progress the first part of their mixed use development if we use prudential borrowing to help finance the initial £50 million. We are also seeking support from the Scottish Government for the first five to seven years where potentially there is a risk of business rates not coming in fast enough and therefore we are looking for shared risk with the Scottish Government on underwriting the costs in the event that the business rates do not materialise. The key in all of this - and I have visited a number of North American cities - is ensuring that we have a clear view of what the future value proposition is. Where is the growth going to come from that will sustain these revenues into the future? Where TIFs have fallen down in the US has been where they have expected growth and where there has been pure displacement and there has been competition amongst cities to take that growth away.

ALISON SEABECK: Can I come back in. It is very interesting to hear about your interest in this particular thing and your request to the Scottish Government. I am sure that if the idea works for Edinburgh it therefore may potentially work for other cities. Do you get a sense that the Scottish Government are willing to invest to support you upfront with respect to business rates? If so, what potentially would be their costs if they then decided that they were going to roll this scheme out or a local authority is going to roll it out, would they be expected to pick up the tab in advance for them as well?

MR ANDERSON: Essentially what we are saying is we believe in Edinburgh as a city. We believe it has the fundamentals right for future growth. It has a highly educated workforce, it has some key industries which have grown above the GDP average in relation to life sciences, tourism, informatics, creative industries and financial services. In a sense, the City Council is saying we believe that with this infrastructure going in we can continue the growth and development of the city. We want the Scottish Government to share that faith and confidence in the future by sharing a relatively small amount of downside risk in the early years of that development.

We have had positive initial discussions with the Cabinet Secretary for Finance and Sustainable Growth who has given in principle approval to working up detailed business costs on these prioritised assets. That will need to be based upon a very explicit and open agreement with the developer, Forth Ports, so we understand exactly what value will be extracted from the development from their perspective and we can have an adult conversation with them about that value and how the city as a whole benefits.

ALISON SEABECK: Are you picking up that within England there is also interest in this?

MR BEATTIE: Yes, and we are very interested in ADZs, TIFs, and we are looking to pilot some thinking around this, particularly in city regions. We have not mentioned the link to the newly announced city regions in Leeds and Manchester, but they are an obvious place to start piloting thinking here. We are talking to them about this. Chris Brown was entirely right that we need to be very careful about rationing and they do not necessarily create added value, but actually the key point for us, certainly, is that up to this point I think the long-term nature of regeneration and the benefits created by regeneration have tended to be missed in the system. We have tended to look at the upfront costs in England and let the wider long-term benefits go to other parts of government. The great advantage from my point of view is that we can measure the long-term benefits of what we are doing, so better measures of outcomes, a better long-term relationship with local authorities, and measuring the benefits, capturing them and building them into our business planning is a great advantage even if the net sum gain to the economy is not a huge plus.

I believe if we do that and if we target them properly there will be an added value to draw on but I do not think the added value is the key thing.

ALISON SEABECK: You are looking at the moment at city regions?

MR BEATTIE: Yes.

ALISON SEABECK: Not necessarily at existing growth?

MR BEATTIE: Not solely at city regions. I am saying there is an obvious link there. We are interested in piloting this idea in England but we must pick up the point that it should not be used indiscriminately. If it is used indiscriminately it will be almost drained of value.

CHAIRMAN: Are there any other vehicles that might help us through this? To some extent, some of the asset-backed vehicles that we were looking at and things like housing companies, where one or two local authorities were looking at going into partnership with the private sector, are almost dead in the water from what we can see in terms of the immediate response to the recession. Are there any examples of things that might start to work in the foreseeable future?

MR TAYLOR: There are things that are possible now and the examples that have been talked about in terms of agreements and restrictions upon developers. Our own Homeside scheme, which is an extension of the retail core of Sunderland, nearly stalled and the Council had to act quickly to retain the developer. What we have done is created an exclusivity agreement very much in the nature of what the Liverpool ONE discussion was about earlier. We withdrew our own retail scheme so it was no longer a competitor. We got an exclusivity agreement that protected the area around the city centre and we said we would not agree to another retail development within that area, but in return we got exactly what Trevor has been talking about which is a planned build out, "You will have a detailed planning application in by such-and-such a date and start on site," et cetera, all the way through. It can be done, even in this climate, but you have got to be tough on yourself as well as tough on the developers.

CHAIRMAN: How do you guarantee that is going to happen?

MR TAYLOR: You write it into the agreement.

CHAIRMAN: And what happens if it does not?

MR TAYLOR: We withdraw the exclusivity and we go with another scheme. We have got a scheme we can go with.

CHAIRMAN: But once it is half built maybe you cannot get another scheme to come in then; they have got you there!

MR TAYLOR: We went through it line-by-line, we looked at all of the ways it could be delayed. Clearly there is still a market element and a lot of retail will only start with a prelet, so we are both stuck on the fact that market conditions have to allow it to happen in the final stages.

MR ANDERSON: The key thing here is the importance of local context and understanding what resources you have in the system. A good case in point is the Edinburgh Bio Quarter where 18 months ago we had secured an agreement through Scottish Enterprise with Alexander Real Estate who are one of the leading developers of life science parks in North America, in their first venture outside of the US, whereby speculatively they were planning to put in £35 million-worth of phase one commercialisation laboratory facilities. Their share price has taken a dramatic collapse and we are now looking at completely reconfiguring that deal whereby they will work with the NHS, with the NHS providing some initial demand that will encourage them to begin the first phase of laboratory facilities which will also be used then for commercialisation coming out of the University and the NHS.

CHAIRMAN: Everyone is looking at the Homes and Communities Agency saying you have a major role to play in this, particularly looking to maybe do upfront funding of schemes, purchasing existing sites, assembling them, but you are going to have problems with your funding, are you not, because a lot of your funding comes from the government?

MR BEATTIE: Yes but of course the recent Budget package was very helpful in relation to that. We got the £500 million housing Kick Start programme and we have got an extra £80 million for regeneration and development which we are looking at now. We have brought forward also £1.2 billion of funding from future years into the current year precisely to make sure that we keep the momentum going and we retain the capacity. Just to take an example of the sort of figures involved, the £500 million housing Kick Start programme is going to deliver 10,000 new homes and retain about 30,000 jobs in the construction industry, so there is a lot we can do by profiling our programme more carefully and more intelligently to meet the needs of the market currently. As one or two other speakers have mentioned, we have just sought expressions of interest for a new Private Rented Sector Fund on 1 May. We are tendering for Developer Panels. We are expressing our desire to go forward with more flexible packages of support. All of it must be seen alongside the importance of retaining capacity and maintaining quality and my plea, which I think Chris made first, is that we do need flexibility in the way we deliver our resources if we are to make the most of this. Currently we are running quite a lot of different programmes in silos and the more flexibility we get from government the more ability we will have to respond.

BARONESS HAMWEE: You mentioned a few minutes ago that one of the proposals you are putting forward is that the HCA has an equity share in schemes. What has the reaction to that been or is it too early for you to say?

MR BEATTIE: It is slightly early days but we have had a lot of interest in the Developer Panels that we have been tendering for. We have some schemes which are too early to announce yet where developers certainly are keen to do that. My great interest in that model is that where public money is involved you should get something for something. I am alert to the fact that if we are going to help now we want the public sector to share in the benefits of the upturn, because the upturn is going to come, and it will come well within the lifetime of the projects that we are helping now.

BARONESS HAMWEE: Would the involvement at that level through equity also extend to any involvement in governance, if you like, board representation?

MR BEATTIE: It could do. We have not got on to that yet. It would depend on the nature of the project and the nature of the investors involved. I could not make a general statement about that but my preference is to keep our relationship with the private sector fairly simple and clear and financial.

CHAIRMAN: Any other ideas you may have that you want to bring to our attention?

MR TAYLOR: Can I pick up on one thing you said yourself, Chairman, firstly to say that Sunderland is interested in Accelerated Development Zones. We think, as someone said earlier, you can put two of these things together. It is not just for core cities. I think city regions are probably the right places and then within the city regions to see where the greatest potential is. In terms of additionality, there are some cities where these things will probably happen anyway and what you are doing is accelerating it. In some cities they might not happen or they will be much lower value if you just left it to the market however long you leave it, and therefore the additionally could be even greater in cities like Sunderland and elsewhere, although the Treasury doubtless would take a look at that. The point I really wanted to make was that if government does introduce this they had better do it fast and get on with it because the example you gave earlier was a very good one: the local housing company model is potentially out of the date now. It took a while to get here and suddenly it does not work any more or it looks like it might not work. If ADZs and TIFs come in let us not have them in five years' time.

MR ANDERSON: Can I build on a point made earlier. In a recession I think one of the most important investments to be made is in a vision for the future, and I think that is why master planning and thinking very clearly through what are the trends in the economy, what are the sources of value that will sustain this particular place in the future and how do we build for that are important. I do think that funding of master plans, in particular taking account of the need to green our cities, to make them sustainable for the future, and to put in the kind of infrastructure that will help reduce their carbon footprints is a very, very valuable investment to make at this point in the cycle.

MR BEATTIE: If I could mention quickly three additional thoughts which I do not think we have covered up to now. One is supporting local authorities with the capacity to actually promote development. I do not think we speak enough about this. In my own team within the Homes and Communities Agency I am responsible for the Advisory Team on Large Applications, ATLAS, which goes into local authorities and works for local authorities and provides them with direct expertise to expedite planning applications. I think we under-estimate the benefit of just simple direct practical capacity in local authorities. Sometimes we seek too complex a solution when the answer is to give the local authority some real expertise and capacity.

Secondly, I would like to underpin the importance in the current market of the public sector acting as a developer in its own right and local authorities taking on the role of patient investor. I think that is something that the current market is demanding and I think the HCA can work with local authorities to make it possible for them to do this.

Thirdly, surplus public sector land. The Chancellor announced in the Budget he wanted to bring forward some £16 billion-worth of public sector land and assets for disposal. The HCA stands ready to support in that task of disposal, but I would like to see that task of disposal undertaken alongside an understanding that much of that land could play a major role in supporting the regeneration of our towns and cities.

CHAIRMAN: Thank you very much indeed. Those are really helpful suggestions you have given to us. Can I thank everyone for coming along to listen to the evidence that we have received. I have got a little reminder to mention that the launch of the report which we are going to produce as a result of the evidence that we have received is on 30 June and we are doing it in conjunction with the Smith Institute. Thank you once again to Centre for Cities and the British Property Federation for helping us to put this together. Thank you very much for coming.