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# **Challenging the Myths: an investigation of the barriers to wider use of Local Asset Backed Vehicles in the UK**

Authors: Dr Paul Greenhalgh, Reader in Real Estate Economics at Northumbria University and Bikki Purewal

## **Abstract**

With a shortage of debt funding, particularly for real estate investment and development, alongside public sector funding cuts, the full effects of which are only just being felt, the need to explore alternative modes of regeneration financing has, arguably, never been so acute. When considering the public sector real estate asset base, comprising operational assets, commercial estate and development land, a series of questions, mostly related to access of finance, are raised. Such questions are often prompted by concerns about refurbishment requirements and liabilities, financing of new developments, the creation of sustainable communities and the delivery of better estate management. How will these be funded in light of current budgetary and wider resource constraints? One option is Local Asset Backed Vehicles (LABVs).

LABVs are limited liability special purpose joint ventures, operating through Public Private Partnership (PPP) collaboration between a public body and a private company. HM Treasury's review of sub-national economic development (1) emphasized that central government would support the development of LABV's but despite being widely touted by both public and private sectors as a viable way to generate additional infrastructure funding, by packaging local authority owned assets with private sector equity and expertise, their use in the U.K. remains subdued. In the intervening period there has been little objective evaluation of their merits, problems and performance, resulting in myth and rumour filling the gaps.

This article presents findings of a research project that sought to identify essential success factors and investigate barriers preventing wider uptake, firstly through a comprehensive review of literature on LABVs that have operated in the U.K. over the last decade, and secondly, by capturing, through expert interviews, the perceptions and experiences of practitioners involved in such LABVs. The study sheds light on some of the myths surrounding LABVs and attempts to dispel some of the common misconceptions surrounding their procurement, operation and performance. The research ultimately sought to identify the key measures that are required to make LABVs a more viable tool for financing and facilitating investment in economic development, regeneration and renewal in the U.K.

## **Introduction**

Faced with the need to reduce public sector debt whilst simultaneously seeking to expand and improve infrastructure and public facilities, governments increasingly regard the private sector as an important source of finance. In the U.K., successive Governments have encouraged public sector organisations to enter into long-term contractual partnership agreements with the private sector (commonly known as Public Private Partnerships or PPPs), one example of which is Local Asset Backed Vehicles (LABVs), which are limited liability special purpose joint ventures, operating through PPP (2-3).

By providing long term investment horizons that are attractive to institutional funds, in combination with a public/private partnership working ethos, risk sharing and a holistic approach, LABVs offer an investment vehicle that can be used to fund and deliver comprehensive, area based regeneration and renewal of operational assets during an era of reduced public sector spending and austerity. In essence, the public sector invests property assets which are matched by a private sector partner; the partnership uses the assets as collateral to raise debt finance to develop and regenerate the portfolio, with the assets reverting back to the public sector if the partnership does not proceed as expected (4).

H.M. Treasury's review of sub-national economic development (1) emphasized that central government would support the development of LABV's, but despite being widely touted by both public and private sectors since (2, 5-14), as a viable way to generate additional infrastructure funding, by packaging local authority owned assets with private sector equity and expertise, their use in the U.K. remains subdued. Thompson (15), observes that there has been little objective evaluation of their merits, problems and performance, resulting in myth and rumour filling the gaps, a deficiency this research seeks to address by investigating the barriers that are retarding their utilisation and exploring how such barriers may be overcome.

This article presents findings of a research project that sought to identify essential success factors and investigate barriers preventing wider uptake, firstly through a comprehensive review of literature on LABVs that have operated in the U.K. over the last decade, and secondly, by capturing through expert interviews, the perceptions and experiences of practitioners involved in such LABVs. The study ultimately sought to identify the key measures that are required to make LABV a more viable tool for financing and facilitating investment in economic development, regeneration and renewal in the U.K.

The next section of the article provides a brief summary of the context for the emergence of the LABV model, contrasting it with other procurement and asset disposal mechanisms such as PFI; this is followed by a comprehensive overview of the operation of LABVs in the UK, identification of the barriers preventing or hindering progress and examination of possible solutions to overcoming some of the problems encountered by PPPs through a series of elite interviews, before presenting findings and drawing some conclusions.

## **Context for the introduction of LABVs**

Perhaps the most notorious and controversial form of PPP is the Private Finance Initiative, launched by Norman Lamont, the then Conservative Chancellor of the Exchequer, in 1992 and aggressively expanded by New Labour in the latter half of the same decade. It was ostensibly employed as a mechanism to procure private sector funding and expertise for the delivery and operation of public goods, at the same time as getting capital spending for schools, hospitals, prisons and highways off the public sector balance sheet. PFI's reputation has become somewhat tarnished of late (16-20). With the credit crunch and its subsequent after effects constraining debt based lending for projects, there is an emerging consensus for the need to find alternative longer-term funding models to facilitate the provision, management and enhancement of real estate assets (9, 21-22); LABVs, along with other asset based mechanisms such as Non-Profit Distribution, Growth Bonds, Regulated Assets Base models and business rates retention funding mechanisms such as Accelerated Development Zones, Tax Increment Financing and the new breed of Enterprise Zones, have been identified as a viable mechanism to fund the delivery of infrastructure to support areas based regeneration and development (20 & 22)

Haran et al (9) recommend rollout of LABVs at local authority level, to enable the more effective use of assets and bring forward regeneration. Some consultants who, it should be noted, have earned substantial fees from advising clients on LABVs, believe that asset backed structures are more relevant today (in austerity era conditions) than ever (11-13); providing local authorities with a model that simultaneously offers continued control over the direction of the investment, reduced exposure to deflated asset values, access to gearing and increased flexibility in the vehicle used to deliver infrastructure projects.

*'Public funding cuts and limited debt finance means that for schemes to progress, innovations will be needed to deliver regeneration projects over the long term. More than ever partnerships and collaboration between regeneration agents and investors are needed to move projects forward and to reap the benefits of the future a long term vision must be sought'. (23)*

Thompson (15), similarly regards such long-term vehicles, as 'pragmatic opportunities to deliver outputs and support change in an age of austerity'. Conversely, John Laing's decision to pull out of most of its LABV bids, would suggest they are not as confident in the model as others; the main reason cited being a lack of traction and scale in UK social infrastructure opportunities (24). Whilst John Laing made it clear that the door is not closed to LABVs, their decision sends a clear message that LABVs are not a 'panacea' for all projects, partners or organisations.

Grace and Ludiman (2) regarded LABVs as one of four main methods of asset disposal:

1. Land sales - The sale of assets to raise short term capital but potentially entails losing control over strategic assets which may impair strategic

regeneration initiatives in the future and may not maximise full potential of assets;

2. Development agreements - Similar to land sales in terms of selling land however only for single sites and rarely contribute to the sustainable long term regeneration of an area;
3. Private Finance Initiative (PFI) - Highly inflexible and difficult to operate but does gain access to private sector funding; the public sector pays the private sector partner a fixed fee to manage portfolio of properties;
4. LABVs - structured to hold and control property assets, thereby leveraging private sector equity investment and raising third party debt. In contrast to PFI, they are flexible enough to add further projects during the life of the partnership and change direction by simple agreement of the parties rather than a significant re-writing of the legal documents.

The generic characteristics of each method is summarised in Table 1:

Table 1 Summary of characteristics of Methods of Disposal (Source: 2)

	Flexibility	Control	Maximise Assets Value	Holistic	Structured delivery
Land Sale	-	x	x	x	x
Development Agreement	x	✓	x	x	-
PFI	x	✓	x	-	✓
LABV	✓	✓	✓	✓	✓

LABVs typically operate for around 20 years, after which the assets are returned to the investing partners through a pre-determined exit strategy e.g. selling land with planning permission, selling land once development is complete, or retaining the development as an investment. Before entering into a partnership, the long term goals of the partnership are detailed in the legal documents. These protect the wider social and economic aims of the public sector along with the pre-agreed business plans based on the requirements of the private sector (7). One of the challenges of researching the performance of LABVs is that the contract documents are commercially sensitive and typically confidential to the partners; other limitations of study include a paucity of performance data and a lack of transparency and objective evaluations of LABVs.

LABV schemes can address some of the weaknesses of other economic development vehicles which have been criticised for being overly complex and lacking sufficient financial and political resources to deliver growth (10). LABVs in theory appear to be a relatively straightforward finance and investment vehicle however the reality is somewhat more complex, a view shared by Pinsent Masons who state:

*“This is not an area where it is possible to create a ‘one-size fits all’ model. Regulatory and structural issues will vary from project to project and each structure requires a bespoke approach.’ (12)*

Where traditional PPPs, such as PFI, have a specific and clear purpose, for example the construction and operation of hospital and educational buildings, LABVs are a long-term partnership for the regeneration of a city, town or a cluster of communities, which needs to be more flexible as priorities may change over the duration of the contract, e.g. due to political changes (15). Bidgood (20) acknowledges that LABVs avoid some of the cumbersome and bureaucratic procurement process and high upfront and start-up costs associated with procurement using PFI. LABVs also offer shorter contractual terms, allow the public sector to exploit and unlock the economics potential of its estate through regeneration and rationalisation, gain private sector efficiency in a less contractualised manner, but are heavily dependent on the location of the assets (20).

Pinsent Masons (13) identify three levels of complexity and involvement in LABVs as described in the Table 2:

Table 2 Three Levels of Complexity and Involvement (Source: 13)

Investment	Used where site(s) requires significant investment to make it marketable, e.g. where major infrastructure, remediation or substantial planning input is required but otherwise the opportunity is viable. A private sector investor will fund this requirement. Once the works have been carried out & site value is enhanced, the LABV will sell it (or parts of), on the open market. Risk adopted is relatively low and profit is fairly modest.
Value Capture	LABV acts as the developer, ensuring sites are ready for development, carries out infrastructure works, obtains planning permission and conducts site remediation. This type of LABV provides greater scope for profit but risks will be higher.
Integrated	Deliver most if not all of the required development. The construction supply chain is procured before the LABV is established. The vehicle potentially carries the greatest risk for land assets, planning infrastructure, some or all constructions sales but offers the greatest potential for high levels of profit.

There are many LABV models due to the variety of requirements from the different parties. Thompson (15) in his insightful report for RICS, highlights the range of requirements and recommends that a blend of vehicles could be appropriate. This flexibility and ability to adapt may be regarded as one of the main advantages LABVs have over traditional investment models. The following section sets out the key characteristics and attributes of LABVs as well as some of the limitations of the model.

### **LABV Characteristics and Operation**

Most LABVs are 50:50 public/private partnerships with the specific purpose of contributing to economic development through the promotion of regeneration and

renewal of real estate assets. Typically the public sector invests property assets into the vehicle which are then 'value matched' by private sector equity. The partnership uses the assets as security to raise further finance in order to bring forward further investment and development in the assets. The public and private sector partners are equal equity holders and share profits and risk according to their original equity contribution. A basic LABV model is illustrated in Figure 1 below:

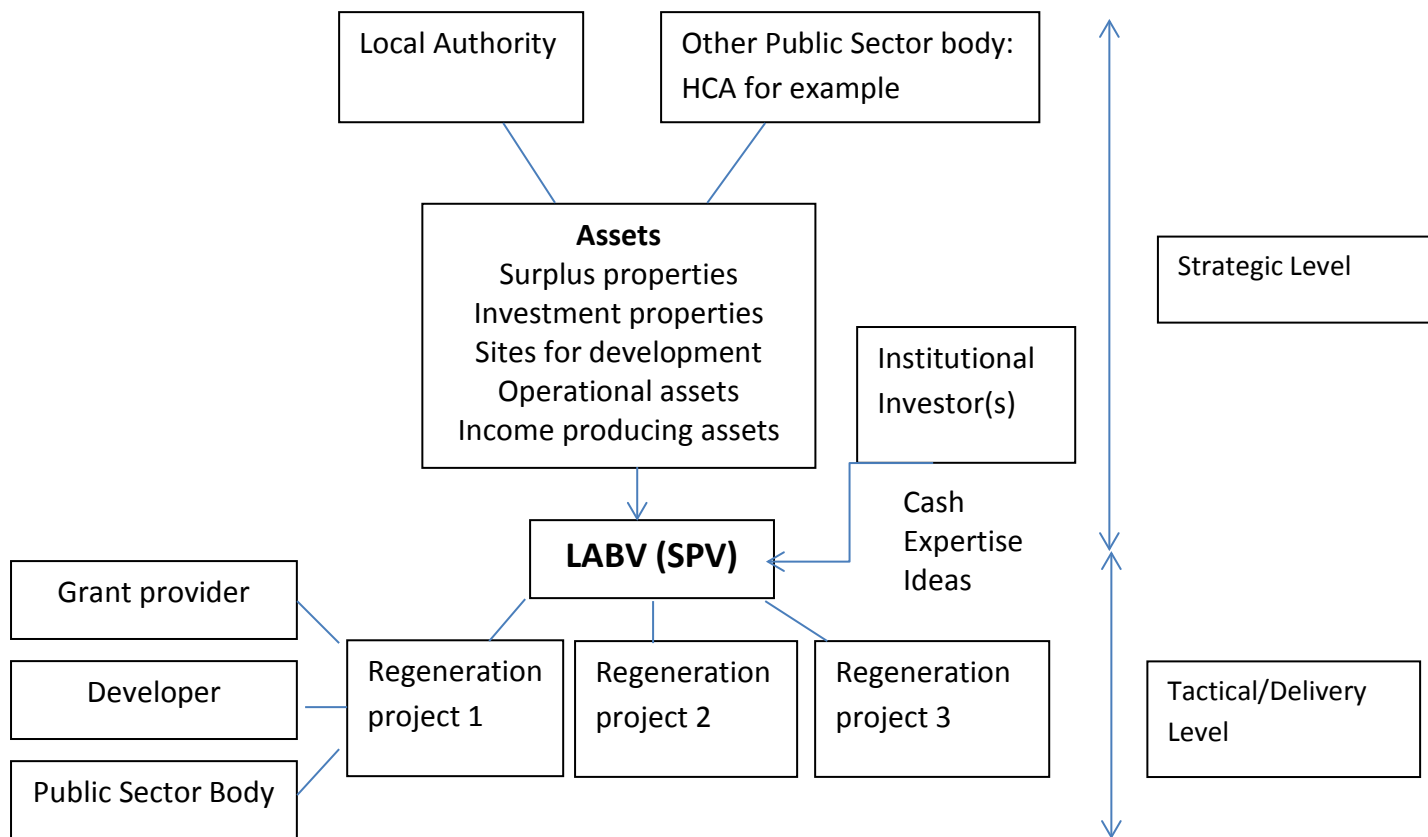


Figure 1: LABV Model (adaptation of 25 & 2)



LABVs incentivise the private sector to invest and deliver over the longer term as returns are subject to the performance of the partnership over 10-20 years. This longer-term investment perspective is seen as an attractive feature of the model, emphasised by the Brookings Institution (26) and their recognition of 'patient capital' being crucial to redevelopment and regeneration in a recession.

Harrison and Marshall (10) argue that LABVs are unlikely to be suitable for every Local Authority; for some, a series of legal, technical and financial challenges must be overcome in order for the LABV model to deliver local growth. They stress the importance of councils considering their options carefully before proceeding with a LABV, and rigorously evaluating their land holdings alongside their strategic development priorities to assess whether a LABV might help to leverage additional investment and in turn support local economic growth (10).

The need to do things differently is compelling and LABVs represent a potential alternative to traditional funding and investment models; the main benefits of which have been noted, in particular their ability to bring together the public and private sectors under an aligned vision and, provide a funding solution for long-term regeneration initiative. Despite these attributes, and broadly positive experience of pioneering LABVs (6), the model is under-used and it appears that wider employment of LABVs is hindered by a number of real and perceived barriers. Updating survey research conducted by Thompson (16) for the RICS in 2012, Table 3 characterises twenty LABVs that have been created in the UK since 2002 and classifies them into one of four types.

Table 3 LABVs created in England 2002-2014 (Source: 16; 27-33)

Start Date	Duration (years)	Name of LABV	Public sector partner	Private sector partner	Indicative Forecast Value (£m)	Type	Purpose
2002	15	ISIS Waterside Regeneration	Canal and River Trust (previously British Waterways)	MUSE (previously AMEC) part of Morgan Sindall Group; bought out Aviva/Igloo's 50% interest	50	operational & development	Regeneration of 5 canal-side assets in Birmingham, Brentford, Glasgow, Leeds and Manchester
2004	5-10*	North East Property Partnership trading as Buildings for Business	Homes & Communities Agency (previously ONE North East)	UK Land Estates	155	management	Management of investment portfolio of 1700 predominantly industrial properties over 49 acres; *UK Land bought out HCA/ONE North East interest 2013 effectively terminating JV
2005	10	Blueprint	Homes & Communities Agency (previously East Midlands Development Agency and English Partnerships)	Igloo (wholly owned subsidiary of Aviva Investors)	45	management	Management of investment portfolio and regeneration of town centre sites/business parks
2006	10	Space North West Ltd trading as Norwepp	Homes & Communities Agency (previously North West RDA)	Ashtenne Industrial Fund; subsequently acquired by Halsteen	140	management	Management of wide portfolio of assets in Merseyside and Cumbria. Developments include Liverpool Innovation Park and Exchange Station
2007	10	PxP	Homes & Communities Agency (previously Advantage West Midlands)	Langtree and Bank of Scotland	64	management	Management of 600,000 sq.ft. investment portfolio over 130 acres; target of £100m
2008	28	Croydon Council Urban Regeneration Vehicle (CCURV)	London Borough of Croydon	John Laing	450	town centre development	Four town centre sites: Bernard Weatherill House; Waddon Leisure Centre; Taberner House; Lion Green Car Park; key project is Public Service Delivery Hub for Council

2008	10*	Tunbridge Wells Regeneration Company	Tunbridge Wells BC	John Laing	150	town centre development	Regeneration and development projects in Royal Tunbridge Wells, Cranbrook, Paddock Wood and Southborough but none delivered; * dissolved 2012 with financial settlement for John Laing
2008	10	Solum Regeneration	Network Rail	Kier	500	operational	Regeneration of railway station assets; 14 project with initial focus on 7 locations: Christchurch, Epsom, Walthamstow, Redhill, Haywards Heath, Twickenham & Guiford
2009	15+	SkyPark	Devon County Council	St Modwen	210	development	Development of site at Exeter airport for 1.4m sq.ft. business park
2009	15	Onsite North East (previously ONEDIN)	Homes & Communities Agency (previously ONE North East)	Langtree Real Estate Holdings	25	development	Regeneration of 23 non-operational development sites comprising approximately 1000a in North East
2010	20	Aylesbury Vale Estates (AVE) LLP	Aylesbury Vale DC	Guildhouse	3.6 p.a.	Town centre management	Management/ investment of a mixed portfolio of non-operational assets; purchased Hale Leys Shopping Centre 2012
2010	20	Sci-Tech Daresbury (previously Daresbury Science and Innovation Campus)	Halton Borough Council and Science and Technology Facilities Council	Langtree Real Estate Holdings	30	development	Development of 1m sq.ft. of space for science and technology organisations; 9ha designated Enterprise Zone status 2011
2011	20	Bournemouth Development Company	Bournemouth Borough Council	Morgan Sindall Investments Ltd	350-500	town centre development	Development of 16 sites, principally surface car parks, to contribute to delivery of

							Council's Town Centre Vision
2011	10	Barton Oxford LLP	Oxford City Council	Grosvenor Developments Ltd	40	residential development	Co-investment partner to bring forward development of 885 units on 38ha
2011	unknown	Scotswood Local Housing Company trading as New Tyne West Development Company LLP	Newcastle City Council	Barratt/David Wilson Homes and Keepmoat Homes	265	residential development	Establishment of a Local Housing Company Joint Venture to deliver 1,800 homes on a 66ha (125a) site in west end of Newcastle upon Tyne; backing from HCA
2011	15	Sheffield Housing Company	Sheffield City Council	Keepmoat Ltd and Great Places Housing Group	unknown	residential development	Multi-phase delivery of 2300 new homes on 60ha of council owned brownfield land
2012	15	Slough Regeneration Vehicle	Slough Borough Council	Morgan Sindall Investments Ltd	1000	town centre development	Phase 1 The Curve
2013	20-25	Kier Kent Initiative	Kent County Council	Kier Group	unknown	residential development	3 Kent County Council owned sites in Sevenoaks, Canterbury and Swale to provide 152 new homes
2013	unknown	Wire Regeneration Ltd	Warrington Borough Council	Langtree Real Estate Holdings	unknown	town centre development	Development of southern (Wilderspool) gateway
2013	20	Evolution Gateshead	Gateshead Metropolitan Borough Council	Home Housing Group	347	residential development	19 council owned sites to deliver 2400 new homes

Despite the apparent successful creation of up to 20 LABVs in England, our review of the relatively limited literature on the operation and performance of LABVs (2, 10-13, 15-16, 27) has identified the following barriers that are preventing wider use of the model in the UK:

- a) Procurement and partnership
- b) Low market values
- c) Risk transfer
- d) Economies of scale and critical mass
- e) Lack of skills, knowledge and expertise
- f) Lack of objective evaluation of performance

The following section briefly contemplates each of these barriers in turn, before setting out the research methodology that was employed to investigate whether, in

practice, these barriers are surmountable and what needs to be done to overcome them.

## **Barriers hindering wider use of LABVs in the UK**

### a) Procurement and partnership

A local authority seeking a private sector partner must embark on a competitive tender process in line with European Law; if procuring more than just equity provision. i.e. procuring goods/works/services, they must then embark on OJEU Public Procurement process (8). The BPF/LGA (6) observed that both developers and local authorities are frustrated by the overly prescriptive, complex, prolonged and expensive EU procurement processes and that such lengthy and costly procedures act as a barrier for developers, making it harder for many local authorities to find a suitable private sector investor.

In contrast, Thompson (16) suggests that core principles can be adopted to help overcome some of the procurement challenges, starting with the agreeing of a strategic direction, establishing a decision-making structure, before identifying resources and ensuring that all parts of the organisation are in constant communication. Sadly, such an approach is rare in practice, with public and private sectors traditionally divided by mistrust and conflicting cultures, goals, motivations and objectives (34).

### b) Low market values

The credit crunch and consequent restriction of debt financing may have impaired the use of LABVs in the U.K., but in many respects the LABV model is perfectly suited to the current economic climate, with its potential to increase value by introducing high value end-uses to low value sites or using high value assets to cross subsidise low value assets (2). The potential for creating value depends on a number of variables such as the nature, quality, location and range of assets put into the LABV. The ability to attract private-sector partners will be easier in areas where markets are more buoyant, of which there are few outside Greater London and parts of southern of England, leading to some doubt as to the efficacy of the LABV model to deliver regeneration in areas that most need assistance (10). Local Incentive Backed Vehicles (LIBVs) have been proposed as alternative model that gets round the problem of the public sector transferring their assets at the bottom of a market by establishing a development partnership where the private sector partner pays for the cost of development in return for an option to purchase the development assets at a price that is based on future values (6, 22, 35). Implicit within both LABV and LIBV models is a long term perspective that should offer potential for competitive returns to be made over the longer term (23).

### c) Risk Transfer

Entering into a long-term partnership offers the public sector a number of benefits, such as access to new markets, increased capacity, risk sharing, access to greater resources including staff, private sector expertise and finance, as well as ensuring that development strategies are focused and coherent (10). Despite such benefits,

LABV take up in the U.K. has been relatively low (see Table 3). There are a number of reasons for this. Local authorities have a responsibility to ensure they get best value from the disposal of public assets and are cautious about ‘selling off the family silver’ at the wrong time of the property cycle or handing over control of public assets (6)

d) Economies of scale and critical mass

Whilst the creation of an LABV is complex and requires significant investment of time and resources up front, the rewards of doing so may be reaped downstream. The pursuit of the redevelopment of a number of separate sites using a conventional procurement model would require hundreds of separate meetings and discussions by different parties at different times to gain approval. The LABV model allows different sites to be considered as one portfolio, reducing duplication and enhancing efficiency by adopting a strategic approach as well as creating opportunities for imaginative use of phasing and cross subsidising between different components, sites and end-uses.

e) Lack of skills, knowledge and expertise

The lack of skills, expertise and resources in the public sector to effectively procure a LABV can act a deterrent to potential private sector partners who regard the need to help their public sector partner through an education process of how to be directors of a LABV and get their governance in line with the LABV structure as time consuming and burdensome. Conversely, some private sector consultants see this as an opportunity to earn fees by providing expertise and knowledge to compensate for deficiencies in the public sector.

f) Lack of objective evaluation of performance

LABVs are still in their infancy and with little data available, there is a general lack of objective analysis and evaluation of their performance. In its evidence to the APUGD (5), RICS suggested that the potential for LABVs to deliver desired outcomes for local authorities was, arguably, over-stated when LABVs were first introduced, which generated a level of expectation in the market that was unlikely to be delivered (6). The need for more transparent, robust information is a recurring theme with LABVs; Thompson (15), suggests that the costs and complexity of creating LABVs could be mitigated if the public sector share its knowledge, experiences and contract documentation more widely. There are clear benefits to sharing of best practice, lessons learned and demonstration efficacy and performance of various models through comparative study.

## **Research Methodology**

To answer the questions posed earlier in the paper, a research strategy was adopted to gather empirical data and evidence, by way of a comprehensive review of literature of LABVs, in order to identify the barriers that are preventing greater use of LABVs. The experience of operating LABVs, their strength and weaknesses, critical

success factors and opportunities to overcome barriers were explored by way of in-depth 'elite' interviews with seven practitioners, comprising three private practice consultants, two public sector, one legal sector and one developer, all of whom have intimate experience of advising on, procuring and operating LABVs in the U.K. (for a description of and rationale for elite interviewing (36 & 37).

All interviewees were asked the same 14 questions and their responses were transcribed in full and analysed using thematic analysis, adopting a three stage process as shown in Figure 2, whereby recurring points were identified, coded, clustered and synthesised in order to answer the research questions. Interview transcripts were analysed using the constant comparative method which subjects the data to rigorous and systematic analysis to derive propositions through inductive reasoning (38 & 39) to develop propositions of statements of fact derived inductively from rigorous and systematic analysis of interview data and empirical observations (40). King and Horrocks (41) confirm that the fundamental reason for carrying out thematic analysis is to deepen understanding and explanation. A cross case analysis was performed by tabulating and comparing the response of interviewees to each question to distil responses down into overarching themes which emerge from analysis of the interview data.

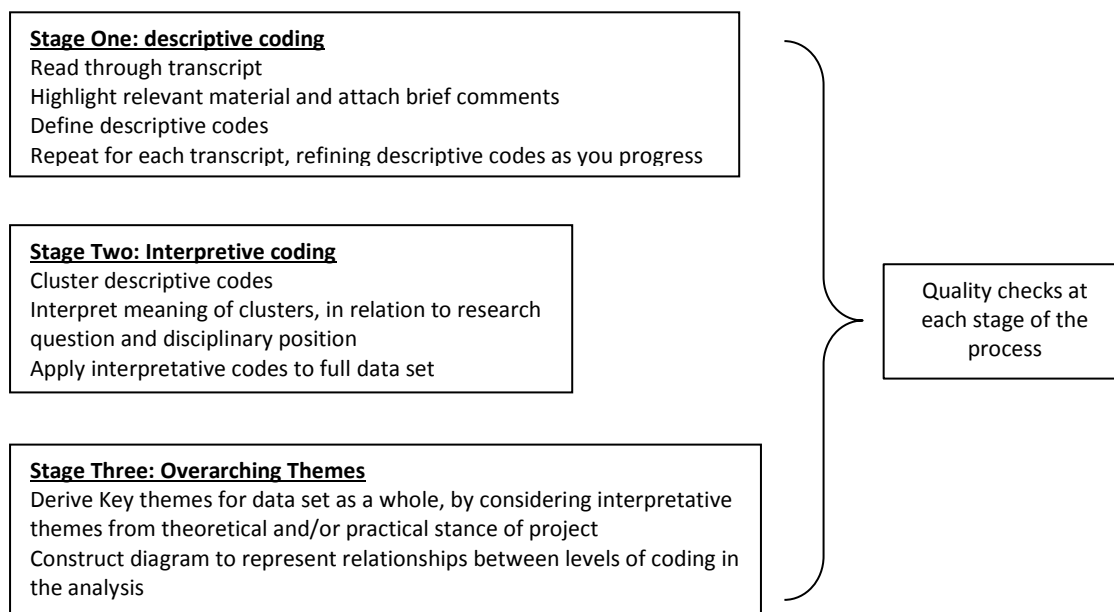
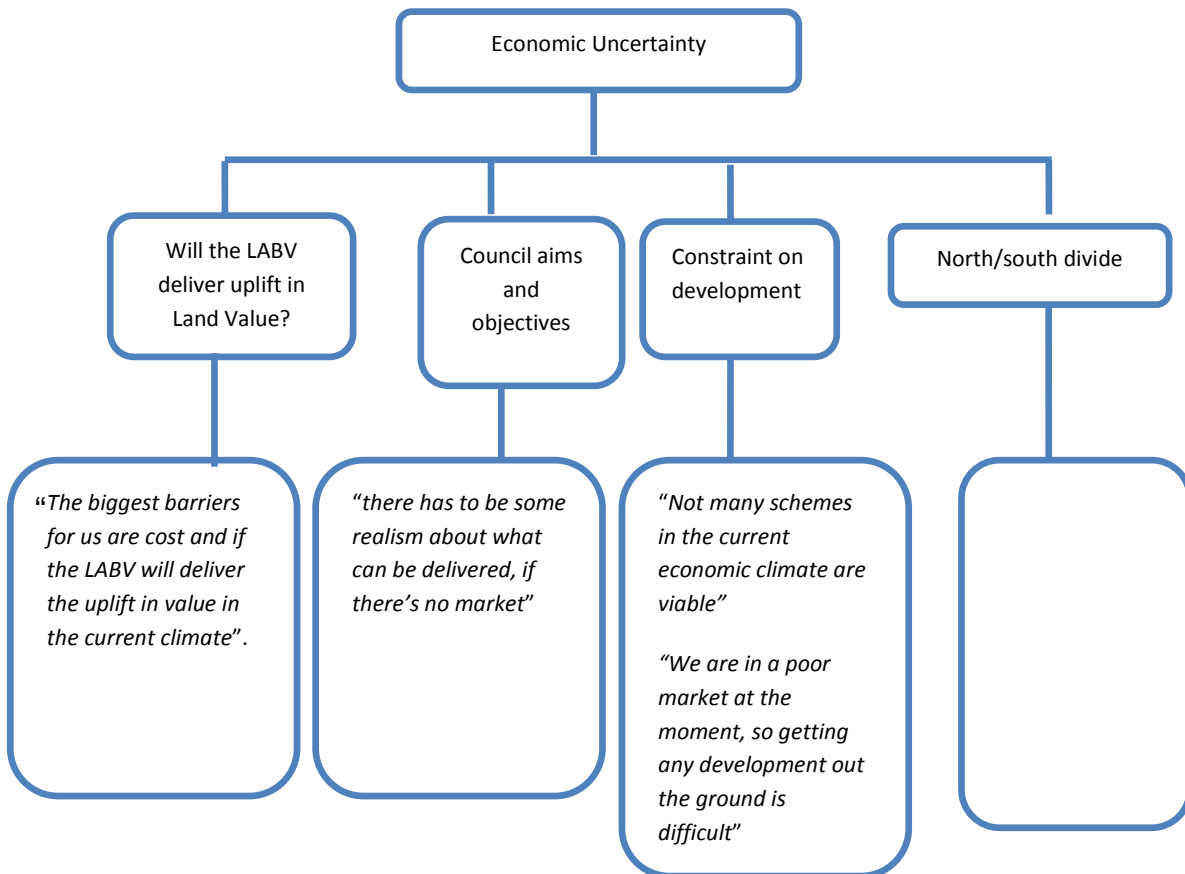


Figure 2 – Three stage process of thematic analysis (Source: 41)

The following section presents the seven themes that emerged from the cross case analysis, using simple flow diagrams where appropriate to summarise the key components of each theme, validated by relevant quotes from the interviewees. When quoting the respondents, their anonymity is protected by referring to them by letter (A-G) only.

### 1. Economic Uncertainty



All respondents agreed that the global financial crisis and resulting economic downturn and recession, had acted as a constraint on development and diminished what the LABV model could deliver, and acknowledged that public sector expectations would need to be tempered accordingly.

*“The vision must be realistic and capable of delivering the council’s aims and consideration must be taken into account of the current financial climate”.*

*Interviewee A*

Partnership needs to generate good ideas, from both sides, which are realistic in the current economic climate; the private sector should not solely be responsible for ideas and innovation influencing the direction and performance of LABVs.

One of the perceived barriers to adoption of LABVs is that they require rising land values to work, which in most areas requiring regeneration is an unrealistic expectation in the current economic climate. Our findings show this is false and inaccurate impression, as interviewee D explained:

*“I think probably if you sat on land and did nothing with it, then yes uplift in value would not occur; that is why you bring in the experienced private sector partner to create that value uplift”.*

Interviewee E further elaborated:



*“The council initially needs the help of a private investor to de-risk the site by getting planning consent and remediation works etc. and once the land is ready for development this would make schemes viable.”*

Interviewee D further highlighted the strength of the LABV model by stating:

*“It’s effectively creating its own market on the sites. This presents options (such as exit strategies) to the council which weren’t available before”.*

Interviewee D summarises this strength of the LABV with an example:

*“There is an LABV being entered into at xxxxxx where the land value is zero but you know by putting the sites in at zero and getting a developer to help create some site value then the partner can see, ok, yes, we can make some money here”.*

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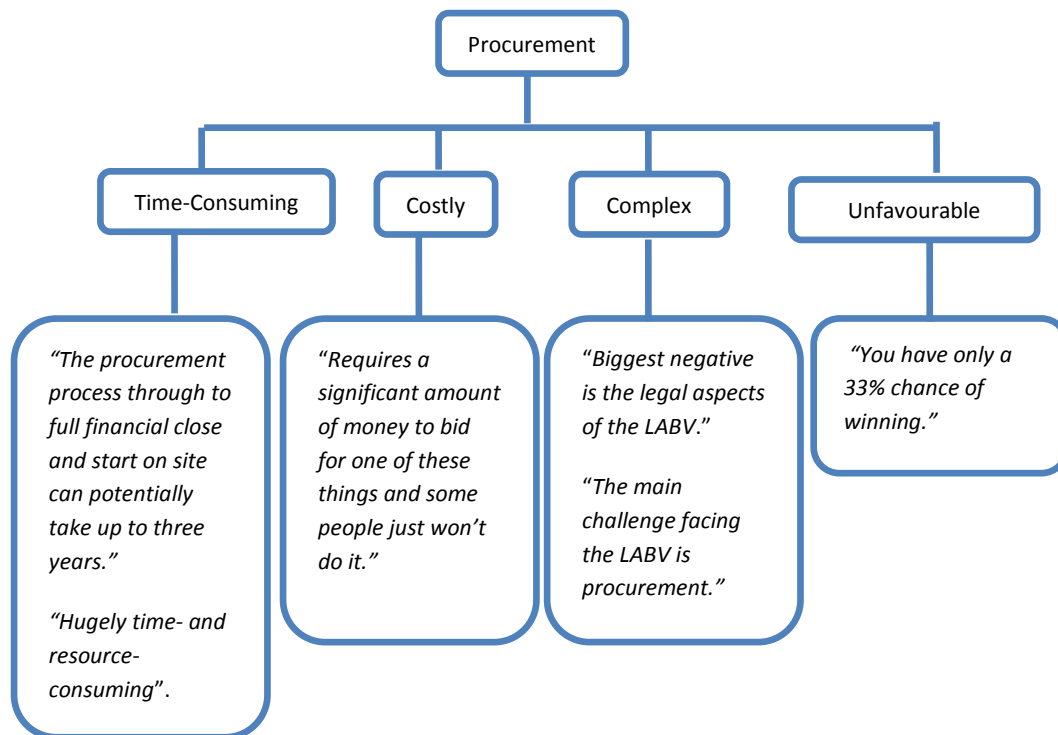
## 2. Accessing other sources of funding

LABVs can access other funding sources such as revolving loan funding such as Growing Places Fund and JESSICA; business rates retention such as Tax Increment Financing (TIF), Enterprise Zones (EZs) and Accelerated Development Zones (ADZ); and development levies or incentives such as Community Infrastructure Levy (CIL) and New Homes Bonus. The LABV is its own separate entity/company and therefore has to bid separately for alternative sources of funding. By doing so, any funding gaps which may arise within the LABV could be filled and no state aid rules would be breached as the LABV is at arms-length from the council. Interviewee E observed that:

*“a combination of these tools does prop up the viability of the LABV.....they are an added bonus”.*

In conceiving new LABVs, partners should be cognisant of the potential to tap in to other sources of funding not available or rationed to Local Authorities. Interviewee D highlighted arrangements in recent LABVs for the profits of both parties to be recycled to fill funding gaps for further development.

### 3. Procurement



The time, cost and complexity of procurement was a near universal cause for complaint amongst interviewees. One of the common concerns surrounding procurement was that it was a lengthy process which acted as a deterrent to investors. Interviewee D confirmed that in the procurement process, the demands of OJEU is the biggest barrier to the wider use of the model, discouraging potential private sector investors from participating in a complex, costly and demanding process when they are not guaranteed success, observing that:

*"You get some developers who see there is an OJEU process which has to be entered into first and straight away say no, we are not bidding for that!"*

There are some structures, such as co-investment partnerships, that avoid the requirement to follow OJEU process, which demonstrate how quickly LABVs can be put in place. For example, one city council achieved financial closure on its LABV within eight months. Where development is being procured, full OJEU process is unavoidable, however, as experience and knowledge grows, timescales may be reduced from 2-3 years to twelve months. Interviewee F agreed that the procurement process is becoming quicker:

*"yyyyyy City Council are going about this process in a speedy manner and hope to have full closure and a partner selected within 12 – 18 months"*

Each individual local authority is different and the overall aims and objectives of the partnership should determine both the appropriate model to be used which will in

turn influence the how the procurement process is conducted and the time taken to complete.

The cost to the private sector of bidding for a LABV is also a concern, articulated by Interviewee B:

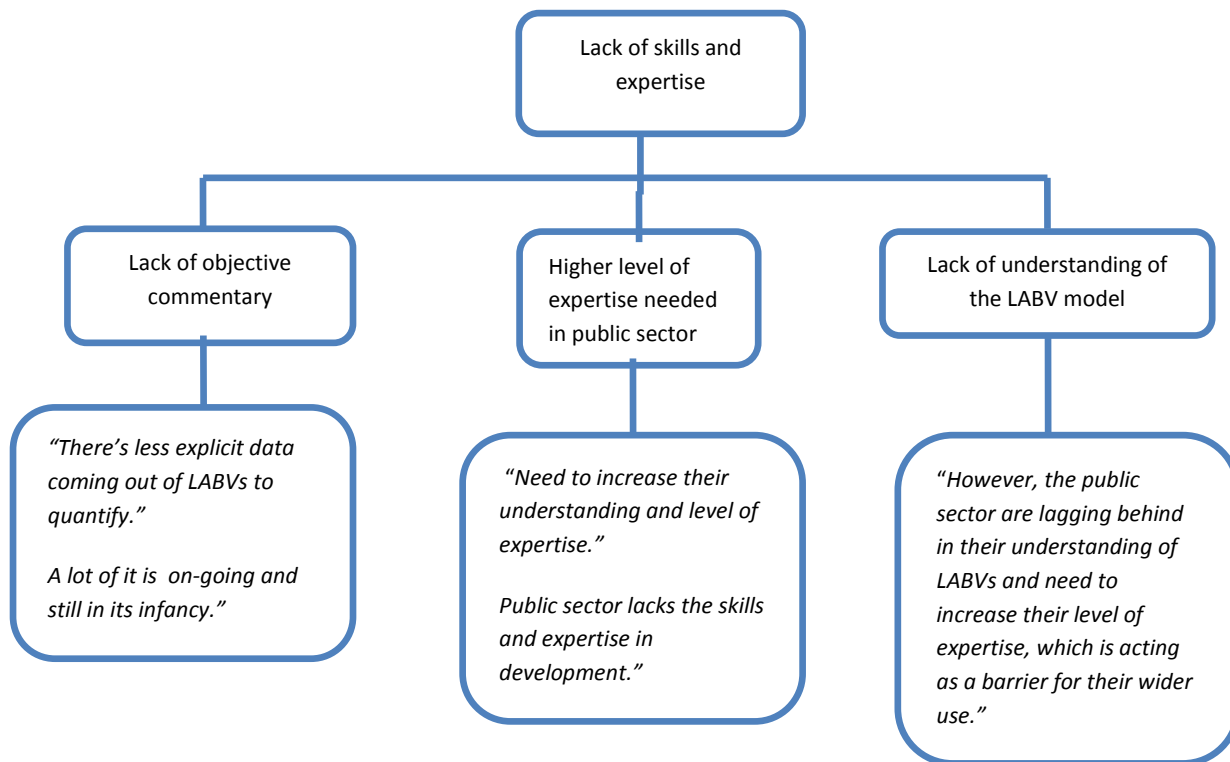
*“In current (market) conditions private sector bidders are unable to speculate significant sums of expenditure on bid costs and so any new LABV model would need to be procured in a more cost and time-efficient way”.*

Shorter procurement timescales should result in reduced costs for both the public and private sectors.

Frustration was expressed about the slow speed of public sector decision-making. Interviewees C and D acknowledged that whilst local authorities are complex organisations, that must conduct their business in a transparent and accountable fashion, the competitive dialogue could be improved by a clear focus on the required outputs of the process and speedier evaluation of the final shortlist of candidates.

Whilst there was unanimity among the interviewees of the need to review and simplify both bidding and funding application processes and legislation, that are hampering development deterring investors, there was uncertainty as to how this could be achieved, requiring as it does a commitment from the Government to re-negotiate European legislation and provide some form of exemption from OJEU for LABVs.

#### 4. Lack of skills, knowledge and expertise



Some public sector bodies that might be interested in exploring the potential to create an LABV are often hindered by a lack of in-house skills and expertise to do so. Ironically, the LABV model may itself offer a potential solution to the problem:

*“the public sector (often) don’t have the skills or the funding to take regeneration forward by themselves……they need private sector input”.*

Interviewee D

The lack of in-house capacity is exacerbated by a dearth of objective commentary and best practice with which improve understanding. An initiative to create a central knowledge pool of practice and experience of procuring and operating LABVs would represent a major contribution to collective intelligence.

#### 5. Reluctance of Local authorities to release Assets

LAs may be reluctant, or at the very least ambivalent towards the prospect of employing the LABV model to pursue regeneration and economic development. Whether this is due to them being risk averse or simply sceptical about the merits of a model, about which little is known, is unclear.

*“The public sector is (generally) risk-averse and (is concerned) about things other than profit and finance, such as job creation & social welfare; whereas the private sector is about financial return; there are suspicions between both parties”.*

Interviewee F

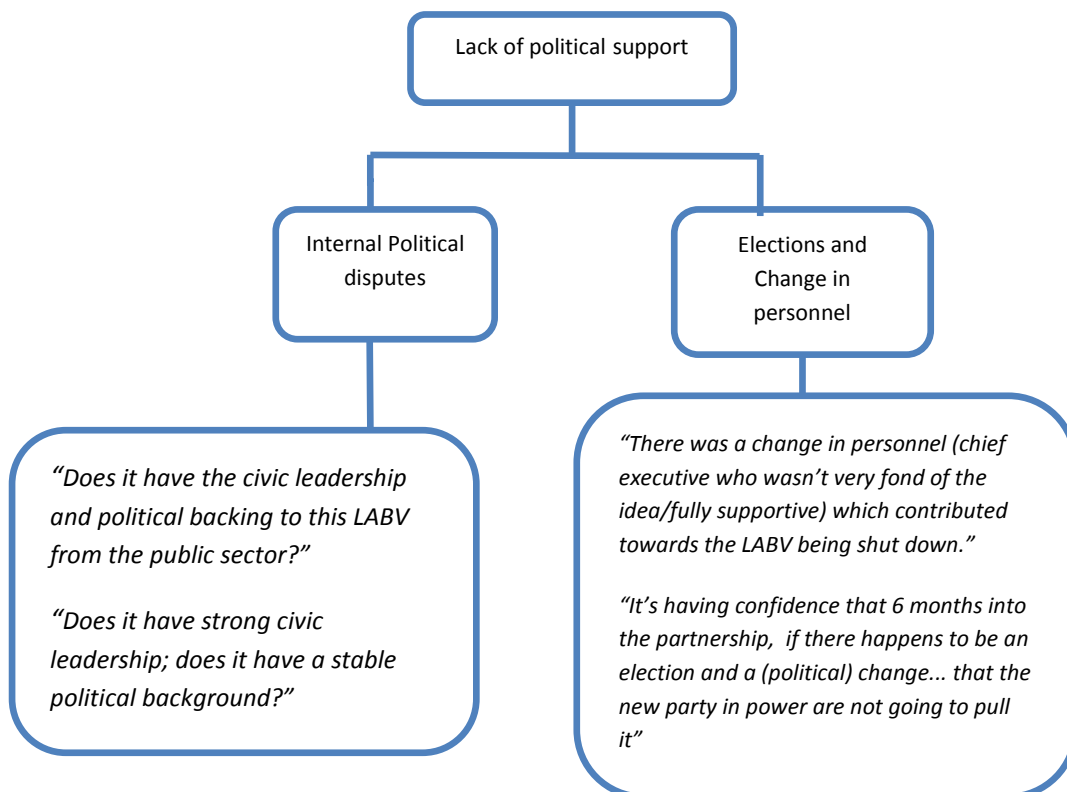
Interviewee D observed that whilst local authorities often rejected the LABV model on the ground that, by giving the private sector full control their assets, they would be ‘selling off the family silver’, the opposite is in fact the case, as assets are only transferred into the vehicle once a business plan has been agreed by both parties with the public sector explicitly building in protection of their assets.

Interviewee D explained further,

*“Fears about loss (of control) can be allayed as in reality the LABV retains a high degree of control for the public sector even in relation to assets that are subject to a pre-agreed business plan to which both parties must adhere”.*

# offer summary of this section

## 6. Competing Priorities



With diminishing budgets, local authorities are compelled to re-assess their priorities in order to reduce cost whilst maintaining essential services. As a consequence, LABVs are often not regarded as a high priority despite the model offering an opportunity to release capital whilst safeguarding strategic options in the future.

*“Despite a move towards an increase in public private partnerships, many local authorities (have) had to de-prioritise the progression of such plans over the short-term to account for more pressing matters”.*

Interviewee F

Interviewee D shared a similar view:

*“Local elections and council restructuring and change in personnel could mean changing views for that local authority and this is affecting internal continuity and the preparation of long-term programmes (which makes it very difficult to consider or justify the implementation of new initiatives such as LABVs).”*

A lack of political support was also highlighted as an issue:

*“The adoption of the LABV requires securing leadership from the highest level in the council and clear political support so that a longer-view of the regeneration and economic development of an area can be taken”.*

Interviewee D

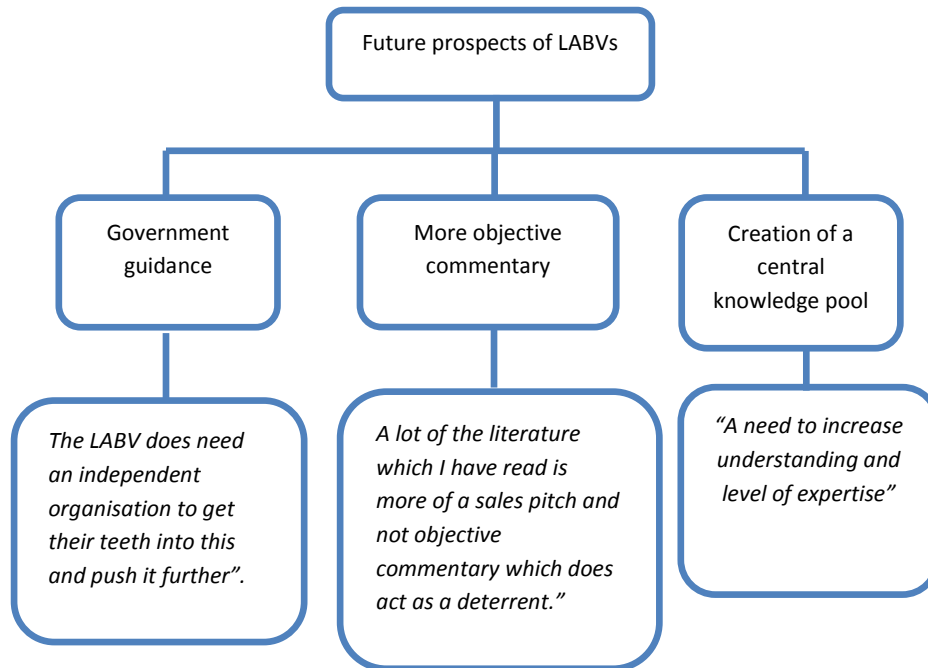
It is clear that LABVs may outlive most local government administrations, therefore it is essential to secure cross party support. Lessons are being learned and those LABVs which have been entered into are showing good progress; the pre-agreed terms of one LABV included the signatures of opposition parties which sought to overcome any problems presented by a change of administration in the future, a problem that has long been a cause for concern for the private sector:

*“Although the public sector is seen as being the key to understanding local political dynamics and this is seen as a key output, the LABV should be free from political interference such as internal disputes between statutory functions, i.e. head of planning and council chief executive etc. But when political support is needed then this should be available”.*

Interviewee A

Having full political backing and civic leadership were regarded as more important to private sector partners than more obvious attributes such as the location of assets.

## 7. Enhancing the take up and performance of LABVs



When interviewees were asked if there was a continuing role for LABVs in delivering regeneration in the UK, there was a mixed response:

*"It's one of those things which comes into fashion and people think if they're doing it (then) we should do it, (but) it's not always appropriate".*

Interviewee A

*"LABVs are certainly not the panacea of all urban regeneration projects or anything like that, but for certain types of local authorities/projects it does work."*

Interviewee D

Each local authority must assess their own individual aims and objectives and look closely at their asset base before contemplating a LABV; it may not be appropriate, in which case they may be better off selling assets or entering into development agreements. What is apparent, is that the LABV structure is flexible and capable of adapting, which is an attractive characteristic in uncertain times.

Could LABVs have a brighter future? Interviewee D felt that LABVs offer a simple and robust model which may be readily understood, but is hampered by statutory and other legislative requirements. If these can be overcome then its use should become more widespread as the LABVs that have been entered into on the whole have produced positive results.

*"In my opinion, as things stand.... there will only be 3 or 4 (LABVs) entered into a year (in the UK)."*

Interviewee C

If measures are taken to tackle some of the barriers identified in this paper, to encourage wider take-up of LABVs, then this number could increase. Significantly though, the consensus amongst both public and private sector interviewees was that the model lacked strong central government backing and support and that without clear guidance to dispel some of the uncertainty surrounding the model, this was unlikely to occur.

*“one.....thing that would help get the LABV model off the ground is a bit more central government guidance and promotion..... to dispel some of the rumours and myths about it; (demonstrate that) this is the model that works, this is where it has worked; not to give it a seal of approval but say, ‘look guys you should be looking at these examples’”.*

Interviewee D

## **Findings and Conclusions**

This study revealed that at a time of financial austerity, LABVs offer an alternative funding model to enable delivery and kick-start projects. Its key strength over traditional methods of disposal is its flexibility; its main weakness is the time and cost of procuring a private sector partner, securing cross-party political support and managing expectations about what it would deliver. The main barriers preventing wider use of LABVs in the U.K. are lack of objective performance evaluations, skills, expertise, Government guidance and advocacy and political buy-in from the public sector.

The study has identified the following factors that either deter the creation of LABVs or are critical to their success:

- close alignment of both parties’ interests
- full transparency of costs and benefits
- strong civic leadership and consistent cross-party support
- a procurement process that are proportionate and reflects the expected benefits especially to the private sector
- more effective communication with the market prior to formal procurement and ongoing dialogue with bidders throughout the procurement process
- flexibility to adopt to future market uncertainties
- experience must be well documented and available for others to access

The research sheds light on some of the myths surrounding LABVs and may help dispel some of the common misconceptions surrounding their procurement, operation and performance. In the course of our research we have identified the following opportunities to further inform and enhance the prospects for LABVs in the U.K.:

- a richer evidence base – there is need for more objective and comparative performance analysis of LABVs in order to determine what is working, what is not, measure outputs and outcomes against aims and objectives and establish good practice



- explore the potential for combining financial tools alongside LABVs - consideration should be given as to how LABVs may be employed in combination with other funding sources such as revolving loan funding (e.g. Growing Places Fund, JESSICA), business rates retention (e.g. TIF, EZs, ADZs) and development levies or incentives (e.g. CIL, New Homes Bonus)
- modelling of the potential impact of targeted Stamp Duty Land Tax concession or other tax relief for assets transferred into LABVs

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