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CCSE
BUP:

PRIME MINISTER

INNER CITIES

The Policy Unit's note circulated for our discussion on Thursday 19 December in many ways reflects my own proposals to improve our attack on inner city problems. Improving housing choice, getting the land market moving, reclaiming land and refurbishing buildings, encouraging investment both by easing planning constraints and by direct financial assistance to the private sector, are clearly important parts of the overall programme that we need to make an impact on these problems.

The new emphases that I am bringing to bear on my own Department's programmes in inner city areas are:

- (a) easing the grip of the municipal landlord and increasing housing choice. Right to buy, encouraging privatisation of municipal housing supported by the growing willingness of the Building Societies to use their resources more imaginatively, encouraging better management and maintenance and urging local authorities to concentrate on refurbishing their existing stock, devolving power to tenants, and targetted use of Housing Corporation expenditure are the main ways this is being done;
- (b) mobilising the land market through the Derelict Land programme and the Land Registers system;
- (c) encouraging private sector involvement by improving the physical environment and thus reviving business confidence. The setting up of Enterprise Zones and Urban Development Corporations, the offer of Urban Development Grants, and support through the Urban Programme are the main initiatives.

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I agree that we need to do more to involve the private sector. I have been much encouraged by recent discussions that I have had with private sector interests. On Monday this week John Patten and I met a delegation representing several major building companies and building societies, who put to us proposals for a combined effort by themselves, central and local government to improve inner city areas. This is a unique approach by the private sector, and they obviously wish to combine their skills and resources and exploit the market potential of inner city areas. The private sector will require pump priming support from the Government. I am working up proposals to improve the delivery of such support which are both practical and which could be implemented quickly, subject to modest legislative change. I attach at Annex A a note that outlines my proposals. None of this is incompatible with the 10 areas exercise.

As the Policy Unit paper recognises, the inner city problem is multi-faceted, and the programmes of my Department are by no means the only ones which have a crucial part to play in making cities better. Improving educational standards, improving the quality of training, and the role of other Departments' programmes in improving local economies and job opportunities are clearly highly relevant.

I share the Home Secretary's concern expressed in our previous discussions that we need to involve local people, particularly young people from ethnic minorities, more directly. This requires both effective consultation and local job opportunities through which they can become directly committed to improving their neighbourhoods. The success of the UP does depend on involving and encouraging responsible and active members of local communities.

The most useful type of activity that we can support is the refurbishment and repair of housing, and the improvement and general tidying up of neighbourhoods and private property. This provides work and training opportunities for both young and adult unemployed, it makes use of available skills, and it encourages confidence in the community and pride of ownership. In short, it provides useful work

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for idle hands to do and it yields positive long term benefits. I should like to see much more of this and it is something in which the local community can be fully involved. I am proposing shortly to extend Community Refurbishment Schemes, involving MSC and UP resources, to 6 new areas: the authorities which have applied so far, following visits by the Urban Housing Renewal Unit, are Gateshead, Wigan, Rochdale, Coventry, Leeds, Bradford, Calderdale and Hull; and we expect applications from Newcastle, Birmingham, Blackburn, Rotherham, Hammersmith and Haringey.

I have supported the Home Secretary's black business initiative through the Urban Programme and this could usefully be extended. The local enterprise agency movement is now well developed and I would be willing to support development of many more managed workshops to encourage those setting up businesses for the first time. I hope by involving the private sector more directly to give a boost to this.

The means by which these proposals can be applied at local level include not only direct private sector involvement but also other types of community entrepreneurs; Project Fullemploy provides a useful model. We need to select competent local organisations which have standing in the local community and give them financial and other support with a clear agreement that their expenditure and output will be closely monitored. The good relationships that exist between the Regional Offices of my Department, the MSC, DTI, and local organisations provide a good basis on which we can build.

I am sending copies of this minute to members of MISC 104, Brian Griffiths and Sir Robert Armstrong.

K.B.

K B

17 December 1985

PRIVATE SECTOR INVOLVEMENT IN URBAN REGENERATION: A NEW APPROACH

The Problem

1. More needs to be done to involve the private sector in urban regeneration. Present activity, through for example the Urban Development Grant Scheme, relates mainly to relatively small development projects with locally based developers.
2. There seems little prospect as yet of a change in approach by financial institutions and by major nationally based developers to commit themselves on a longer-term basis to the task of urban renewal.
3. The project based approach is too limited. What is needed is a wider based approach covering much larger sites and areas of unused or derelict land. Ways need to be found for involving the private sector in tackling urban renewal on a much larger scale, including schemes that combine both commercial development and environmental improvement.
4. There is some evidence of emergent private sector interest in this more ambitious scale of redevelopment - eg in London Docklands; Trafford Park in Manchester; in some of the Enterprise Zones - notably on Tyneside; and possibly at Chatham and on Teeside.
5. In too many cases, however, unimaginative local authorities, or authorities hostile to private investment, discourage financial institutions and developers from undertaking urban renewal projects. Even local authorities who would be interested in such ventures often lack the necessary experience and skills, and uncertainty about future political control of the Council deters private investors.
6. The Secretary of State for the Environment has too little flexibility to encourage private sector involvement direct. Most of the public sector resources available to him have to be channelled through local authorities. There is a power to make grants direct to the private sector to reclaim derelict land, but the scope is not wide enough to sustain large scale reclamation and development.

Proposed Solution

7. It is proposed that the Secretary of State for the Environment should have a direct grant giving power for this purpose. Through this power the Secretary of State would have the facility to negotiate direct with the private sector on what financial support might be offered to stimulate renewal in selected areas.
8. Private Sector consortia, whether companies limited by guarantee or non-statutory trusts or other suitable organisations, would be set up on the initiative of the private sector. Such consortia might include local or national developers, financial institutions, individual entrepreneurs. Areas would be selected which offer a variety of development opportunities for commercial and industrial development, whether through new build or re-use of existing premises, land reclamation, provision of services and environmental improvement. Housing development and refurbishment could be included.
9. The consortia would produce an action plan and programme which would set out what they propose to do in an area, what activities they would undertake on their own account, what the local authority contribution would be (if any), and for what activities they would require grant support. The level of grant support required would have to be justified and the plan would need to set out expected outputs over the development period.
10. The Department would assess the proposals contained in the action plan and assess whether the grant commitment required was the minimum necessary in order to achieve the results proposed. Grant would be offered on condition that there was close financial monitoring by the Department and there may have to be claw-back provisions to ensure that the tax-payer shared the benefits of the area's revival. These arrangements would be similar to those already operating for Urban Development Grant (with assessors seconded from the private sector) but adapted to this larger scale of operation. Grant might be in two modes - one for site reclamation and preparation, followed by separate grants for specific development projects if necessary.

The Public/Private Sector covenant

1. Such direct-grant arrangements would enable private sector consortia or trusts to be formed and to covenant direct with central government rather than with local authorities. This would offer the private sector an assurance of the certainty and long-term commitment required for large scale and imaginative urban renewal.

12. Local authorities who wished to co-operate in such a scheme could also contribute - eg by making land and services available. Local interests might also add their land holdings as an equity stake in the redevelopment, and by contributing local knowledge and experience, and perhaps by seconding staff to assist in plan/programme preparation. In some cases, substantial local business and real estate interests might be able to command sufficient resources to undertake such schemes themselves with the aid of grant-direct. The central government commitment could well attract a substantially higher ratio of private sector investment as compared to that at present achieved through UDG.

Scope

13. These arrangements should not displace the existing form of UDG, to which local authorities contribute 25% of the grant, and which should continue to be available for the smaller scale single projects. The new grant-direct scheme would be available only for larger-scale renewal schemes covering substantial areas, with mixed development extending over several years, and usually sponsored by a consortium of developer and investment interests or a form of trust constituted for that purpose. In effect, these would be similar to the Urban Development Corporations but private sector led and tackling more compact but still substantial areas of renewal.

14. There are unlikely to be many such ventures or areas suitable for such an approach. The initial aim might be to achieve the setting up of one or two such schemes in each of the conurbations or their regions.

15. Such an initiative could be launched without additional public expenditure by assigning part of the present Urban Programme/UDG resources for this purpose. The case for additional resources would be judged by the success of the scheme in attracting private sector resources on a larger scale and over a longer period than is secured at present via UDG in conjunction with local authorities.

