Greener Regeneration Investment Fund

Unlocking local ambition

Construction Leadership Council

Executive summary

The Government's ambitions for levelling-up, improving social cohesion and accelerating the path to Net Zero could be shifted up a gear if alternative and/or additional financing capability is made available to support local regeneration.

The Construction Leadership Council (CLC), is developing a proposal which articulates how the Government could empower local authorities, and their development partners, to take the lead in the post-COVID revitalisation of towns and cities. This paper demonstrates how a new approach could accelerate construction jobs for the next three years, stimulate a local-led economic recovery plan, whilst delivering long-term benefits for communities.

The proposal has been developed with the support of Local Authorities, LEPs and private sector developers, seeking to create the optimum environment for aligning public and private sector interests. To illustrate the tangible outcomes a shift in approach would deliver, we have described the opportunity with tangible case studies. In **Stevenage**, for example, the fund would deliver 1,860 homes three years earlier than currently planned, a new town centre four years earlier, and 1,250 additional homes delivered six years earlier. Similarly, the shift in approach would support and enhance local regeneration programmes by brining projects to market more rapidly. Harnessing some of the longer-term social outcomes needed in some of the most deprived areas. In **Hastings**, for example, the fund would speed up proposed pipeline projects such as 80 new homes along with significant commercial and leisure town centre uses. Transforming derelict buildings/land and maximising community benefit.

Context

There is significant long-term demand for regeneration activity. Not only to deliver on the Government's housing targets, but also to support the levelling-up agenda by promoting economic growth at a local level across the country. There is also growing interest from private sector institutional investors to deliver more social and environmental benefit from their assets.

Previous regeneration schemes have tended to focus on redevelopment and not on the revitalisation of a local area, neglecting social, environmental and economic outcomes that could potentially deliver on longer-term Government ambitions.

Furthermore, COVID-19 has presented an opportunity to change the thinking around regeneration. The shift in commuter patterns and behaviours, the importance of open spaces and the delivery of local services have all changed significantly owing to the pandemic. Successful regeneration schemes must factor in these changes and overcome historic market frustrations to deliver faster, better and greener.

Market challenges

There are already significant resources being deployed in pursuit of the revitalisation of towns and high streets. However, current interventions favour assets over places; short term over long term; capital returns over holistic social betterment; and – crucially – successful economic locations over less prosperous areas.

This is due to several factors:

1) **Private sector finance** – Attracted towards the lowest risk projects within a regeneration development and therefore prioritises short-term turnaround of capital in high confidence market priced investments, whilst more ambitious regeneration programmes, which have complex phasing challenges, but higher community value are not pursued.
2) **Allocation of existing funds** – Prescribed guidance weighs factors such as GVA or land value uplift, and a number of existing funds (Regional growth funds, local growth funds, Stronger Towns fund, Local Prosperity fund, City Deals, Growing Places fund, Future Highstreets fund) favour short term tactical project investments in already developed areas rather than ambitious programmes/deals for revitalisation of places to achieve transformational outcomes.
3) **Strategic planning** – The ability of local authorities to combine the long-term strategic priorities, enshrined in a local plan, with a comprehensive programme for delivery is impacted both by current capacity and lack of specialist development capability to develop robust and evidence-based regeneration plans. These, in turn, impact their capability to construct deals with the private sector at scale to deliver them.
4) **Revenue funding** – Many of the existing capital funds will deliver increased construction and bring projects forward for large-scale regeneration schemes. However, without aligned revenue funding, these schemes alone do little to engage the local community and ensure the best long-term social, economically sustainable and creative approach is delivered.

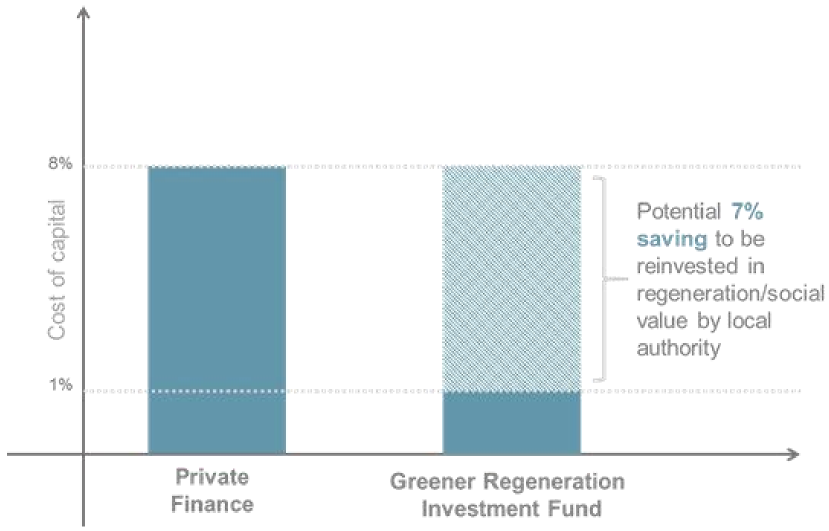
Creation of the Greener Regeneration Investment Fund

To address the existing market frustrations, the CLC is recommending a package of interventions through the establishment of a Greener Regeneration Investment Fund:

Designed to finance regeneration ambitions…

The fund would consist of a Government backed, low-interest finance product with an initial minimum value of £10 billion and be expected to leverage three times this amount from the private sector. The savings delivered through the low interest product will be used as part of the deal to deliver enhanced community benefit.

Alongside the finance product, the fund would be expected to draw in and consolidate existing regeneration funds as part of its role to restructure ambitious regeneration programmes integrating multiple funding sources. There should be a revenue aspect of this fund which could be in the form of a revenue guarantee scheme to unlock cheap capital from any source. The finance product elements of the fund could be delivered by reallocating from the UK Guarantees Scheme which has significant headroom within its set £40 billion limit.



Resourced with development capability…

The fund would be managed and supported by a dedicated team of property and finance professionals who would bring development capability to the programmes underwritten, in turn supporting the Local Authorities as a trusted partner and giving central Government confidence in their delivery.

Alongside this direct support in designing and structuring deals, the team would also be tasked with knowledge sharing in the development community building on the success of similar initiatives to the *Future Highstreets Fund Taskforce* to enable Local Authorities, businesses, investors and developers to share best practice on regeneration projects in different parts of the UK.

Supporting local leadership…

The fund would be open to Local Authorities, public-private partnerships and not-for-profit regeneration programmes. The provision of central capability would also allow Government to maintain oversight and a degree of steering over deployment of the fund and transparency of programmes being developed.

Delivering quantifiable performance against long term outcomes…

Basing the structure of the deals on the Construction Innovation Hub (CIH)'s Value Toolkit – the value definition framework – with quantifiable long-term metrics to describe the positive changes in the environmental, social and economic characteristics of a place.

Using the common metrics and capability built into the toolkit would support Local Authorities in creating robust and measurable plans with consistent metrics which central government could use to measure performance of respective schemes around a broader suite of long term outcomes than just economic value.

Impacts and benefits

Faster – Bringing in public sector finance into regeneration helps resolve development phasing challenges and supports schemes being brought to market more rapidly by enabling land/site to be acquired and community projects and infrastructure improvements to be advanced. This would enable private sector schemes to be brought forward and progressed more quickly.

Better – Focuses on levelling-up communities by maximising the development gains for the community. Provides additional public sector leverage so that the most suitable land for investment (not just the cheapest) can be used for public amenity assets – including social housing, social care, open public spaces, as well as new retail and commercial property, or in helping to meet Net Zero ambitions (outlined below). It will also support the investment in skills and jobs. For example, **Sheffield Castlegate**, the fund would help accelerate plans to create 'Centres of Excellence' which are sub-sector focused business development and investment units, supported by Barclays' Eagle Lab programme along with two universities and a body of industry experts. The introduction of additional funding would create development opportunities, in terms of new homes, while securing longer-term outcomes through upskilling and training.

The introduction of quantifiable metrics, along with social, environmental and economic outcomes, puts value creation at the heart of these deals and gives performance which MHCLG can monitor and manage.

For the construction industry, having a clearer and measurable articulation of value/benefits sought from local plans unlocks their ability to restructure supply chains – for example to use modern methods of construction (MMC) – and deliver on metrics which really matter to the local community. In addition, the stronger strategic negotiating stance held by the public sector would leverage additional weight with the private sector to negotiate better deals.

Greener – The aim of the fund to consider regeneration at strategic level supports effective delivery of Net Zero ambitions for Local Authorities who have publicly declared climate emergencies. At a town or city level however, the most considerable green gain would come from the reinvestment of the interest to help develop the local community. To meet Net Zero goals at a town or city level requires a strategic approach to development and regeneration and provides the perfect opportunity to embed local biodiversity principles and priorities.

A more direct approach could be taken by adding conditionality to the fund to require any regeneration project to have progressive Net Zero targets for Government/public buildings where public asset ownership is developed. This could be similar to the *Pledge to Net Zero* scheme which commits organisations to sign up and deliver a greenhouse gas target in line with either a 1.5°C or well below 2°C climate change scenario – covering buildings where Local Authorities, public-private partnerships and not-for-profit regeneration programmes would publicly report progress on greenhouse gas emission targets every year.