Greener Regeneration Investment Fund

Unlocking local ambition

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.

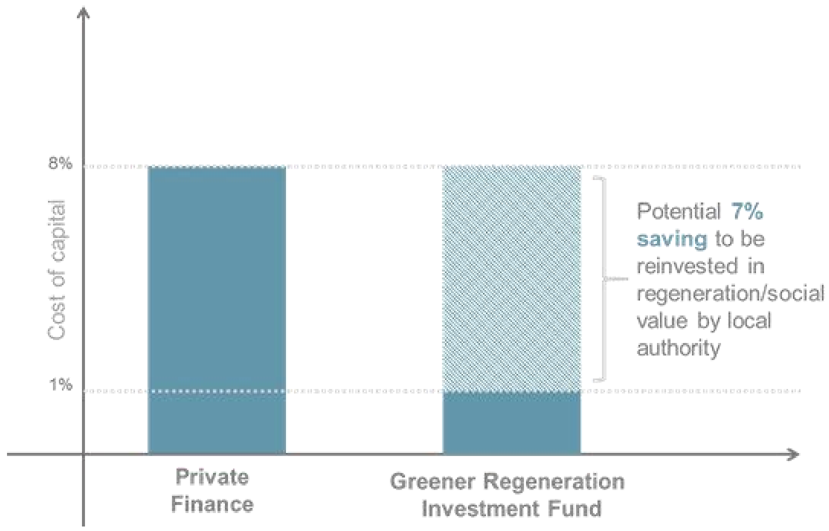
Creation of the Greener Regeneration Investment Fund

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.

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Stevenage - town centre regeneration

Since 2018, **Mace** has been working in partnership with **Stevenage Borough Council** to drive forward the urgently needed regeneration the existing town centre. This can provide a unique opportunity and partnership to pilot a GRS scheme in two specific areas.

Firstly, to accelerate the delivery of the long awaited **Station Gateway 1** (SG1) an existing significant development revitalising the town centre, bringing forward completion of the scheme by three years and achieving rapid delivery of the first phase of 760 homes. Secondly, for SG1 to be the catalyst to bringing forward **Station Gateway 2** (SG2), a transformational scheme around the rail station, doubling the size of the redevelopment, completing the town centre regeneration framework and creating a stunning new entrance to the town.

Challenges

Phasing - To make the scheme viable for private sector finance it needs to generate funds from the early development to finance the development of a Community Hub adjacent to the Town Square as an anchor for a vibrant town centre offer, however the Greener Regeneration Fund would put public sector finance behind the Hub to allow these to be accelerated.

Delivered early, this social infrastructure would achieve immediate placemaking and have significant positive impact, supporting growth, employment and upskilling the local community. Crucially it would release large tracts of land for redevelopment by relocating an ageing health centre, library, community services and voluntary sector facilities into modern fit for purpose facilities in the Hub, with multiple public sectors partners working collaboratively and efficiently together, reducing operational costs and delivering integrated community services under one roof and on a considerably smaller footprint.

Financing - Currently the SG1 scheme will be financed by equity risk capital which leverages debt loans at 6-8% cost of finance accounting for lender fees, this would be priced into the scheme by developers and development gains from the completed redevelopment would accrue to the private sector rather than be retained and reinvested in the local area.

Faster

- 1,860 homes delivered three years earlier.
- New town centre created four years earlier.
- 1,250 additional homes delivered six years earlier.

Better

- **Earlier delivery** - New Town Centre opened and rephrased to give access to a Community Hub (including a state of-the-art Health and Wellbeing Hub, as well as a library, heritage and learning zone), a new school and business, innovation and incubation space for an additional four years through faster delivery.

- **Local jobs and skills development** - Stevenage has world class science, business and industry assets in the town. The Gunnels Wood area is internationally recognised as one of the largest and best life sciences clusters in the UK, however despite the local industries extensive technical capabilities, many of the jobs and opportunities bypass the local population who historically have not had the skills and educational pathways to access the career opportunities. Through the larger scale of the regeneration programme and expanded role the Council would play in this they could focus on connecting the schools, FE College and Universities in a collaborative partnership with the local industries, to create and develop a productive science and innovation programme for the town and the County.

- **Reform of the construction industry** - Aggregation of demand for offsite housing across Phases 1 & 2 would mean industry could develop an off-site manufacturing hub to support the housing delivery.

- **Using public sector finance to leverage private sector investment** - The SG1 Scheme would create the spark for a much more ambitious and dynamic town centre regeneration scheme on land largely in public sector ownership that would attract a further £500 million to £700 million of private investment.

Greener

- **Setting measurable Net Zero targets** - Through applying the 5 capitals framework through the development and delivery of the scheme Stevenage Council will be able to hold development partners, public sectors projects and private sector investors to account on delivering Net Zero ambitions on their respective parts of the regeneration in a measurable and quantifiable way.

- **Leveraging private sector investors to deliver Net Zero** - Leverage gained by the public sector financing project would allow for more conditionality/a stronger negotiating position with the private sector investors to set ambitious Net Zero targets for the private sector delivered elements of the scheme.

Sheffield - Heart of the City (phase 2)

Following the success of **Sheffield One** in seeing through the master planning and development of Sheffield's heart of the city, **Sheffield City Council** built on it to bring forward **Heart of the City (phase 2)**, a major regeneration scheme that had suffered from market failure which had delayed delivery by some 14 years.

The new and fresh approach by Sheffield City Council overcame that failure through a clear delivery plan which is now in place. Phase one has been delivered, phase two is currently being delivered, and phase three has funding secured.

The issue for Sheffield was not the lack of being able to create an investible viable real estate product, but the constraints of short-term capital gain over long term value creation. Despite infrastructure funding from the then regional development agency, **Yorkshire Forward** that dealt with the relocation of major infrastructure, the short term metrics required by the private sector development partner were unachievable due to lower than expected rental values reducing the final gross development value (GDV) to a point where the profit on cost and/or internal rate of return hurdles, could not be met. In 2012, Sheffield City Council's deal with Government saw the introduction of a new statutory instrument creating a Tax Incremental Financing (TIF) zone around the scheme. Although the TIF funding went a long way to mitigating the lower GDV, it did not go far enough.

With the potential for ongoing market failure preventing the major regeneration scheme moving forward, Sheffield City Council moved into the development arena, using its own borrowing capabilities together with the additional funding source through the TIF scheme to bring forward the critical benefits of 7,000 jobs and an economic contribution of £3.7 billion, both measured to 2030, through this £470 million development project.

The fundamentals have not changed therefore a "development loss" was still created on completion, however it will be recovered over a 40 year horizon. The business case balanced social and economic measures over the short-term development metrics.

However, there are more positives with the end product becoming income producing assets for the council that are attractive to the international investment market. Long-term returns will be delivered for institutional and pension funds and it will also create foreign direct investment opportunities in the North.

Currently all occupiers have secured Dun & Bradstreet 5A1 credit ratings, which adds to the immediate attractiveness of the site to investors. Key lettings have been secured by **HSBC**, **CMS**, **Radisson**, **John Lewis & Partners**, **H&M**, **Brands Weekday**, and **Monki**.

A fundamental issue with development focused on creating income producing assets is the coverage of risk at the development stage. This risk is what the developer's profit covers. However, if the output values are not high enough, or the input costs are too high, then the developer risk margin becomes the issue for viable schemes. Being able to accept that risk and fund it over a longer period can unlock development rapidly, as is the case for Heart of the City 2 in Sheffield.

Sheffield, not having the capacity in pure real estate development, or the experience as an organisation, secured a private sector partner with that development management experience. However, the Council took the development risk balanced over the longer-term.

Key was the masterplan which has enabled progress based on anchor tenants acting as a catalyst for further growth, with confidence developed through creating demand and the ability to phase financial commitments, rather than be committed to the whole funding package from day one.

This has enabled major contracting firms such as **BAM**, **Galliford Try** and **Henry Boot** to win the construction work with more phases to be released soon. Alongside this, the work generated for the design phase with key players such as **Arup**, **Turner & Townsend**, **HLM Architects**, **Fielden Clegg Bradley Studios**. This method of collective masterplan delivery, with phased risk being managed over the longer term, has enabled major regeneration work to be brought forward.

The remaining phase of the scheme will be put to the private sector development market as it is felt that the viability issues affecting the site have been overcome. Ultimately, through the instrument of TIF, the Council was able to borrow against future business rate revenues to mitigate the development viability gap / risk margin gap to produce investment grade real estate, create jobs and add to economic growth and prosperity.

Figure two: Artist's impression - Heart of the City II (Aug 2020)

Sheffield - Castlegate

Castlegate is a central area of the city where Sheffield grew from. The area is at the confluence of the River Don and River Sheaf and as the name suggests, once was home to Sheffield's castle.

The area historically was the site of the city's various markets and remained so until 2013, when the market was re-located in the southern quarter of the city. Before the re-location of the market, Castlegate was subject to decline and decay. Due to low real estate values, regeneration has been challenging.

Some localised real estate entrepreneurs have acquired several buildings mainly for residential conversion. This has happened in an opportunistic way with interest generated from another catalyst, **Kollider**.

Along with its food hall operation **Kommune**, Kollider have, thanks to a grant from the Department of Culture, Media and Sport, repurposed the old Co-Op Department store. Kollider are now creating 'Centres of Excellence', sub-sector focused business development and investment units, supported by **Barclays' Eagle Lab** programme along with the city's two universities and a body of industry experts.

A pipeline of projects and companies has been formed in conjunction with the universities, regional accelerator programmes and community projects. Kollider have developed an Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) fund, which has recently launched and they are now working with around 60 High Net Worth investors.

The Kollider project has acted as a catalyst for further development and proposals have been put forward for Castlegate to house the **Sheffield Institution of Innovation and Advanced Technology**. This new institution could create a new central library for Sheffield, as well as enabling existing arts facilities to expand providing a host of holistic opportunities.

Why focus on this as a future programme?

The site is currently already in council ownership, so there are no drawn out acquisition issues. A convergence of opportunity is a key outcome that can be measured. Much like the legacy of London's Olympic Park, a convergence programme would reduce inequality through supported opportunity and enable the people of Sheffield to flourish in their own way.

The opportunity to innovate not only through technology, but also the arts and performing arts would generate grass-roots thinking and create a more resilient Sheffield. It would create new training and skills opportunities, as well as the chance to address productivity. In practice, this would become the place to think and debate Sheffield's economic transition to the next generation, and become a focal point region's Advanced Manufacturing Innovation district.

How could this be delivered?

As a catalyst project, this could be funded in part through development value capture from associated development, such as housing, commercial and leisure space. The gap funding could come via a TIF model as in the previous case study, or from a new fund such as the **Greener Regeneration Fund,** currently discussed by the CLC. The ability to repay based on a TIF zone, or similar, would need to be factored in.

The new associated development could be based on leading innovative sustainable construction techniques, including modern methods of construction. These new designs could come from the "virtual" Sheffield Institution of Innovation and Advanced Technology and then conclude in helping to fund the physical realisation of the Institution.

- Adopting this approach could provide a faster, better and greener way forward than more traditional methods such as simply selling the land asset and hoping for delivery.

- The combination of development management skills, a fund, local authority and associated governance arrangements such as a development corporation (real or virtual) could accelerate delivery with risk being apportioned in the appropriate stakeholders.

What might the outcome look like?

Firstly, a major regeneration programme brought forward quickly focussed on stakeholder enhancement, rather than shareholder short term returns. The innovation and skills agenda can be housed in existing facilities or virtually. So, the concept can be delivered immediately. Sustainable construction innovation, apprenticeships, new digital skills can all be deployed rapidly. Construction and design team jobs are rapidly created.

Secondly, new homes and businesses will be created that provide quality spaces in which to live, work and play. These would have COVID-19 resilience designed-in and as a result be more able to deal with unexpected future issues thrown at us.

Finally, through the new institution and associated facilities the key would be the convergence of opportunity for across the districts of Sheffield and benchmarked nationally.

Figure three: Artists impression of Castlegate Development (2017)

Hastings – Hastings Commons

Overview

A dynamic group of local organisations in Hastings has been working together since 2015 to transform a series of physical assets clustered around the former Observer Building which has been derelict nearly 35 years.

The approach regenerates the physical fabric, creating space for employment and enterprises and high-quality affordable housing for local people. Led by social enterprise developer, **White Rock Neighbourhood Ventures** (WRNV), alongside the **Heart of Hastings community land trust**, their success to date has inspired much bigger thinking.

Track record

WRNV purchased a run-down and mostly empty nine storey office block in October 2014. Their ultra-thrifty 'organic phased development' approach saw the building come to life floor-by-floor until it was fully completed in summer 2019 with six capped rent flats and space for 42 creative, tech and community micro-enterprises, including the R&D arm of unicorn company **Melody VR**.

WRNV and its partners continued to acquire further spaces in the local area – an old insurance office now home to four households, a derelict stable-block now tenanted by a textile artist and a print-maker, and a set of caves about to be brought into productive use.

In February 2019, WRNV purchased the large **Observer Building**, a former newspaper print factory closed in 1985. All bar one of the previous 13 owners had made money out of it without doing a single repair – either through securing unbuildable planning permissions or just by waiting for the market to rise. WRNV has completed concrete repairs on all seven storeys and is about to tender a £3 million contract for the full refurbishment of the lower four floors.

WRNV's approach is always to squeeze their buildings for maximum social and environmental value – both during construction and in operation. They provide life-changing opportunities through jobs, training, apprenticeships and business support. With air source heat pumps and other interventions, the Observer Building renovation will avoid 81,000 kg of carbon emissions. All the buildings will end up owned by the community land trust, locking in affordability and social value. Forever.

The financial model has been to raise risk capital from individuals in various forms including loan-stock, mezzanine equity, and community shares, and then to refinance using a long-term mortgage once the building is operational and let. This has proven successful in growing strong community interest, but relatively slow and administratively burdensome. WRNV has been successful with some LEP support but always suffers from a focus on land value uplift within BCR economic appraisals.

Project pipeline

Several projects of various scales are currently in development:

- **Eagle House** – A 'Safe and Well Centre' in a historic building so badly 'repaired' in the 1980s that it has been recognised as "detrimental to the conservation area".
- **ESK/Priory Street** – A significant development opportunity in a lifetime-expired 1960's car park that could yield around 80 new homes along with significant commercial and leisure town centre uses.

- **Prospect Place Central** – a haphazard set of small car parks and derelict buildings directly opposite the Observer Building and ready for a sensitive redevelopment.
- **Bohemia** – a large area of open space and public buildings next to an historic and decaying convent. The recent 'masterplan' is now very obviously out-dated, and a new approach needs to be found.

Other projects are emerging from the High Street Heritage Action Zone (HAZ) led by the Hastings Commons partners, and there are many more projects in the immediate neighbourhood that could be supported with access to a flexible, locally based regeneration fund. The HAZ includes feasibility work looking at establishing a local revolving facility that creates a treasure chest to underpin the risk capital required for purchase and renovation.

It is hoped that some of these projects will be supported through the Town Deal investment plan, but the limited scale of this funding and the multiple local priorities in a town like Hastings will fail to achieve the acceleration and impact that a dedicated revolving facility could support.

The group believes that a "neighbourhood investment fund" of between £50 million to £100 million, revolved over 15-20 years would enable local partners to create at least three times the leverage, and achieve transformational change for Hastings which remains the poorest town in the south east and the second poorest seaside town after Blackpool. Despite these sad statistics, it is a vibrant and creative place with great community spirit, a well-networked independent community sector and working local partnership.

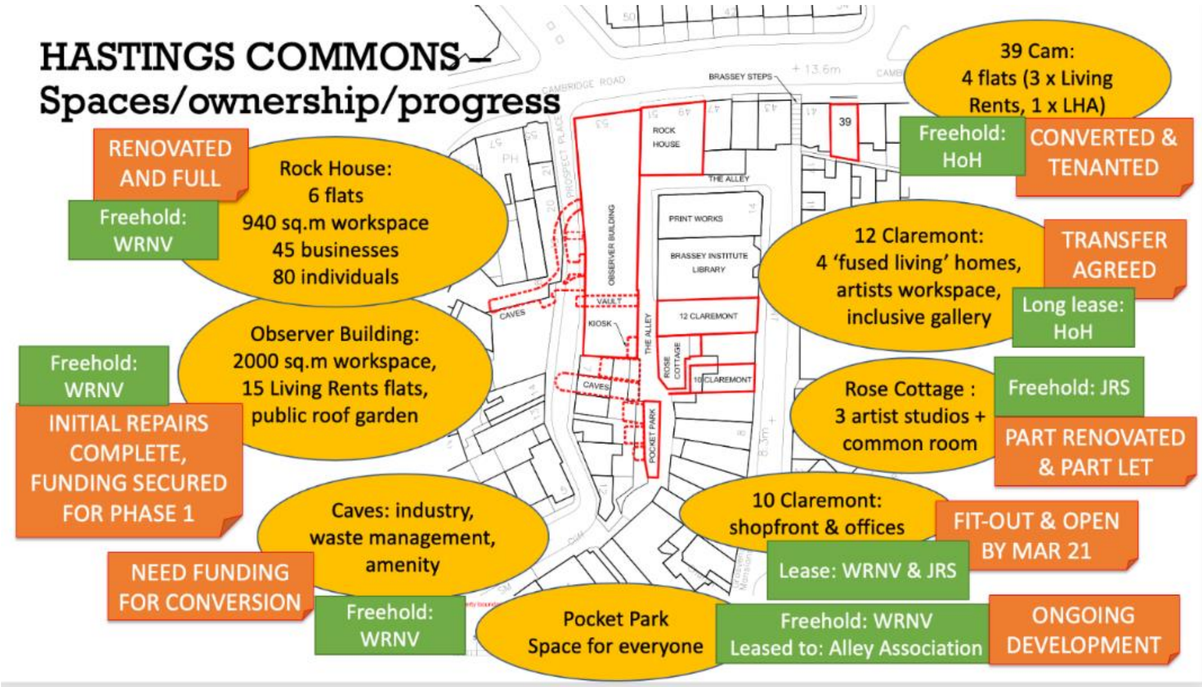

Figure four: Hastings Commons so far (Aug 2020)