Investment and Infrastructure

The first report of the Purposeful Finance Commission

November 2023

Purposeful
Finance
Commission

About the PFC

The Purposeful Finance Commission (PFC) is an independent organisation made up of leading combined authority figures, local government leads, and investors who have come together to identify, understand and overcome the barriers that communities across the country are facing in accessing long-term private investment and in turn, the barriers to long-term regeneration projects.

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About this report

This report represents the collective effort of the Commission and its members, and does not necessarily reflect the individual views of all commissioners or the organisations they represent. In referencing this report, it should be attributed to the Purposeful Finance Commission as an organisation, rather than any individuals or member organisations.

For any queries regarding this report, please contact info@wpi-strategy.com. Tables and data used throughout this report are available upon request.

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Foreword by PFC Chair Tracy Blackwell

Chair of the Purposeful Finance Commission and CEO of Pension Insurance Corporation plc

Pension Insurance Corporation ("PIC") has a clear purpose: to pay the pensions of our current and future policyholders. Of our total £45 billion of assets, we have invested more than £11 billion in the UK to help us pay those pensions over future decades. Alongside social housing, this includes build to rent, renewable energy and urban regeneration projects, creating significant social value. These investments are often a vehicle for intergenerational transfer – backing the pensions of older people by funding infrastructure used by younger and future generations.

PIC is fortunate to sit at the heart of the largest secular shift in how UK assets are managed in a generation – the transfer of assets out of defined benefit pension schemes and into life insurers. With close to £600 billion of assets expected to pass from pension schemes to us and our competitors over the course of this decade, by about 2030 insurers will have ideally invested close to 30% - £200 billion – of these assets in UK infrastructure. We are confident that the sheer size of this shift, and the benefits to communities across the country that will entail, will be a key part of our country's economic growth story this decade.

However, despite the economic and political debate that has been raging for some years on the need to rebalance the UK economy, and more recently about how to mobilise the UK's long-term savings into the regions of the UK and its infrastructure, there has been a conspicuous absence of data to support the various points of view, nor is there even consensus about what levelling up means, or how it will be funded.

We have established the Purposeful Finance Commission to help fill this vacuum. The PFC is made up of leading figures from combined authorities and local government who have come together to identify, understand and overcome the barriers that communities across the country are facing in regenerating local areas, and in accessing long-term investment to support this.

As part of the PFC's research we held a number of roundtables across the country with people representing all parts of the regeneration lifecycle, including local government regeneration directors, developers, and institutional investors, seeking to go beyond the confines of the square mile and Westminster.

To further support the PFC's work, we commissioned new analysis into historic investment levels to uncover the extent of geographical differences in attracting funding, as well as a survey of more than 100 senior figures from councils across the country about what they are finding on the ground.

One significant concern in local government has been the shortfall of staff and turnover in local government planning departments due to significant budgetary pressures on planning departments due to the need to prioritise primary care functions elsewhere. In our experience, a lack of planning expertise leads to planning delays, which in turn then increases the cost of developments and reduces returns for investors, making them less likely to invest.

So what needs to change? In my view this comes back to the need to have centres of excellence built up within local government to match the expertise built up by long-term investors over the past decade. I hope that the research and experiences we have gathered in this report provide insight into how this process can really get underway, helping local communities across the country regenerate their areas, providing jobs, apprenticeships, and economic growth.

Tracy Blackwell

November 2023

Introduction

The UK is a starkly unequal place. This should not come as a surprise - numerous studies have noted deep disparities between UK regions, a London-centric investment landscape, and other rural-urban divides. The growing investment imbalances are laid bare in **Figure 1,** which illustrates the extent to which London has accelerated away from the rest of the UK in recent decades.

Successive governments have struggled with addressing this inequality, most recently through the 'levelling up' agenda set out in a white paper, grouped in 12 'national missions' including commitments to improve living standards, housing, transport infrastructure and devolution. More recently, reforms to Solvency II and other proposed financial reforms have been touted as an opportunity to unlock billions of pounds currently held by insurers, pension funds, and other finance organisations for productive investment in a wide range of assets.

Given this potential influx of capital, there is clearly an opportunity to re-examine the current regeneration landscape and ensure that there is an adequate supply of both the capital required and suitable investment-ready propositions being brought forward. This new approach must incentivise investment into projects with demonstrable social value, especially in areas that have historically missed out.

The need to level up the country, combined with other policy initiatives including the transition to net zero will require significantly higher levels of investment into infrastructure in the years and decades to come. Thus, a range of factors have come together at this time that highlight the need for research into how infrastructure projects can best be delivered, where they run into issues, and how or why they can fail, as well as recommendations about how to address the obstacles. Getting this right means an enormous opportunity to invest for the future, creating new jobs, opportunities, and economic growth.

To this end, the PFC was convened to provide a forum for local government organisations, including major combined authorities and membership bodies, to engage with investors, academics, and each other, to identify, understand, and suggest ways to overcome these barriers. More broadly, it was an opportunity to consider what this new investment landscape, which we have termed purposeful finance, might look like. To do so, we first analysed where investment in this type of infrastructure has flowed to date.

This report aims to set the scene for understanding which areas of the country have been most successful in attracting private capital, through the analysis of existing data. More importantly, however, this research brings together first-hand accounts of those involved in all aspects of the investment lifecycle and reports the results of a series of roundtable discussions held across the country, representing over 40 different individuals and organisations involved in either developing regeneration projects or financing them, from both the public and private sectors.

The PFC will be releasing a second report providing national, regional and local policy recommendations to ensure that every region has the means to access and attract institutional investment into their areas. This second paper will detail examples of best practice to help guide policy going forwards, and also include further recommendations on developing a new, purposeful, approach to finance.

Executive Summary

Our analysis, and the input of key figures from local and combined authorities has helped us to develop a clearer picture of the obstacles that are hindering investment into regions across the UK. Our research found:

- **Stark regional inequities, with seven out of the top 10 performing regions located in London;**
- **The best performing region on our index (Camden and City of London) sees investment levels of almost seven times the national average and over 20 times the level of the lowest performing region;**
- **That one-third of those surveyed from local government believe that the lack of the level of expertise within their Council is either a high or very high barrier to delivering regeneration projects in their area, with just 5.5% reporting that a lack of local skills does not pose any obstacles;**
- **The role of the private sector is expected to grow, with over half of local council employees surveyed planning to use private sector partner funds for regeneration projects in the next three years.**

Without action, unequal outcomes will continue to become more deeply entrenched, preventing left behind areas of the country accessing the investment they need for vital infrastructure, housing, and regeneration projects.

The key obstacles include:

Lack of capacity and expertise

Local government organisations have consistently flagged capacity and expertise as a major barrier to their ability to develop investment-ready propositions for investors to consider. Many have been incredibly open with us about these problems and the difficulties they face. One roundtable attendee reported that regeneration leads are often so stretched that they don't have the time to engage with investors at all, let alone formulate investable regeneration propositions.

As a result, planning and regeneration departments that are already stretched can lose out on potentially significant capital flows that could go towards transforming local communities. In particular, a shortage of planning officials and finance specialists has impacted the ability of local authorities to cope with the scale of regeneration projects, leading to delays, cancellations and a lack of fulfilled potential for investment into social infrastructure.

Unproductive funding structures

Current funding arrangements for local government are too numerous, too short-term and too ringfenced to enable decision makers to embark upon comprehensive regeneration programmes. Government grant bidding processes have also historically resulted in councils competing against each other for the same funds, wasting time whilst ensuring the system has 'losers' embedded into the process. Whilst the government has recognised the need to move away from a bidding-based model for local government, these funding arrangements have posed a significant barrier to regeneration efforts for many years and will continue to act as a hindrance for some time.

Difficulties navigating the planning process

Difficulties in navigating planning regulations for both local and national infrastructure projects have significantly hindered regeneration and investment opportunities in communities across the country. In particular, our research found frustrations relating to duplicated work which caused significant delays to large infrastructure projects. One developer reported spending approximately 80% of the lifespan of one regeneration project securing planning, and just 20% of time on the construction itself, having to navigate complex red tape.

Poor data

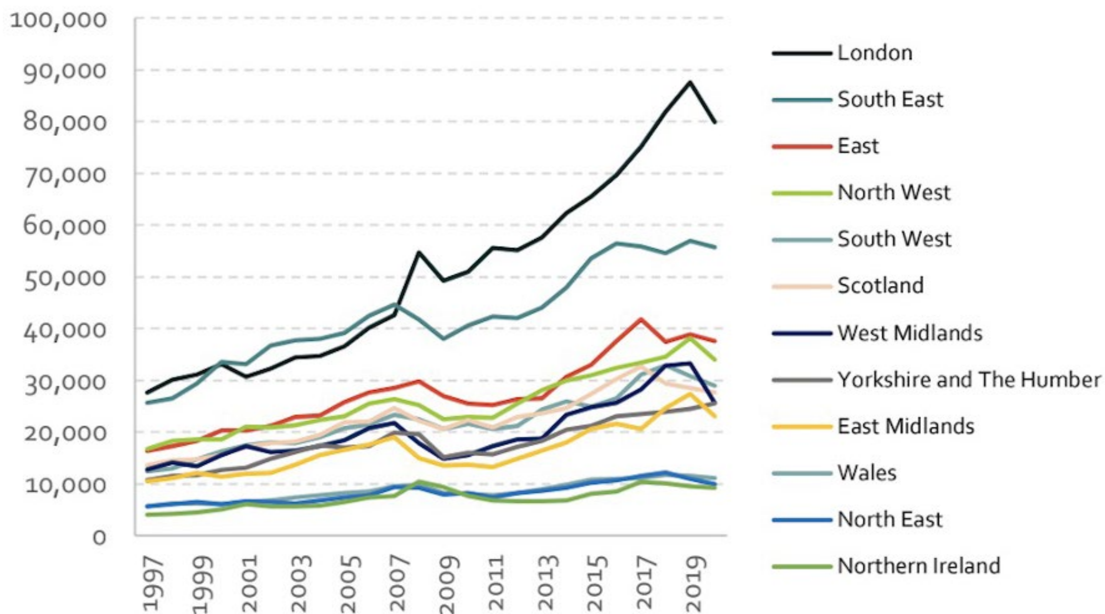
This project, like many similar efforts, has undoubtedly been hampered by a lack of good quality and up-to-date data on investment levels into regions. In particular, the data available to us through the ONS made no distinction between public and private investment sources, making issues such as commercial viability gaps more difficult to uncover and understand. Investment classification itself, and public recording of said investments by extension, is loose, which creates a hazy picture of the UK and the targeted improvements needed to introduce change. What we have uncovered, however, is illuminating.

CHAPTER 1 An Unequal Starting Point

It will not come as a surprise to learn that there are large disparities across the country when it comes to their success in attracting investment. Indeed, the London-centric perception of the financial services sector is a point of contention for many. Whilst 62% of the British public believe that the whole country benefits from the financial services industry, 73% believe that the industry is too concentrated in London, and 79% believe that the jobs and investment the sector provides should be better spread around the whole country[1].

To uncover the extent of these geographic disparities in investment (illustrated below), the PFC commissioned new analysis into historic investment levels based on available Gross Fixed Capital Formation (GFCF) data. This ONS published data provides estimates of investment in the UK between 1997 and 2020. This is an imperfect metric that does not capture the nuance or character of different regions and the investment they attract, but it is nevertheless a useful and important indicator. Figure 1 below indicates the extent to which London has eclipsed the rest of the UK in recent years in terms of overall investment. The gap that has emerged in the last decades emphasises more than ever the need for meaningful levelling up, with other regions across the UK being left behind.

Figure 1: Total Annual Regional GFCF, £millions 1997 to 2020



Source: CW Economics, based on ONS data

Whilst spatial inequalities are a historic feature of the UK economy, the data above shows that the 2008-09 financial crisis led to an exacerbation of this trend and saw worsening inequality between London and the South East and other regions of the UK. Some economists have attributed this to a 'flight to safety' in the aftermath of the crisis that saw London benefit from "a surge of cheap capital inflows" due to its perceived safety[2]. This came at the expense of historically weaker regions, which "suffered severe and persistent increases in risk pricing which in turn led to adverse long-term impacts on productivity"[3].

Using the available GFCF data, investment into buildings and structures can be tracked to provide a model of approximate investment into infrastructure projects, including housing. Our analysis uses ITL3 ("International Territorial Levels") regions to provide a localised picture of investment to better understand these trends. There are 133 of these ITL3 regions in England, marked on the investment map below. These ITL3 regions correspond to individual upper tier and groups of unitary and district Local Authority areas.

Figure 2: Average investment levels in England (Gross Fixed Capital Formation (Buildings and Structures) Data, 2016-2020, CW Economics based on ONS data.

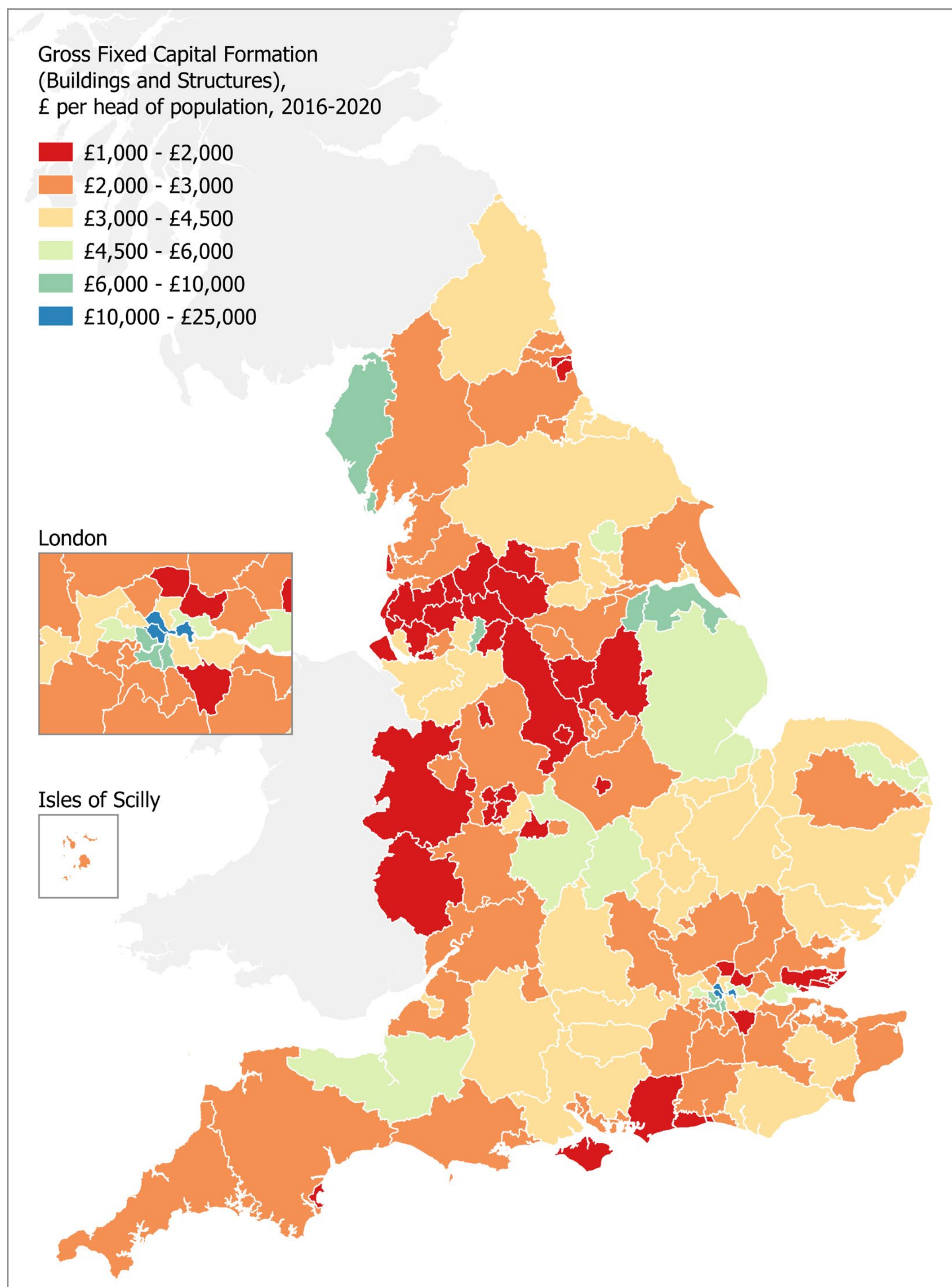


Figure 3: The ten regions with most physical infrastructure investment

Region	ITL3 Area name	Annual GFCF £/head 2016-2020 (buildings and structures)	Position
London	Camden and City of London	24,011	1
London	Westminster	19,869	2
London	Tower Hamlets	13,574	3
North West	West Cumbria	8,771	4
London	Wandsworth	7,821	5
London	Kensington & Chelsea and Hammersmith & Fulham	7,135	6
Yorkshire and The Humber	North and North East Lincolnshire	6,677	7
North West	Manchester	6,133	8
London	Lambeth	6,059	9
London	Ealing	5,882	10

Figure 4: The ten regions with least physical infrastructure investment

Region	ITL3 Area name	Annual GFCF £/head 2016-2020 (buildings and structures)	Position
South West	Torbay	1,463	124
North West	Blackburn with Darwen	1,438	125
North West	Wirral	1,437	126
North West	Sefton	1,417	127
Yorkshire and The Humber	Bradford	1,384	128
North West	Greater Manchester South East	1,363	129
Yorkshire and The Humber	Calderdale and Kirklees	1,359	130
North West	East Lancashire	1,324	131
West Midlands	Dudley	1,186	132
West Midlands	Walsall	1,174	133

What is particularly striking is the extent of the disparity between the English regions receiving the most investment compared to the regions receiving the least investment. London is home to 7 of the top 10 performing regions on this metric. Camden and City of London leads the ranking with an average of £24,011 of investment into buildings and structures per capita, more than seven times higher than the national average, of £3,316.

The scale of this extreme imbalance remains staggering and incredibly top-heavy, displaying logarithmic rather than linear disparities with the leading region ranking four times as high as the region in tenth place, Ealing at £5,882. This is almost the same as the factor of five that exists between Ealing and the region with the least investment, Walsall which, at £1,174 ranked 133rd.

Even within London, investment levels vary dramatically. Brent, appearing directly in the middle of the London pack, sees investment levels of £3,970 per capita[4]. This is six times lower than Camden and the City of London and remarkably close to the national average of £3,316. Evidently the barriers that are holding back communities permeate the whole country, not just areas traditionally labelled as in need of levelling up.

It is also worth noting that the data that is currently available does not provide an entirely transparent picture. Public data sharing is severely lacking. Investment data is not recorded through consistent metrics across different investors, making comparative analysis difficult. Additionally, GFCF investment data only provides a picture up to 2020, which means there is a significant period since unaccounted for; an issue we have tried to address through substantive qualitative work, including roundtables, interviews, and research.

It is also important to consider that the available data, divided by ITL regions, does not always align directly with local authorities. It is therefore difficult to make precise assumptions about the barriers impacting particular local authorities. Most importantly of all, the data available publicly does not distinguish between public and private investment flows. This is a significant problem, as the data fails to demonstrate where private capital flows are heading and thus where local governments have been successful in attracting external investment.

Regional Investment Breakdown

Based on average GFCF figures on buildings and structures between 2016 and 2020.

- **London** scores highly on investment levels and is home to 7 of the top 10 highest scoring regions in England, at an average of **£6,058** per person compared to the English average of £3,316. Internal disparities reveal an unequal region however, with districts such as Bromley (£1,657) and Enfield (£1,636) scoring well below the national average.
- The **East of England** has an investment average of **£3,332**, the second highest regional average. Despite its strong broader regional performance, the East of England does not boast any areas represented in the top 10. Just 3 areas in the East appear in the bottom third of English ITL3s.
- **Yorkshire and the Humber** also performs reasonably well in the investment rankings despite being one of the less affluent regions of the UK, with an average investment per capita of **£3,073**. The region has a wide spread of investment levels with North and North East Lincolnshire ranking in the top 10 English ITL3 regions, whilst the region is also home to two of the 10 regions struggling the most.
- The **South East** is a particularly interesting case. Despite being one of the most affluent regions of the UK, the region has average per capita investment of **£2,803,** over £500 below the national average.
- The **North West** appears towards the middle of the pack with an average of **£2,763**. 8 of the 20 lowest performing regions in the national breakdown hail from the North West. Both West Cumbria and Manchester also appear in the top 10, however, highlighting the disparity within the region.
- The **South West** had an average figure of **£2,732**. The regions that perform worst within the South West are notably seaside towns, which receive investment per capita figures well below the national average.
- The **North East** had an average of **£2,706**. Unlike in many other regions, some of the areas which received least investment were urban centres such as Sunderland and Tyneside.
- The **East Midlands** is second from bottom in terms of the value of investment per capita into the region, a figure of **£2,615**. Derbyshire in particular receives low levels of investment, with all three lowest performing areas located in the county.
- The **West Midlands** has an investment per capita average of **£2,289**. Despite some regions struggling to receive capital, Warwickshire appears in the top 10% nationally, with £5,392 per head.

CHAPTER 2 Barriers to Investment

The PFC was formed to investigate the obstacles that are hindering investment opportunities and thus holding back communities across the country. As part of our research, we heard from leaders representing all parts of the investment lifecycle, from local government regeneration directors to developers to institutional investors. We hosted a number of roundtables across the country and conducted interviews with a number of influential figures.

We found that three principal barriers consistently emerged from these discussions. A lack of local government capacity, a shortage of skills in crucial areas, inefficient funding structures, and difficulties navigating planning frameworks are all significant obstacles behind imbalances in regional prosperity.

Lack of capacity and expertise

Local Government across the country lacks the necessary expertise to embark upon regeneration programmes. As a result, they lose out on potentially significant capital flows that could transform their communities.

1/3[5] of those surveyed from local government believe that the lack of the level of expertise within their Council is either a high or very high barrier to delivering regeneration projects in their area[6].

Local government organisations and public bodies have often reported a lack of capacity when faced with attempting to implement and assess significant infrastructure developments or regeneration projects. Without improvements to this capacity, capital will continue to be spent in a narrow range of areas, further entrenching current divides as authorities up and down the country struggle to produce investable propositions. One roundtable attendee reported that regeneration leads are often so stretched that they don't have the time to engage with investors at all, let alone formulate investable regeneration propositions.

The causes behind this lack of capacity, however, have been building for some time, and are not easily addressed. In particular, local government has suffered from funding pressures during the period of austerity, which understandably led to the prioritisation of frontline service delivery at the expense of back-office services such as planning and finance professionals[7].

The results of this loss of skills are apparent today, with local authorities struggling to attract regeneration and development professionals due to competition with private sector consultants for a limited pool of candidates.

One significant capacity concern in local government has been the shortfall of staff and turnover in local government planning departments. Freedom of Information requests sent to English councils this year showed that just 10% of council planning departments were fully staffed. More than 1 in 10 councils questioned were operating at less than 90% capacity.[8]

Herein lies a significant problem: a lack of planning expertise leads to delays, which in turn then increases the cost of developments, which can make investors less likely to invest and potentially disincentivise other organisations from investing in the future. As a consequence, investment diminishes and capital flows head to other, more economically viable regions.

"Some local authorities lack the capacity and capability to develop and deliver infrastructure strategies effectively, which is critical if levelling up is to happen."

National Infrastructure Commission[9]

In some cases, authorities have informed us that external consultants fill the gaps. However, this approach comes with a number of drawbacks. First, it is a costly solution and is therefore sometimes out of reach for smaller councils. Second, this support is often reserved for the later stages of a project, rather than being deployed in earlier stages, such as the creation of project plans and well-costed proposals[10].

The lack of expertise has become particularly acute in recent years thanks to widespread cuts to planning departments in the previous decade. From 2009/10 to 2017/18, planning and development services expenditure fell by 40%.[11] This dramatic decrease as a result of austerity that followed the financial crisis has made it incredibly difficult for authorities to cope with the volume of applications received, severely hindering investment prospects.

Fortunately, work is being done to address these shortfalls. The Local Government Association has announced the launch of a dedicated graduate programme for planning professionals, commencing in 2023 and aimed at widening the pool of graduates entering the planning profession in local government[12]. Similarly, CEDOS, the Chief Economic Development Officers Society, has considered measures to expand the number of economic development graduates in local government, and has suggested local authorities could provide graduate programmes and relevant training akin to or in partnership with similar schemes offered by private sector development consultancies[13].

Here, Combined Authorities can also play a role, identifying areas of collective deficiency in their regions and acting accordingly to plug the gaps. On a wider scale, the Government has recently announced that certain councils and local authorities in England will be eligible for funding targeted at generating additional capacity and enabling them to prepare high-quality bids for funding through the existing UK Shared Prosperity Fund[14].

Only **5.5%** surveyed think that a lack of local skills does not pose any obstacles to the viability of regeneration projects in their area.[15]

Another specific area where this skills gap poses a problem is in understanding investors themselves. Some local authorities lack understanding of the metrics that private investors will consider while investing, and of what constitutes an 'investment ready' proposition.[16] PIC's survey in collaboration with the *Local Government Chronicle* illustrates that there is a lack of confidence in local skills, contributing to a disconnect between local authorities and investors.

This is an area that organisations like the PFC, which brings together investors and local government bodies, can help to address. Increasingly, the private sector is showing a willingness to work with local government in a variety of new ways and in regions the industry has typically avoided. This work can help to generate long-term pipelines of investable propositions across the country. Undoubtedly, there is more work to be done, especially to target those local areas without a successful track record of attracting private capital, and which may therefore lack the institutional knowledge required to do so.

Different organisations choose to work together in different ways; through the provision of additional funding, secondment agreements, and other arrangements which develop productive relationships. The Good Economy, an organisation that helps investors assess their social value contributions, is developing a toolkit for local authorities to help identify investors' priorities[17]. Previous studies have indicated that this remains a significant barrier for local authorities to overcome[18], and that further work in this area is required, such as workshops with investors and better knowledge sharing between successful local areas and less successful regions.

There is scope, too, for investors themselves to do more to collaborate with local authorities. A challenge from the local government representatives we spoke to was to ask what support they could provide in this area. Investors often report a shortage of suitable projects to invest in, and whilst they are happy to invest millions in the right project, investing a much smaller amount in the development of a long-term pipeline of projects is less common.

Unproductive funding structures

Current funding arrangements for local government can restrict decision makers from embarking upon comprehensive regeneration programmes.

A message we came across throughout our research was that current funding arrangements for local government are too short-term and too ringfenced to enable decision makers to embark upon comprehensive regeneration programmes. Bidding processes also have councils competing against each other for the same funds, wasting time whilst ensuring the system has 'losers' embedded into the process.

"The decisions on funding bids can take so long that even if you are accepted, cost projections can have changed so much that we have to re-assess the scope of the project. As a result, there are often reservations from investors about involving themselves in regeneration projects where significant public funding is required."

Local Government Regeneration Lead

The bidding process has been a controversial addition to funding for local government. Competitive bidding for government grants has been a fixture of regional development since Lord Heseltine championed the process as a means to improve the quality of regeneration plans.[19] Throughout our conversations with decision makers, the allocation of funding cropped up time and time again as a source of frustration. Short-term funding cycles, and bid-based funding streams were reported as an inhibition to local government's ability to plan for the longer term, and as such provide confidence to prospective investors, who may be put off due to a perceived lack of continuity throughout a project's lifespan.

“Short-term funding cycles make it near-impossible for local government decision-makers to make transformative change. In order to truly level-up, regions need to be given medium-term tools and levers that provide the confidence to develop out the investment pipeline and allow a strategic place-based approach to investment.”

Laura Blakey, Investment Director, Greater Manchester Investment Fund

In the 2019/20 financial year, the last before the Covid-19 pandemic, local authorities in England received approximately 22% of their funding from central government grants, with the remainder of their funding coming from council tax (approximately 52%) and business rates (approximately 27%)[20].

Thus, while government grants make up a relatively small percentage of overall funding, their variety and complexity mean they can draw disproportionate levels of resource. Research from the Local Government Association has shown that local government received “at least 448 unique grants from central government between 2015/16 to 2018/19”, with approximately 250 grants being distributed in any given year[21]. Despite this proliferation of funding sources, the same research found that overall levels of funding were decreasing, from a total of £83.1 billion in 2015/16 to £69.9 billion in 2018/19.

With more potential sources of funding combined with a shrinking pot overall, fierce competition is inevitable. These bid-based funding sources are among the most controversial parts of the system, as the inherent uncertainty of the system can completely inhibit long-term planning for councils and other authorities. It can also distract and subsume vital resources, meaning that preparing bids that are suitable for private investment will not even be a consideration for many local councils. Taking the recent rounds of levelling up funding as an example, only 26% of bids were approved in round 1 and round 2, meaning that over 600 local government proposals were unsuccessful[22].

A system in which local authorities are pitted against each other in this way creates detrimental competition in which some communities have to lose out and waste resources, as the time spent on preparing bids reduces capacity which is already severely overstretched. The bidding process’ lengthy timespan also fosters indecision as regeneration leads are forced to wait on an outcome. Others have noted that central government grants have not historically been designed with the idea of crowding in further investment from the private sector in mind, making bidding for them whilst also seeking this private investment incompatible[23]. The course of the last decade strongly indicates that short-term grant funding has failed to deliver regional development and prosperity[24].

Even for those local areas that are successful in securing grant funding, frustrations remain. Our research found that by the time the outcome of the grant is known, cost projections could have changed, meaning planning has to be revisited yet again, causing further delays and amendments to plans.

Fortunately, the government has acknowledged these flaws. Responding to Levelling Up, Housing and Communities Select Committee report on Funding for Levelling Up, the government confirmed plans to phase out the bidding model, emphasising the need to “move away from an overemphasis on bid and judgement-based funding pots”[25]. The government has since confirmed that a new ‘simplification doctrine’ will be implemented in 2024 with the

aim of assessing suitable distribution methodologies for new funding streams, with further simplification reforms to be introduced in the next spending review[26].

At a combined authority level, this also includes a commitment to give Greater Manchester and the West Midlands Combined Authorities single settlement funding deals in the next spending review. According to the government, "these settlements will be agreed directly with government through a single process and will cover their funding for devolved policy areas, including local growth and place, local transport, housing and regeneration, adult skills and retrofitting buildings to drive decarbonisation, for the duration of each Spending Review period"[27].

Such arrangements grant the selected combined authorities greater certainty, making them more attractive places to invest, and greater flexibility, enabling stronger local leadership.

These are promising developments, and the government's intention is that other places will follow in the years to come. Nevertheless, the complex and competitive nature of the bidding process, which is still a key component for many local authorities across the country, has done significant damage to regeneration efforts thus far.

Navigating the planning process

Difficulties in navigating planning regulations for both local and national infrastructure projects have significantly hindered regeneration and investment opportunities in communities across the country.

Developers, local government representatives and investors have all reported that navigating the patchwork of planning requirements is an incredibly complex and time-consuming process. Delays in the planning process can severely impact the ability of local authorities to deliver projects on time and on target, in turn providing less certainty and consistency for prospective investors.

As we highlight above however, there are currently significant staffing shortages in planning departments across the public sector. These undoubtedly compound and exacerbate the problems the sector is facing, calling into question the extent to which the planning regime itself presents the largest issue to developments.

During our research, concerns around planning were raised in two main areas - housing developments and major infrastructure projects.

With regards to housing, government data showed that in June 2023, the number of new homes granted planning permission in England fell to its lowest level since the 2008 financial crisis[28]. The role of planning in this crisis continues to dominate the narrative. In July, Secretary of State for Levelling Up, Housing and Communities Michael Gove announced fresh measures to address planning roadblocks, including introducing a "super-squad" of leading planners and other experts charged with working across the planning system to unblock major housing developments[29].

Whilst this focus from central government is a welcome sign, research conducted by the PFC suggests that there is a lot more to be done to address the problem.

Case Study: Frome

In recent years, Somerset has been beset by a swathe of cancelled housing developments. From flood risks to a lack of supporting infrastructure such as viable road networks, there have been an array of reasons behind planning inspectors' decisions to shelve projects. Whether looking at the cancellations of Nailsea, Shepton Mallet or Frome residential developments, there has been a commonality regarding the issues that each proposal has faced. Each plan has failed to sufficiently address local concerns. Locals feel let down by projects which either don't mitigate for local overcrowding concerns or erode the character of the communities they are built in. As a result, there is often a deep disconnect between developers and those who reside in the locality.

In August, Frome Town Council became the third UK authority to declare a housing crisis.

This disconnect and the resulting collapse of developments in Somerset has contributed to a housing crisis in Frome. The town is now in dire need of new social housing with average rent figures rising in Frome to £1,499 a month in August, roughly half of the average monthly salary.

Sarah Dyke, Member of Parliament for Somerton & Frome: *"Frome is a great place to live and work but sometimes it appears that developers aren't prioritising the communities that they are supposed to be providing for. Social housing is becoming increasingly scarce and often subpar, failing to provide for Frome residents who are often left unable to afford to live in the area. Locals deserve to have a voice in the future of their town but many feel powerless and let down. I am determined to work with all stakeholders to address this issue."*

Evidently Frome and surrounding towns in Somerset require investment to provide the region with the housing it needs, but it is clear that the developments need to prioritise place. Without a focus on placemaking, Frome and countless other towns will continue to be locked in cycles of stagnating development which in the long-term can only hurt residents.

"We can sometimes be spending about 80% of the lifetime of our projects working on obtaining planning permission and just 20% of time on the construction itself. When a development is shelved during planning, it imposes huge costs on us and the local authority that we're working with.

Delays in planning can often lead to projects becoming undeliverable – especially in times of cost inflation as we have witnessed over the last 18 – 24 months".

Developer

When hearing from those with experience of delivering complex Nationally Significant Infrastructure Projects (NSIPs), environmental and ecological regulations are typical sources of frustration - or rather, the repetitive and uncoordinated nature of these is a source of frustration. Developers reported spending months or even years performing environmental surveys which have already been completed for a development less than a mile away.

There is clearly a need to invest and develop in ways that support the wider environment, not least due to the need to design infrastructure in such a way that the UK is able to meet its ambitious net zero commitments. To this end, the barriers cited most frequently with relation to NSIPs were often not the environmental regulations themselves, but instead their uncoordinated nature and enforcement which leads to work such as environmental surveys being duplicated.

Frustrations were also raised at the way that these processes must be repeated for every new development without many options to bypass them, even when neighbouring developments had previously submitted the same data in the months or years before.

"Achieving planning permission for complicated regeneration projects these days takes the best part of a year. This complicates the regeneration process, affecting private investment confidence and development costs in addition to the lengthy delay."

Local Council Regeneration Lead

The same can be said even of the environmental mitigations that can be designed in response, using valuable time and resources drawing up proposals when an existing mitigation has already proved successful elsewhere locally. The National Infrastructure Commission reports that these inefficiencies and repetitions lead to delays, but to no net benefit for the environment[30].

Case Study: Havant Thicket Reservoir

The Havant Thicket Reservoir, situated in southern Hampshire, is intended to address the significant water resource challenge faced by much of the South East of England and protect Hampshire's rare chalk streams. It is the first new reservoir of its kind to be built in the UK in over 30 years.

Portsmouth Water, which is developing the new reservoir in partnership with neighbouring Southern Water, expects the facility to open in 2029. Once completed, it will hold approximately 8.7 billion litres of water, while it will be capable of supplying up to 21 million litres of water each day.

The project has been funded by both the government owned UK Infrastructure Bank and investors from the private sector, including a £50 million investment from PIC plc.

The reservoir responds to a call from the National Infrastructure Commission to invest urgently in new infrastructure, and was only made possible through close collaboration between the public and private sectors.

"Land assembly and securing planning carries the most risk and uncertainty in the development process. To compensate for this risk & uncertainty, investors and developers often require a 1.5x-2.0x return on their investment in these early stages. This makes it challenging to deliver complex regeneration sites which already have the additional costs of infrastructure and remediation and may also be in locations of low property value."

Regenerative Developer

The picture seems even more stark when viewing planning at a macro level. The timespan of a Nationally Significant Infrastructure Project (NSIP) being assessed before being granted a Development Consent Order (DCO) increased by 65% between 2012 and 2021[31], whilst the rate of projects going to judicial review has spiked in recent years to 58% from a long-term average of 10%[32].

This has been caused by complex regulatory overlays and issues with 'legacy' legislation resulting in a patchwork of old and new rules which don't always align. It is, for example, currently unclear for the Planning Inspectorate what metrics they should be meeting. According to the National Infrastructure Commission, this has led to their role shifting from "inquisitor to that of arbiter"[33].

This is incredibly inefficient and hampers new infrastructure development. Without further action to improve this system, it risks posing a significant handicap to the UK's ability to meet its ambitious net zero obligations, which some estimate will require an average of £40 billion a year invested in new infrastructure such as power systems, buildings and industry, transport and digital over the next ten years and beyond[34]. Without a better understanding of how to deliver major infrastructure projects on time, on schedule, and with local areas on side, it seems unlikely that this can be achieved.

Indeed, securing local consent for all large-scale projects is increasingly becoming a major concern for developers and investors. Public opposition has the potential to derail developments even after planning has been granted, which acts as a disincentive to large projects and leads to sunk costs and wasted resources for both the public and private sectors.

Our research found that there is broad consensus on the need to develop mechanisms to mitigate local concerns where, as is often the case for major infrastructure projects, the primary benefits are felt at a national level rather than at a local one. Several of the individuals and organisations we spoke to pointed to place-based approaches to development as a potential solution to this and other challenges.

What is clear, however, is that there is an increasing appetite among both investors and local communities for new and better ways of working together to ensure that financial returns for investors do not come at the expense of benefits to local areas. We have termed this new approach 'purposeful finance'.

CHAPTER 3 Towards Purposeful Finance

The PFC believes that a new approach to investment partnerships that prioritises purpose has the potential for huge rewards - being good for investors through guaranteed returns; good for the economy by kickstarting regional growth; and good for communities through long-term partnerships that deliver real social value.

The data in the previous chapters shows a striking and unequal picture. This will not, unfortunately, come as a surprise to many. Whilst we have seen some local areas performing exceptionally well in terms of attracting investment, these have been few, and limited to a narrow geography. Changes need to be made to ensure that communities will not continue to suffer from 'vicious cycles' of capital shortage, deteriorating living standards and worse local areas, leading to a loss of community, local pride, and belonging[35].

To do this, more thought must be given to the purpose of investments and the role that finance can play in generating both social as well as economic value. More time must also be spent to ensure more equitable outcomes for people living across the length and breadth of the UK, many of whom have historically missed out.

As we have discussed in earlier sections, several factors are converging that mean that this is an opportune, if not vital, time to do so. Not only do Solvency II reforms have the potential to unlock as much as £100 billion of new capital that the government intends to be primed for investment in long-term infrastructure and regeneration projects[36], but our roundtable attendees reported that the challenge of meeting net zero is likely to prove to be the largest impetus for investment of our time. Against this backdrop, the time is right to consider a new approach that works for investors, the economy, and most importantly, communities themselves.

Good for investors

In embarking upon this project, the PFC chose to engage with long-term institutional investors such as insurers and pension funds, the structure of which means that they hold a unique position in the UK market, as they can typically invest with a view to long-term returns. This gives these 'patient capital' investors greater scope to consider other factors when building their portfolios, such as purpose and social value. Previous research has shown that investments in long-term projects such as social housing, renewable energy, infrastructure, and regeneration can provide investors with "stable, high, long-term returns and low volatility versus other mainstream asset classes"[37]. As rates of return on infrastructure investment in London have begun to diminish in some areas, with the City of London expecting a 20% decline in office building value through to March 2024[38], there are further incentives to invest elsewhere.

This allows these funds to invest in new ways, and indeed in new regions, giving them the time to work with local government to develop viable investment propositions anywhere in the country and makes them ideal partners for infrastructure projects such as housing, energy, and regeneration projects that provide returns over long periods of time.

A common theme in our research highlighted the importance of partnerships between the public and private sectors, and in particular the need for a common vision and a commitment to purpose required to make such partnerships a success.

> **"Long-term partnerships provide vital connections to the regions we invest in. We rely on their knowledge of the local area, their expertise, and their connections to make informed investments over a long-term horizon".**
>
> Investor

The research presented in this report has also highlighted the need for investors to consider the social value of their investments, particularly in regions which have typically missed out on private capital. In attempting to change this historic inequality, investors should therefore pause to consider their relationships with communities across the country, though it has been noted that more work needs to be done to accurately define and measure social value[39].

For pension funds and insurers in particular, this is a reflection of the varied nature of their policyholders, their geographical diversity and their right to have their funds invested in projects that actively contribute to the improvement of their local areas. Whilst some firms have made proactive efforts to map their investment footprint and their policyholders, this is not yet the norm.

Good for the economy

Without action to address the inequities outlined in this report, the UK's economic performance is also likely to continue to underperform compared to global rivals who do get this right. Research has found that whilst most large OECD countries have second tier cities with productivity levels as high as, if not higher, than their respective capitals, productivity levels in major UK cities (Belfast, Birmingham, Bristol, Cardiff, Glasgow, Leeds, Liverpool, Manchester, Newcastle, Nottingham, and Sheffield[40]) were on average just 86% of London[41]. A key contributor to this disparity appears to be the centralised structure of the UK - the UK's core cities receive up to 68% of their funding from the national government, whilst the average in other OECD countries is just 35%[42].

The work of the PFC hopes to highlight success stories that prove that a considered and partnership-led approach can lead to economically viable propositions almost anywhere, as well as lend our voice to those highlighting the barriers that remain, and which all too often prevent this.

Good for communities

Most importantly, this new approach must adequately serve the needs of local areas and the communities who live in them. It must also involve a conscious effort to break down barriers to regional development and regeneration at every stage. Whilst these barriers remain high, the work of dedicated developers, investors, and local governments is seeing them broken down through close collaboration. Their determination is proving that huge rewards, both financial and social, are on offer for those who get this right.

By working together, the public and private sectors can deliver truly transformative benefits into the places that need them most. Our research led us to places like Wirral where this collaboration has been most successful.

Case Study: Wirral

The data presents a seemingly gloomy picture for Wirral, which appears 8th from bottom in the English physical investment index[43]. However, there is in fact a much more positive story developing on the ground. Wirral Waters is one of the largest regeneration projects in the UK and serves as a great example of how local government, investors and developers have the potential to come together to make a significant and positive impact. The development spans 500-acres and makes up part of a 30-year strategy to transform the Left Bank of the River Mersey into an internationally recognisable destination, creating 20,000 permanent jobs and transforming a brownfield site into a thriving waterfront neighbourhood. Wirral is just one example of what can be achieved with the right partnerships and purposeful finance.

Aileen Jones, PFC Commissioner and Executive Director of Investment and Delivery at Liverpool City Region Combined Authority: "The Wirral Waters project really encapsulates what purposeful finance is about. This development will completely transform the area, upskilling and transforming Wirral into a new business and residential hub in Liverpool City Region".

Miller's Quay

As part of the Wirral Waters development Peel L&P, PIC, construction firm GRAHAM, Homes England, Wirral Council, and staff and students from Wirral Met College have entered into a partnership to develop 500 sustainable waterfront apartments. The £130 million project will offer 100 affordable new homes in a commitment to provide social value for the region. Without strong and cooperative relationships between investors, developers, local and national governments and regional stakeholders, the scale of this project would not have been possible.

Max Cawthorn, Head of PIC Capital Strategy: "We are absolutely delighted to be involved in this partnership. We want every investment we make to be guided by purpose so being able to help finance a project that provides sustainable and affordable housing whilst championing and developing local skills is incredibly exciting for us."

Local Skills

Key to Miller's Quay and the wider Wirral Waters regeneration project is the holistic approach that has been taken. The project does not just provide housing but emphasises developing Wirral itself. Wirral Met College's Wirral Waters Campus was the first key landmark to appear by the Mersey. The college has since become an integral part of the development as a whole. 319 students have benefitted from the 'live' classroom surrounding the campus, taking part in a number of activities and learning a wide range of skills. Since construction started in 2015 the college has produced who have gone on to play important roles in the construction of the developments. This approach has ensured that locals are connected and contributing to the project and ensures that the region has the right skills to succeed.

Richard Mawdsley, Director of Development for Peel L&P's Wirral Waters: "I have been really proud and humbled to see the students engaged in learning on-site and knowing that they are learning about modern and green methods of construction for these energy and resource-efficient new homes, is incredibly reassuring in our ambition to create the construction workforce of the future."

CHAPTER 4 Conclusion

Throughout this report we have sought to lay out some of the challenges that are holding back investment opportunities for communities across the country. We have worked closely with organisations from all parts of the investment cycle, from regeneration experts to institutional investors representing billions of pounds of capital. In doing so, we have uncovered a range of obstacles which together are severely limiting investment flows to the places and people across the country that need the funds the most.

Throughout our research we have seen that there is a broad consensus within this space that there are significant obstacles that are withholding regions from achieving their potential. The problems we have identified are not new, but so far progress on addressing them has been slow.

The Purposeful Finance Commission was commissioned, not as an academic exercise, but to gain a better understanding of the investment landscape and ultimately provide practical solutions to the imbalances that permeate the investment environment across the UK. Our discussions around the country have been incredibly valuable in helping us identify areas that have been making positive changes and leading the way in attracting investment.

The PFC will be releasing a further report focused on providing policy recommendations for the future to ensure that we continue to move forwards towards a position where every area has the means to access and attract long-term institutional investment for projects with a social value. In doing so, we hope to help move further towards purposeful finance.

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