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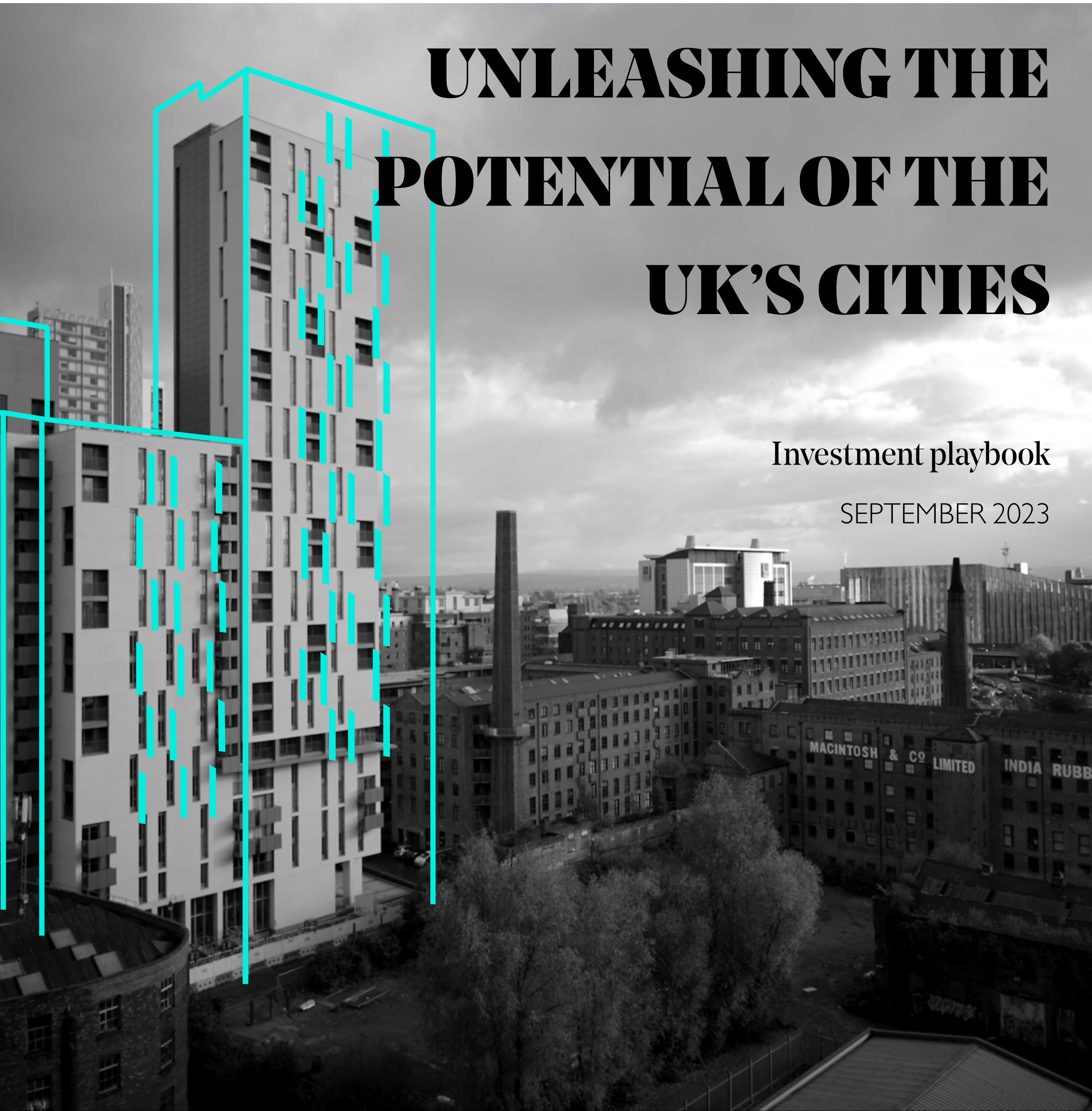


Investment playbook

SEPTEMBER 2023

INTRODUCTION

The purpose of this playbook is to outline broad themes an incoming director of economic development (or similar) should consider when thinking about how to make better use of private sector investment to help create a regenerative city.

It contains advice for securing investment framed around the key building blocks:

- Ingredients for increasing the attractiveness of cities/projects to investors (eg granular local plan, governance, skills).
- Aligning investors around key economic, environmental and social ambitions for a city.
- Examples/advice on different financing mechanisms for different types of project.
- Examples/advice on frameworks for ensuring social and environmental value.

It should be seen as illustrative rather than comprehensive, and some elements covered here may already be in place – but are worth emphasising as critical enablers for private investment. It is also important to note that cities are all starting from different places: there is no one-size-fits-all solution.

CONTEXT

The value of a place-based approach to investment

Current constraints over local government borrowing and revenue retention, and public sector finances more generally, mean that cities are likely to require significant private sector capital to deliver on their strategies - but at the same time inhibit their ability to access that capital.

There is significant global capital available to invest in long-term, public sector-backed investments with strong environmental and social objectives. Provided the right risk, return balance can be found.

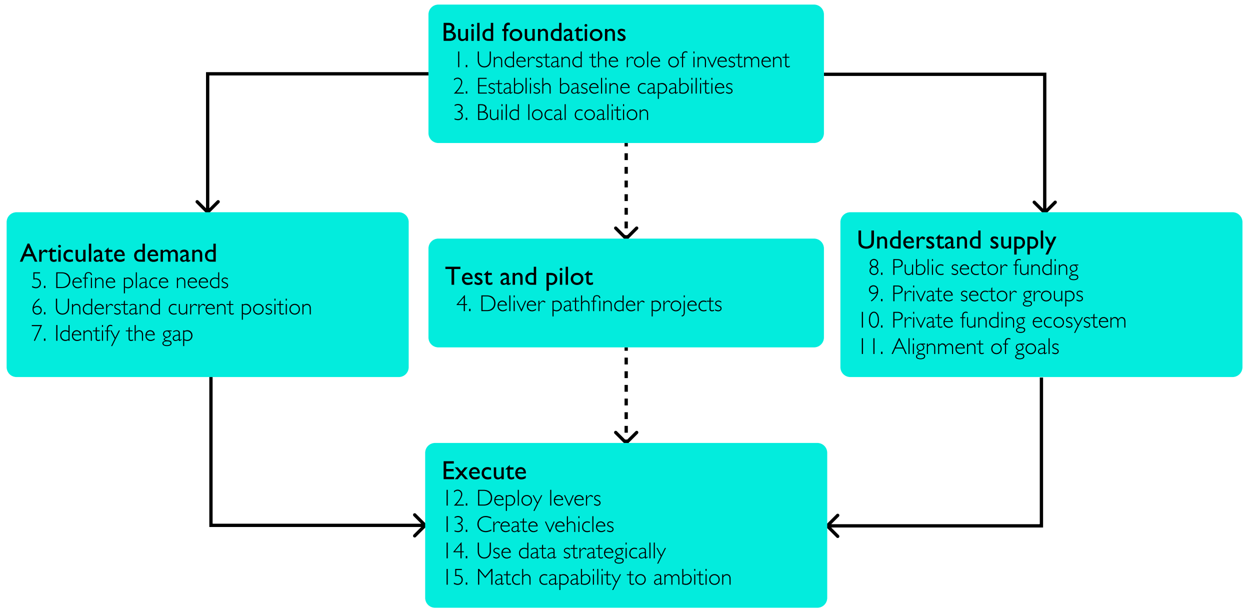
Learnings from successful cities suggest that to attract private investment, cities should:

- Develop investable propositions that clearly demonstrate how they will contribute towards achieving the desired objectives for the city strategy.
- Demonstrate long-term commitment to the strategy to give investors confidence that there will be stability across electoral cycles.
- Engage with private investors early to understand their needs and appetite, and design propositions accordingly.
- Build commercial and financial capabilities to develop and articulate the propositions in a way that investors can engage with – including having a clear, robust business case and measurable social and environmental returns.

There is also evidence that taking a place-based approach to investment, by building on a deep understanding of the specific characteristics of the location, can significantly reduce the level of funding required, and therefore increase the return on capital, compared with a more centrally-driven approach.

OUTLINE APPROACH

The approach set out in this document reflects guidance and feedback from a range of different type of investor. It follows the broad flow outlined below. In practice, things aren't always this linear. Often the best solutions emerge iteratively: testing high-level propositions with the market and responding to feedback can result in a better outcome than building out the detail before engaging with funders.



Build foundations

1 Understand the role of investment in the regenerative city ecosystem

2 Establish critical capability gaps that need filling early

3 Build a local coalition of key place stakeholders around a shared narrative

Understand supply

8 Understand the supply of public sector funding.

9 Understand the private sector – finance, developers, employers.

10 Understand the funding ecosystem.

11 Understand alignment of goals – commercial, economic, environmental, social.

Test and pilot

4 Deliver pathfinder projects.

Articulate demand

5 Define future place needs across the nested systems.

6 Understand current position and 'do nothing' trajectory.

7 Identify what is needed to bridge the gap – investment and other levers.

Execute

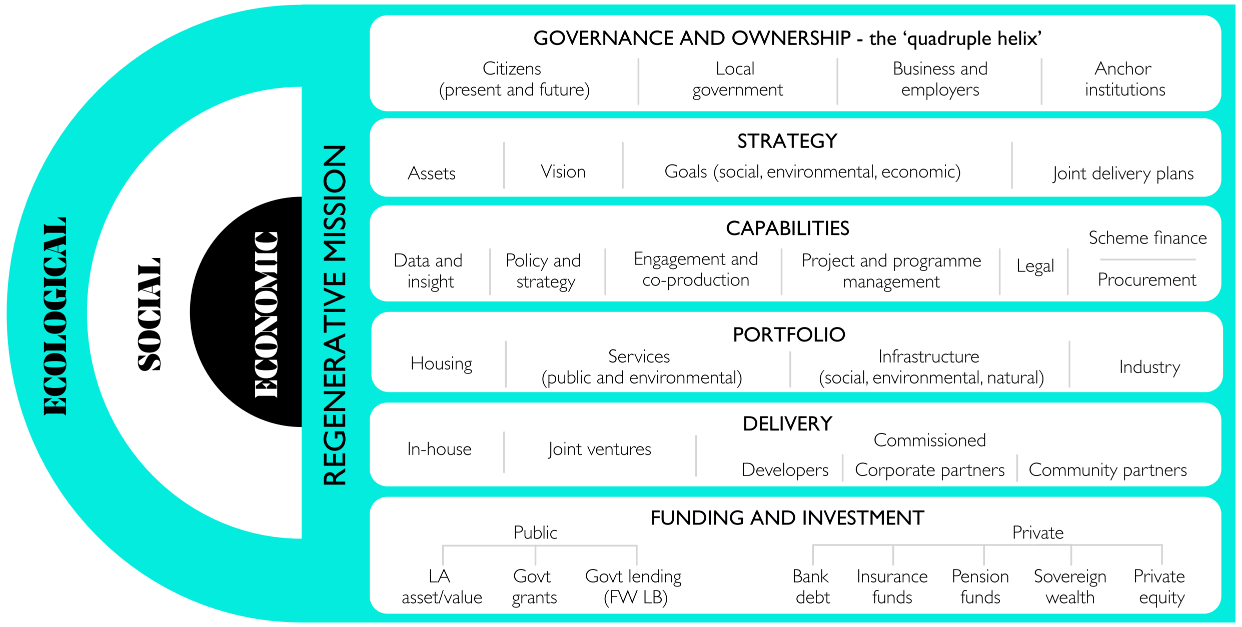
12 Work with investors to understand and deploy levers to unlock investment.

13 Create vehicles that align interests and allocate risk appropriately.

14 Use data strategically to set goals, measure progress and hold partners to account across the range of economic, environmental and social challenges being addressed

INVESTMENT WITHIN THE REGENERATIVE CITY ECOSYSTEM

Investment is a necessary part of a broader ecosystem, all elements of which need to be aligned to achieve the desired regenerative outcomes.



FILL CRITICAL CAPABILITY GAPS

Lack of local capacity to develop and deliver sufficiently detailed place-based investment strategies to attract investors is a common theme. Fixing this problem in its entirety will take policy change at national level and several years to resolve. In the meantime, some places (eg Leeds, Bristol) have demonstrated what can be delivered with a relatively small dedicated in-house capability, supplemented with external expertise where budgets allow. For example, several members of Bristol City Council's leadership team had relevant commercial experience from previous roles, which they were able to leverage in designing and running the procurement process for the Bristol City Leap partnership.

Whilst there are many different capabilities needed at different stages in the investment process, particular priorities when starting on a journey of engagement with private finance are:

- The importance of leadership – who will pitch/advocate/hustle/inspire/create and lead the team/make it happen. Having strong individuals who can engage credibly with finance providers is crucial in building confidence.
- Being an intelligent client – where in-house capability is lacking, expertise can be brought in from a range of advisory organisations. When doing so, and when entering into and managing partnerships with funders, it is vital to have enough capability in-house to act as an intelligent client. This provides confidence that you are engaging with the right partners, creating the right relationships with them, holding them to account appropriately and maintaining momentum in a way that works for all parties.

It would be worth considering appointing a trusted advisor or mentor with practical knowledge of both the challenges of local government and sources of private finance, to provide guidance and challenge on what is possible now and what a pathway to delivery at greater scale might look like.

BUILD THE PLACE COALITION

Feedback from a range of private sector investors and developers shows that one of the key things to look for when considering whether to invest in a place is whether there is strong cohesion between local stakeholders around a shared narrative for the place. If this is not already in place, key steps to consider are:

1 Identify key stakeholders in your place. This could include:

- **a.** The Combined Authority.
- **b.** Neighbouring/nearby local authorities.
- **c.** University(ies).
- **d.** NHS Trust.
- **e.** Anchor employer(s), including private sector enterprises that bring differentiated technical/sector expertise.

2 Build relationships with key stakeholders around a shared narrative, strategic goals, pooled data, and recognition of what each party brings to the table. The table below illustrates where relevant capabilities/powers and assets may sit across some of the key institutions within a place.

The specific mix of institutions, capabilities and assets will vary by location. For example, other key stakeholders could include an FE college, football club or cultural institution.

		Combined authority	Core city	University(ies)	NHS Trust	Major employers
Capabilities/ powers	Economic development	●	●	•		
	Spatial strategy	●	●	•		
	Planning		●			
	R&D/Innovation			●	•	●
	Housing demand		eg affordable housing waiting list	student population	key workers	workers
Funding/ economic assets	Central government funding	●	●	●	●	
	Land ownership		●	●	●	●
	Fixed asset investment			•	•	●
	Council tax		●			
	Business rates		●			●
	Research funding			●	•	
	Skilled workforce	●	●	●	●	●

Each city should form a City Coalition (or similar) to develop and deliver those plans. City regeneration must become more of a collaborative and cross-sector effort. Successful cities have a plural definition of 'leadership', with actors from local government, business, anchor institutions and community sector having an equal stake in their place and its success.

There have been multiple iterations of such governance structures in the past – from Local Strategic Partnerships in the 2000s to Local Enterprise Partnerships (LEPs) in the 2010s. As LEPs are rolled into local and combined authorities, now is not the time to impose a new acronym on local government. Rather, it is for the Core Cities – together – to design a solution which simultaneously respects the unique contours and networks of their place while creating a clear and accessible way for non-government actors to engage (including across places).

Design principles for any resulting governance model include:

- Recognition of unique role of the city council and Combined Authority, through their electoral mandate.
- Involvement – in some combination – of business (major employers, exporters, SMEs), anchor institutions (universities, schools and colleges, hospitals, cultural and sports organisations), civil society (faith and community groups, unions, charities, philanthropists) and citizens (representatives from the resident council – see below).
- Membership must be transparent and celebrated externally as part of the legitimate leadership of the city.
- Membership must be long-term, with the aim of building strong and long-lasting relationships that insure city regeneration efforts against wider shocks or shifts in national political direction.

These principles for more inclusive governance should in turn be reflected at a more granular level on relevant domains, for example through governance to support local skills improvement plans.

Case study: Newcastle Helix

Newcastle Helix emerged as a visionary 24-acre innovation hub, a collaborative ecosystem designed to foster partnerships between public and private entities, local communities, residents, and international tech and science businesses. The initiative was brought to life through a unique partnership between Newcastle City Council, Newcastle University, and Legal & General, with the aim of creating an internationally recognised tech and science hub in the heart of Newcastle.

The success of Newcastle Helix was built on the collaborative efforts of key stakeholders:

- **Newcastle City Council:** providing strategic vision, governance, and leadership to drive the project forward and ensure alignment with urban planning goals.
- **Newcastle University:** contributing academic expertise, research initiatives, and innovative thinking to shape the district's focus on tech, science, and sustainability.
- **Legal & General:** bringing financial support, development experience, and industry connections to the project, aiding its acceleration and viability.

Case study: Austin, Texas

Austin's lack of political power as a city meant that public funding was less of an option. Therefore, they used their limited budget and its strong connections with its university to attract large technology companies to the city which led to investment.

The city council developed the plan in consultation with city stakeholders, including local citizens, universities, and businesses. The council engaged with local citizens to ease concerns that the new strategies would not align with Austin's sense of community and support local jobs. Local universities, such as the University of Texas (UT) at Austin, were engaged in the new strategy with their role as research centres to focus on the emerging technology sector.

Case study: Brainport Eindhoven: driving investment through a compelling narrative

Context

Eindhoven, a city in the Netherlands, has long been known for its industrial and technological contributions. However, in the late 20th century, the city's economic landscape faced challenges due to the decline of traditional industries. To counter this, Eindhoven embraced a transformational strategy centred around the Brainport narrative - positioning itself as a hub of innovation, technology, and collaboration.

The Brainport narrative

The Brainport narrative was developed to showcase Eindhoven's strengths in research, innovation, and high-tech manufacturing. It aimed to establish Eindhoven as a global leader in technology, design, and knowledge-driven industries. This narrative emphasised collaboration among businesses, research institutions, and the government to create a thriving ecosystem that attracts talent, fosters innovation, and drives economic growth.

Success factors

Ecosystem collaboration: the Brainport narrative focused on fostering collaboration between various stakeholders, including businesses, research institutions, universities, and local authorities. This approach created a cohesive ecosystem that leveraged collective expertise and resources.

Innovation hubs: Eindhoven established innovation hubs and campuses that brought together companies, researchers, and entrepreneurs. These hubs acted as focal points for knowledge exchange, collaboration, and entrepreneurship, driving innovation and technology development.

Talent attraction: the Brainport narrative highlighted Eindhoven's quality of life, educational institutions, and career opportunities to attract both local and international talent. This influx of skilled professionals contributed to the region's growth and innovation.

Strategic branding: the city strategically marketed itself as an attractive destination for high-tech industries and startups. This branding resonated with investors looking for innovative environments to invest in.

Government support: local and national governments played a crucial role by providing support, funding, and favourable policies to advance the Brainport vision. This partnership facilitated infrastructure development and research initiatives.

Results and impact

Economic growth: the Brainport strategy contributed significantly to Eindhoven's economic revitalisation. The city witnessed growth in high-tech industries, including semiconductor technology, advanced manufacturing, and design.

Investment inflow: the compelling Brainport narrative attracted substantial investments from both national and international sources. Investors recognised Eindhoven as a prime location for research, development, and innovation.

Job creation: the success of the Brainport narrative led to the creation of high-quality jobs in technology, research, design, and related fields. This, in turn, boosted the local economy and increased prosperity.

Global recognition: Eindhoven gained international recognition as a hub of innovation and technology, attracting attention from media, industry conferences, and global corporations.

Research and development: the Brainport strategy encouraged research and development initiatives, resulting in breakthroughs and advancements across various technological sectors.

Learning for others

The Brainport Eindhoven narrative's success offers valuable lessons for other regions seeking to drive investment through innovation:

Collaboration is key: foster collaboration between industries, research institutions, and government bodies to create a cohesive ecosystem that drives innovation.

Strategic branding: develop a strong narrative and brand identity that positions the region as an attractive destination for innovation and investment.

Talent magnet: attract and retain top talent by emphasising the region's educational opportunities, quality of life, and career prospects.

Government support: government support and favourable policies play a vital role in creating an environment conducive to innovation and investment.

Long-term vision: focus on long-term goals and sustained efforts to build a thriving innovation ecosystem.

The Brainport Eindhoven narrative exemplifies how a compelling vision, collaboration, and strategic execution can transform a city's economic landscape and position it as a global innovation powerhouse.

TEST AND PILOT – DELIVER PATHFINDER PROJECTS

Addressing the many challenges which currently prevent cities from unlocking the investment needed to achieve their potential will take time and resources. However, the imperative to act, whether on climate change, social inequality or the myriad other goals cities have, has never been more urgent.

It is, therefore, important to consider a twin-track approach, getting started on delivering some early, 'no regrets' pathfinder projects whilst in parallel doing the work to build the architecture of an ambitious, resilient, long-term investment strategy.

This approach can have a number of benefits:

- Establish trust and ways of working between local partners.
- Deliver early tangible outcomes for local communities.
- Build credibility with potential long-term investors.
- Enable learning to inform the design of the longer-term approach.

UNDERSTAND WHERE YOU ARE NOW

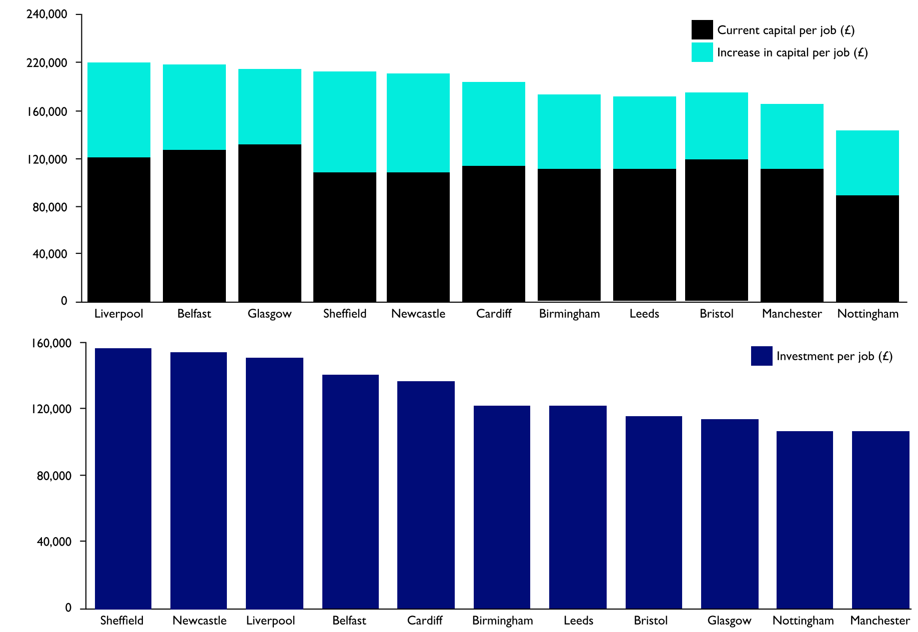
From a financial perspective, the Core Cities are all starting in different places. For example, the chart below shows current capital stock per job and the level of investment needed to narrow the productivity gap with London by 50 percent by 2050. On this measure, the challenge is significantly greater in Sheffield, Newcastle and Liverpool than in Nottingham and Manchester, though it is formidable everywhere.

Moreover, building a regenerative city involves achieving a range of goals across the nested systems: it cannot be distilled to a single metric, let alone a purely financial one.

Fortunately, there is a large and growing body of data available at a highly granular level to enable us to understand the absolute and relative performance of places across a range of measures.

As this is a rapidly evolving area, there is not yet a consensus view of how place performance should be judged across economic, environmental and social domains. City leaders should engage

Figure 1: Current and future capital per job by Core City (top chart), and investment per job (bottom chart)



Source: PwC analysis

actively in building such a consensus, one benefit of which would be to make it easier for private sector funders to understand how they can contribute to these goals in different places.

Success should be measured according to the city economy's ability to regenerate stocks of social, economic and natural capital. Investors and other actors currently struggle to assess how different cities are performing – including in terms of investability – due to a proliferation of different indices, measuring different outcomes in different ways.

The Core Cities should agree to use a single index as far as possible, capturing progress across the social, economic and environmental systems, weighted equally.

There are a variety of existing indexes from which to choose or create a composite (eg indices of multiple deprivation (IMD), Leeds Social Progress Index or Mastercard Inclusive Growth Score. In time, the RSA hopes to develop a Regenerative Cities Compass to perform this function, building on the Natural Capital Accounting framework and a suite of existing measures of social and economic capital. It will also be our ambition to build in functionality for modelling the connections between these systems.

At present, some of the approaches worth considering are outlined below.

The UK Competitiveness Index

Produced by Cardiff University and Nottingham Business School, this index uses factors including economic activity rates, business start-up rates, Gross Value Added per head and gross weekly pay (which is seen as a positive outcome of increased productivity) to assess competitiveness across Great Britain at local authority district level. The table below shows headline results for the Core Cities based on the latest report, published in July 2023.

The UKCI seeks to rank current performance between places, but also forecast potential for improvement based on historic relationships between key variables over different time horizons. This approach provides a potentially useful baseline forecast before taking account of potentially significant interventions that cities could take to alter their growth trajectories. By its nature, the UKCI is highly focused on economic (as opposed to social and environmental) performance, so will only ever give us a partial view of the regenerative potential of a place.

Table 1: UKCI index and rank for extended Core Cities

Extended Core City Rank 2023	City	Extended Core City Rank 2019	UKCI 2019	UKCI 2023	Change 2019-2023 UKCI	Change 2019-2023 Extended Core City Rank
1	City of Edinburgh	1	112.9	112.6	-0.3	0
2	Manchester	2	107.3	107.3	-0.1	0
3	Bristol, City of	3	104.8	105.8	1.0	0
4	Cardiff	5	98.3	101.1	2.8	+1
5	Glasgow City	6	97.6	99.6	2.0	+1
6	Leeds	4	99.2	99.4	0.1	-2
7	Belfast	7	95.8	98.2	2.4	0
8	Liverpool	8	93.0	93.6	0.6	0
9	Nottingham	11	89.9	92.7	2.7	+2
10	Newcastle upon Tyne	10	91.3	92.4	1.1	0
11	Birmingham	9	91.7	92.2	0.5	-2
12	Sheffield	12	88.8	90.1	1.3	0

The index of multiple deprivation

Published by ONS, the index of multiple deprivation is designed to rank areas relative to each other based on their levels of deprivation. It is measured in seven domains, each of which can be looked at in isolation:

- **Income: (22.5 percent)** measures the proportion of the population experiencing deprivation to low income.
- **Employment: (22.5 percent)** measures the proportion of the working-age population in an area involuntarily excluded from the labour market.
- **Education: (13.5 percent)** measures the lack of attainment and skills in the local population.
- **Health: (13.5 percent)** measures the risk of premature death and the impairment of quality of life through poor physical or mental health.
- **Crime: (9.3 percent)** measures the risk of personal and material victimisation at a local level.
- **Barriers to housing and services: (9.3 percent)** measures the physical and financial accessibility of housing and local services.
- **Living environment: (9.3 percent)** measures the quality of both 'indoor' and 'outdoor' local environments.

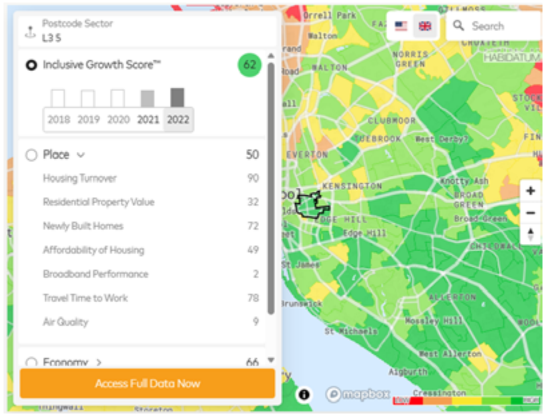
It is a useful starting point for identifying measurable social issues that private finance could be used to help solve. For example, there are specialist social and affordable housing funds that are used to being held accountable for helping reduce barriers to housing.

The Mastercard Inclusive Growth Score

Uses a range of 21 measures from a range of sources across place, economy and community domains to assess existing levels of inclusion and growth at postcode sector level.

Figure 2: Index of multiple deprivation

Figure 3: Mastercard Inclusive Growth Score



ASSESS PLACE POTENTIAL AND NEEDS

Having gained an understanding of where you are starting from, the next step is to develop a granular view of what your place could become based on its potential, as well as what investment it needs to achieve that potential.

1. Identify **place potential** building on a rigorous assessment of comparative advantage to establish genuine strengths of the place to assess what would make the place attractive to specific employment sectors, and as a place to live for different demographic groups. For example:
   - **a.** What are employers looking for when deciding where to locate? Skills base, existing clusters, university specialisms, proximity to transport hubs, availability of workforce housing.
   - **b.** Liveability factors, cultural offer, quality and affordability of housing, green spaces, remote working post Covid, schools offer.
2. Identify **place needs** across the nested social, economic and environment systems based on a clear articulation of a place's priorities in terms of economic prosperity, the transition to net zero and addressing social inequality, so that private sector actors are able to engage constructively and align their investment accordingly, covering long-term goals, current position and the gap. This should be informed by using:
   - **a.** Geospatial datasets eg to identify priority places to invest.
   - **b.** Purposeful and continuous community engagement with a constrained optimisation frame (eg we need to build 20,000 homes here: help us decide what and where).

The more specific the initiatives to build climate resilience, deliver net zero, address social inequality and build social capital, the greater the chance that third parties can structure their activity and investment to align/support deliver of these. It is also important to consider common unintended consequences of investment (eg gentrification) and how these can be mitigated.

CREATE A SPATIAL PLAN AND IDENTIFY INVESTMENT NEEDS

Armed with an assessment of where your place is now, what its potential is and what it needs to achieve it at a high level, the next step is determine the building blocks of investment needed to deliver against those needs. This will involve:

1. Creating a hierarchy of complementary spatial plans on a range of scales as appropriate (city region, city, neighbourhood) that address growth potential and needs analysis.
2. Identifying the portfolio of investment needs emerging from those plans, mapping out their interdependencies and undertaking an initial prioritisation.

This is challenging to do well, but it is invaluable in building investor confidence in the seriousness of a place's commitment and the resilience of the plan to future political change.

Each city should develop a 'local prosperity plan'.

A number of recent commissions and reports have recommended a bespoke plan for local economic growth. This is welcome, but it is not enough for these plans to focus on the economy alone, or separately to plans on sustainability or inclusivity.

Drawing inspiration from the Well-being of Future Generations Act in Wales[1], 'prosperity' should be clearly defined as economic conditions which promote not only innovation and productivity but do so firmly within planetary limits and in ways which share the gains from wealth equitably with individuals and communities. In other words, prosperity is a state where not only economic, but social and environmental capital are being replenished.

To achieve this, each plan should therefore be:

- Inspiring: built from the story of the city in a way that is authentic and ambitious, instilling pride in everyone who lives and is associated with the city.
- Integrated: taking account of intimate associations between the city's economy and the health of its people and natural environment, harnessing the synergies and internalising the trade-offs.
- Evidenced: with an assertive and credible sense of the city's comparative advantage, building from the assets of its communities and environment, and driven by a theory of change that convinces internally and externally.
- Visible: developed in a way that people both in the city and who want to invest or visit the city can easily access, understand and buy into.
- Joined-up: coherent with all other strategies both vertically – at the city region and national level – and horizontally, for example with neighbouring towns and other cities.
- Long-term: determinedly set over 10+ year time horizon, with cross-party and broader place actor buy-in to maintain long-term stability and delivery. This is not to say review and recalibration should be avoided, but that constant chopping and changing will stymie progress.

1 For more information see: www.futuregenerations.wales/aotp/prosperity/

Equally, there is a premium on getting started with a coalition of the willing around a clear place priority, in order to develop momentum/enthusiasm and start building a track record whilst more detailed plans are developed in parallel.

Case study: Birmingham City Centre Enterprise Zone

The Birmingham City Centre Enterprise Zone (EZ) is a designated area within the city that aims to stimulate economic growth, create jobs, and improve infrastructure. The EZ was established by the Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) in 2011, with the goal of leveraging investments to drive inclusive economic growth and improve the quality of life for residents. The EZ covers 39 sites across the city, organised into seven clusters, focusing on sectors such as business and financial services, ICT, creative industries, and digital media. With a focus on capitalising on opportunities such as high-speed railway 2 (HS2), the Enterprise Zone has set out to revitalise the city centre and attract substantial investment.

The Enterprise Zone operates by utilising the growth in business rates income from the 39 sites within its boundaries. This income is used to invest in projects and initiatives that drive economic growth and enhance the city's infrastructure. The programme is funded through prudential borrowing, which is repaid from the increased business rates generated by new commercial development within the Enterprise Zone. The Enterprise Zone's forecast income is over £2bn, with a substantial portion allocated for investment in projects that support economic growth and infrastructure improvement.

UNDERSTAND CONTRIBUTIONS OF, AND DEPENDENCIES BETWEEN, DIFFERENT STRANDS OF INVESTMENT

Typically, investment will be needed in multiple areas to achieve a step-change in place performance across the nested systems. The table below summarises some of the main areas requiring investment in a place and (non-exhaustive) examples of how they can contribute to environmental and social goals.

Investment areas	Economic contribution	Environmental contribution	Social contribution
Energy	Enabling new business activity and workforce housing through grid connections	Grid decarbonisation	Reducing energy bills to increase household prosperity Energy connections enable housebuilding and business formation
Transport	Enabling prospective workers to access a broader range of jobs	Transition to low carbon transit	Opening up access to broader employment opportunities
Environment	Enabling new business activity through waste and water connections Improving relative attractiveness as a place to live and work	Climate mitigation from green infrastructure	Health benefits from pollution absorption and improved walkability
Digital	Enabling greater high-value business activity, including remote work	Enabling remote working; reducing strain on transport networks	Digital inclusion
Commercial real estate	Enabling greater business activity	Decarbonising offices	Providing good jobs; stimulating demand for amenities
Housing	Providing places for workers to live	Retrofit for net zero	Health benefits from good homes
Cultural assets	Contributing to place attractiveness		Community pride and wellbeing
Inward investment	Supporting business growth	Investment in net zero	Access to broader job opportunities
Skills	Attracting high-value employers	Creating capacity to deliver net zero retrofits	Enabling households to increase their incomes and improve wellbeing
R&D and innovation	Enabling high-value start-up businesses	Developing new approaches to achieving net zero	Access to highly paid knowledge economy jobs
Culture and creativity	Contributing to place attractiveness		Community pride and cohesion

These contributions can be very significant, but most are unlikely to be fully realised unless approached intentionally. Many investors will react positively when a place is able to articulate a credible story about how its investment plans can address these goals.

Also important to note is that these areas of investment are highly interdependent. The simplified diagram overleaf shows some of the typical key relationships, highlighting three broad types of investment:

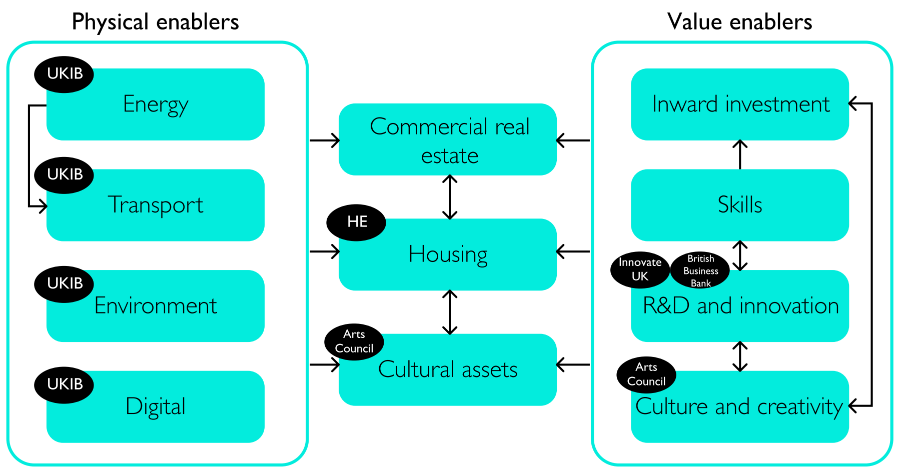
1. **Physical enablers:** needed before real estate can be built, including transport, energy, environmental and digital infrastructure.
2. **Real estate-centric investment:** including housing, commercial and cultural spaces.
3. **Value enablers:** needed to make building real estate assets economically viable, by making the place attractive to employers, workers, other residents and visitors. These include areas such as inward investment, skills, R&D/ innovation and the cultural offer.

All of these investment types depend on each other to be viable: for example, district heating schemes, an increasingly important part of the energy mix, rely on a level of confidence in future energy demand to unlock the investment case.

Some enabling agencies such as UKIB, Homes England, the British Business Bank, Innovate UK and the Arts Council have remits that map onto different elements of the investment portfolio. Engaging them in the overall investment plan should help achieve a joined up public sector response. Other key players include National Grid, regional water companies and BT Openreach for digital infrastructure. Understanding and seeking to influence their investment priorities to benefit a particular place is also critical.

Whilst these investment types are interdependent, it is not possible to generalise about how they should be sequenced over time: the key consideration is to give private investors confidence that everything will be in place to ensure that the asset they are investing in will have sufficient value to justify the cost and risk of building it once complete. For example, it is not necessary to wait until a new metro line is complete before starting to build homes that will benefit from it, provided there is confidence that it will be built broadly on time and that other infrastructure, such as power, will also be in place. Any investment within the portfolio can potentially have positive or negative effects on others (eg a new retail centre may 'cannibalise' the business of existing retailers) which also need to be considered.

The role of the local authority in each area of investment may vary considerably: in some cases it may be an active co-investor, while in others it may play more of an enabling role, for example through the planning process. It will generally play a critical strategic role in understanding how the various elements of the investment puzzle fit together, and ensuring the voice of the local community remains front and centre throughout the process from vision to implementation.



UNDERSTAND THE NEEDS AND PRIORITIES OF THE PRIVATE SECTOR

When thinking about the role of the private sector in creating regenerative cities, it is important to start by recognising that the private sector is not a monolith: there are many types of private organisations that play different but complementary roles in the performance of a city. The table below illustrates three very broad groups worth considering in this context: employers, developers/ infrastructure delivers and investors. This paper is primarily focused on investors, but their role is intimately connected with the other groups.

Places should engage early and iteratively with prospective partners across these groups to gain a deep understanding of their needs, and to start to build a network of relationships with like-minded potential partners.

	Employers	Developers / infrastructure deliverers	Investors
Contribution	Provide jobs, support skills development, pay business rates	Build infrastructure and assets, S106/CIL contributions	Provide finance for infrastructure investment, SMEs etc
Needs	Access to skilled labour, adjacencies to supply chain and clusters; transport connections	Planning certainty, route to viability, visibility of the wider spatial plan to understand drivers of risk and return	Ability to deploy funds quickly, robust business cases and/or dedicated funds managed by parties acting on their behalf to seek out and structure opportunities (a current market gap), route to scale, prospect of financial returns, clarity on social and environmental goals

UNDERSTAND THE FUNDING LANDSCAPE AND ECOSYSTEM

Build an understanding of the landscape of public and private sector sources of funding and delivery capability available, including their preferences in terms of term, lot size, risk/return appetite etc.

Engage with players in key sectors to test their appetite for particular investment propositions.

The private finance sector is built up from a range of sub-sectors, each of which has its own distinctive preferences for the kinds of investment it will and won't pursue. The table overleaf summarises the main parts of the private funding market and the key characteristics they typically look for in investments, including length, size and risk, return profile. Note that these financial investors rarely engage directly but typically work through funds, developers or hybrid models such as the English Cities Fund or the L&G/Bruntwood SciTech partnership around science parks.

When deciding which part(s) of the funding market to engage with on a particular scheme, it is useful to do some initial analysis to assess which type of investment players are most likely to be interested in it. For example, many investors find affordable housing attractive as it generates a long-term, index-linked, government-backed income stream which can be a good match for the needs of many investors. Other investors are more interested in high-risk, high-return propositions which are often associated with R&D-linked start-ups.

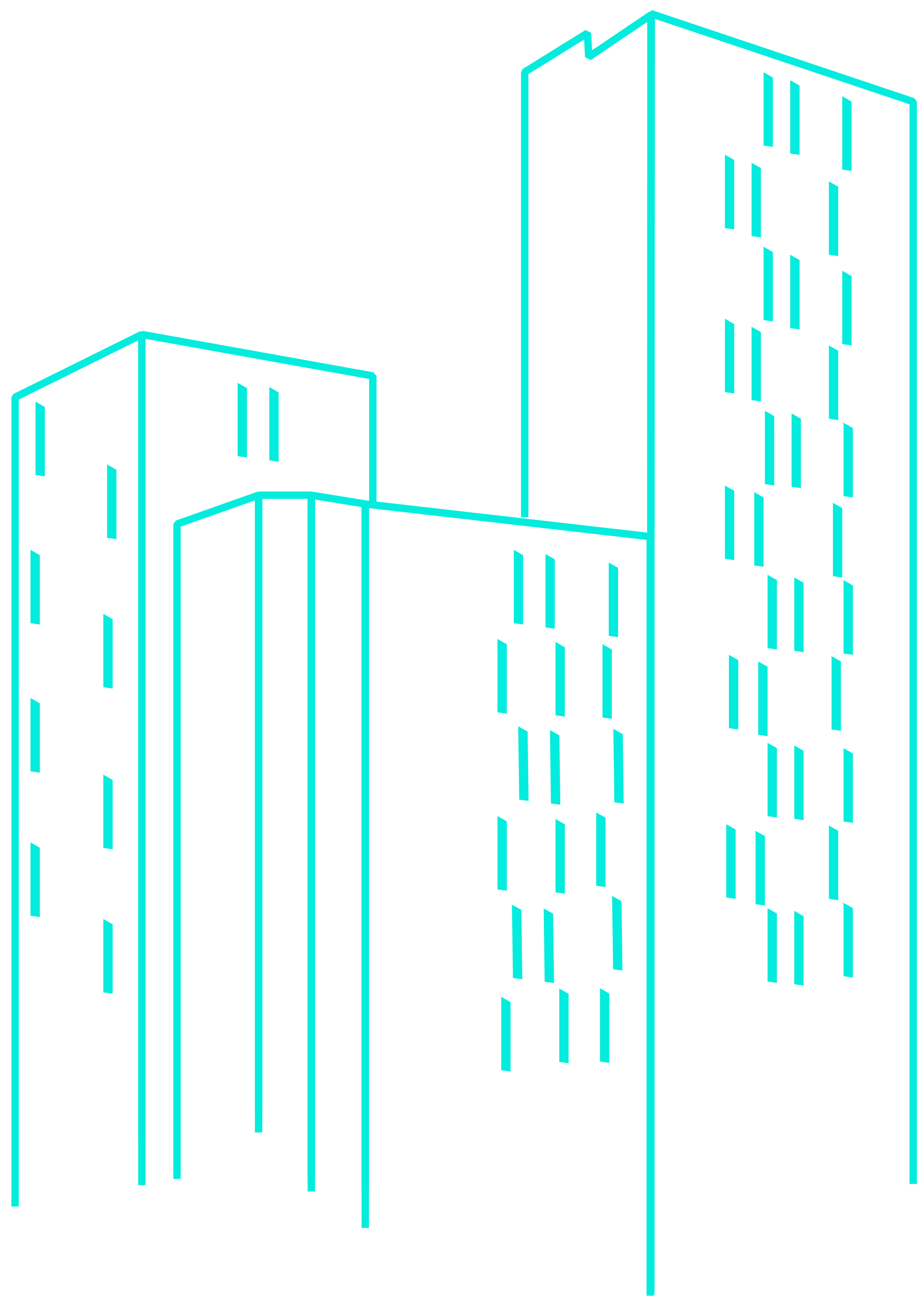


Table 2: Main parts of the private funding market and the key characteristics they typically look for in investments

Sector	Characteristics	Size (2020) £trn	Preferred term	Lot sizeW	Return characteristics	Target return (relative)	Risk appetite
Banking	Banks offer diverse financial services, including savings, loans, mortgages, and investments. Act as intermediaries between savers and borrowers.	7	Short to medium-term	Typically variable	Interest on loans, investments, financial services	Low-mid	Generally low to moderate risk
Capital markets	Involves securities trading (stocks, bonds). Investors aim for capital gains, income. Transactions occur on stock exchanges.	3.5	Medium to long-term	Varies based on securities	Capital appreciation, dividends, interest	Mid-high	Varies by investment type
Pension funds	Pool contributions for diversified portfolios, focusing on retirement benefits. Emphasis on long-term growth and income.	2.8	Long-term	Varies; collectively managed	Long-term capital appreciation, retirement income	Mid	Moderate risk
Investment funds	Mutual funds, ETFs pool money for diversified portfolios. Cater to different risk profiles, investment goals.	2.8	Varies (short to long-term)	Varies; collectively managed	Capital appreciation, income	Mid	Varies based on fund type
Insurance sector	Insurance covers financial losses (life, health, property, etc). Policyholders pay premiums, receive compensation for covered events.	0.25	Long-term	Premium payments	Risk coverage, potential payouts	Low-mid	Generally low risk (policyholders)
Government bonds	Government issues debt securities. Investors lend money for regular interest payments, return of principal at maturity.	2.1	Medium to long-term	Typically large denominations	Fixed interest payments, capital preservation	Low	Generally low risk
Corporate bonds	Companies issue debt securities for capital. Investors receive fixed interest payments, principal return with varying risk levels.	0.3	Medium to long-term	Varies; typically larger denominations	Fixed interest payments, capital preservation	Low-mid	Varies based on issuer's creditworthiness
Alternative investments	Includes hedge funds, private equity, real estate, commodities, etc. Offers diversification, unique returns, higher risk, limited liquidity.	unknown	Varies (short to long-term)	Varies by investment type	Varies by investment type	High	Varies by investment type

Deep dive: pension funds

Within this market, pension funds, insurance and investment funds are often focused on preserving capital in real terms, so are particularly attracted to inflation-linked returns, which can be offered by certain government-backed revenue streams such as affordable housing rents.

Even within the pensions sector, there are important differences between different type of pension fund. These will have a material impact on their appetite to invest in place-specific infrastructure projects.

With the increasing maturity of DB schemes, they are taking less risk and need more liquid assets to meet their obligations - which makes them more inclined to invest in liquid bonds (rather than long-term infrastructure projects). DC schemes also have a preference for liquid assets, given that employees may want to change managers and are subject to a regulatory regime which is closely focused on minimising costs – which also inhibits the ability to invest in illiquid assets. So, the more promising segment is the annuity market - where the appetite is for long duration assets with predictable cashflows - but there is relatively low risk tolerance.

Local government pension schemes are the most engaged in the discussion on place-based investment, and have been encouraged to do so by the government, but will need to ensure that investments meet their fiduciary guidelines.

Pension fund type	Characteristics	Size (2020) £trn	Significance
Defined benefit (DB)	• Promise specific retirement income based on service and salary • Funded by employers • Declining due to costs and risks • Transition to DC or hybrid models	1.7	• Decline due to rising costs and risks for employers • Some closed to new members • Shift toward DC and hybrid models
Defined contribution (DC)	• Involve contributions from employees and employers, invested for retirement • Benefit based on contributions, returns, and factors • Shifting responsibility to employees	0.65	• Rising prevalence in retirement planning • Transfer of risk to employees • Auto-enrolment boosts participation
Annuity funds	• Provide regular income for lump-sum payment • Convert pension savings to retirement income • Declined due to low interest rates, alternatives	0.12 (new sales)	• Previously common choice, but popularity decreased • Low interest rates impact appeal
Local government pension funds (mainly DB with some DC)	• Administered by local authorities • Benefit public sector employees • Required to allocate 5% to place-based investments (rising to 10%?)	0.33	• Significant in overall pensions sector • Manage substantial pension assets • Crucial for public sector employees

Deep dive: venture capital and dedicated infrastructure funds

In addition to these long-term investors, venture capital (VC) and dedicated infrastructure funds play an important role in enabling regenerative growth. VC is a form of investment in early-stage companies, typically in return for an equity share of the business. This type of financing is risky, but it is crucial for innovative companies with high growth potential.

In addition, a number of funds have emerged focused on economic and environmental infrastructure which take long-term responsibility for developing, operating and managing these assets so long as there is some visibility on long term revenues. Managers of these funds are conscious that the longevity of the returns is only possible if these assets are managed in a way that is sustainable. Institutional investors in these dedicated funds also put pressure on these funds to report on the environmental impact of the investments.

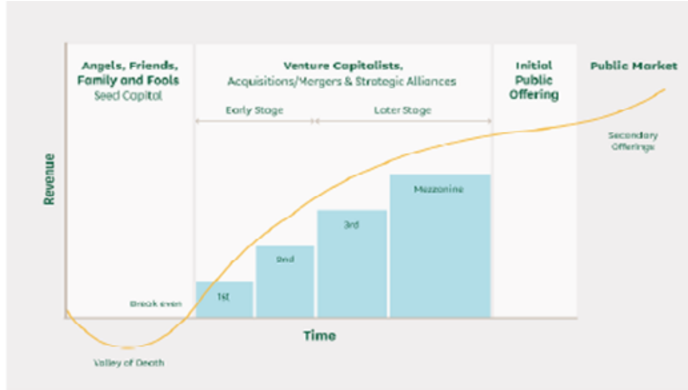
In the context of addressing the challenges facing UK cities, VC or catalytic finance can play a role in two main ways:

- Supporting an ecosystem of R&D-led creation and growth of innovative businesses (often with a university as an anchor partner).
- Helping develop investable propositions to address areas needing investment, but for which established models are not sufficient (eg in the area of delivering housing retrofit at scale).

Currently, VC activity in the UK is highly skewed towards London: concerted effort will be needed to redress this position.

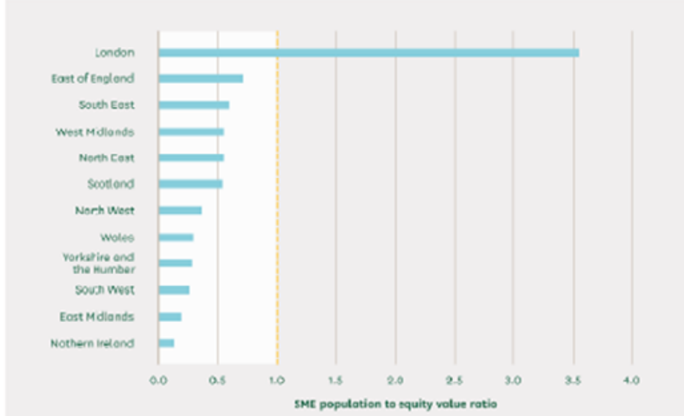
It is also increasingly clear that national infrastructure in critical areas like energy, water and transport infrastructure is not fit for purpose in terms of meeting the needs of regional regenerative growth. Infrastructure investors could be critical partners in articulating the unmet need in a way that shapes and clarifies the contribution needed from central government.

Figure 4: What is venture capital



Source: BGF[2]

Figure 5: SME equity deals and value by region and nation, 2020



Source: FSB[3]

UNDERSTAND THE FUNDING ECOSYSTEM

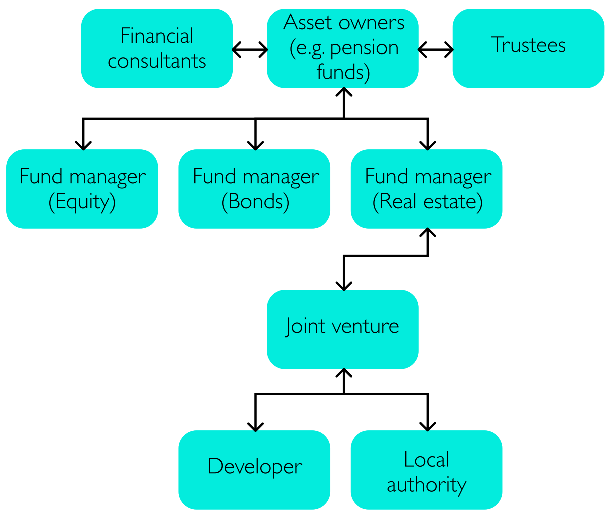
As well as understanding the needs and motivations of the various categories of asset owners, it is important to understand the role of other key players in how funds are invested, including, in particular, financial consultants and fund managers.

Asset owners: individuals, institutions, or entities that have financial assets such as pension funds, endowments, or individual investors. They are seeking investment opportunities to grow their wealth or achieve specific financial goals.

Financial consultants: professionals or firms that provide advice and guidance to asset owners. They help asset owners make informed investment decisions based on their financial goals, risk tolerance, and market conditions.

Fund managers: responsible for managing investment funds. They make investment decisions on behalf of asset owners, selecting and managing various types of assets like stocks, bonds, real estate, etc, to achieve the fund's objectives.

Example funding ecosystem



The diagram represents the flow of information and decision-making for a pension fund/insurance company/asset manager in a simplified way. Asset owners seek advice from financial consultants to determine their investment strategies. At the same time, trustees have a duty to ensure the fund adheres to its fiduciary obligations. Financial consultants, in turn, might recommend various investment funds managed by fund managers, each specialising in different asset classes.

Fund managers execute the investment strategies within these funds. A real estate fund might, on behalf of multiple asset owners, invest in a joint venture between a local authority and a property developer.

Critically, whilst asset owners will typically be seeking a diversified portfolio to optimise the risk/return trade off, fund managers focused on infrastructure-type investments often adopt a highly siloed approach – eg they will have separate funds for different tenures of housing, and others for district heating schemes etc.

When engaging with representatives from any of the organisations in this ecosystem, it is important to understand what they can and cannot commit to. Any investment decision will need to go through rigorous internal approval processes, with investment and/or risk committees typically playing a key role.

UNDERSTAND CONTRIBUTIONS OF, AND DEPENDENCIES BETWEEN, DIFFERENT STRANDS OF INVESTMENT

Within all parts of the finance ecosystem, increasing numbers of players are focusing on environmental and social goals – though still want strong financial returns. There is considerable demand from investors for investments that are able to report their environmental and social impact rigorously. This is where cities could differentiate themselves from competing investment opportunities.

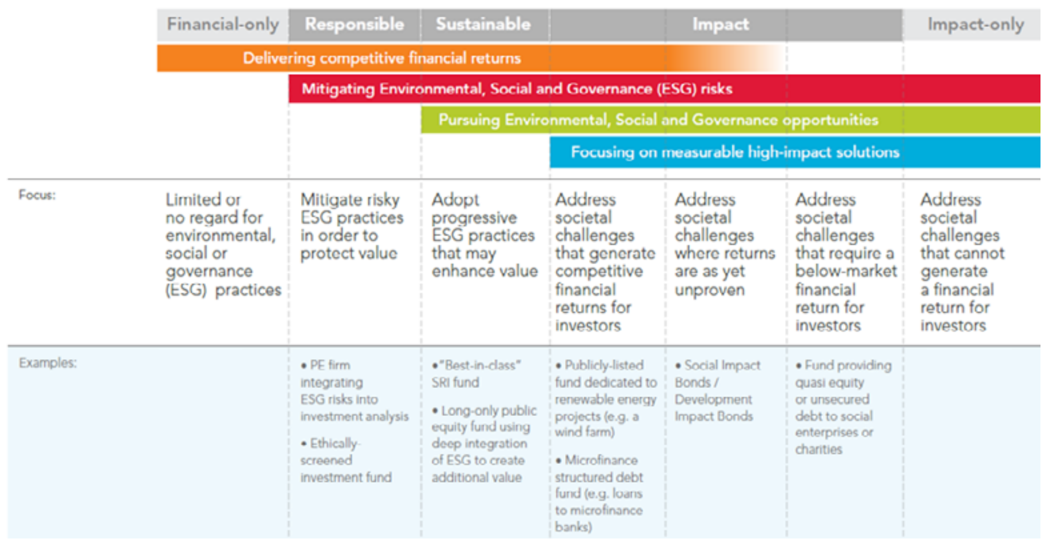
The 'spectrum of capital' model illustrated below is a useful framework for assessing the level of ambition of a particular private investor in relation to impact, and the extent to which they are prepared to accept any trade-off with financial returns: in practice this is limited to a small subsector of the market.

In terms of impact measurement, things are still evolving: there has been some standardisation, for example, on net zero goals, but there is as yet no standard on social goals. As noted earlier, there is a significant opportunity for a place developing a credible method for reporting impact on the projects it seeks external finance for. This will attract investors with aligned goals.

Examples of how finance providers are positioning themselves in this space include:

- Legal & General What is 'place based' impact investing? | Legal & General (legalandgeneral.com)
- Lloyds Bank: Impact investing: How investing in your future helps to sustainably support communities - Lloyds Banking Group
- Schroders: Real Estate Impact Fund (schroders.com)
- TriplePoint: Delivering decarbonised heating to our homes – Q&A with Ken Hunnisett | Triple Point

Figure 6: Spectrum of capital



UNDERSTAND AND DEPLOY THE LEVERS AVAILABLE TO THE PLACE COALITION TO MAKE INVESTMENT HAPPEN, AND BLOCKERS THAT CAN PREVENT IT

Having consulted widely with investors and developers, there are a number of key areas where a place coalition should focus to help unlock private investment activity:

- Providing confidence and trust that good investments will be enabled in a timely manner (including timely provision of planning consents).
- Provide confidence that other enabling/complementary investments are also on track.
- Clarity of place strategy and plans including non-financial goals and how you want partners to help achieve them: many investors have their own ambitions to deliver environmental and social goals.
- Developing robust business cases backed by good quality financial information and data.

As noted earlier, a well-constituted place coalition will have powerful levers at its disposal to support these goals – which can also be significant blockers if not addressed. These include:

- The planning system, including securing planning consents across local authority boundaries.
- Procurement policy – recognising where competitive tendering can get in the way of building long-term partnerships, and finding other ways to ensure value for money.
- Political risk and how to neutralise it.
- Land ownership and aggregation powers.
- Use of covenants to determine long-term land use.
- Access to public funding streams to crowd in private funds (two main routes: subsidy and catalytic).
- Ability to underwrite key risks – eg lease wrapper model (Newcastle case study).

A number of these may sit within different teams within a local authority, as well as between partners in the place coalition – so ensuring they are all aligned around the place strategy and vision is crucial.

Addressing political risk – Bristol City Leap

When designing the Bristol City Leap model, Bristol City Council leaders recognised that in order to create an effective long-term concession as needed to deliver net zero targets, it was critical to minimise the risk of political interference during its operation. They spent considerable time and effort working with councillors on a cross-party basis, adopting mechanisms such as pre-agreed acceptance criteria to reduce this risk.

Deep dive: blended finance models

As noted earlier, public funding is scarce compared with the task at hand. Wherever possible, what public money (and land) is available should be used to crowd-in as much private funding as possible.

There are three main routes for this:

- **Catalytic funding:** using public money to develop investable propositions which are easier for institutional investors to understand and gain approval to invest in. Injecting publicly-owned land into a development scheme at reduced or nil value (possibly in return for a share of profits) can also play this role. There is scope for first loss capital to make certain projects viable and increase the scope to manage/govern the social and environmental impact of these projects.
- **Ongoing subsidy:** in areas such as district heating or affordable housing, using ongoing public funding to allow a market investor to make an acceptable risk-adjusted return in projects with wider environmental and social benefits.
- **Underwriting risk:** expressing a willingness to step in if needed to ensure at least a minimum level of income. For example, underwriting a commercial lease on a new office building, or guaranteeing a minimum number of tenants from the local housing waiting list for an affordable housing scheme. Often such guarantees will never be drawn on, but they can play an important role in getting private investors to commit.

Examples

Newcastle Helix: having the city council underwrite the initial leasing on a new office building gave Legal & General the confidence to move forward with the wider scheme.

English Cities Fund: the availability of catalytic capital from Homes England was critical in persuading Legal & General to come in board in the early stages.

CREATE VEHICLES THAT ALIGN INTERESTS AND ALLOCATE RISK APPROPRIATELY

There are many potential forms of investment vehicle that can be created to achieve the goals set out here, including:

- Special purpose vehicles.
- Development corporations.
- Strategic partnerships such as Bristol City Leap.
- Partnerships similar to the Newcastle Helix model.
- Community wealth funds.

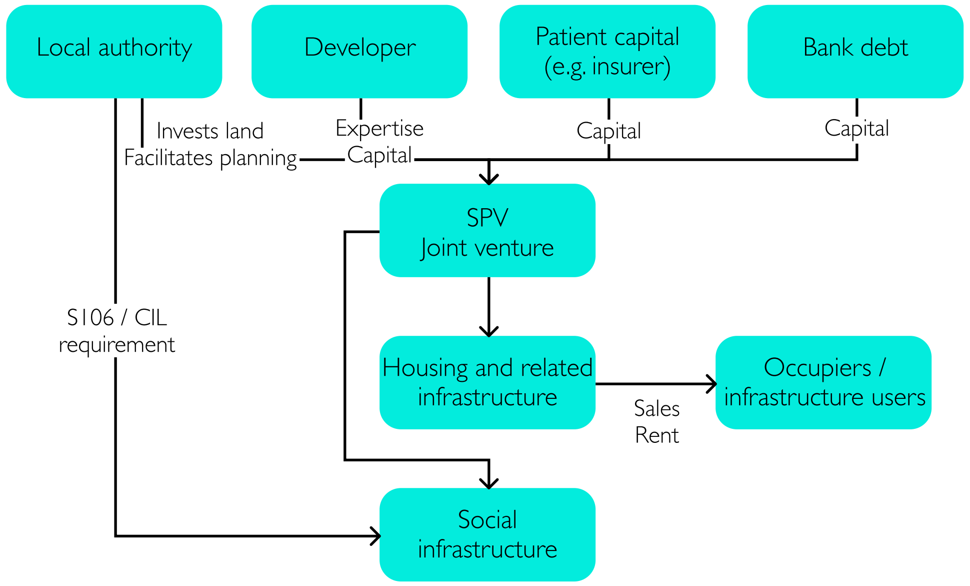
Special purpose vehicles

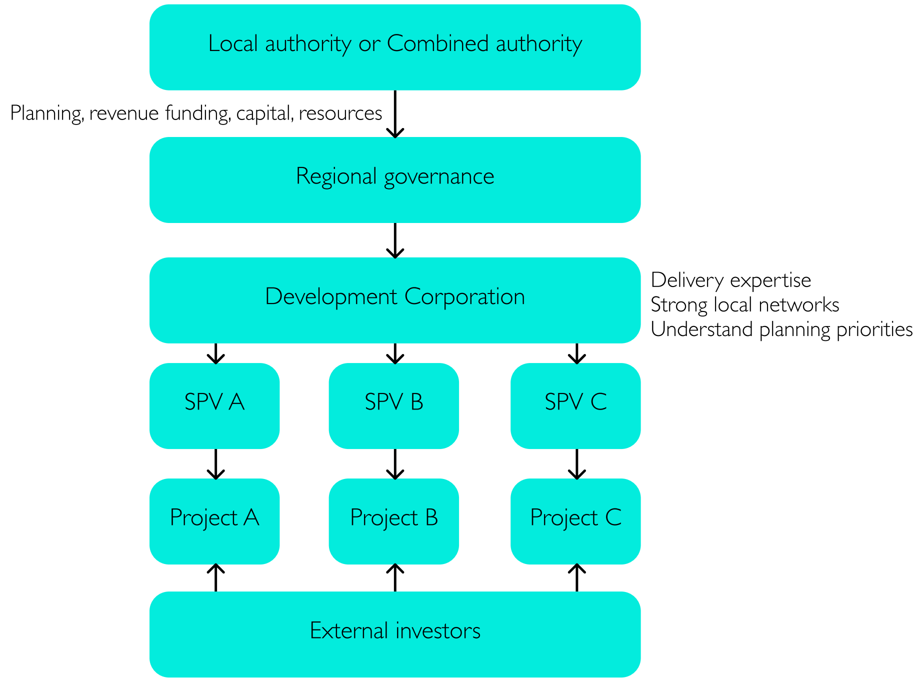
A special purpose vehicle (SPV) is an entity created by a parent organisation to isolate financial risk. It is often associated with a particular project and provides a platform through which ownership and investment can be shared between multiple parties. From a local authority perspective, assets owned in an SPV are typically treated as off-balance sheet.

The figure below shows an illustrative SPV structure for a development scheme, where ownership is structured as a joint venture between a local authority, developer and patient capital investor such as a pension fund or insurer.

Development corporations

A development corporation goes a step further, creating a corporate entity under which a programme of projects can be financed and delivered in a co-ordinated way. This model is more complex to set up, but can enable talent attraction and more focused recognition of the interdependencies between different elements of the programme.





Across all these vehicles, there are a number of key themes to consider:

- Value for money: whilst there are many benefits in entering into a long-term partnership, it is important to consider how value for money can be demonstrated in the absence of regular competitive pressure. Approaches such as open-book pricing and profit sharing can help here.
- Alignment of incentives: the private sector can bring considerable innovation to bear within a long-term contract, but care needs to be taken to ensure it is incentivised to do so. This is often achieved eg through profit-sharing mechanisms, which need to be carefully calibrated.
- Accountability for non-financial goals: as discussed above, there is increasing alignment between the public and private sectors on the need to ensure investment delivers improved environmental and social outcomes in addition to commercial returns. Using data to create agreed metrics which can then be embedded in contracts as part of an overall performance management regime is important to ensure this shared aspiration is demonstrably delivered in practice.
- Risk allocation: which party is best placed to manage each risk? Where risk is transferred to a private partner, what is the cost of that, and could it be reduced by taking a different approach?
- Balance sheet treatment: will the investment be treated as on or off the local authority balance sheet? Does it help crowd in private investment that would not otherwise happen, or could the local authority already borrow more cheaply?
- Governance: is it strong enough to preserve alignment with wider public and community benefit objectives?

When considering all these areas, it is important to determine your red lines, for example, is asset transfer acceptable? How long are you prepared to commit for? Tools such as soft market testing (as used in developing the Bristol City Leap model) and variant bids can help to understand trade-offs and refine the proposition before committing to a particular approach.

There are many examples of models to draw on, including the Bristol City Leap and Newcastle Helix models. The Impact Investing Institute has produced a useful

UK Urban Futures Commission, Investment playbook

paper on finance structures for place-based impact investing featuring case studies covering:

- Bristol & Bath Regional Capital – City Fund.
- Schroder BSC Social Impact Trust plc.
- English Cities Fund.
- Social Investment Business Recovery Loan Fund.

Risk allocation

Partnering with the private sector creates the opportunity to transfer risk exposure to another party. However, there is always a cost attached to this which needs to be understood. There are also things a local authority can do that reduce a private sector partner's risk exposure and can thus reduce cost and delivery timeframes.

The table below summarises some of the key risks that will affect how developers and investors will price opportunities (and whether they are prepared to engage at all). For some of them, local and/or central government can help to mitigate them and thus reduce the cost of risk exposure.

For example, the risk of not achieving planning permission can be reduced through close engagement and expectation setting with the developer. Where a market is currently unproven, initial letting risk on commercial space can be mitigated through underwriting by the local authority.

Understanding the materiality of these different risks from a private sector perspective, and the cost benefit of helping mitigate them, is a key area in which value for money and overall delivery can be significantly enhanced.

Table 3: Key risks for developers and investors

	Local government	Central government	Developer	Investor
Planning risk	•		•	
Land value risk	•		•	
Enabling infrastructure risk	•		•	
Construction cost risk			•	
Development programme risk	some		•	
Affordable housing / CIL risk	some		•	
Value at completion / sales value risk	•		•	•
Letting risk (commercial)	can underwrite		•	•
Letting risk (market rent housing)				
Letting risk (social / afforsable housing)	•			•
Rental growth (commercial)				•
Rental growth (market rent housing)				•
Rental growth (social / affordable housing)	•	•		•
Stranded asset risk		•		•

USE DATA STRATEGICALLY

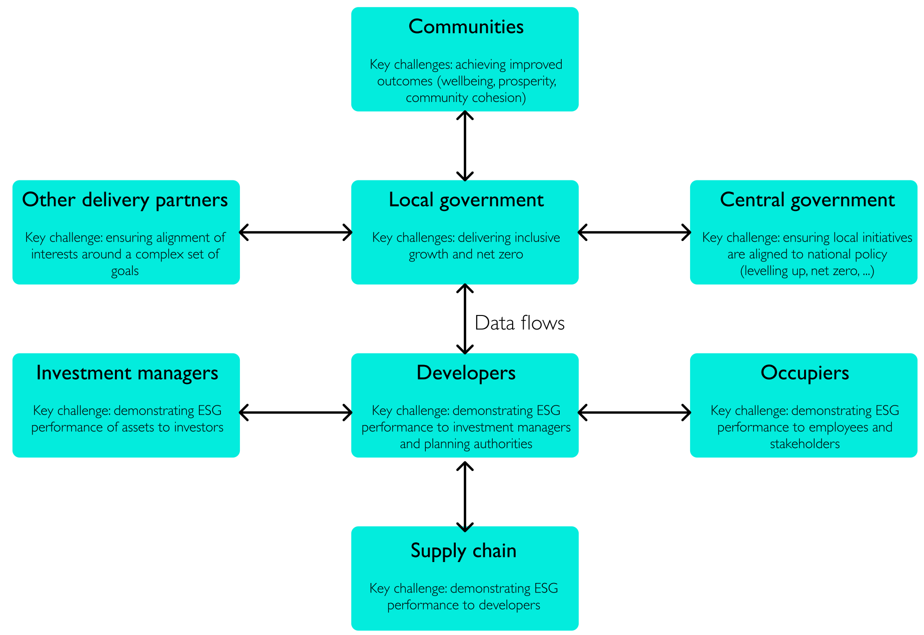
Successful cities monitor progress against key objectives and build in feedback loops, iterating strategy and delivery according to new insight. Robust data is a critical ingredient in setting and tracking progress against a strategy. Data is important for:

- Establishing baseline conditions.
- Quantifying success measures against the strategy.
- Understanding and testing 'theories of change' (ie how investment is expected to lead to desired outcomes).
- Identifying and prioritising investment opportunities.
- Informing market engagement and commercial arrangements with delivery partners.
- Tracking progress on an ongoing basis, feeding back into both delivery and strategy.

Cities should capitalise on the ever-increasing volume of highly granular data available at low cost. The 'quadruple helix' model offers the potential for partners to pool data capabilities and sources.

Alongside measuring social and environmental impact, data is of value in tracking the economic, environmental and social health of a community. Capturing footfall, wages, occupancy levels, business start-up and deaths, external FDI, business rates, employment rates etc, gives an external investor greater confidence when investing as to the microeconomic context.

Opportunities should also be sought to embed data-based goals in contracting and partnering arrangements (for example, to embed incentives for social and environmental value).



MATCH YOUR CAPABILITIES TO YOUR AMBITION

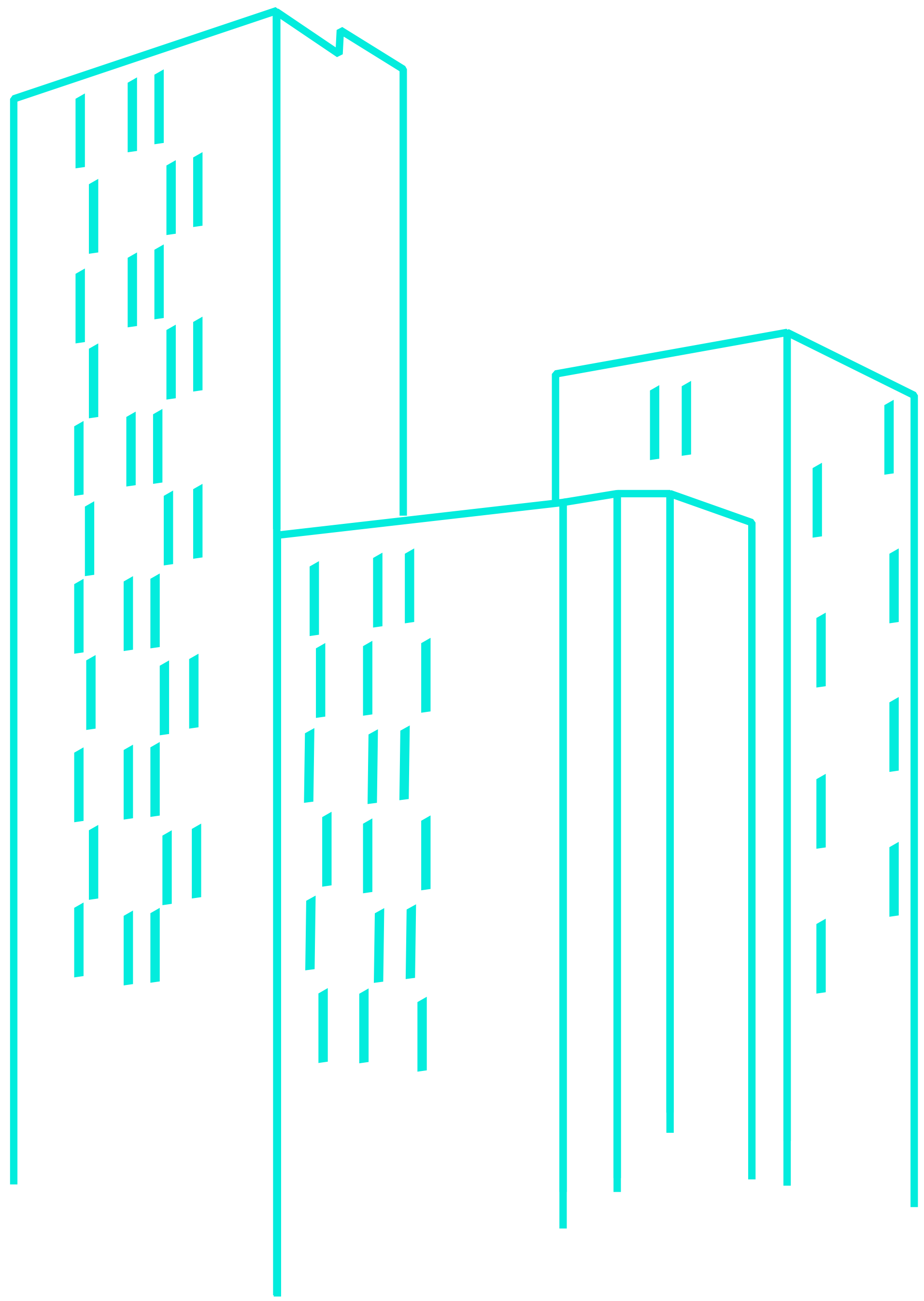
Creating and executing a regenerative investment strategy requires a range of skills and capabilities at different stages in the journey, as illustrated below. Cities should ensure they have access to the skills needed on a timely basis: private investors will not be keen to engage if they sense that the place coalition will be able to deliver its side of the process at reasonable pace. Where resources are scarce, it may be best to start small to build confidence and grow as capacity allows.

	Create vision and strategy	**Create spatial plan**	**Identify and test investable propositions**	**Create investment vehicles and structures**	**Manage delivery**
Profile of activity	**Every [10] years**	**Every [10] years, ongoing iteration**	**Continuous, opportunity-led**	**Continuous, opportunity-led**	**Continuous**
	Strategic leadership, governance, strategy finance, data				
City / CA Intelligent Client	Strategy development, stakeholder engagement and community participation	Owner of overall spatial plan, Local Plans, Development Plan Economic development planning	Portfolio development Planning process	Asset management Scheme finance Legal advice Procurement advice	Project and programme management
Ways of working	**Collaboration, promotion, learning, adaptation, reliance**				
Shared resource	Expertise to critique and/ or help develop vision and strategy	Multiple technical disciplines to help develop layers of the spatial plan	Specialist technical and commercial support Funding to develop propositions	Specialist technical and commercial support in all areas above Catalytic capital to crowd in private investment	Ongoing support with delivery management

OVERLAYING THEMES

In addition to the areas outlined above, the following themes should also be considered:

1. Maintain a learning environment – constantly share learning with other places and look overseas for good practice.
2. Develop a portfolio of pitches tailored to different audiences you want to attract – be open to feedback.
3. Take the community with you – consultation built around constrained optimisation and honesty about trade-offs and what is/isn't possible.
4. Take political leadership with you – including cross party where possible.
5. Build partnerships with investors and developers based on transparency, trust, incentives to find creative solutions.
6. Set performance targets that reflect the breadth of your ambitions. Where possible seek to create consistent metrics with other places to make it easier for investors to engage.



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