

Insights

REVIVING THE ECONOMY. BUILDING THE FUTURE.

SUMMER ECONOMIC UPDATE

Jul 06, 2020

SUMMARY

Ahead of the planned July fiscal stimulus in which the Chancellor is set to announce some limited measures, BCLP has summarised predictions for energy, environment & infrastructure.

INFRASTRUCTURE TONIC – THE UK NEEDS TO BUILD SMARTER, GROW SUSTAINABLY AND RECOVER WITH RESILIENCE

The past few months have been surreal and challenging as we battle with home schooling, isolation and technology, coupled with large doses of uncertainty. The COVID-19 pandemic halted economic growth and significantly impacted many industries serving a critical role for the UK Government to chart a path toward a resilient recovery as we slowly emerge from lockdown.

Whilst post Global Financial Crisis (GFC) policy and economic environment focused on monetary measures, such as Quantitative Easing (QE), there is an emerging consensus now that Central Bank action alone will not be enough to kick-start the UK recovery. Many, including most recently the Policy Exchange and former Chancellor of the Exchequer, Lord Darling of Roulanish, are signalling for the UK Government to make significant capital investment in infrastructure - in the short to medium-term to stimulate the job market and in the medium to longer-term to deliver Government's "levelling up" agenda and strive for much vaunted productivity gains.

Moreover there is a growing number of national governments and private sector businesses, including the influential "We Mean Business" Coalition, calling for a COVID-19 policy response that embeds longer-term stimulus based on considering the health and wellbeing of citizens and managing environment and social impact through investments to support a transition to net-zero and circular economies, clean mobility, resilient supply chains and delivering a wide range of sustainable measures. They argue policymakers should take this opportunity to "Build Back Better".

The Chancellor of the Exchequer, Rishi Sunak MP, will shortly deliver a mini-economic update to announce a number of economic stimulus measures ahead of a full Autumn Budget statement following the promise of a “New Deal” for Britain in the wake of the Coronavirus crisis and the “levelling up” of places left behind by the British economy. As leaders in infrastructure and the built environment, we have compiled our predictions and indeed what we would like the Chancellor to announce:-

NOT QE... BUT DEPLOYING THE REAL IMPACT OF AN ESG-LED RECOVERY

As this is the decade to deliver the UN’s Agenda 2030, the Sustainable Development Goals and make critical progress towards the Paris Climate Agreement, it is clear that the frameworks and environment within which business operates, together with its operating models and practices, are collectively at a pivotal juncture. This reflects not only convergence across stakeholder expectations and action concerning responsible and sustainable business conduct, but also business’ own voluntary commitments and practice to address these issues. There is growing consensus around the need for a coherent “smart mix” of mandatory and voluntary policy, economic and regulatory measures (at international and national levels) to drive innovation, align market incentives and enable real progress around ESG and sustainability. At the same, this process of transition is already providing opportunities to create new businesses, goods and services and enhance business skills, leadership, value and trust, that are critical if we are to achieve the structural change needed to mainstream responsible and sustainable businesses and operating models.

There is an opportunity through the UK Government’s Green Finance Strategy to encourage and align private sector financial flows with clean, environmentally sustainable and resilient growth, supported by government action and to strengthen the competitiveness of the UK financial sector, through green financing, financing to support net-zero and **for** the UK financial services sector to capture international and domestic opportunities in this space. Indeed, we are encouraged by the action of The City of London Corporation to make London an ESG centre of excellence and green finance hub. We anticipate Government creating further incentives to encourage innovative green finance products and services.

KEEPING IT LOCAL: DELIVERY MECHANISMS FOR “SHOVEL-READY” PROJECTS

From our experience of post GFC infrastructure spending, we would welcome more powers to regional and local delivery bodies to identify commission and deliver sub-£250m infrastructure projects locally and regionally. Infrastructure projects are rarely “shovel-ready” for many months therefore defeating any immediate six to nine month stimulus benefits. There are many suitable candidates to create economic stimulus and we would benefit from a focus on local and regional spending on public sector housing and municipal building energy and water efficiency schemes

(including solar rooftop installation, ground heat pumps, small-scale battery storage and retrofitting).

In addition, environmental and social considerations concerning infrastructure must play a prominent role in the fiscal stimulus. This mirrors the shift we are observing in the investment community towards applying an ESG lens to capital allocation (not only over time-horizons in terms of resilience but also in respect of asset classes) and increasing the sophistication of active ownership strategies and approaches. We would urge the ramping up of general green infrastructure including flood prevention measures, tree planting, cycle lanes and storage, shared cycle/e-scooter schemes, Electric Vehicle (EV) charging points and charging lampposts/ street furniture, smart city sensors, pedestrianisation measures, cycle hire schemes, a variety of accessibility and amenity related projects and opportunities to support more inclusive local projects.

SUPERCHARGING INVESTMENT IN THE ELECTRO MOBILITY SECTOR

As one of the leading law firms in the e-mobility sector, we are truly excited by the world-class talent in electro mobility in the UK. We would welcome greater Government investment in this sector that could help stimulate net GDP and create much required additional jobs through the transition from a mobility system 'traditionally' fuelled to one that is driven by renewable energy, helping reduce CO2 emissions and cut air pollution as we head down the path to net-zero.

We anticipate and would welcome much required R&D grants and co-investment equity models to further enable UK home-grown vehicle technology - freight vehicle solutions, and battery technology to public charging infrastructure - to enable the mass public adoption of electric vehicles as seamless as possible. Indeed as the UK Government encourages its citizens to save, what better way than to attract pension savings into the e-mobility sector through long-term transformative investments.

WORLD EV DAY 2020

BCLP are proud partners of the inaugural [World EV Day 2020](#).

SPEEDY PLANNING REFORM

Accelerated building will require some radical changes to the planning system. Our market leading planning and zoning team have set out in detail their predictions for the most likely planning reforms: we expect planning reform to play a central role in UK's economic recovery from the COVID-19 crisis; these reforms are unlikely to be universally popular particularly if the introduction of flexible zonal planning system impacts adversely on land values. Other potential measures could include reforms of EIA and taking highly political local planning controls away through the

extension of the Development Consent Order regime to major housing schemes and infrastructure that is not nationally significant.

GOING DIGITAL: SUPPORT FOR ULTRAFAST BROADBAND

The lockdown has created and amplified a digital army of homeworkers and school children embracing working and learning through bandwidth hungry platforms such as Zoom and MS Teams. There has never been a more important time to accelerate the roll-out of resilient ultrafast broadband fibre networks across the UK - as it is a foundational aspect of today's economy - and invest in transitional training.

We call for greater incentives and possible Government risk sharing on these huge capital works programmes, including greater procurement of broadband services and data storage by local and regional authorities to enable access to digital services across all demographics and regions in the UK, promoting the ability for home and flexible working. Such investments are likely to have clear and measurable positive environmental and social impact and enable continuing innovation in the deployment of technology based solutions, such as block chain, for a range of industries to assure sourcing, provide metrics and reliable reporting on these issues and impact.

KEEP IT GREEN & SUSTAINABLE

In the absence of the Energy White Paper, we would ask the Government in the interim to continue to embrace the road to net-zero by encouraging further development of ESG focused green and sustainable energy generation, distribution and supply technologies in the UK through stimulus and other fiscal incentives.

As called for by the Committee on Climate Change (CCC) in late June, more investment is needed in decarbonising heat through greater expansion of the renewable heat incentives, creation of Carbon Capture and Storage business models for investment, incentives for generation of clean hydrogen and other low carbon technologies, backed up by resilient energy networks.

Tying into the local theme, schemes to encourage cities and regions to embrace their own net-zero carbon plans, including decentralised community energy schemes would be welcomed.

RECYCLE, REUSE & RENEW

We seek more incentives to help businesses and communities benefit from the refurbishment and re-purposing of building and land through the planning and taxation system. This should go beyond land and building use to include incentives to encourage significant investment into low carbon waste collection and disposal facilities and incentives to increase recycling rates across the UK, including integrating plants into the energy networks, investment in technology to support circular

use business models for textile and plastic based products and encouraging ESG compliant capital creating opportunities for more resilient and responsible supply chains.

H2 – CAPTURING THE HYDROGEN OPPORTUNITY

We would like greater clarity on the Government's position on the use of hydrogen as a means of decarbonising the UK, as part of its commitment to net-zero growth. The production and the use of Green and Blue Hydrogen for heat, transport and energy generation, will depend on the right incentives being available to enable the energy industry to invest in new technology, including new business models of CCS, allowing ESG compliant private investment.

STANDARDISATION AND MODERN METHODS OF CONSTRUCTION (MMC)

The onset of lockdown and the emergence of a different social and economic fabric post-lockdown provides the Government with an unprecedented opportunity to pause and reset the construction industry and the methods by which construction is delivered in the UK.

As part of that reset, the Government should use the fiscal stimulus to 'turbo-charge' the adoption of Modern Methods of Construction (MMC) - methods by building on, and implementing, previous announcements such as the Construction Sector Deal (July 2018) and the MMC definition framework published in March 2019.

The Construction Sector Deal, in particular, contained a great many positive messages as to how the industry could adapt and transform itself with Government support and it would be good to see further practical steps to work those out in practice.

Two further steps could be taken:- firstly, as recommended by the RICS, we would like to see local authorities and housing associations financially supported in adopting MMC focused procurement in developing housing schemes. This would provide a boost to the industry and should lead to increased acceptance of MMC constructed houses as a viable alternative to traditionally built.

Secondly, MMC should also be adopted as a key cornerstone in the Government's recently announced proposed public infrastructure spend (approx. £30bn) in 2020/21. There are many aspects of such projects that can be modularised and standardised, with the attendant benefits of those being manufactured in the controlled environment which a factory provides. A potential further benefit would be a reduction in on-site time and the potential for significant delays if further lockdowns occur.

What appears to be in little doubt is that Government will be omnipresent in the infrastructure sector taking on new roles as guarantors and financiers. The level of scrutiny on Government will be enormous to ensure "shovel-ready" projects are "shovel-worthy", and Government has the

opportunity to channel resources to regional and city growth plans to enable local delivery on a grand scale.

There has never been a better time to embrace ESG focused green and sustainable capital investment in the UK's infrastructure as a stimulus measure, seeking to drive productivity, levelling-up and creating resilience by moving from a globalised world of "just in time" to a more locally focused world of "just in case", taking on the immediate challenges of post-COVID recovery with the longer-term challenges navigating the UK economy towards its net-zero goals. The Government has a unique opportunity to set a policy and economic framework that embeds a structural sustainability shift through alignment with private sector capital investment by long-term investors seeking to deploy sustainable finance – amplifying environment and social impact gains.

Whilst the UK Government has adopted "Build, Build, Build", perhaps "Build Back Better" should be the policy response for a resilient post-COVID recovery that also drives innovation and a sustainable future?

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