LOCALIS

Design for life

THE SMART REGENERATION JOURNEY TO 2030

By Sandy Forsyth

CHAPTER TWO

Financial capability

Key points

- Financial capability sets the parameters for development – both in terms of the levels of investment available and the expected returns – but must be considered in the wider context of social, environmental and economic benefits in the long-term.
- Decades of policy have produced a regeneration model based primarily on partnership working, but increasing short-termism and instability at the central government level regarding the financial capability of local authorities jeopardises the viability of long-term, strategic partnerships.
- Councils and partners must work together to find the best way to leverage short-term, often politicised funding initiatives to create maximum local value.
- Properly financed planning departments are crucial to delivering regeneration projects with maximum efficiency, particularly when facing the challenges of decarbonisation and climate resilience such as the need for mass retrofit of housing stock.
- Investment must also be considered in terms of encouraging regeneration which contributes to the national switch to a circular economic model, so that social impact returns are delivered long after the completion of projects.

2.1 Overview

Local authorities and financial capacity for regeneration

Every stage of regeneration is encompassed by the overarching need to set and then stay within budget, from scoping out the project to delivery. Opportunities for funding urban regeneration is multitudinous and multiform, but the actual capacity for financing often immense and unwieldy projects can be limited by inefficient and inadequate mechanisms of funding. Local actors can funnel various funding mechanisms such as – admittedly, often piecemeal – grants from central government through partnerships with the private sector or through third-sector fundraising support in order to foster the ambitions of place-based regeneration.

The shared vision for regeneration set out by place leaders is defined by the financial capacity available both for revenue and capital expenditure and the viability of development in terms of expected returns from uplift in land value. Development may be based upon a future spatial strategy which expects uplift based upon, for instance, new transport infrastructure[40] or increased tax revenue. The budget is also closely tied to the individual requirements of the physical site and type of regeneration, where for example a brownfield site may have costs associated with land remediation or where regeneration makes use of existing structures to remodel or retrofit rather than to demolish. The socio-economic need to provide affordable housing through regeneration schemes often complicates the question of viability, particularly when it comes to gaining stakeholder consent.

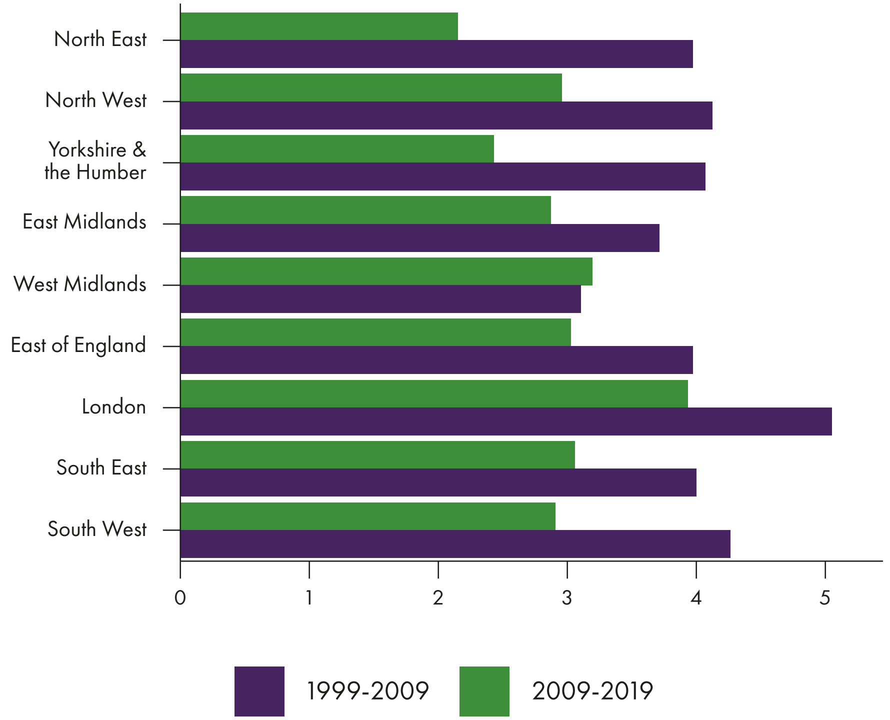
Of course, limitations exist beyond financial capability, including energy and water efficiency, community requirements – especially in a system where drawn-out planning disputes can frequently drive development costs astoundingly high[41] – and institutional or political mechanisms that may help or hinder a project's implementation[42]. But tied to many of these aspects is the desire to meet the maximum possible value – social and environmental both as well as purely financial value – from development, making the most out of the necessary funding and input of resources, the scale of which is often seen to make regeneration a risky endeavour.

40 Jennifer Robinson et al. (2021) – Financing urban development, three business models: Johannesburg, Shanghai and London

41 John Burn-Murdoch (2023) – The Nimby tax on Britain and America

42 UCL Urban Lab (2014) – Demolition or Refurbishment of Social Housing? A review of the evidence

Figure 4. Regional growth before and after the Great Recession
Average annual GVA (balanced) growth, 1999-2009 and 2009-2019



Source: ONS Regional Accounts

Policy context

The financing of urban regeneration in the UK and concerns with cost-effectiveness in development are defined by issues going beyond the recent decade of austerity. Regeneration schemes in the UK often make use of sites left derelict since the rapid de-industrialisation and shift away from manufacturing industries that defined the 1980s, a change coupled by a shrinking state and centralised distrust of local government autonomy, bringing public-private partnerships into the fore. This was followed by an emphasis on community and local partnerships throughout the New Labour years, which combined with more recent events such as the 2008 financial crisis to produce the framework in which local authorities currently operate, where partnerships have become the driving force of local regeneration.

Since the UK's Brexit decision and subsequent departure from the EU, policy has turned again to the goal of making the cities other than London competitive in an international market. Levelling Up as rhetoric recognises the need for financial engagement in urban spaces in order to reduce the deprivation gap and to ornament the UK's financial attraction with a promise of flourishing opportunities for investment across the country. However, despite some initial funding commitments to regeneration programmes for major cities off the back of the Levelling Up white paper, a reticence towards providing sufficient funding and lack of real and continued institutional reform in support of country-wide development that does not just rely on trickle-down regeneration – namely, supporting local government autonomy – has resulted in the Levelling Up agenda delivering a disappointingly low level of financial uplift to local regeneration projects.

This reticence appears to be symptomatic of wider trends in the years of austerity: top-down and short-term government commitments to growth conflicting with reforms in favour of fiscal contraction and a desire for self-sufficiency at the local level. Without a consistent and long-term funding outlook from central government, local authorities are exposed to the fluctuations of local market forces, facing uncertainties due to their reliance on the extremely limited streams of income which they are permitted to raise locally. It must be noted, however, that the funds introduced by the Levelling Up agenda – the Levelling Up Fund, the Brownfield Fund, and the Shared Prosperity Fund, as well as additional funding for affordable housing – have been very much welcomed and put to use by local leaders across the country. The issue remains the lack of a long-term settlement and consolidated budget to properly engender long-term transformation.

2.2 Financial capability on the regeneration journey

Scoping

In reviewing the opportunities for regeneration, and more specifically, when engaging in discussions of the viability of development, there must be consideration of the holistic benefits for place that urban development can bring, looking beyond the economic and into integrated and sustainable development. A positive vision for place can be instrumental in engaging partnerships to emphasise public benefits over personal gain – a long-term vision, for instance for a town centre, can ensure that its infrastructure can support its community both by stimulating economic growth and through the provision of facilities and services to contribute to wellbeing and a positive social environment. When scoping out the possibilities for regeneration, there must be productive conversations between the public and private sectors around viability. Budget alignment across partners can maximise local opportunities through a holistic vision of the economy that understands the financial implications of good physical and social infrastructure.

Growth from urban development can extend past the economic into the environmental and the social, and it is possible to leverage the value of these non-economic factors to attract investment. For instance, a focus on the use of natural resources and nature-based solutions to climate change – wherein green and blue infrastructure – can be used to catalyse progress towards environmental, social, and economic goals[43]. The growing interest in and understanding of impact investment, in which funds are invested into social and environmental goals alongside financial return, may be beneficial for driving forward innovative social enterprise projects with quantifiable results. This can provide renewed motivation for private agents to engage in place partnerships.

Challenges remain for private financing – returns from investment must be shared with the public sector, and these returns are only seen across the long term in the case of large-scale sustainable regeneration, which can be perceived as risky among private partners. Furthermore, social infrastructure projects can be even more time consuming due to the need for community involvement. It is therefore vital that long-term returns on investment are not upstaged by short-term, sticking plaster solutions, particularly at the initial stages of regeneration as partners set out the overarching goals for development.

However, in an era of massive financial constraint for many at the local level, it is necessary to consider the best ways to leverage short-term funding opportunities, particularly as the Chief Financial Officers for local authorities, otherwise known as Section 151 Officers, become increasingly risk averse to large capital projects. In order to do so, the overarching mechanism of funding for development must be simplified: the present competitive bidding process for local authorities places some at a disadvantage, relying primarily on internal skills to achieve successful bids, thereby exacerbating existing inequalities. Funding also often comes with caveats such as unachievable deadlines for project completion that mean that funding goes to waste if authorities are unable to align their visions for place with the obligations set upon them by central government. In this context, where funding is immediate, the public sector should take steps to lock assets into public ownership as swiftly as possible, and even under financial constraint should be wary about selling assets at the expense of regeneration viability.

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43 Clever Cities (2018) – Impact-driven financing and investment strategies for urban regeneration

Planning

The necessity of public funding for projects that carry little expectation of returns against the risk that they present underscores the need for certainty in the planning system. If there is little guarantee for planning permission, or if delays abound across the planning process, then investors become discouraged from engaging in regeneration projects. In 2021, less than half of planning applications were decided within statutory time limits[44].

The planning stage is the time at which stakeholders and place leaders can unlock the potential for urban space, but best practice in this case relies upon a long-term, master-planning approach in order to formulate the best possible use of space, to understand the present demands of the space balanced against the potential demand that the regeneration process might create, and to consider from a spatial perspective how proposed plans can unlock growth. This includes regard for the limitations and opportunities already presented by the area, such as how the infrastructure of the site is already engaged with the functions of the space and how future transformation can attract investment. It may be that the utilisation of innovative funding mechanisms is what can enable or incentivise a long-term perspective – the King's Cross regeneration scheme, for instance, benefitted from the use of pension funds for capital spending[45]. Additionally, flexibility in the planning process, utilising approximate uses of space rather than specific permissions, means that a scheme will appeal to investors looking for greater certainty into the long term.

Strategic planning, furthermore, that is able to leverage local land values to finance regeneration will ensure that regeneration is more feasible and that it engages with the urban space sustainably over the long term[46]. Mechanisms to leverage gain such as Section 106 contributions and the Community Infrastructure Levy are currently the primary instruments that local authorities can use to provide infrastructural improvements or social benefits using the returns from regeneration. However, the extensive financial concerns of the local state mean that these mechanisms have resulted in aggressive interest in large-scale regeneration programmes to release the most returns for local government use.

44 RTPI (2022) – Planning Agencies: Empowering Public Sector Planning

45 Centre for Cities (2022) – Making places: The role of regeneration in levelling up

46 Matthew Thompson and Paul Hepburn – Self-financing regeneration? Capturing land value through institutional innovations in public housing stock transfer, planning gain and financialisation

Development management accounted for around half of all spending on planning as of 2019[47]. It may be that other methods of financing would enable a more balanced approach to financing development for public benefit. Likewise, questions of the suitability of scale in urban regeneration must be addressed at the planning stage, considering how best to provide for economic growth while dealing sympathetically with the requirements of space and local communities.

There will always be considerations in plan-making about the development of public goods – services and facilities – and their expenses. Often, these rely upon public sector grant backing and the availability for commercial or high-return uses elsewhere across the site, pushing for diverse land use to provide for a range of needs. However, when structural funding is poor, then the strain on local government to provide financial backing is far too high for schemes that are only marginally viable. This strain will likely stall further progress for development across the county in coming year. Retrofit projects can come with costs that are seemingly insurmountable and associated risks for both public and private householders. Regulations should push local authorities into a position where they can structure those risks associated with regeneration and deliver the necessary transformations for urban spaces.

In the meantime, with cuts to planning departments across the country and the associated deficit of skilled planning officers in local government departments, it is likely that triageing spending cuts to the most stringent extent will continue beyond what is feasible, to the detriment of the country's built-up areas. Possible solutions to the planning crisis will have to lie in direct discussions between levels of government about either the release of more grant funding, or pushing towards a devolution package that allows local government to lighten its own financial burden. Long-term planning that values urban resilience, that takes a preventative approach to oncoming issues such as healthcare and climate change, require public funding. Otherwise, future risk and costs will continue to spiral beyond control. Preventative changes to the build environment are difficult to measure and to evaluate, particularly where the impacts are social rather than economic, but there are tools that exist – such as the Treasury's Green Book, which outlines strategies to evaluate policies for social costs and benefits when considering potential decision pathways[48] – that can enliven the discussions that people have surrounding viability in urban planning.

47 RTPI (2019) – Resourcing Public Planning

48 HM Treasury (2023) – The Green Book (2022)

Financing

Determining the distribution of available funding towards urban regeneration requires consideration of the following questions:

- Who does the money benefit?
- What is the expected return on investment, and how long will this take to realise?
- How will the development distribute public benefit fairly and without exacerbating inequalities?
- How can public funds subsidise the gaps in private initiatives[49]?

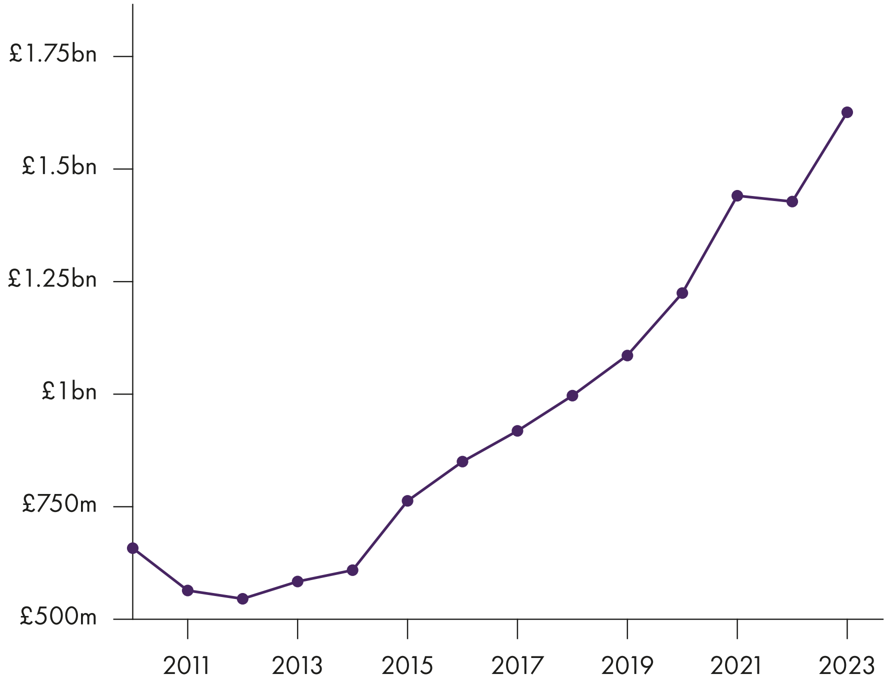
Naturally, the policy context defines a good deal of what funding might be available in terms of state subsidy, which in turn effects what incentives exist to encouraging private investors. No matter the state of grant availability, however, it remains that, especially for under-resourced planning departments, bidding for funding can be a lengthy and ultimately ineffective process. Increasingly, there are a number of AI tools potentially available for grant management and for generating grant proposals. These and other digital tools for monitoring funding availability are likely to become more popular in years to come, alongside more extensive and efficient systems for data management and demographic analysis. Such tools have the potential to level out the inequalities inherent to the current bidding system, where the worst-off regions are unable to access centralised funding pots, but the best possible scenario regardless of technological improvements will be for the simplification of fragmented funding streams for local government and for the integration of funding pools across departments to break down the siloes that are restricting service provision.

Presenting a strong, positive vision of place and the potential for change at the place level to central government may be integral to transforming the existing funding framework into something that works for integrated systems for regeneration, encouraging that source of state funding and creating more opportunities for blended finance to engage in urban development schemes. When delivery can be linked directly to the funding source, then there may be greater opportunities for social benefit – for instance, linking the delivery of good quality, affordable housing to the specifications of a funding package. It may even be useful to compare the crisis response to the COVID-19 pandemic to responses to the housing crisis, the deprivation gap, and growing health inequalities.

49 David Cabedo Semper and Iluminada Fuertes Fuertes (2011) – Social return and financing of urban regeneration policies

Figure 5. Council spend on temporary accomodation

Total expenditure on temporary accomodation by English councils, 2010-2023



Source: DLUHC/LGInform

Local governments are spending billions every year on temporary accommodation for homeless families, highlighting the intense need for urgent action and spending on preventative measures above even the huge emergency spends going towards immediate, short-term responses. Local authorities need to be able to provide homes locally without neglecting their other statutory duties and to prevent the crisis of housing spiralling further. There must be an understanding also that housing and infrastructure lie at the heart of preventative healthcare, meeting the crisis of the NHS that is also reaching a tipping point for the state emergency response[50]. Certainly, looking towards the next political cycle, the

50 The Guardian (2024) – Next government should declare NHS a national emergency, experts warn

coming government will have to tackle a rising accumulation of compounding emergencies with a radical move towards integrated and preventative systemic transformation and the appropriate financial instruments to support this.

Community-led development projects can also open up a wider range of funding sources in certain circumstances. Sources in these cases can include crowdfunding and donations, National Lottery Awards, and grants such as the Shared Ownership and Affordable Homes Programme[51]. Many community projects struggle to access seed funding at the initial stages of development and can see longer timescales as collaboration is required with a wider range of stakeholders, but these projects tend to see much higher social value returns than their commercial counterparts, so support for community projects can be worthwhile in the long term. Citizen-designed or led projects frequently engage with sustainable practices such as the delivery of energy efficient buildings, green spaces, or supporting integrated care services, extending the value of regeneration beyond financial while still engaging positively with means for economic growth.

Among local authorities, the accounting rules that organise funding mechanisms in terms of the split between revenue and capital provision and allocation are often seen as a limiting factor in releasing funding for regeneration. As such, it may be that shifting towards outcome- and place-based budgeting that relies upon the capacity for greater financial autonomy among local authorities may unlock greater opportunities for regeneration. On the other hand, such a mechanism would, by necessity, place trust onto local authorities to understand the long-term consequences of capital investment, and not to overlook the needs of revenue funding beyond the implementation of regeneration schemes. The opportunity released by this trust may be immense, however, as the realisation of value from grant funding is currently often stymied by arbitrary capital/revenue conditions that fail to account for a strategic perspective of the potential for place transformation.

While accountancy rules exist for a reason and can act to safeguard place from poor decision-making, especially in the context of wider issues in local government such as lack of capacity and skill, there is a very evident need for transformation as is demonstrated by numerous failures in these existing safeguards. The dismantling of certain accounting barriers, if done with care, may extend capacity into the hands of local decision-makers, placing financial power among the best-placed actors for sensitive and sustainable regeneration.

51 Community Led Homes (2023) – Get funding

The Green Book and local authority business cases

The "Green Book" is the document from HM Treasury that provides guidance for public sector agents to evaluate policy and investment decisions. The framework that the Green Book provides requires that all spending proposals for use of public money are matched by a business case to evaluate the costs and benefits of these decisions and their alternatives to society[52]. With an original intention of guiding decision-makers to value a balance between economic, social, and environmental outcomes, Green Book guidance has traditionally fallen towards a heavy weighting on economic targets – naturally the easiest to measure in terms of decision outcomes. As a framework, the Green Book neither guarantees funding for proposals nor provides solutions to the public sector problems that these proposals might aim to address. However, the rhetoric and drive towards Levelling Up in 2019 saw fingers pointing towards the Green Book as an obstacle to reducing regional inequalities, particularly in its reliance on benefit-cost ratio maximisation rather than guiding decision-makers towards a focus on aligning the BCR with the policy context and holistic targets for spending – as the 2020 Green Book Levelling Up review found[53].

While analysis proved that the Green Book did not exacerbate regional inequality in itself, there was realised a lack of capacity across all tiers of government in following its guidance and developing best practice in terms of resource allocation in meeting local needs[54]. The issue, as is often the case, was that many local authorities simply lack the resources to provide the most effective case-by-case maximisation of spending proposals. More widely, obstacles often are revealed in how decision-makers evaluate the use of funds and are able to follow the Green Book's guidance, a consequence of the poor skills base in local government, a lack of capacity, and the competitive bidding system for local government funding, among other difficulties[55]. Lack of capacity also leads many local authorities to a costly reliance on external consultants in order to release the full potential of Green Book guidance.

52 NAO (2022) – Supporting local economic growth
53 HM Treasury (2020) – Green Book Review 2020: Findings and response
54 Centre for Cities (2020) – Will the new Green Book achieve levelling up?
55 Rebecca Riley (2023) – "I Blame the Green Book" – Why has Guidance Become the Scape Goat of Public Funding Decisions like Levelling Up?

The criticisms levelled at the Green Book did lead to some revisions, namely an elevated focus on place-based growth in the framework that targeted, for instance, use of the Local Growth Fund. However, the more interventionist actions of government in the past five years in aiming to inject funding across the country to 'level up' its regions have not necessarily opened up greater capacity for effective value realisation from public spending at the local level. The effectiveness of the Green Book relies on the ability for its users to maximise its guidance. At heart, this means that the problems of Green Book utilisation lie in local lack of capacity and poor funding, which in turn exacerbate regional inequalities and lead to a failure in those following its guidance to align decisions with the policy context of their goals and the holistic sustainability of outcomes[56]. The Treasury recognises the necessity for decision-making that extends beyond merely the economic in business case reviews, but an institutional culture shift is needed in order to safeguard environmental and social values.

Implementation

As more people move into towns and cities, the pressure on resources and waste management systems sees likewise increase. Actions to conserve and to reuse will have numerous benefits across the board, but particularly in terms of cost effectiveness and long-term growth measures. For urban development, engaging in sustainable practices particularly in regard to sourcing material for construction and ensuring efficient energy use in new buildings can be immensely cost effective. The utilisation of digital technologies can facilitate sustainable supply chains from production to distribution, promoting net zero practices and reducing pollution while maximising the use of resources and energy[57].

Consideration of sustainable supply chains at the local level is bolstered by the transformation towards a circular economy, which aims to reduce waste and provide incentives for the reuse of resources across the whole life cycle of urban systems. However, the transformation from the linear system to a circular

56 HM Treasury (2020) – Green Book Review 2020: Findings and response

57 Luisa Franchina et al. (2021) – Thinking green: The role of smart technologies in transforming cities' waste and supply chain's flow

economy requires a bulk of investment to instigate the capacity for change[58]. Additionally, developers need to be aware of targets in terms of opportunity areas for sustainable practices such as water, energy, and materials, among others. At the scoping stage, different forms of development can be considered that include regenerating disused buildings to ensure that the building stock of urban spaces is being used to best possible impact – although, viability remains at the forefront as the ultimate consideration in such discussions. The shift to the circular economy becomes easier at the local level: supporting good and sustainable growth by repairing, reusing, and recycling materials not only saves money for the local state, which can then be redirected towards service provision, but can also engage local businesses and create new local jobs in the waste sector[59].

Public-private partnerships represent one form of procurement in terms of releasing financial capacity to deliver urban regeneration, from site and infrastructure development to continued public service delivery. However, diverse needs require diverse solutions, so procurement will be a necessary point of transformation in future years, where place leaders might experiment with different models to test the viability of new practices for local growth. There should be considerations between local authorities and other agents for regeneration about procurement spending on local SMEs and third sector organisations in order to engage with and grow the local economy through the processes of regeneration, improving community benefits. Decision-makers should also ensure that models of delivery are always undergoing scrutiny in order to achieve best possible cost efficiency balanced against best outcomes, valuing creativity and innovation to release value for money.

58 Teresa Domenech and Aiduan Borrion (2022) – Embedding Circular Economy Principles into Urban Regeneration and Waste Management: Framework and Metrics

59 LocalGov (2023) – Why a circular economy is good for local government

2.3 Operational concerns

The table below highlights how the strategic concern of financial capability intersects with key operational concerns for regeneration projects.

Operational concern	Financial capability considerations
Sustainable design	Viability considerations are often short-term, but integrating sustainability requires thinking about returns over a longer period Funding mechanisms for public sector such as bidding for funds, do not engage in long-term consideration Mechanisms such as s106 contributions and the Community Infrastructure Levy exist for social benefit and infrastructure, but can lead to over-interest in large-scale projects among the public sector
Decarbonisation	Practices such as impact investment, ESG, and climate goals, all drive investment into projects that can engage wholeheartedly with decarbonisation Retrofit projects are increasingly unviable and regulations for standards of new builds or retrofit projects do not match demand for energy efficiency and management of resources Improving cost effectiveness of low carbon supply chains and circular economic practice will rely on scaling development up
Property and estates partnerships	There are inherent trade-offs: public ownership can have operational inefficiencies alongside political elements, the risk-aversion of the public sector, and the assumption of the potential for corruption; privately owned assets and private service provision can be seen to come at expense of public good (e.g. PFIs)[60] Changing procurement practices and experimenting with new models can instigate more collaboration with local organisations while improving cost efficiency

2.4 Policy recommendations

- The revenue/capital funding split in local authorities is an obstacle to delivering holistic regeneration projects and should ideally be **abolished in**

60 Luise Noring (2019) – Public asset corporation: A new vehicle for urban regeneration and infrastructure finance

place of single budgets for local authorities of the kind proposed in previous policy initiatives such as Single Regeneration Budgets.

- In the absence of such reform, councils should be allowed to hold a separate **regeneration account** with a similar structure of rules and restrictions to a housing revenue account, where capital raised for regeneration can be spent on projects without the bureaucracy of revenue expenditure accounting – even if it is on areas normally covered by revenue spend such as provisioning for the maintenance of newly installed buildings and infrastructure.
- Strategic use of public land assets is often crucial to successful regeneration for the common good, as such **the loosening of regulations on council asset sales to fund revenue expenditure must be halted and reversed**.