Funding Regeneration:

An Art or a Science

Stantec

Our Objective

Since January 2024, we have been bringing together our network across the industry -public and private sector, client and consultancy - to discuss and debate how we are funding and delivering regeneration. Our objective? To better understand how our response as an industry improve going forwards, and in turn, we can all better the return on investment we secure for communities across the UK.

In this first report in our series, **Funding Regeneration: An Art or a Science**, we are looking specifically at the models that exist within the regeneration funding landscape.

Funding is felt by many in our industry to be a dark art.

Do we really understand the different funding models and why they would or would not be used?

This report has set out to help demystify these models, and help inform a discussion around which are best placed to support regeneration.

In tandem, we have begun to explore the roles we each play in the industry, when seeking, securing and using funding to deliver regeneration, to then ensure the maximisation of impact.

This is just the beginning of our exploration into funding and delivering regeneration.

Please read on and if its findings trigger thoughts or ideas for you or your organisation, do get in touch, as we'd love you to join us in the next stage!

City street art of an Axolotl - one of few animals capable of regenerating complicated biological structures

Contents

What is regeneration funding?

Regeneration funding refers to the targeted use of public and private funding to regenerate a place. For example a specific neighbourhood, town or city.

Regeneration is the process of transforming the economic, physical, and social potential of places. It can remove the barriers to economic growth and help local leaders to strengthen their communities and support people back into work. When at its most effective, regeneration can provide opportunities to tackle disadvantage, deprivation, and dilapidation, economic inactivity and barriers to work, improve places, and attract inward investment, by making purposeful and informed changes in the built environment.

Regeneration funding seeks to invest an injection of capital that will help a place overcome market failure, and in turn make it more attractive for private investment over time.

. . . to tackle disadvantage, deprivation and dilapidation

Develop and digitalise

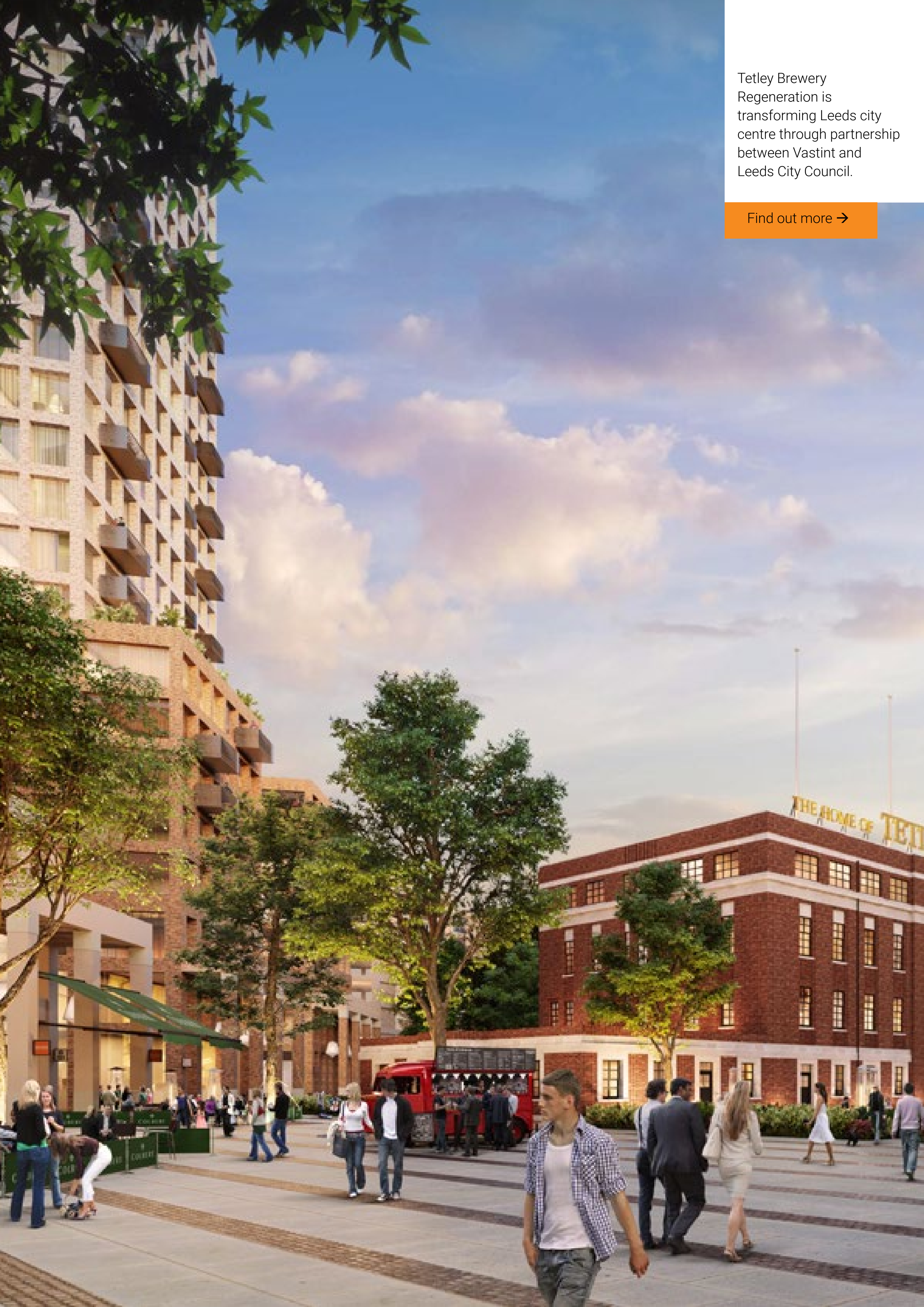
Empower everyone

Attract and adapt


Revitalise regions & increase economic productivity
duce crime & ill-health
Enhance sustainability
Homes and happiness
Tackle social inequality
OTTERBUR

Tetley Brewery Regeneration is transforming Leeds city centre through partnership between Vastint and Leeds City Council.

Find out more →



The UK government has announced circa £78bn of regeneration funding since 2011

Why analyse regeneration funding models in the UK?

Since the early 20th century, the UK has driven successive, evolving regeneration programmes, from inner city housing and estate renewal to the repurposing of vacant industrial land, and more recently efforts to reinvigorate our high streets and urban centres.

To fund this, the UK government has announced over £78bn of regeneration funding since 2011, delivered through a myriad of initiatives and programmes that run through to 2026. Critics may argue that some of the recent announcements included in this number are simply a reallocation of monies, but in lieu of clarity on this, £78bn of regeneration funding is a significant sum. Yet today the need for regeneration and 'levelling up' seems greater than ever before. At a time when we have more demands on public funds than ever before.

No matter what, maximising the resources we have at our disposal as a country is essential, and learning from what has gone before to inform the future is critical for all participants in regeneration.

The current political focus on regeneration presents an opportunity to consider what we can learn and, as a result, do better. What is delivering more than just ribbon cutting photo opportunities? What can be replicated or improved upon? What models of regeneration are most efficient? What delivers lasting change and, in the context of multiple demands for public funding, what delivers the biggest or best return?

Income/Revenue

Why invest in regeneration?

Regeneration is frequently funded through partnership between the public and private sectors (PPPs), but the motivations of each, although similar, do differ.

Understanding the motivations and using these to inform the roles of each in regeneration, is paramount - particularly when there are multiple actors.

How can we ensure public private partnerships established to secure regeneration are both transparent and agreed upon - in terms of both their individual and collective objectives (informed by motivations) and roles - from the outset?

Why does the public sector invest?

- To enhance economic development and productivity such as new businesses, investment, enhancement, etc.
- To catalyse and 'unlock' private investment in regeneration to in turn distribute risk and access further capital.
- To improve or generate new revenue streams for public authorities.
- To deliver public benefit schemes, where financial returns are difficult to unlock e.g. parks, libraries, public transport, etc.
- To drive social equity and inclusion.
- To support the achievement of sustainability and environmental goals.
- To ultimately support a sustainable, balanced, long-term economy and improve quality of life for the local community.

Environment

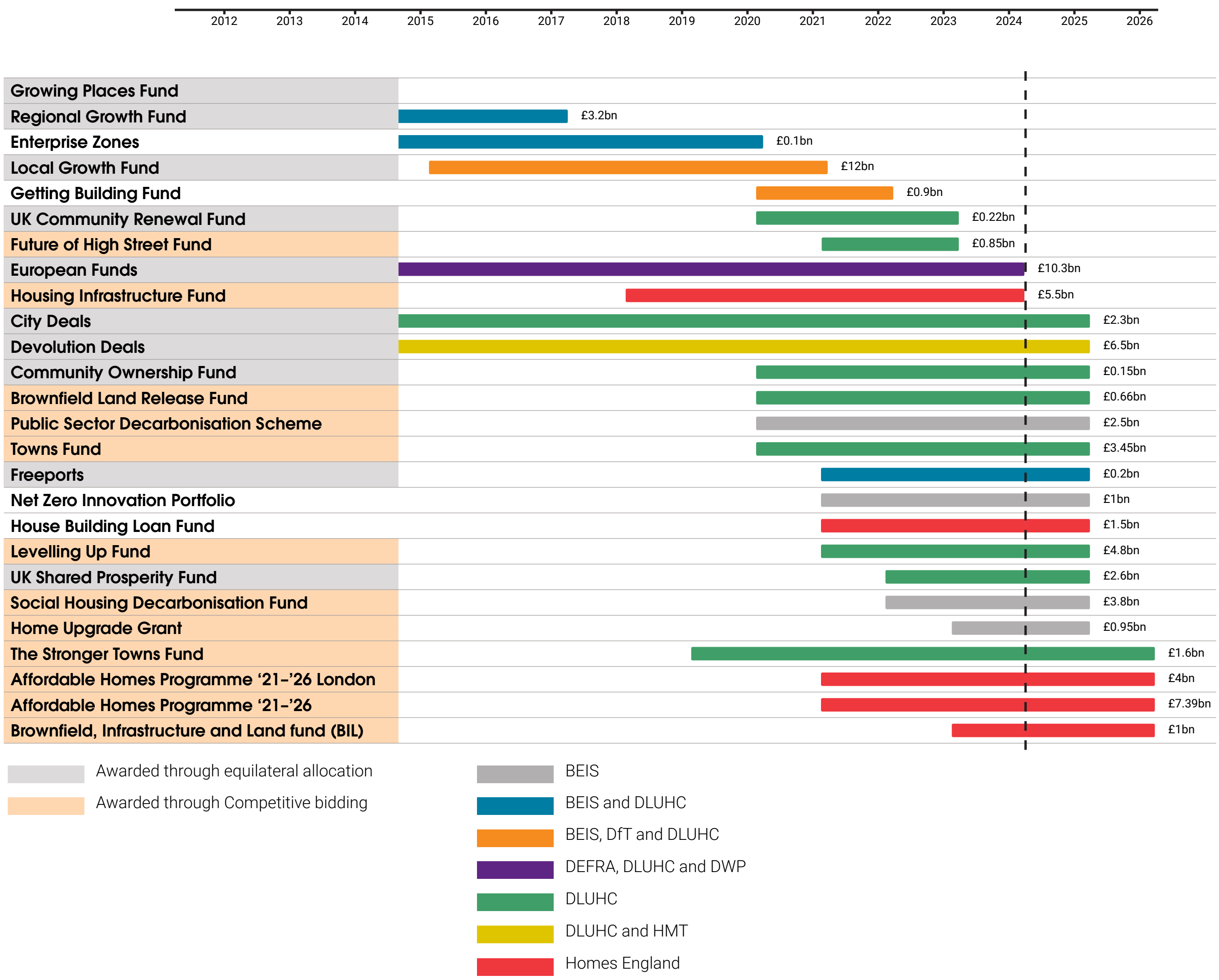
Why does the private sector invest?

- To share risk with the public sector, which in turn secures the capital appreciation for investors who enter the development process early.
- To support the opportunity for rising property values on adjacent land/assets.
- To diversify a portfolio and in doing so enhance resilience.
- To bring private sector efficiency and innovation to the process in order to reduce costs and speed up delivery.
- To meet ESG requirements of investors and the wider market through the delivery of both social benefit and more sustainable development across their investments/portfolio.
- To ultimately enhance opportunity and value within existing assets and the enhanced income this provides.

Social

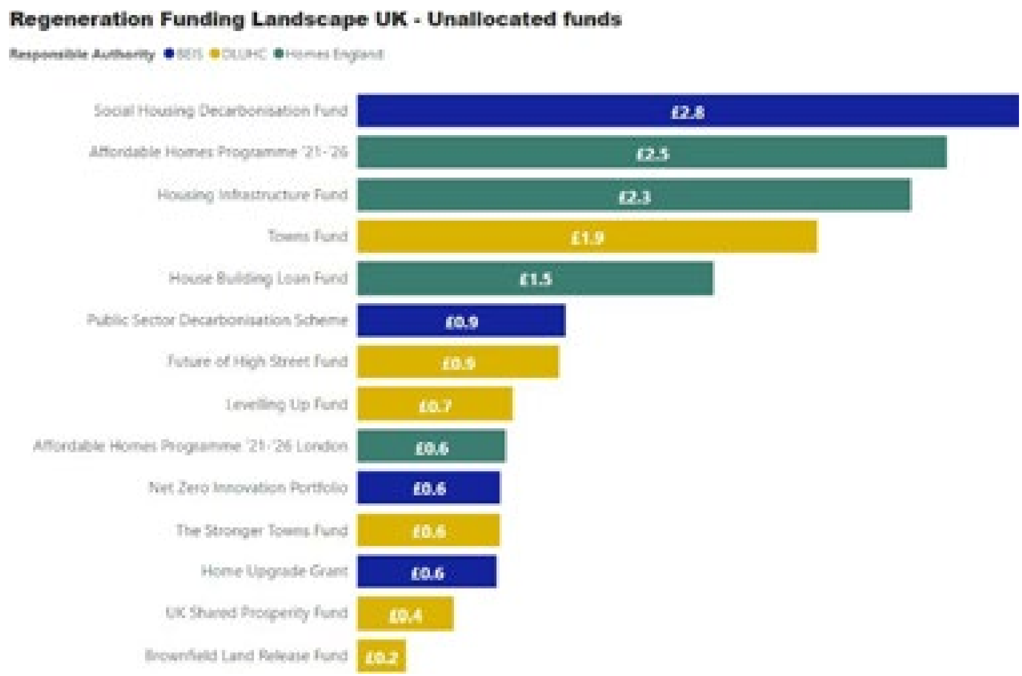
How is regeneration funded?

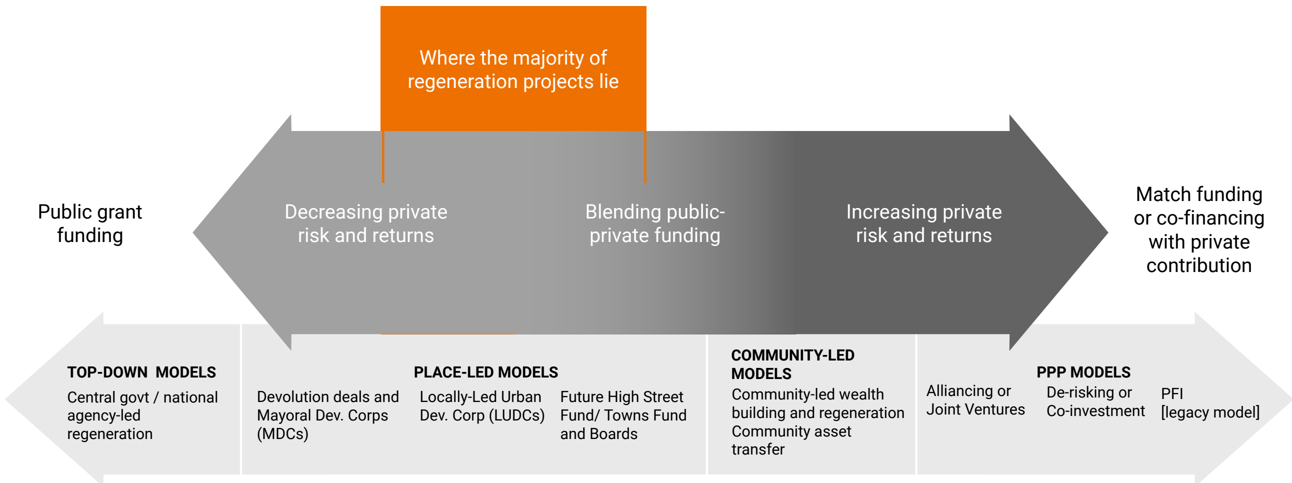
£78bn in funding has been allocated since 2011



Of this £78bn of funding since 2011, £16.4bn of it remains unallocated today and is therefore potentially accessible funding streams for regeneration programmes.

£16.4bn remains unallocated



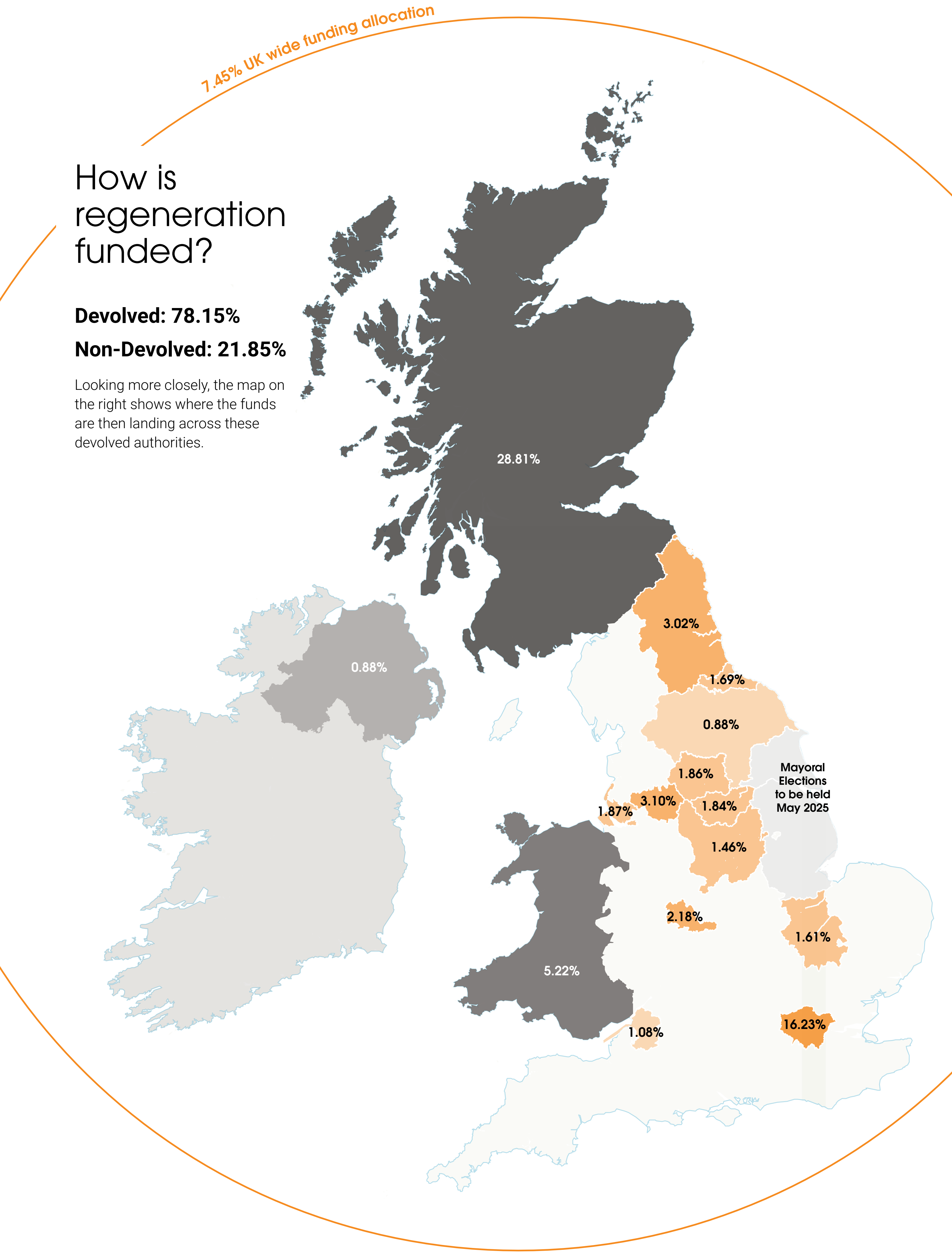


How is regeneration funded?

Devolved: 78.15%

Non-Devolved: 21.85%

Looking more closely, the map on the right shows where the funds are then landing across these devolved authorities.



Looking more closely at a single fund - here we have chosen the Levelling Up Fund - how has it been distributed?

£4.8b

Levelling Up Funding

80% of the funding	**10%** of the funding	**8%** of the funding	**2%** of the funding
ENGLAND	**SCOTLAND**	**WALES**	**N IRELAND**

From allocation, the funding flows into specific project/s over a fixed time period and in agreed tranches.

England, Scotland, & Wales
Unitary authorities (incl metropolitan BCs)
London borough councils

District councils in two tier areas
Unitary authorities (Scotland & Wales)

Northern Ireland
Business, voluntary, district councils, other public sector NI Exec

DLUHC
Leads on town centre, regeneration and culture

DFT
Leads on transport

HM Treasury

Competitive submissions invited for an individual project or package of up to three projects, which can secure up to £20 million in value per bid, or in exceptional cases up to £50m per bid for larger transport or cultural projects.

Birkenhead's regeneration is embedded in a 2040 vision driven by Wirral Growth Company and Muse Places.

Find out more →

How is regeneration funded?

Model types	Model examples	Brief description	Strengths & weaknesses	Financing routes	Examples
TOP-DOWN MODELS	Central government / national agency-led regeneration.	Council acts as a developer and conducts feasibility assessments, development and delivery of the project and exercises a significant degree of control in managing the development.	Full control over the project, however funding scenario might be tight.	Council's own budget + Grant funding + debt/bonds related funding.	• Housing delivery direct from Local Authority in Bristol or Wolverhampton
PLACE-LED MODELS	Devolution deals and Mayoral Development Corporations (MDCs).	Grant increased powers and budgets to local authorities or combined authorities, allowing them to tailor regeneration and levelling up efforts. Mayors to work across several councils to lead on regeneration efforts.	Approach fosters local ownership and flexibility but can be complex to manage and requires strong local leadership.	Grant funding + any other financing tools e.g. TIF, CIL etc. May include private investment routes.	• London, where the Mayor heads the Assembly across councils to bring a more strategic approach to regeneration • Greater Manchester
	Regeneration corporation approach e.g. Locally-Led Urban Development Corporations (LUDCs).	Local authority established corporation takes on full power from Local Authorities and are provided with significant funding from Central Government.	Lack of democratic accountability could be a consideration; possible in heavily urbanised areas.	Grant funding + private funding + any financing tools e.g. TIF, CIL, etc.	• London Docklands • Newport (Newport Regeneration Co.) • Wirral Waters LUDC • Cardiff Bay LUDC
	Future high street, towns fund and towns board.	These funds from DLUHC were offered to drive the economic regeneration of towns, renewing and reshaping town centres and high streets, delivering long term economic and productivity growth.	Strengths included local focus, business involvement, collaboration and flexibility, weaknesses included lack of accountability.	Grant funding + private funding + any financing tools e.g. TIF, CIL, etc.	• Tamworth Town Centre (£21.7m) • Sunderland City Centre (£25m) • Blyth Town Centre (£11.1m)
COMMUNITY-LED MODELS	Community-led wealth building and regeneration.	Aims to keep wealth within local communities through initiatives like social enterprises and community land ownership. Residents can actively participate in the planning and delivery.	Empowers local residents and builds social capital but requires strong community leadership and long-term commitment, and often requires capacity building.	Community-owned ventures and community co-operatives.	• Preston City Council established various community-owned ventures like a bus company, energy supplier, and broadband provider, generating profits that reinvest in local services and projects
PUBLIC-PRIVATE PARTNERSHIP-LED MODELS	PPP: Alliancing or Joint Ventures.	Model that allows the local authority to retain equal control over the development while sharing risk and reward.	SPVs such as Local Asset Backed Vehicles (LABV); Public Sector PLC through LLP; partnerships using development agreements.	Grant funding + private funding through debt and/or equity.	• Sheffield Housing Co - Sheffield City Council, Keepmoat and Great Places Housing Group • Brent Cross South - London Borough of Barnet and Argent Related
	PPP: De-risking or Co-investment.	Funds matching public and private monies to make investments in economic development.	Perks of private sector involvement exists like faster delivery, additional funding however risk is still with the local authority.	Grant funding + privately matched funding.	• The English Cities Fund and UDFs that currently exist in parts of the UK
	PPP: Private Finance Initiative [legacy model].	Public-private long-term contract where private sector designs, builds, finances, operates a public asset and related services.	Brings private sector expertise, shares risk and faster delivery. Weaknesses include high costs and limited transparency.	Consortium-led project finance, including debt and equity.	• Manchester Metrolink • Stratford City regeneration • Millennium Bridge, Gateshead • Kings Cross Regeneration

How is regeneration funding bolstered?

Model types	Brief description	Risks	Examples
TAX INCREMENTAL FINANCE (TIF)	'Downstream' activities: local authority designates a specific 'TIF Zone' and pays for the projects being created. or Upstream' activities: local authority will raise and repay finance for the developers to borrow from.	Risk for downstream is the uncertain or risk of no completion of development, while upstream the cash flow from future business rates is uncertain.	• Greater London Authority (GLA) – redevelopment of Vauxhall / Nine Elms / Battersea area (£1.5bn)
BUSINESS RATES RETENTION	Councils are able to keep a proportion of the business rates revenue as well as growth on the revenue that is generated in their area. The UK government has committed to rolling out 100% retention of business rates to all mayoral combined authorities "in the next Parliament".	Risk of business rate reduction hitting income levels.	• 100% business rates retention pilot was part of the Greater Manchester Devolution Deal
COMMUNITY INFRASTRUCTURE LEVY	Government sets rates, but the charged local authorities can levy on new development, based on the size and type of development, to help fund infrastructure and services. Landowners are ultimately liable for the levy, but anyone involved in a development may take on the liability to pay.	Risk of undermining delivery of affordable housing due to greater overheads/ tightening viability.	• London Borough of Lambeth's current CIL charge is £185/m2 for offices, £165/m2 for retail, and £140/m2 for hotels
CHANGES TO CAPITAL RECEIPTS	Money raised from the sale of capital assets could be spent on revenue, albeit only for one year and could not be used for continuous spend. Capital receipts are not relied upon to fund any expenditure until they are realised.	The consultation of December 2023 currently prohibits the use of capital receipts for capital loans for regeneration and place.	• East Suffolk council using a capital receipts for funding its infrastructure strategy
GREEN FINANCING	Financing of new and existing public and private investments with sustainability objectives by way of green bonds, green loans, a green revolving credit facility, green hire purchase, green lease and asset loans, green grants and mechanisms to create market certainty. Aim to accelerate private capital flows into regeneration-led sectors.	Some products have penalties linked to failure to verify the benefits produced and impact measure challenges.	• £1.3 billion for electric vehicle charging infrastructure • £200 million to create two carbon capture clusters
SOCIAL IMPACT BONDS	These innovative financing mechanisms repay investors based on the achievement of predetermined social outcomes, such as improved employment rates or reduced crime. SIB shifts financial risk from service providers to investors. SIBs also pay for better social outcomes in certain areas and pass on part of the savings achieved to investors.	Finding investors and service providers who are willing and able to take on the risk and complexity of SIBs.	• London Rough Sleeper SIB was set up to reduce rough sleeping among a specific cohort in London to tackle social challenges
VENTURE CAPITAL LOAN FUNDS	Venture Capital funding opportunities include Regeneration Investment Organisation (RIO), Regeneration Capital Grant Fund (RCGF) and English city region capital regeneration funding which can co-invest on an asset-by-asset basis, so that long term, patient capital can play a crucial role in the growth of the domestic innovation sector.	Without returns the VC backed capital might run dry.	• King's Cross Regeneration Project – London Borough of Camden, BP Pension Fund, UK Govt, private developers, incl. Argent LLP • Greater Manchester Pension Fund and its support of Bruntwood SciTech on an asset-by-asset basis.

...further reforms for the next spending review are proposed and therefore there remains an opportunity to inform the direction of change for regeneration funding.

Alton Park, Roehampton is a comprehensive estate regeneration programme driven by Wandsworth Council.

What do we know about the future for regeneration funding?

As the last few pages show, regeneration funding streams from government are numerous and complex. And these are only the ones specifically allocated for funding regeneration projects.

Coupled with this, the competitive approach to allocation for nearly 50% of this funding over the years and the challenges of administering successful funding streams, has heightened the burden on the public sector, and frustrated all parties alike.

In recognition of this, the Department for Levelling Up Homes & Communities published guidance in January 2024 (as promised in The Levelling Up Whitepaper), setting out their proposals to simplify and streamline the funding landscape.

Specifically, they have proposed to:

Simplify funding into two streams - DLUHC are proposing to consolidate the numerous funding streams of the last decade into just two - the UK Shared Prosperity Fund (UKSPF) and Levelling-Up Fund (LUF). Going forwards the use of these existing funds will also be encouraged over the creation of new ones.

To enhance the operation of both funding streams – The UKSPF will consolidate previous EU funding streams, and become a multi-year programme with enhanced flexibility and control over investment. Meanwhile the inter-departmental operation of LUF will be maintained and enhanced.

Deliver immediate simplification of funding administration – This would include simplification of the process for project adjustments, monitoring and evaluating, as well as clarity and consistency in both terminology and communications.

Introduce a new funding doctrine – With the primary purpose of assessing suitable distribution methodologies for new funding streams. Competitions will remain but also allocative approaches will be encouraged.

Introduce further simplification reforms – Although unclear on what these may be, further reforms for the next spending review are proposed and therefore there remains an opportunity to inform the direction of change for regeneration funding.

What issues should we explore across regeneration funding?

The funding landscape is complex. But in our mind, we cannot be dependent upon either public or private sector funding streams. We need both. We also need to be carefully considering which funding model we apply to a scheme or a specific phase of a scheme, to ensure a good fit and maximised benefit.

With this clearer view of the funding landscape, we have spent the last two months undertaking discussions with public and private sector participants in the sector to explore the challenge further.

Here we set out the six key challenge areas we have identified so far, and are looking to explore through our ongoing research:

The pre-work when preparing a funding request

To build a robust funding bid requires strong case-making, established within a collective vision and ambition. It requires a well-considered perspective of the expected risk within a proposal and the return possible for those taking on the risk through investment. Environmental and societal benefits are very important, but neither public nor private sector funding streams can proceed without a clear view of realistic economic returns for the investor or community as well.

Are we delivering business cases that do all of this?

How can we support and improve this?

What else is needed to inform successful funding applications?

Are we working with the private sector funding streams to better understand their risk/reward profiles for investment and how we can best tap into these?

Alignment in objectives and an enduring partnership approach

Clarity on the role of each player in regeneration and what motivates and makes up the individual partners objectives is imperative when establishing a partnership approach - as is establishing a clear, realistic view of what success is.

Do we see this happening?

Are we able to measure, monitor and be honest around failure if required?

Do we see the leadership required for this?

Is procurement or are funding structures cutting across the endurance of partnership possible?

Peterborough Embankment offers a major regenerative vision and impetus for the city, only possible via Towns Funding.

Find out more →

Scale, term, speed of spend necessary

Regeneration takes time, but funding streams rarely last more than three years, while a consistent lack of long term visibility or funding being issued in small pots has historically undermined confidence in the future long term reality of regeneration.

How small is too small when funding regeneration?

Are we able to build a programme which is realistic and flexible in terms of time, spend and results?

Do the DLUHC proposals go far enough?

Are we providing sufficient capacity funding to enable the public sector to get up and running?

How can we ensure funding streams are able to evolve with a project, political and market cycle?

Who is joining up the dots between funding streams and departments, or adding to this through other mechanisms?

What next?

We would like to thank all of those listed below, each of whom are leaders in the field of regeneration and have contributed so openly and willingly to this research so far.

We intend to continue to build our findings ahead of a general election, to ensure that we work with the industry to build a strong voice for regeneration, that can inform and secure investment as well as maximise returns, for all our town, cities and communities.

If you are interested in participating in this research programme, do get in touch!

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