Nathaniel Lichfield & Partners
Planning. Design. Economics.

All Party Urban Development Group
Promoting sustainable development and urban renewal

GOING FOR GROWTH

Reviewing the Effectiveness of Government Growth Initiatives

Appendix

Appendix A

A review of Government Growth Initiatives

The Government initiatives to support development can be broadly grouped into three key categories – Funding streams, Financial measures and Structures.

Using these three strands as a base, the following sections will outline evidence of the effectiveness and functioning of the different initiatives in each of these areas.

It considers the following initiatives:

Funding streams

- Regional Growth Fund
- Growing Places Fund

Financial measures

- Tax Increment Financing
- The UK Guarantees Scheme

Structures

- Local Enterprise Partnerships
- Enterprise Zones
- City Deals
- Regeneration Investment Organisation

Other growth initiatives

- Empty property rates relief

Key funding structures

For the purposes of this the focus is on two of the Government's largest funding schemes. The Regional Growth Fund and the Growing Places Fund were among the earliest funding schemes introduced by Government to support growth and have therefore they have had the most time and greatest opportunity to have had an impact on development activity.

Regional Growth Fund – its role and effectiveness

The RGF was introduced in 2011-12 and funding has been announced up to 2016-17. It is a competitive fund with six bidding rounds to date. It is open to businesses in all rounds, and LEPs and local authorities in the first four rounds.

The purpose of the RGF was originally described as being "to help areas and communities at risk of being particularly affected by public spending cuts". Government guidance indicates that "the objective is to stimulate private sector investment by providing support for projects that offer significant potential for long-term economic growth and the creation of additional sustainable private sector jobs". The Fund therefore focuses on helping those areas and communities that are currently dependent on the public sector to make the transition to private sector led growth and prosperity.

The RGF may provide funding in the form of grants, loans and/or loan guarantees. To qualify for support from the RGF, projects need to demonstrate that they create additional sustainable private sector growth, rebalance the economy in those areas currently dependent on the public sector, would not otherwise go ahead without support from the RGF, offer value for money, and are State Aid-compliant.

The Government says that the Fund had created 32,000 jobs by the end of 2012-13, against a target of 31,500. However, the National Audit Office (NAO) points out that the number of jobs created by the RGF was due to the disproportionate success of a small number of schemes exceeding original estimates. Some 33 per cent of the 32,000 jobs created were from one scheme that claims to have exceeded its annual target by 9,138 jobs. While there were a further 55 schemes that exceeded their employment targets, 99 (51 per cent of all operational schemes) failed to meet their target, with 40 of these achieving less than 25 per cent of their annual target – a deficit of 8,525 jobs.

It is clear that the RGF fulfils an important role. There is a widely recognised need to rebalance the economy and help areas hit worst by public sector cuts. Some have complained that a relatively small amount of money is being spread too thinly. However, whilst the value of the fund has been much less than that previously available – RDA budgets were £1.4bn in 2010/11 alone and had been even higher in previous years - £3.2bn over five years still represents a considerable sum with the potential to make a real difference if sensibly targeted. Moreover, the competitive bidding process has worked well in the past (e.g. City Challenge) and can be effective in directing funds to schemes where they can be most effective.

The Government has responded to concerns about undue delays by allocating additional money from the RGF. However, this is an area that needs constant monitoring to ensure that schemes can be taken forward expeditiously.

The Public Accounts Committee has also been critical of both the Departments of Business Innovation and Skills and Communities and Local Government, suggesting that they did not know "what works best in fostering private sector growth" and had not prepared plans on how they will evaluate "whether the fund actually delivers the jobs and growth predicted". This underlines the need for effective evaluation of how schemes are working, an issue assessed in the 'Going for Growth' report.

Growing Places Fund – its role in supporting local infrastructure projects

In September 2011, the Government announced the Growing Places Fund (GPF), aimed at providing the up-front capital often needed by local authorities and developers to enable them to take projects forward where relatively small amounts of funding for infrastructure would help to unlock further development. Funding is provided mostly through loans with the repayments being reinvested in new projects. Together with additional funding announced in 2012, some £730m has been made available to LEPs in England under the scheme.

The GPF has three overarching objectives:

- To generate economic activity in the short-term by addressing immediate infrastructure and site constraints and promote the delivery of jobs and housing;
- To allow LEPs to prioritise the infrastructure they need, empowering them to deliver their economic strategies;
- To establish sustainable revolving funds so that funding can be reinvested to unlock further development, and leverage private investment.

A Government report on the GPF published in November 2013 indicated that £652m had been earmarked or allocated to 305 specific projects, whilst 159 projects (52 per cent of all projects) with an estimated total value of £1.5bn were already underway. It also reported that LEPs expected these projects to create 4,900 businesses, 94,000 jobs and 27,000 houses. Even where GPF funding had yet to be spent, the allocation of the GPF to projects had enabled projects to start. The report also suggested that LEPs had used the £652m earmarked or allocated to projects to unlock £2.6bn of extra investment; of which £1.8bn is from private sector partners and £774m from public sector partners.

However, a more recent report from the NAO pointed out that evidence of outputs in terms of new jobs, houses and improved transport to date has been limited. It indicated that LEPs had allocated £599m (89 per cent) of capital funds to 305 local infrastructure projects by mid-2013. However, those projects had only spent an estimated £56m and created 112 jobs in 2012-13.

Key financial measures

Financial measures introduced in this Parliament include Tax Increment Financing (TIF) and the UK Guarantees Scheme. These mechanisms are designed to unlock infrastructure projects that have stalled due to adverse credit conditions.

Tax Increment Financing – using it more constructively

The TIF model is based on reinvesting a proportion of future business rates from an area back into infrastructure and related development. It applies where the sources of funding available for a scheme to deliver economic growth and renewal cannot cover the cost of infrastructure required by the scheme. A lead agency – a local authority, private sector partner or some combination – raises money upfront to pay for infrastructure, on the basis that the increased business rate revenues generated by the scheme can be used to repay that initial investment. The upfront funding may be borrowed from public or private sources, or it may be provided by the developer from capital available to it.

The Government announced in 2010 that it would allow local authorities to use TIF in order to finance infrastructure projects. Enabling legislation was then included in the Local Government Finance Act 2012. The Government ran a consultation exercise in 2011 which set out two options for the implementation of TIF. Option 1 would see local authorities, within the existing prudential borrowing rules, able to borrow against their income within the business rate retention scheme. Option 2 would allow a limited number of TIF schemes to be permitted, in which the business rates growth would not be subject to the levy or reset for a defined period of time. The Government decided to proceed with both options. However, because there was concern that Option 2 TIF schemes might reduce the resources available to the wider sector, the Government severely limited the number of Option 2 TIF schemes that can proceed by allocating only £150m for the implementation of that option.

The upshot has been that TIF has been implemented on a very modest basis and scale. Option One TIF cannot deliver a business rates-funded TIF for large scale developmentsit can only be for small scale projects that can be completed, and borrowing repaid, within a reset period. This is because the levy and the reset would cause a level of uncertainty that could not be tolerated for longer term projects with repayments of 20 years of more. Whilst Option 2 TIF has the potential to fund larger schemes, it has been introduced on such a restricted basis that its impact is likely to be minimal.

Developers and local authorities have argued that a better approach would have been for the Government to lay out a set of criteria for the use of Option 2 TIF and then allow any scheme to proceed which met the agreed criteria. Allowing wider use of TIF in this way could have made a big difference to the viability of a range of schemes held up by high upfront infrastructure costs.

It is significant that where TIF has been enabled, chiefly in some of the most high profile Enterprise Zones (such as Birmingham), its use has been seen to be critical in getting viable development underway.

It is notable, too, that schemes with TIF characteristics are a feature of a number of City Deals. The City Deal for Manchester incorporates a variation on TIF known as 'earn-back' which Richard Leese, the leader of Manchester City Council, has described as the most innovative part of the deal. It was, he said, "effectively a TIF scheme that will allow us to invest very significantly in our transport infrastructure on the basis of a share of increased tax revenues resulting from the £1.2bn we are committed to invest over the next four years." Newcastle, Nottingham and Sheffield have also included a TIF-style element within their City Deals. These were referred to as 'New Development Deals'. Newcastle and Gateshead will benefit from new TIF powers, with all growth in business rate income generated within the four key development sites being retained by the two Councils for 25 years. This will allow Newcastle and Gateshead Councils to initiate a £92m investment programme, creating 2,000 permanent jobs within five years and 13,000 within 25 years. Sheffield will also receive new powers to fund a £33m city centre regeneration scheme through TIF.

Capitalising on Government backing for financing development

The UK Guarantees Scheme (UKGS) was announced in July 2012 and the necessary legislation received Royal Assent on 31st October 2012. The scheme's objective is to avoid delays to investment in UK infrastructure projects that may have stalled because of adverse credit conditions. The UKGS provides financial guarantees from the Government for planned infrastructure projects whilst private sector investors are sought. Guarantees for up to £40bn in aggregate can be offered. The intention is that the projects will find other investors but the UKGS provides some confidence that any shortfall will be met. Government expenditure is only necessary if private sector investment cannot be found and the guarantees are called in.

To be eligible for support, projects must fall within the definition of infrastructure as set out in the Infrastructure (Financial Assistance) Act 2012. This allows a wide definition to include energy, transport, communications, waste and housing. They must also be:

- Nationally or economically significant;
- Ready to start within 12 months;
- Financially credible;
- Dependent on a guarantee to proceed;
- Good value to the taxpayer.

To be considered eligible for support, any projects must first be 'pre-qualified', which involves being judged against the above considerations. Once a project has been deemed pre-qualified, due diligence discussions and risk appraisals can be undertaken prior to the scheme being submitted to the Chancellor for approval.

The Government has responded to initial concerns that the scheme was too narrowly based by indicating that they would be happy to consider approaches from a wide range of infrastructure schemes, rather than just those deemed to be of national significance.

As at October 2013, over 20 projects worth up to £33bn had been prequalified for guarantees whilst they sought finance. Some notable projects that have pre-qualified are the £1bn extension of the Northern Line extension to Battersea, the £4bn Thames Tideway super sewer, the £600m Mersey Gateway toll bridge, and new nuclear power stations. Over 20 other schemes have also pre-qualified.

Utilising the strength of the Government's balance sheet in this way to facilitate infrastructure projects is an innovative approach. Whilst only one scheme (the £700m partial conversion of the Drax power plant in North Yorkshire from coal to biomass) may have so far received a guarantee, the mere offer of a guarantee can be enough to help some projects access alternative sources of funding. The Institute of Civil Engineers has said that the guarantee scheme had enabled "viable projects to secure finance in difficult market conditions."

Utilising the strength of the Government's balance sheet to facilitate infrastructure projects is an innovative approach. Virtually all of the £40bn under UKGS has been earmarked for valuable infrastructure projects and it is expected the scheme will continue on an ongoing basis. The Government should consider exploring other ways in which it could use its balance sheet to support economic objectives. There may be a particular opportunity, for example, to use such guarantees to increase the level of house building in some areas.

Structures

The Government has implemented various structures aimed to support development these range from broad reaching national scale strategic bodies such as the LEPs to more local/targeted structures e.g. Enterprise Zones and City Deals.

Structures are an important component for these initiatives as they act as the mechanism and functioning body for disseminating the various funding and finance measures.

For the purposes of this research, structures are considered to be a broad category consisting of strategic growth bodies such as LEPs that manage and facilitate funding and finance initiatives for` local growth. Structures also consist of local growth packages and programmes such as Enterprise Zones and City Deals that channel initiatives and investments to meet local market needs.

Local Enterprise Partnerships – their role in coordinating initiatives but long-term commitment required

Local Enterprise Partnerships were set up in particularly difficult time and have struggled to stimulate local economic activity during a period in which national economic growth has been so sluggish. Their task was made harder still by the scanty resources available to them. Not surprisingly, therefore, the December 2013 NAO report, Funding and structures for local economic growth, suggested that LEPs still have much to do to demonstrate that they "are capable of delivering value for money". Areas of concern included weaknesses in leadership, changes in board membership, not taking advantage of available funding, and insufficient administrative capacity.

A key factor in the ability of LEPs to play a more significant role has been the additional funding (some £250,000 per annum per LEP) that the Government is now providing to enable LEPs to improve their administrative capability. From 2015/16, their role will be further enhanced as they will be centrally involved in the allocation of funding from the £2bn Single Local Growth Fund. It is crucial that the more integrated approach to public funding that the Local Growth Fund represents is a success and LEPs must, therefore, have the capability to take on this important new role.

Enterprise Zones – tailoring incentives to suit local needs/conditions

Since 2011, some 25 Enterprise Zones have been created in England, each of which has developed an action plan setting out the key steps it believes are needed to provide growth. The Government's intention was that Enterprise Zones should be set up in areas of genuine economic opportunity, so as to maximise their chances of creating sustainable new businesses and jobs.

All Enterprise Zones benefit from: a business rate discount worth up to £275,000 per business over a five year period; retention by the local area of all business rates growth within the Zone for a period of at least 25 years; the ability to use simplified planning approaches; and enhanced support for rolling out superfast broadband. Some may also benefit from enhanced capital allowances for plant and machinery, the ability to use TIF, and UK Trade and Investment support for inward investment or trade opportunities in the Zone.

In 2013, the Government bolstered the Enterprise Zone offer in two ways: by making £59m available via the Local Infrastructure Fund (LIF) to support early enabling works in and around Enterprise Zone sites and accelerate large scale housing developments; and by creating the £100m Enterprise Zones Capital Grant Fund designed to help Enterprise Zones complete infrastructure projects, and so enable sites to become commercially viable for development.

The performance of Enterprise Zones in getting development underway and generating jobs has been very mixed. In part, this has been due to a number of Enterprise Zones having been established in areas which, contrary to the Government's intention, could not be regarded as among the best strategic employment sites in the country. Not surprisingly some of these have struggled to make progress.

Independent appraisals by the NAO have suggested that Enterprise Zones are not creating the number of jobs expected. This has been compounded by a perception that the Government had announced a target of creating 54,000 jobs in Enterprise Zones which it is failing to meet. It is noted, however, that the Government refutes the suggestion that it ever set such a target. It estimates that Enterprise Zones have so far attracted 250 businesses, secured £1.1bn of private sector investment and created over 7000 local jobs. Among successes that it highlights are:

- Chinese investors signing a £650m deal to create 16,000 jobs over 12 years at Manchester Airport City, followed by DHL announcing plans for their new £100m international logistics hub;
- A £1bn deal with Advanced Business Park to transform London's Royal Albert Dock, providing 20,000 jobs over 25 years;
- The attraction of major companies such as DHL and Rolls Royce to Enterprise Zones;
- A deal (involving Siemens) to build a major new wind turbine factory at Hull that is seen as potentially 'transformational'.

What does seem clear is that most of the jobs have been generated in just a few of the Zones; some Enterprise Zones so far have added scarcely any new jobs at all.

The Government has also responded to concerns about the level of progress being made by offering further incentives, including the recent £100m for 'nuts and bolts' infrastructure. The extension of Enterprise Zone timescales announced in the Budget 2014 was a further signal of the Government's flexibility and commitment to making Enterprise Zones a success.

City Deals – negotiating to meet local needs but more flexibility required

City Deals are agreements negotiated between central Government and cities intended to give local decision-makers new powers, freedoms and funding channels. Wave 1 City Deals with eight 'core' cities were signed in July 2012 but many have been subject to prolonged negotiation since then. By October 2014, 17 of the 20 Second Wave City Deals had been agreed.

City Deals vary from place to place and are driven by local priorities. But a typical City Deal might comprise:

- Local action to support, boost or work in partnership with the private sector (e.g. free planning zones, or SME financing);
- Innovative pilots, projects or programmes to support local economic growth (e.g. apprenticeship hubs);
- New powers/responsibilities or greater control over resources (e.g. single capital pot)
- Improved economic leadership, decision-making and/or governance and accountability (e.g. establishing a combined authority or creating a joint planning and transport board across a LEP).

Cities are considered to be the engines of growth, and generally have the greatest potential for economic growth and job creation. They account for 62 per cent of jobs and 63 per cent of economic output. When their surrounding areas are also considered, this rises to 78 per cent of England's jobs and 85 per cent of total output. The reality is, however, that English cities tend to have less influence over key decisions which affect their economic competiveness than other European cities. Because the balance of power has been so heavily skewed towards central Government, cities have too often been forced to look up to central Government to resolve problems rather than being able to lead. A radical shift in the balance of power is therefore desirable, creating powerful and innovative cities that have the powers and resources to shape their economic destinies.

City Deals can help by giving greater local control over a range of matters that can affect growth, including greater flexibility in addressing local priorities. In particular, they allow local authorities to take on greater levels of risk and demonstrate how dynamic they can be with the right leadership. City Deals encourage cities to come up with innovative solutions to key problems, whether in relation to infrastructure provision, skills development or other matters. They also allow cities to retain more of the benefits of growth and reinvest it locally. In addition, City Deals incentivise different local authorities to work more closely together, for instance within a combined authority structure. Crucially, City Deals place considerable emphasis on bringing the public and private sectors together.

There were clearly lessons to be learned from the first set of City Deals that need to be applied in future Deals. Cities did not always see the City Deal process as being as collaborative as it could have been and there remain concerns as to how far some central Government departments are genuinely committed to the process.

Cities need to have a clear vision if they are to make the most of the opportunity. Not all cities had viable policy proposals ready when the City Deal invitation was issued and new ideas had to be rapidly formed to ensure credible offers could be made. This could have implications for their long-term success and City Deals will need to be regularly reviewed to check that they are addressing the right issues and operating effectively.

The increased freedom to influence local growth has, of course, come at a time of major cuts to local government budgets which, although providing a strong incentive for local authorities to innovate and to pool resources with neighbours, also restrict their capacity to deliver City Deals.

Taking the devolution of powers to cities much further

Devolving greater powers, including fiscal powers, to the city regions is now very much on the radar of the major political parties.

The Coalition Government has introduced Enterprise Zones, City Deals, LEPs and the Regional Growth Fund since 2010 in an effort to boost economic development in the English regions. But in spite of these initiatives central Government remains firmly in control, devolving some powers, but all within very tightly controlled parameters. It is not surprising, then, that Michael Heseltine's proposals to shift tens of billions of pounds of spending to the local level (as recommended in his 2012 No Stone Unturned report) ended up being watered down to a £2bn 'pot' to be shared among over 300 authorities, most of it on a competitive basis. This is by no means insignificant, but hardly a game changer.

The Labour Party has also promised English cities more powers over transport, housing and employment to help close the 'productivity gap' with London. If elected, Ed Miliband says that the Party would hand £20bn to Councils to spend on skills, back-to-work schemes and infrastructure. Its message is that it would implement the Heseltine proposals that it says the Government has "flunked."

Pressure for greater devolution is coming, too, from London Mayor Boris Johnson. A report last year written by Tony Travers and backed by Mayor of London and Core Cities Group called for a major expansion of fiscal and financial powers for London and by implication, for other major cities as well.

In written and oral evidence to the Department for Communities and Local Government Select Committee on fiscal devolution to cities and city regions, the BPF has added its support to the growing clamour for more devolution. It has argued that strong local leadership and initiative are essential to taking forward a long-term vision for a city/city region but that the ambition and enthusiasm of civic leaders and other local leaders is being stymied by a continuing reluctance within central Government to relinquish control.

Initiatives such as City Deals represent a step in the right direction, but much more could be done to give major cities the degree of initiative and the level of resources that will enable them to fulfil their potential as drivers of growth.

The most successful cities in Europe have more substantial powers and resources and operate within a much more decentralised national system than is the case with English cities. Those running cities, working in partnership with business and other interest groups, are best-placed to understand local needs – for instance on matters such as infrastructure and skills – and address them. Initiatives such as City Deals represent a step in the right direction but much more needs to be done.

The Regeneration Investment Organisation – enhancing its role in supporting/promoting development opportunities

The Regeneration Investment Organisation (RIO) was launched in November 2013 as part of UK Trade and Investment – the arm of Government which aims to attract overseas investors to the UK. Its launch was in response to a concern that there is a strong supply of regeneration projects across the UK but the offer is fragmented and is difficult for investors to navigate. The purpose of RIO therefore, is to direct investors to "credible, UK industry-backed development opportunities throughout the country". RIO will act as a one-stop shop for the UK's major inward investment opportunities, with £100bn-worth of possible projects on the table.

More particularly RIO will:

- Offer a credible pipeline of shovel-ready projects of significant scale to the market against established , business-led criteria for the selection of UK projects;
- Act as an honest broker through the setting up of a Regeneration Investment Advisory Board and a digital online platform which should enable transparency of selection, regional imbalance and accountability.

Projects will be selected for promotion by RIO if they meet specified criteria and provide the range of information that potential investors would need – from background information on the project, procurement requirements, and timings to planning issues, availability of Government incentives, and potential returns.

The initiative has been strongly backed by the property industry, including the BPF who had drawn attention to the need for action in this area.

RIO has the potential to plug a long-standing hole in the UK's inward investment strategy, helping to attract funding to development schemes around the country that might otherwise be overlooked by potential investors. It is essential that both the Government and the property industry give it every support.

Other measures to support development

Reduce the deterrent to development posed by empty rates

Empty Property Rates Relief (EPPR) was removed in 2008 with the result that business rates on empty buildings become payable for most businesses after three months. This has had a range of negative consequences. The impact was accentuated during the economic recession when there was a sharp increase in buildings falling into disuse. However, it continues to have a damaging impact on businesses, jobs and the UK economy because it creates a strong disincentive for property businesses to speculatively develop new space. It causes regeneration projects and the refurbishment of old building stock to become unviable due to the unavoidable need to hold empty property while planning permissions is sought and other preparatory stages are carried out.

The Government responded to concerns by introducing a new temporary measure for unoccupied new build properties from October 2013. Unoccupied new builds will be exempt from unoccupied property rates for up to 18 months (up to State Aid limits) where the property comes on to the list between 1st October 2013 and 30th September 2016. However, the grace period for new development introduced by the Government is next to meaningless. This is because the relief applies only to narrowly defined, new build property, built during a defined period. Moreover, it is capped by State Aid rules, can only be awarded at the discretion of local authorities, and is limited to 15 months additional relief for offices and shops, or 12 months additional relief for industrial properties (once existing grace periods are included).

If the Government wishes to boost construction activity then at a minimum EPR should be extended to cover the regeneration and refurbishment of empty (or substantially under-occupied) buildings. This is economically productive activity that necessarily requires void property and should be encouraged, not penalised by the tax system.

About the authors

All Party Urban Development Group
Promoting sustainable development and urban renewal

About the All Party Urban Development Group

The All Party Urban Development Group (APUDG) is a cross party parliamentary body of MPs and Peers committed to progressing urban renewal and sustainable development in the UK. The group was formed to raise the profile and understanding within Parliament of the regeneration process and the role that can be played by the private sector, particularly the property investment community. The group's remit is to take a holistic approach in the examination of all constituent elements that bring about truly sustainable communities, and to review policies that will increase the quality and pace of urban renewal and sustainable development nationally.
www.appgurbandevelopment.org

About the British Property Federation

The British Property Federation (BPF) is a membership organisation devoted to representing the interests of all those involved in real estate ownership and investment. The BPF aims to create the conditions in which the real estate industry can grow and thrive, for the benefit of its members and of the economy as a whole. Its membership includes the biggest companies in the real estate industry - property developers and owners, institutions, fund managers, investment banks and professional organisations that support the industry.
www.bpf.org.uk

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About Nathaniel Lichfield & Partners

Nathaniel Lichfield & Partners (NLP) is one of the largest independent planning, economics and urban design consultancies in the UK and is currently RTPI Planning Consultancy of the Year. NLP offers the broadest range of skills of any specialist planning firm. This includes services in spatial analytics, economics, heritage, sustainability, urban design, graphics and sunlight and daylight, as well as a full range of planning skills.
www.nlpplanning.com

Contact details

Patrick Clift
pclift@bpf.org.uk

Ghislaine Halpenny
ghalpenny@bpf.org.uk

Matthew Spry
mspry@nlpplanning.com

Margaret Baddeley
mbaddeley@nlpplanning.com

Simon Chinn
schinn@nlpplanning.com

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