Department for Communities and Local Government

Growing Places Fund Survey

An Analysis of Results

May 2013
Department for Communities and Local Government

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Overview

In December 2012, the Department for Communities & Local Government invited England's 39 Local Enterprise Partnerships ('Partnerships') to complete a short survey on how they were using the Growing Places Fund ('the Fund'). This built on an earlier pilot survey. Partnerships were asked to return the surveys by the end of January 2013.

This note provides an overview of the results of the survey. It captures information on the projects agreed by January 2013. It describes what Partnerships are using the Fund for and what outcomes they expect, why the Partnerships are using the Fund in this way, and how each Partnership prioritised Growing Places Fund spending.

This note is structured in terms of:

- Growing Places Fund Spending
- What Partnerships are using the Fund for
- Outcomes Partnerships expect from projects
- Why each Partnership is using the Fund in this way
- How each Partnership chose what to use the Fund for

Headlines

The survey depends on information self-reported by Partnerships. Any findings are provisional.

The analysis indicates that Partnerships are making progress in allocating the Fund. There is evidence that Partnerships have considered options in how to allocate the Fund and considered economic rationale about what projects generate economic impact. The concept underpinning the Fund is that trusting Partnerships to allocate funds, with their advantages in information about local needs and costs, will support projects that will deliver benefits. The analysis of the survey provides some evidence that Partnerships are allocating funds efficiently and to beneficial projects.

1. Growing Places Fund Spending

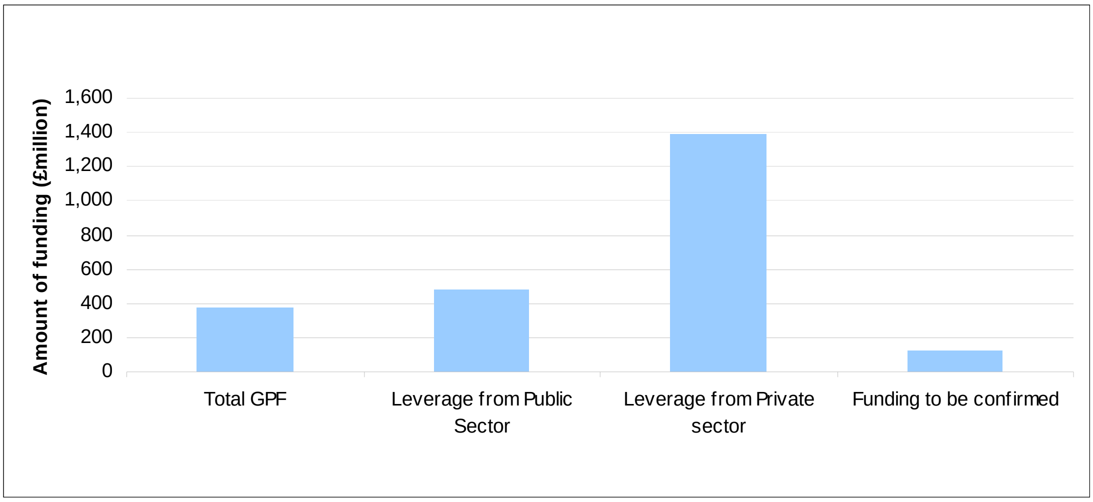
39 Partnerships provided a response to the survey. The London Partnership did not complete the standard template and is not included in the analysis. The remaining 38 Partnerships submitted responses covering 206 projects in total.

The survey indicated that approximately £380 million of the Fund was allocated. This supports projects with an estimated total cost of £2.5 billion. The Fund accounts for over 15 per cent of the total project costs. At this stage, £26 million of the capital the fund is spent.

The Fund could either be obtained in the form of a loan or grant. Approximately £346m of the Fund was given as loan, with the expectation of some return. Roughly £23m was given as a grant.

The Fund provides a means to partner with, and leverage funds from various other private and public sector sources. The split between public and private funds can be seen in Figure 1.

Figure 1: The Fund compared to funding from partners

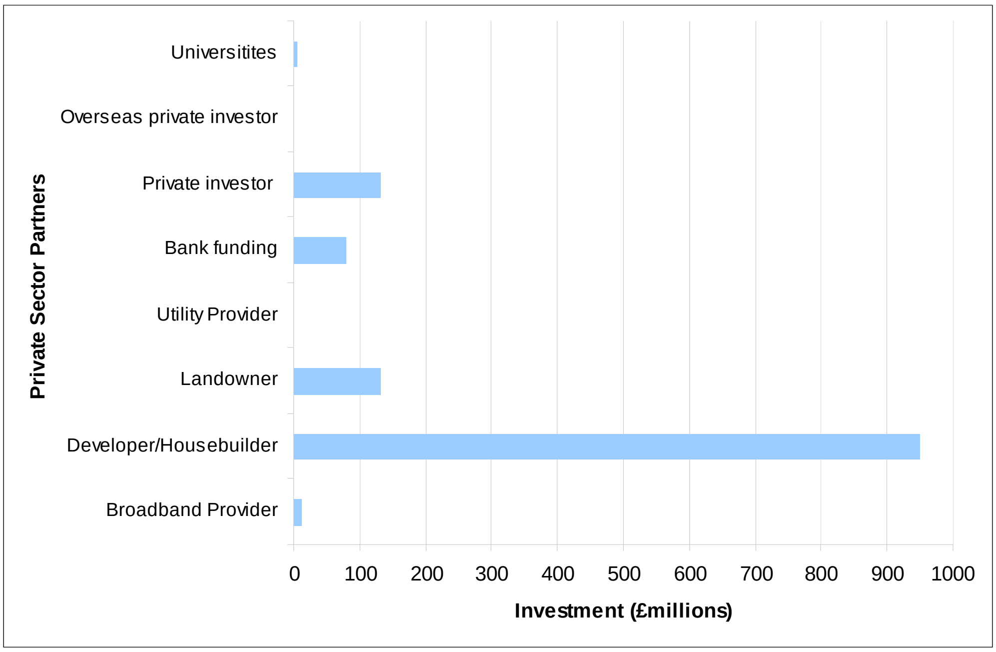


The Fund only accounts for a small part of the funding for the 206 projects for which money is allocated. The majority of financial input will come from the Partnerships' public and private partners.

- The total funding from public and private partners is almost £1.9 billion.
- Total funding from public sector sources amounts to £485 million.
- Total funding from private sector sources amounts to £1.4 billion.

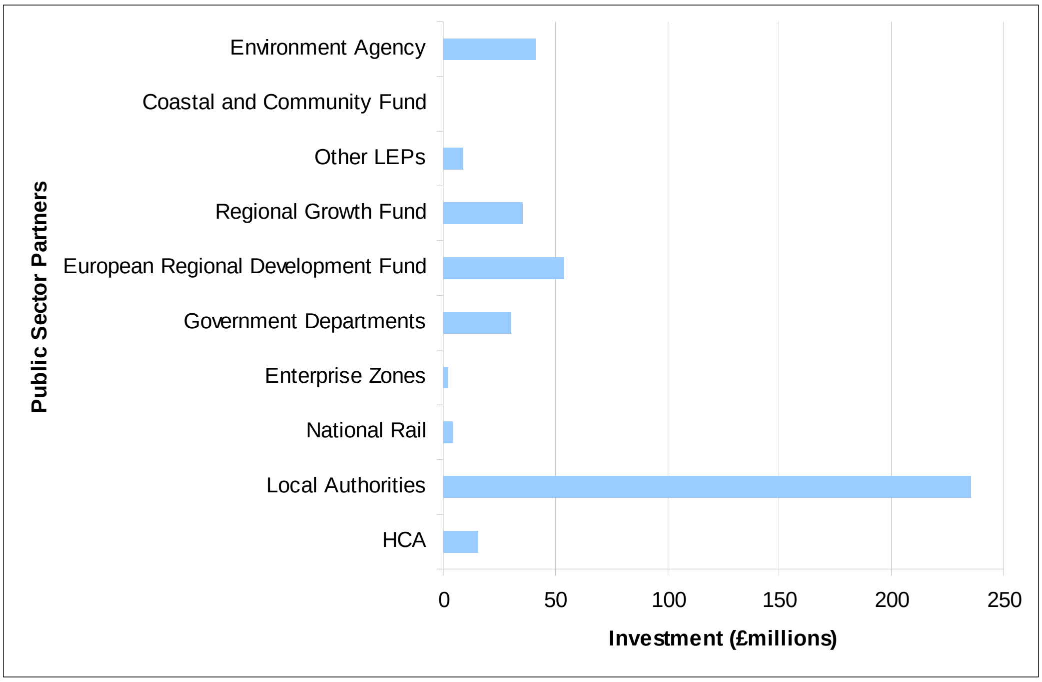
Developers and house builders comprise the largest portion of private sector funding, amounting to roughly £950 million. Private investors, landowners and funding provided by banks contribute a significant portion, between £78 and £131 million each. Some have partnered with, overseas private investors, utility providers, broadband providers and various universities. The breakdown from each can be seen in Figure 2.

Figure 2: Private Sector Funding



In terms of public sector partners, Local Authorities contribute the most: £235 million. The Environment Agency, Regional Growth Fund and European Regional Development Funds also provide a significant amount of funding, between £35 and £54 million each. Others describe funds provided by Government departments including the Department for Transport and Department for Communities and Local Government, as well as funding from the Homes and Community Agency, Enterprise Zones, and the Coastal and Communities fund. A few projects are considered joint projects, with a Partnership receiving funding from a partnering Partnership. The breakdown can be seen in Figure 3.

Figure 3: Public Sector Funding



A funding gap, the difference between the total cost of the projects and the finance obtained from public and private sector partners to date, of approximately £195m has been identified. This amounts to roughly 8% of the total project costs. One reason for this could be because many projects have identified funding partners, but have not provided estimates of how much they would be willing to contribute.

In general, the majority of projects are small scale and working to quick-win timetables. The Partnerships provided estimates of when their projects are likely to start and complete. These estimates show that:

- 25 projects started in 2012, with 143 projects that should start in 2013. Some 33 projects do not have a project start date.
- 45 projects are expected to complete in 2013, 50 by 2014, 23 by 2015, and the remainder over 2016 to 2019. Some 38 projects did not provide an expected completion date.
- The majority of the Fund is expected to be spent by March 2014.

The timescales can be seen in Figure 4 below. The spend profile of the Fund can be seen in Figure 5.

Figure 4: Projects started and completed over time

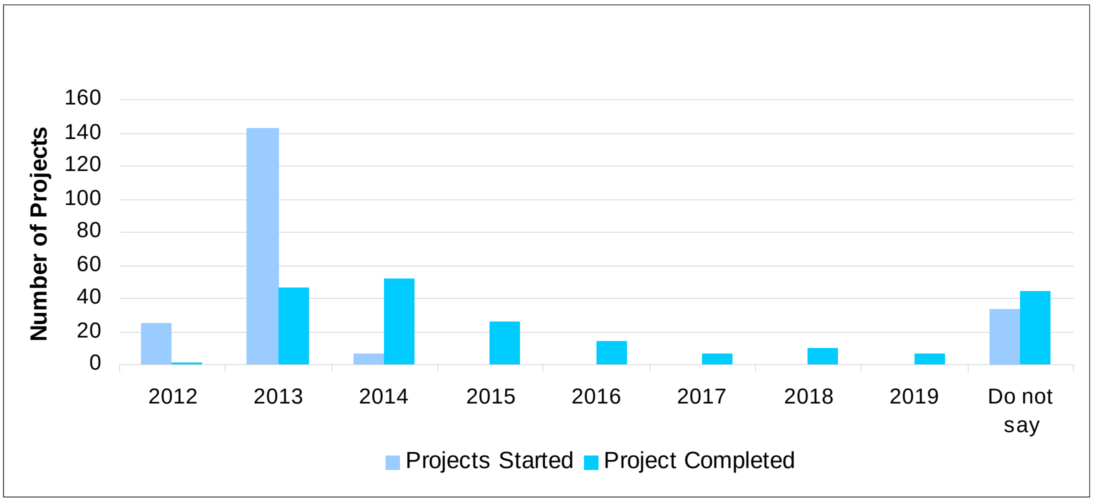
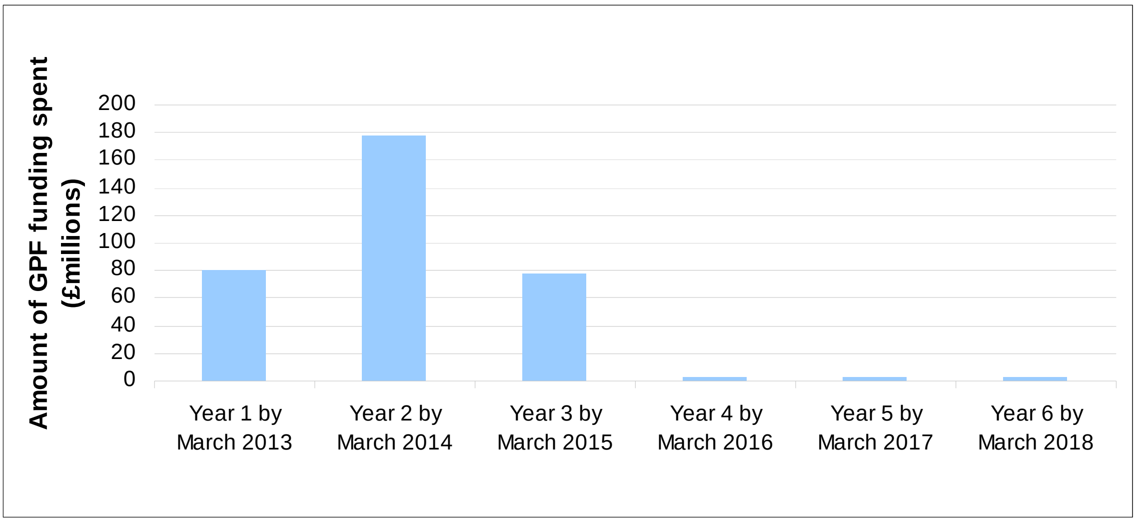


Figure 5: Spend profile of the Fund



2. What Partnerships are using the Fund for

The survey asked Partnerships to provide information on what the Fund is being spent on. This asked Partnerships to describe the potential outputs, for example, in terms of the development of sites (acquisition, preparation, protection), the construction of new buildings (industrial, office, residential), accessibility of sites (transport, utilities, broadband) or other development (such as public realm). Most projects had multiple types of outputs, for example both site access and new buildings.

The Partnerships were asked to provide information on the quantity of these outputs, for example in terms of hectares of land, square metres of floorspace and kilometres of road. Figure 6 summarises the information we have on the direct outputs that Partnerships expect from their 206 projects. This aims to quantify what infrastructure the Fund and its funding from partners is purchasing.

Figure 6: Outputs from surveyed projects

Potential Outputs	Number of Projects	Total Output
Acquisition of Buildings (Sq. m)	5	6,700
Broadband (km)	7	63,000
Environmental Improvement (Hectares)	6	30
New Industrial Buildings (Sq. m)	31	242,000
New Office Buildings (Sq. m)	25	194,000
Public realm (Hectares)	14	4
Refurbishment of Buildings	15	41,000
Site Access (km)	59	4,700
Site Acquisition (Hectares)	13	36
Site Preparation (Hectares)	66	577
Site Protection (km)	8	0.1
Transport Infrastructure (km)	34	725
Utilities (km)	20	1.7

Some of the headlines about the expected outputs are that:

- The majority of projects are looking to improve either the accessibility of development sites (29% of all projects) or site preparation (32%),
- Many projects, around 12%, are directed towards the development of new industrial buildings with 15% of projects directed towards the construction of new office buildings.
- Some 17% of projects support transport infrastructure improvements.

3. Outcomes Partnerships expect from projects

The survey explored if Partnerships could provide information about what outcomes they expect to result from the infrastructure outputs that the 206 projects should deliver. The outcomes are considered in terms of:

- Land - The property that is expected to result from the completed development in terms of housing units and commercial buildings.
- Capital - Business enterprises that are expected to locate in the area because of the project development.
- Labour - Accounting for the jobs that are expected to be generated in the area, or residents that are expected to locate in the area because of the project development.

Figure 7 presents the gross economic outcomes. The Partnerships were asked to provide information on the quantity of gross outcomes, for example in terms of the numbers of enterprises, commercial floorspace and jobs, and housing units.

Figure 7: Expected Gross Outcomes from surveyed projects

Potential Outcomes	Number of Projects	Expected Outcomes
Enterprises	27	500
Housing Units	80	42,000
Industrial floorspace (Sq. m)	64	2,200,000
Jobs	139	102,000
Office floorspace (Sq. m)	48	607,000
Retail floorspace (Sq. m)	28	640,000

Some of the headlines about the expected outcomes are that:

- Approximately 67% of projects are expecting outcomes in the form of job creation, roughly 39% of projects are expecting some housing units developed, and some 31% of projects are expected to develop industrial floorspace.
- 13% of projects expect outcomes in the form of enterprises, 14% in the form of development of retail floorspace and 23% of projects expect development of office floorspace.
- Additional outcomes listed include apprenticeships, jobs safeguarded, healthcare, hotel and day nursery floorspace, new school builds, and land brought forward for development.

The outcomes from the Fund cannot be predicted with certainty but the economic outcomes appear plausible. For example, According to the Homes and Communities Agency additionality guidance, 3 million square metres of general commercial floorspace, would amount to 2,250,000 square metres of occupied floorspace. This would provide sufficient accommodation for over 180,000 full time equivalent jobs.

The outcomes listed above may reflect optimism. They are dependent on whether the projects will be delivered successfully and produce the expected effects.

The outcomes are gross and not net. All the outcomes reported by Partnerships are ‘gross’ results. They do not consider, for example, what developments may happen without the addition of the Fund (deadweight effects) or how the addition of the Fund could reduce or affect investment and development elsewhere (displacement effects). Identifying net effects requires a robust approach to economic evaluation.

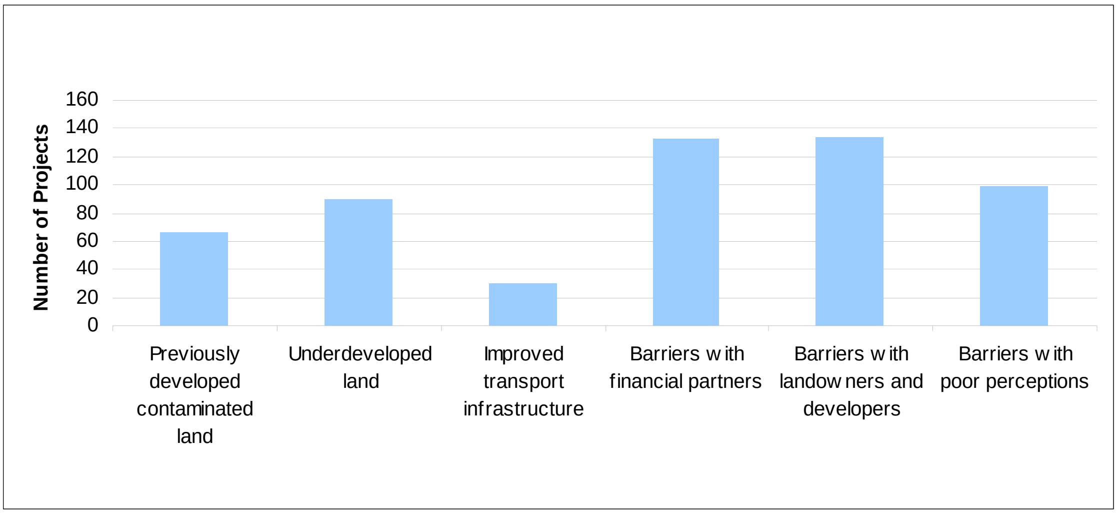
4. Analysis of why each Partnership is using the Fund in this way

The survey explored if Partnerships could explain why the Fund was appropriate for intervening in the selected projects. The HM Treasury Green book advises intervention to be explained in terms of ‘market failure’. From the survey, we were able to identify whether their use of the Fund addresses failures in land, capital or labour markets.

Figure 8 summarises the information we have on the rationale for intervention. The Partnerships largely explain the case for intervention in terms of land market failures and capital market failures. The main explanations for correcting market failure were:

- **Barriers with landowners and developers**. The Partnerships indicated that 134 projects (44%) were supported because of problems initiating land development. Many projects had stalled at the inception stage due to the up front investment that is required. .
- Some developers were unwilling to provide investment for infrastructure which they believed to be public goods. Partnerships have argued that bringing these sites into development would make the land more attractive to potential investors.
- **Barriers with financial partners.** The Partnerships reported that 133 projects (65%) were supported because of difficulties obtaining funding from interested partners. The financial crisis is cited as the key reason as to why private sector partners were unwilling to invest. Banks and other lenders, who had initially indicated support for projects, withdrew funding because some projects were regarded as too high risk.

Figure 8: Rationale for supporting project with the Fund



The arguments for addressing market failure are plausible. There is not sufficient evidence for us to assess if, for example, the unwillingness of private investors reflects a functioning market signal that sites are not viable and that the expected outcomes are not realistic.

The survey also asked whether Partnerships believe that their projects would have proceeded had the Fund not been provided. More specifically, whether the project would have:

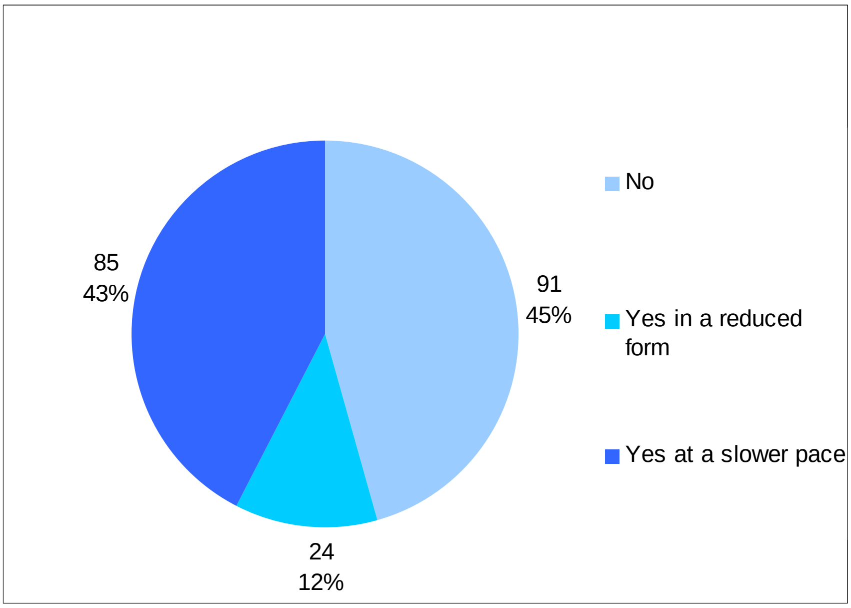
- Proceeded at a slower pace. In this case, intervention would result in some gains by accelerating development.
- Proceeded in a reduced form. In this case, intervention would result in some gains by enhancing development.
- Not proceeded at all. The Fund acts as the catalyst for development.

The surveyed Partnerships suggested that:

- 85 projects (43%) would not have proceeded at all without the Fund intervention
- 91 projects (44%) were expected to proceed without the Fund but in a reduced form
- 24 projects (12%) were expected to proceed but at a slower pace.

This indicates that Partnerships do not think that private sector markets would have delivered these projects had the Fund not been provided - or perhaps they would not have delivered the projects to the full extent which they are capable, or as quickly as they could have been carried out. These results are summarised in Figure 9, below.

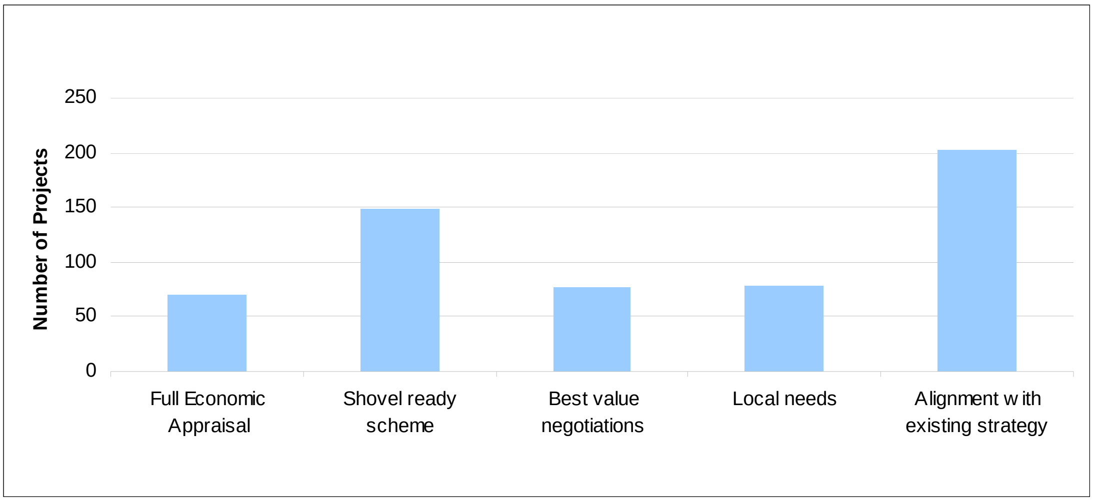
Figure 9: Likelihood of projects proceeding without the Fund



5. Analysis of how each Partnership chose what to use the Fund for

The survey explored if Partnerships could provide us information on the how the Fund money was allocated. Figure 10 summarises the information we have on the method Partnerships used to allocate funding.

Figure 10: Understanding how the Fund was allocated to selected projects



The was often more than one explanation for how a project was selected, for example a project may align with existing strategy and be a shovel ready scheme. The headlines for how projects were chosen are that:

- Almost all projects (98%) were chosen to align with existing local strategies
- Most of the selected projects were shovel ready scheme (72%)
- closely followed by projects in which the Partnerships had to negotiate with partners (37%) and
- Some 75 projects (36%), undertook full formal economic appraisals, discussed best value with Partnership partners and carried out public consultation on local needs.

The economic argument supporting the Fund is that local partners, who possess an understanding about local needs and barriers, are better placed to make efficient economic choices with the funds available than Central Government could. In other words, local insight and understanding provides a more efficient means of decision making than economic appraisal processes in Central Government. By trusting Partnerships to spend the funding according to what they believe their local areas' needs, we could argue a more efficient means of spending is the result.

We do not currently have sufficient evidence to prove that the decisions made by Partnerships in allocating the Fund are more efficient than those which could have been made by Central Government. But we also do not have evidence to prove otherwise. The projects identified in the surveys appear plausible. The estimated outputs and outcomes are within realistic estimates.