



All Party Urban Development Group
promoting sustainable development and urban renewal

Business Matters

Understanding the role of business in regeneration

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About the All Party Urban Development Group

The All Party Parliamentary 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 urban 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 the 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.

About this report

This report highlights the barriers to business investment in deprived areas; reviews current Government policies in this area; and recommends policy changes.

The report draws on a range of evidence, including:

- **A formal inquiry session** held in the House of Commons on 20th March 2007. A full transcript of the session, including testimony from a range of public and private sector witnesses, can be found on the APUDG website: www.allparty-urbandevelopment.org.uk
- **Written submissions** to the APUDG from a range of key stakeholders.
- **Desk-based research** conducted on behalf of the APUDG by Patricia Seex and Christopher Webber at the Centre for Cities.

Secretariat

The British Property Federation (BPF) has been registered by the Parliamentary Commissioner for Standards to provide secretariat services for the group in partnership with the urban policy think tank Centre for Cities at IPPR, which conducts independent research for the group's inquiry sessions. The BPF represents the UK 'property industry' and has a membership of over 400 companies that own, develop, and invest in property. The BPF promotes the industry's ability to deliver regeneration, sustainable development, environmental efficiency, and property's role as an asset class. For more info go to: www.bpf.org.uk

The Centre for Cities is an independent research unit, based at the Institute for Public Policy Research (ippr). It is taking a fresh look at how UK cities work, with a strong focus on the economic drivers behind urban growth and change. The Centre has established a strong track record on urban policy issues such as economic performance, housing, leadership, enterprise, skills and investment. For more information go to: www.ippr.org.uk/centreforcities/

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Thanks are also due to all who submitted written evidence, and especially to the witnesses who volunteered to testify before the inquiry session. A list of witnesses, and of organisations that submitted written evidence, can be found at the end of this report.

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EXECUTIVE SUMMARY

Increasing business activity in deprived areas is a key part of the Government's efforts to address disadvantage. But policies aimed at achieving this have had mixed success. This report highlights the barriers to business investment in deprived areas; reviews current Government policies in this area; and recommends policy changes.

By "business investment in deprived areas", we mean businesses locating in, remaining in, or upgrading disadvantaged areas, and commercial property and office development. Other issues, such as transport, barriers to business start-ups and social enterprise, are important, but are outside the scope of the report.

Business investment and deprivation

The relationship between business location and deprivation is not straightforward. There is an underlying assumption that low business activity leads to low job opportunities, leading to a low employment rate, and ultimately a high level of deprivation. But some deprived areas have above-average rates of business activity (e.g. Brighton and Preston). Some deprived areas with low business activity do not necessarily need more businesses (e.g. Lewisham, which is close to areas with good employment opportunities). But in other areas, low business activity/investment may need to be addressed through policy measures.

The policy problem may fall into one of two categories:

- Barriers to the overall level of business in the economy and in deprived areas in particular (market or government failures). Or,
- Uneven spatial distribution of business activity, which leaves people in some areas with fewer employment opportunities than others (equity and social justice concerns).

Barriers to business investment in deprived areas

Weak market demand for commercial property development

- The perception that rental returns and capital appreciation will be lower in deprived areas often discourages commercial developers from investing.

Complexity and cost of large-scale regeneration projects

- The high remediation and infrastructure costs associated with some brownfield sites may deter investment. Fragmented public sector funding streams and weak strategic coordination can make things worse.

Poor business environment

- Deprived areas are often characterised by relatively high levels of crime or perceived crime, low quality public space and poor transport infrastructure.

Availability and affordability of business space

- Economic development strategies often propose that public sector agencies step in to provide or subsidise premises, to make them more affordable. But this approach can be misplaced.

Fragmented land ownership

- Fragmented land ownership patterns make it more difficult to parcel up land for development and make effective partnership working difficult.

Planning

- The planning system is seen as too slow, and too cumbersome to deal effectively with commercial development and isn't used effectively to promote development in deprived areas.

Conclusions and Recommendations

Not all deprived areas need more business - policy should be targeted better.

- Business investment is not a panacea for tackling deprivation. Not all deprived areas have below average levels of business. In some deprived areas increasing business investment and activity is not a viable option.

A holistic approach to increasing employment should be employed which may involve providing public transport to jobs rather than job creation.

- Targeting deprived areas is too blunt if you're trying to help deprived people. Urban deprivation is often highly localised whilst urban economies and labour markets are much wider than local authority districts. People need good public transport access to where jobs are located.

Regeneration bodies should avoid frequent policy changes and create a stable environment for business.

- Development investment has long time horizons and long term business models. Frequent changes in policy or policy priorities cause confusion and undermine developer confidence. Clear aims are key to successful intervention, design and successful partnership.

Understand what drives the market and how to channel it to wider objectives.

- Profit is critical but it isn't the only issue for the private sector. Sharing, managing, and mitigating risk is an effective lever for the public sector. Demonstration projects can be effective.

There should be fewer, larger, more flexible schemes which address the issues that matter, and all new national programmes should be cleared through the Cabinet Office.

- The sub-national review will address this issue, but government will have to be vigilant post review about new schemes and initiatives reappearing.
- Regeneration programmes often fail to address the core issues for business such as parking, transport, street cleaning, regulation - which lie outside of local government economic development and regeneration departments. Small scale, unexciting measures to address the issues businesses care about are important.

Deprived areas should be a priority in planning policy.

- Planning is critical and has not fully examined the issue of investment in deprived areas. More guidance is needed on how to deal with deprived areas which lie outside the town centre. Outside town centres, deprived areas should have more priority.

Business Improvement Districts should be made to have a property owner levy where appropriate.

- Provision should be made to have a property owner BIDS levy, where appropriate. This would make BIDS viable in more areas, more equitable, secure more funds, and encourage a longer-term view.

Introduction

Increasing business activity in deprived areas is a key part of the Government's efforts to address disadvantage. But policies aimed at achieving this have had mixed success.

The group's second inquiry sought to shed light on this complex issue; highlight the barriers to business investment in deprived areas; review current Government policies on this; and recommend future policy changes. By "business investment in deprived areas", we mean businesses locating in, remaining in, or upgrading disadvantaged areas - and commercial development of those areas. Other issues, such as transport and individuals' barriers to enterprise, are important, but are outside the scope of this report.

This report is in three main sections. Section 1 outlines the problem and looks at the extent and causes of low business investment in deprived areas. Section 2 focuses on solutions - with an overview of policy in this area and a more detailed look at some current policies, and short case studies which offer lessons for national and local policymakers. Section 3 set outs the group's conclusions and recommendations.

Policy and Economic Context

The Government has ambitious sub-national economic development objectives - for example, to raise the rate of sustainable growth in all regions and achieve rising prosperity, with economic and employment opportunities for all (Regional Economic Performance public service agreement); and to ensure that within 10-20 years nobody should be seriously disadvantaged by where they live (Neighbourhood Renewal PSA).

The Government has introduced a range of measures to meet these objectives - from the Neighbourhood Renewal Fund to Business Improvement Districts. However, progress has been slower than hoped for,

despite a great deal of public investment (HMT, 2006b). The Treasury's forthcoming Sub-National Review of Economic Development and Regeneration is likely to reveal some structural problems with the current policy approach - including too many strategies, bodies and funding streams; weak local growth incentives; and weak engagement with business. The Government is likely to respond with a more devolved approach to economic development and regeneration - with stronger regional agencies, increased powers for local authorities and more collaboration between areas, for example.

The last decade of positive and stable economic growth has given investors confidence and plenty of funds for development are available. Some successful exemplar projects, combined with a crowded market, have encouraged a change of attitude among some developers - with many now displaying a willingness to look beyond more prosperous locations to the investment potential in deprived areas.

All Party Urban Development Group's First Inquiry

The group's first inquiry explored the barriers and potential solutions to private sector financing of infrastructure investment.

Main barriers:

- **Over-centralisation:** Central government micro-manages infrastructure spending and prevents cities from raising money to fund local priorities
- **Financial fragmentation:** There are too many funding streams involved in the delivery of infrastructure, leading to confusion, inefficiency and delay.
- **Weak strategic coordination:** Public sector strategies, targets and investment activities are poorly timed and coordinated, both with each other and with private sector timescales.
- **Lack of capacity and expertise:** In some areas local authorities lack capacity and expertise.

Key recommendations

Government needs to:

- Simplify and consolidate existing infrastructure funding streams.
- Increase financial and policy autonomy for city leaders.
- Introduce local financial tools that enable forward funding of infrastructure.

Section 1

The Problem

This section has three purposes:

- It examines the relationship between low levels of business investment and deprivation.
- It briefly reviews the concept of “market failure” and explains the reasons why public bodies should intervene in the market.
- It discusses some of the key barriers to business investment in deprived areas and examines whether they represent market failures.

We define business investment as **businesses locating in, remaining in or upgrading disadvantaged areas for commercial purposes**. This includes take-up of property by businesses, investment in the built environment and commercial property development.

1.1 Deprivation and business investment

Deprivation is multifaceted and involves a range of socio-economic factors such as unemployment, education, health and crime. England’s most deprived areas are usually taken to mean the 88 Local Authorities in receipt of Neighbourhood Renewal Fund (NRF) - as shown in Figure 1.

The Government’s approach to deprivation and business investment is typified by this line from the Chancellor:

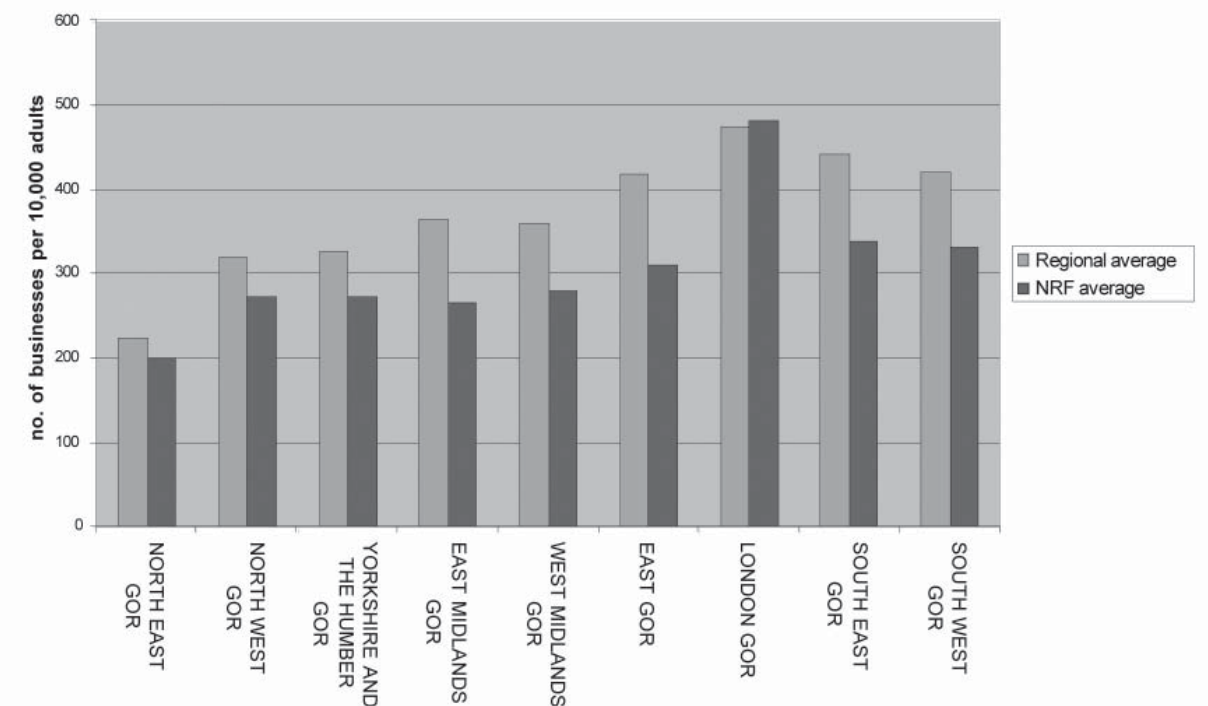
“...the problems of our high unemployment areas will not be solved by benefit cheques or by property subsidies but require more enterprises and the opportunity for enterprise open to all” (Brown, 2000).

Figure 1: Distribution of Neighbourhood Renewal Fund recipients, 2000
Source: Troni & Kornblatt (2006)



‘The correlation between deprivation and business investment does not hold everywhere.’

Figure 2: Total number of businesses per 10,000 adults for English regions and their NRF areas, 2006 Source: DTI (2007)



This suggests that the main problem in deprived areas is the lack of business activity, and that this leads to low levels of employment opportunity and social exclusion. So the Government has introduced policies designed to stimulate business activity in deprived areas, in order to create jobs, increase the flow of money into these areas and increase the availability of local services (Bank of England, 2000; Strategy Unit, 2005).

There is a correlation between deprivation and low levels of business activity within and between regions. At the regional level, in 2006 the North East had only 225 businesses and 22 business start-ups per 10,000 adults, compared to 388 businesses and 42 start-ups across England (DTI, 2007). And as Figure 2 shows, within regions NRF areas have lower levels of business per head of population, although there is less difference between deprived areas in different regions than there is between regions.

But the correlation between deprivation and business investment does not hold everywhere.

- Some NRF areas have a business stock in excess of the English average. Brighton and Hove, for example, has 400 businesses per 10,000 resident adults as compared to a national average of 388. Many other NRF areas have a business stock well in excess of their regional average - for example, Preston in the North West has 358 businesses per 10,000 adults compared to a regional average of 321. In areas such as these, enterprise growth may not be the most effective policy approach.
- By contrast, other areas with low levels of business activity - such as Lewisham, South London - are largely residential, but close to areas with good employment opportunities. In these areas too, enterprise growth may not be the best policy approach (Troni & Kornblatt, 2006).

Section 1

The Problem

So the link between deprivation and business activity is not straightforward. Some deprived areas have above-average rates of business activity (e.g. Preston). Some deprived areas with low business activity do not necessarily need more businesses (e.g. Lewisham). But in other areas, low business investment may need to be addressed through policy measures.

The policy problem can fall into one of two categories:

- Barriers to the overall level of business, and in deprived areas in particular - due to market or government failures (see below). Or,
- The uneven spatial distribution of business activity - this may be due to markets operating rationally, so intervention to divert business investment into deprived areas will not increase the overall level of business in the economy.

1.2 Potential barriers to business activity

This section looks at potential barriers to business activity in six areas:

- Weak market demand for commercial development,
- Complexity and cost of large-scale regeneration investments,
- Poor business environment,
- Availability and affordability of business space,
- Fragmented land ownership, and
- Planning.

It also considers whether these perceived barriers are the result of market or public sector failures, or whether the consequence of markets operating rationally. It is important to be clear about the nature of problem that needs to be addressed, so that policy interventions can be designed effectively. There are three key questions to ask:

- **Are there market failures in deprived areas that act as barriers to business activity?** If so, government may be justified in intervening in the market to address these failures, remove unnecessary barriers to business investment and improve the efficiency of the economy (HMT, 2005; GLA, 2006). See Box 1 for a definition of market failure.
- **Are there public sector failures that are preventing or discouraging investment in deprived areas?** For example, failures in partnership working or strategic coordination.
- **Or are markets in a deprived area operating rationally?** If so, then intervention may simply divert business activity from one area to another, rather than increase overall economic activity.

1. Weak market demand for commercial property development

One of the key barriers to commercial property development in deprived areas is the perception of weak market demand. Investors are often concerned that rental returns and capital appreciation will be lower in deprived areas, compared to more prosperous locations (Adair, 1998).

There is some evidence to suggest that these perceptions do not reflect reality. A 2003 Investment Property Databank report for English Partnerships showed that long-term returns from investment in deprived areas were actually marginally better than those in more prosperous areas (IPD, 2003). Figure 3 shows that average returns between 1980-2001 from commercial property investments in the top 10% and 20% most deprived wards in England, are overall marginally higher than those in the other 80% of wards in England. Other studies have reached similar conclusions (see RICS, 2002; Sabety & Carlson, 2004).

This suggests that there may be a role for the public sector in providing accurate information to investors, to try and overcome misplaced perceptions.

'A 2003 IPD Report showed that long-term returns from investment in deprived areas were actually marginally better than in more prosperous areas.'

Box 1: Market failures in urban regeneration

"Market failures" are imperfections in the market system, which prevent the efficient allocation of resources. Government should intervene in the market only where a specific market failure can be identified and where intervention is likely to be effective (HMT, 2005; GLA Economics, 2006). If the public sector intervenes in the market where no failure exists, it risks distorting the market mechanism and generating a net loss to the economy.

Market failures commonly fall into five groups:

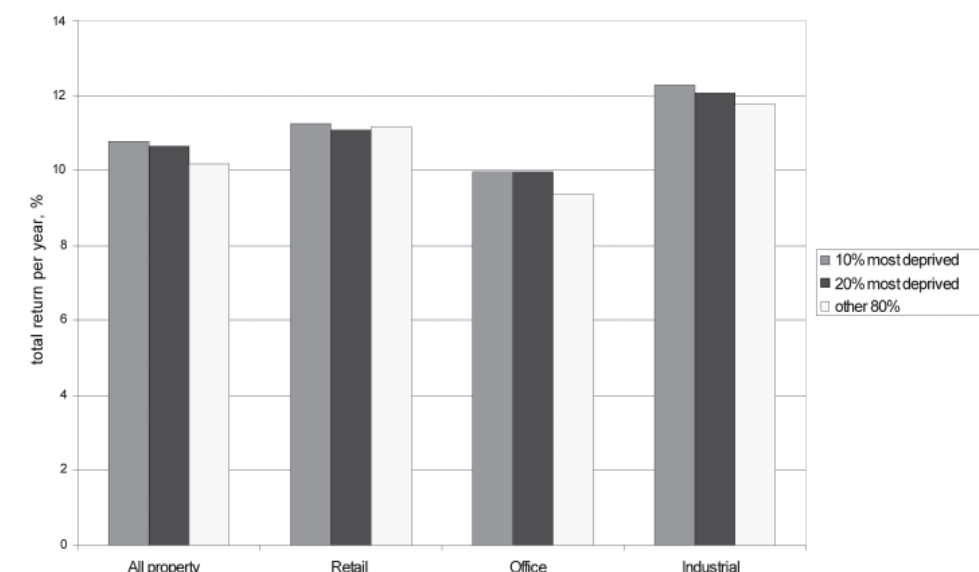
- Imperfect competition such as monopolies
- Information problems, for example where parties to a transaction don't have equal information

- Public goods which are non rival in consumption (one person benefiting doesn't prevent a second person from benefiting also) and non excludable (the benefits can't be restricted to those who pay) and therefore subject to free riding

- Externalities where the costs or benefits of an activity spill-over onto third parties
- Coordination problems which hinder collective action which would be mutually beneficial

An example of market failure is information problems which cause poor access-to-finance among small business. If small businesses can't provide information on their track record or adequate credit histories this can prevent financial institutions lending money for good business ideas. (GLA Economics, 2006)

Figure 3: Total returns on property investment per year between 1980-2001
Source: IPD (2003)



Section 1

The Problem

2. Complexity and cost of large-scale regeneration projects

Large-scale commercial developers can be deterred from investing in deprived areas by the complexity and cost of investing in regeneration areas - due to remediation and other costs associated with brownfield land development, for example. Fragmented public sector funding streams and weak strategic coordination can make things worse - leading to significant delays, increased costs and higher risks for developers.

The group's first report looked at this issue and recommended that government simplify the public sector's role in regeneration and devolve more power to regional and local government.

3. Poor business environment

The poor quality of the business environment can discourage private sector investment in deprived areas (HMT, 2005). Deprived areas are often characterised by relatively high levels of crime or perceived crime, low quality public space and poor transport infrastructure. This makes the trading area unattractive and inaccessible; and imposes additional costs on business. (See City Growth Strategies for Nottingham, Plymouth, St Helens (2004); Derby, Leeds, Park Royal/Wembley/White City (2006); and the Mayor of London's Economic Development Strategy (2004)).

If the quality of an area's business environment is poor because of public sector failings, then there is a case for intervention.

Case Study 1: Park Royal, London - infrastructure barriers

Park Royal is London's largest industrial estate. The site suffered a serious decline in the 1970s and 1980s, and it has been the target of numerous regeneration initiatives since then - ranging from Single Regeneration Budget to City Growth. But much more needs to be done to improve the overall business environment. Key weaknesses include:

- **Fragmented governance:** Park Royal straddles three Local Authority areas, leading to problems in effective partnership working. The centre of the estate is split between two boroughs - this has acted as a serious barrier to addressing high levels of traffic congestion.
- **Fragmented property ownership:** Numerous small-scale landowners can make it difficult to finance and implement infrastructure or business environment improvements.
- **Poor public transport coverage and infrastructure:** Bus services are relatively limited, and there is no Underground or over-ground rail access. There are high levels of congestion. Transport infrastructure and design is also a problem: roads are frequently in a poor state of repair (some are owned privately - see below).

4. Availability and affordability of business space

The scarcity or expense of suitable business premises may act as a barrier to business growth and development in deprived areas (HMT, 2005). Economic development strategies often propose that public sector agencies step in to provide or subsidise premises, to make them more affordable. But this approach is usually misplaced, and is not based on an identified market failure.

A recent study for the London Development Agency (Roger Tym & Partners, 2006) analysed the London SME premises market to determine whether market failures were restricting supply. It found that around 90% of businesses were happy with their premises.

'Business creation and attraction isn't a viable policy in some deprived areas, but public transport connections and investment to make them attractive areas to live is important.'

Dissatisfaction among businesses with their accommodation is not necessarily a public policy problem. From an economic perspective, the important issue is whether the market is working efficiently to supply the appropriate level and type of space, given scarce resources and competing demands. If SMEs find business space to be expensive this is probably because (a) the market is working to put land to its most productive use, and/or (b) the business is struggling to cover its overall costs and finds accommodation to be expensive. The LDA study finds that:

- There is no general reason why the public sector should intervene on a blanket basis to provide subsidised SME accommodation in London.
- If it does so, it may distort competition, discourage the private sector from supplying space, support uncompetitive businesses, and waste public money.
- There maybe other barriers or social justice arguments which merit provision of highly targeted assistance with the cost of business premises - for start-up businesses or disadvantaged young people, for example.
- Conditions may be different outside London. Similar studies in other parts of the country may find that market failures do affect the provision of space and a public policy response is merited.

5. Fragmented land ownership

Fragmented land ownership patterns can act as a major barrier to business investment in deprived areas. There are two main ways in which the problem presents itself:

- Fragmented ownership makes it more difficult to parcel up land for development. Dealing with multiple owners, some of which may be difficult or even impossible to locate, complicates the process of investment, leading to delays, increased costs and risk. This can discourage large-scale investors from engaging in deprived areas.

- Fragmented ownership makes it even more difficult to get businesses and property owners working in partnership together. In Park Royal, for example, much needed security improvements are often very difficult to achieve because property owners and business tenants are so difficult to coordinate.

6. Planning

The planning system has a huge impact on the spatial distribution of businesses. Two issues are worth highlighting here:

- The planning system is seen as too slow, and too cumbersome to deal effectively with commercial development. The 2006 Barker Review of Land Use Planning contained some welcome recommendations on improving the flexibility, responsiveness and efficiency of the planning system. In particular, the use of Local Development Orders - where councils can extend development rights for certain sites and so avoid the need for further planning applications - should be adopted more widely. But Barker could have done more to facilitate planning approvals in deprived areas.
- The promotion of "town centre first" development via Planning Policy Statement 6 (PPS6) is not clear-cut. Although it can benefit deprived inner-city areas, it can also unfairly disadvantage deprived areas that lie outside city centres.

Points from the Inquiry

Policy needs to distinguish between areas and people: it is the people that need the jobs, not the areas. Business creation and attraction isn't a viable policy in some deprived areas, but public transport connections and investment to make them attractive areas to live is important.

Targeting deprived geographies is too blunt if you want to help people - it gives perverse outcomes such as tax breaks or subsidies to businesses in Holborn because the people living in Holborn and Covent Garden ward are deprived.

Section 2 Solutions

This section:

- Summarises the main government programmes over the past two decades, aimed at addressing the low level of business investment in deprived areas.
- Looks at how these programmes have changed over time, from area-based to physical regeneration to enterprise-based initiatives.
- Explores more recent policies and programmes, and
- Provides case studies of specific projects and approaches.

Policy Overview

Over the past two decades, successive governments have introduced a range of initiatives, to try and regenerate and bring employment opportunities to deprived areas. In summary:

- Early policies focused on facilitating private sector development of land and property for employment use. These included: relaxing planning restrictions for certain areas; new bodies with fast-track planning powers; tax allowances for development in designated areas; and subsidies for the reclamation of 'brownfield' land.
- Early efforts also focused heavily on attracting inward investment: large international, often manufacturing firms attracted with grants or assistance in kind - for example, the Nissan plant in Sunderland.
- The late 1980s and 1990s saw a range of area-based initiatives such as Enterprise Zones, aimed to triggering business development in specific deprived areas, via tax and other incentives.
- Encouraging small businesses and business start-ups became important and more recently there has been a big push to promote 'enterprise for all' with a range of small-scale enterprise programmes.
- Since 2000, government has introduced Public Service Agreement "floor targets", requiring

Whitehall departments to "bend" mainstream funding to meet minimum service delivery standards (e.g. on education, health outcomes) in deprived areas.

Land and property, inward investment and start-ups are all important - but none of these strategies has worked on its own. It is now widely accepted that holistic approaches are the right way forward.

Separately, the current Government set up Regional Development Agencies in 1999, to:

- Further economic development and regeneration
- Promote business efficiency, investment and competitiveness
- Promote employment
- Enhance development and application of skills relevant to employment, and
- Contribute to sustainable development

RDAs are likely to be reformed as a result of the Sub-National Review of Economic Development and Regeneration, due to report as part of the CSR later this year.

And in 2000, the Small Business Service (SBS) was set up with a remit to encourage enterprise in deprived areas and among under-represented groups - such as women, the disabled and minority ethnic groups. Subsequently responsibility for this has been given to the RDAs and the SBS has since been downsized, due to concerns about its impact and effectiveness.

Policy timeline

The timeline on page 16 illustrates some of the main programmes that have aimed to encourage business investment in deprived areas.

Current policy and practice

This section looks at some current policies and projects. Its aims to: (a) explore their limitations and draw out lessons for the future, and (b) identify

'Enterprise areas should be shut down. They are at the wrong spatial level, too fragmented, and there is very limited take-up of the support offered.'

potential recommendations for central, regional and local decision-makers.

1. Enterprise Areas

Almost 2,000 Enterprise Areas were established in 2002, to address the barriers to enterprise affecting the most deprived areas in England. Defined at ward level, Enterprise Areas cover the 15% most deprived wards in England and Scotland (and the 42% most deprived wards in Wales and Northern Ireland).

Originally, businesses in an Enterprise Area could benefit from a range of measures designed to address: difficulties in accessing finance; property market failures and lack of business premises; and the need for targeted business support and advice.

Enterprise Areas: original policy toolkit

Access to finance:

- Community Investment Tax Relief
- Bridges Community Development Venture Fund
- Support for Community Development Finance Institutions, via the Phoenix Fund

Property market failures, low levels of private sector investment:

- Stamp duty exemption
- Business Planning Zones
- Planning reforms
- Contaminated land tax credit
- Tax incentive for business donations to Urban Regeneration Companies

Business support:

- Business Links' targets on the take-up of business support in deprived areas
- Phoenix Development Fund

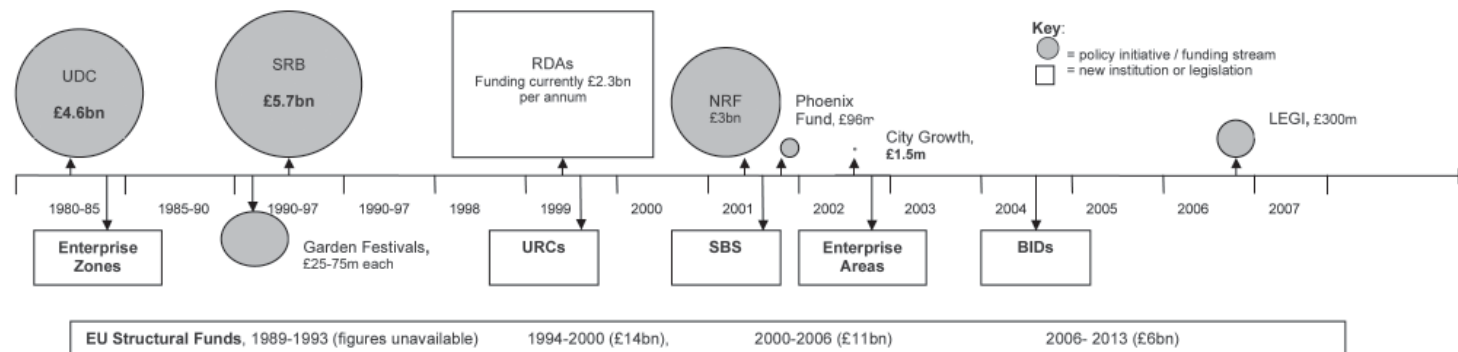
Stamp Duty exemption on property transactions, by far the biggest component of Enterprise Areas, was shut down in 2005 due to excessive deadweight costs and poor targeting. A range of projects under the Phoenix Fund were closed down in March 2006 with some transitional relief for 2006/07 and 2007/08. With the two largest components removed, the remaining toolkit of measures, a mix of small-scale tax incentives and modifications to the planning system, now looks very limited.

The Centre for Cities' City Markets report (Troni and Kornblatt, 2006) recommended that Enterprise Areas should be closed down:

- They are at the wrong spatial level - wards are too small-scale to address economic development issues.
- They are too fragmented and complex, with too many minor schemes.
- There is very limited awareness and take-up of the support offered.
- CITR and Bridges should continue without Enterprise Areas. The Treasury's current review of CITR should aim to extend its take-up and impact.

Section 2 Solutions

Policy interventions in deprived areas, 1980 - 2005



Urban Development Corporations (DoE) - early 1980s

- Bring land and buildings into effective use.
- Encourage development of existing and new industry.
- Create an attractive environment.

Enterprise Zone (DoE) - early 1980s

- 38 Enterprise Zones set up to encourage industrial and commercial activity in deprived areas.
- Involved removal of certain tax burdens and relaxation of certain statutory or administrative controls.

Garden Festivals - mid 1980s

- Aimed to stimulate tourism in run down cities with one off event reclaiming large areas of derelict land.
- Five festivals costing £25m to £70m each

Single Regeneration Budget (DoE)

- Merged funding streams to simplify and streamline assistance available for regeneration.
- Six rounds of SRB funding since 1994, worth £5.7bn. Programme ended in March 2006.

European Structural Funds (DoE, DTI)

- One of the largest sources of funding to support infrastructure, innovation, enterprise, skills, and employment.
- UK received over £11bn between 2000 and 2006 and expects more than £6bn between 2007 to 2013

Regional Development Agencies (RDAs) - 1999

- Wide remit, including: economic development and regeneration, investment, skills for employment, and sustainable development

Small Business Service (DTI) and the Phoenix Fund

- SBS has an objective of encouraging enterprise in deprived areas and among under-represented groups.
- Administered the Phoenix Fund to encourage enhanced business support for entrepreneurs from disadvantaged groups or areas. Phoenix Fund ended in 2006.

Urban Regeneration Companies (DETR)

- Champion and stimulate new investment into areas of economic decline.
- No planning or compulsory purchase powers. URCs are model for City Development Companies.

'Government should consider replicating the Bridges Community Ventures model by match-funding investment funds targeted for deprived areas'

Neighbourhood Renewal Fund (ODPM)

- £3bn over the first seven years for 88 most deprived local authorities to boost core public services and get neighbourhood renewal strategies under way.

City Growth Strategy (DTI)

- Private sector led urban regeneration strategies. Piloted in seven deprived areas in 2002 with £1.5m over two years. Second phase in 2002. Funding now ceased.

Enterprise Areas (HMT)

- Defined at ward level. Approx. 2,000 Enterprise Areas established to address barriers to enterprise in most disadvantaged communities. See main body for more on Enterprise Areas.

BIDs (ODPM)

- BIDs allow local firms to vote on whether to pay a supplementary levy on their business rates to obtain services in addition to those provided by the local authority. See section 2 for more on BIDS.

LEGI (DCLG)

- Local Enterprise Growth Initiative (LEGI) worth £300m over 3 years. Competitive fund for local authorities in deprived areas to stimulate economic growth through enterprise development. See section 2 for more on LEGI.

Case Study 2: Bridges Community Ventures

Bridges Community Ventures (BCV) was set up in 2002, following a recommendation of the Social Investment Task Force. It operates in Enterprise Areas or elsewhere if it can demonstrate strong social benefit. It aims to increase the availability of equity investment funding for businesses in deprived areas. The first £40 million public-private fund was a limited partnership format, with government returns capped at a lower rate than the private sector. The government contribution and subordination of risk was essential to engage the private sector.

BCV operates largely as a conventional venture capital firm. It purchases a stake in a viable business, develops the business through expert management and investment, and sells its stake at a later stage. But BCV restricts itself to businesses located in and with strong economic linkages (workforce, supplier, or market) to a deprived area.

BCV is a successful model, but is very small. Government may want to consider:

- Replicating the BCV model of leveraging the private sector by match-funding other investment funds targeted specifically for deprived areas, or establish specialised Equity Capital Funds for deprived areas;
- Amending the CITR regulations, to allow more funds to benefit from the tax relief offered to investors.

2. Business Improvement Districts

Since Business Improvement District legislation came into effect in 2004, 42 BIDs have been set up (as of 1 March 2007).

A BID allows local firms to vote on whether to pay a supplementary levy on their business rates, in order to obtain certain services in addition to those provided by the local authority. The businesses themselves decide

Section 2 Solutions

how these resources should be allocated. Money is often spent on 'crime and grime' initiatives such as CCTV, radio-linked security officers, one-off cleaning blitzes, anti-flyposter treatments, improving lighting and implementing environmental improvements.

The vast majority of BIDs are located in established and successful centres of retail and leisure. Currently there are only 8 BIDS in industrial areas. Fifteen of the 42 are in London, where the LDA has funded a programme to promote and support BIDS.

BIDs in deprived areas

A better trading environment through collective action would seem to offer considerable benefit to deprived areas, but take up is low. This could be because businesses in deprived areas have tight profit margins and can't afford the levy. Or they may believe that the Local Authority should provide these services through the Uniform Business Rate and that BIDS 'let the council off the hook'¹. Some businesses may also see their property costs may go up as a result of the BID, as the trading environment improves.

What would help make BIDS work in deprived areas?

Provision should be made to include property owners in the BID levy, where appropriate. It will not be appropriate in all areas, for example where disparate owners would be hard to track down, so it should not be mandatory for all BIDS. But where it is feasible, an owner levy would:

- provide additional funds to the BID and make it more sustainable,
- be more equitable. Currently, property owners benefit without making a contribution,

- encourage a longer-term view. So long as BID charges are levied on occupiers only, the focus will always be on short-term activities considered to be 'sellable' to the voters. Owners and owner-occupiers have a longer-term interest in transforming an area. This would make BIDS more viable in deprived areas.

3. LEGI

The Local Enterprise Growth Initiative (LEGI) was announced in the 2005 Budget, worth £300m over 3 years (2006-09) to provide local authorities in deprived areas with opportunities to stimulate economic growth through enterprise development. Fifteen local authorities were awarded funds in round 1, and fourteen were successful in round 2. The aim of LEGI is:

"To release the productivity and economic potential of our most deprived local areas and their inhabitants through enterprise and investment - thereby boosting local incomes and employment opportunities."

This aim is supported by three national level outcomes:

- to increase total entrepreneurial activity among the population in deprived local areas;
- to support the sustainable growth - and reduce the failure rate - of locally-owned business in deprived areas; and
- to attract appropriate inward investment and franchising into deprived areas, making use of local labour resources.

Current practice - some suggestions and examples of success

Encouraging business investment in deprived areas is not just about public sector funding. Planning plays

'Take up of BIDs in deprived areas is low because businesses have tight profit margins. Property owners should therefore be included in the BIDs levy.'

an important role, and private funding needs to be triggered (e.g. BIDs). Where public funds are needed, deployment is vital. Successful case study examples shed light on this.

Case Study 3: Barnsley - best practice in leveraging large-scale investment

1. Barnsley was hit very hard by the decline of the coal industry, leading to high levels of unemployment during the 1990s. With the arrival of Objective One funding, the town began to reconsider its position. More recently, it has successfully attracted £250m of investment into a new shopping centre.

→ The "Rethinking Barnsley" process gave public sector partners clear aims and priorities, built up public support, and gave developers confidence in Barnsley, its Council and in the following programme.

2. As part of the implementation of "Remaking Barnsley", the public sector carried out a lot of initial preparatory work: feasibility and preliminary planning studies, market research, and site assembly were undertaken before engaging a developer. In particular, bringing the freehold of the site into single ownership was far-sighted and sped up the process considerably.

→ This eliminated some of the sunk costs, which in a relatively high-risk project would have discouraged private sector actors from engaging.

3. The project was based on an innovative financial model, with Yorkshire Forward purchasing the freehold for the site and taking a share in the shopping centre. Willingness by the public sector to share risk was essential, as the levels of risk and return were not viable from the private sector's perspective alone. Good commercially-aware advisors and willingness to take on risk on the public sector's part were important ingredients.

→ The financial solution enabled the development to go ahead and fostered real partnership with shared risk and reward.

Key findings: Understanding, sharing, managing, and mitigating risk has been key to Barnsley's success in attracting £250m of investment and working with the 1249 Partnership to deliver the shopping centre.

Points from the Inquiry

An owner levy for BIDS is manageable if you top slice a small number of the largest owners, e.g. in the Heart of London BID nine owners voluntarily contribute half of the total levy; and is administratively feasible because business rates revert to the owner for empty properties (unless the building is listed).

The retail sector lends itself to being able to employ those who find it hardest to get work and to attracting other investment, but isn't being used as well as it could as a tool to help those in deprived areas.

Town centre investment has grown from 19 per cent in the late nineties to almost 40 per cent today, but that still leaves 60 per cent outside of town centres and it would be good to see some of that going to more challenging areas.

The strongest examples of cluster aren't a result of public economic development intervention, but there are a number of creative industries clusters successfully enabled by the public sector. The public sector can't create clusters but should make sure planning policy supports rather than hinders their evolution.

¹ Understanding among local businesses (and others) that local authorities don't retain business rates is very low

Section 3

Conclusions and Recommendations

Recommendation 1:

Business investment is not a panacea for tackling deprivation, and not all deprived areas need more businesses. Central government and RDAs should take local factors into consideration and implement more targeted policies.

- Not all deprived areas have below average levels of business.
- In some deprived areas increasing business investment and activity is not a viable option.
- And those that achieve higher levels won't necessarily see a reduction in deprivation.

Recommendation 2:

RDAs, local government and local partnerships should provide a holistic approach to increasing employment which in some cases may involve providing public transport to jobs rather than job creation.

Economies and deprivation operate at different geography. Urban deprivation is often highly localised whilst urban economies and labour markets are much wider than local authority districts.

- People need good public transport access to where jobs are located.
- Targeting deprived areas is too blunt if you're trying to help deprived people.
- Ward level intervention is too small-scale to address economic development issues.

Recommendation 3:

Regeneration bodies should avoid frequent policy changes and create a stable environment for business.

Development investment has long time horizons and long terms business models. Frequent changes in policy or policy priorities cause confusion and undermine developer confidence.

Clear aims are key to successful intervention design:

- Is the aim to help the people or improve the place?
- Is the aim to tackle a barrier to business investment or attract business into deprived areas rather than prosperous areas?

And to successful partnership:

- Developers most want clarity, consistency, certainty.
- Clear, shared aims among partners give investors and developers confidence in the partnership.

Recommendation 4:

All regeneration delivery bodies should make more effort to understand what drives the private sector and look at sharing risk with the private sector to attract investment.

It's important to understand why the private sector isn't doing what you want it to and the implications of intervention for the market. Otherwise intervention may distort competition, discourage private sector provision, support uncompetitive businesses, and waste public money. This understanding also helps to work with markets to achieve wider objectives.

Profit is critical but it isn't the only issue for the private sector. Risk is important.

- Sharing, managing, and mitigating risk is an effective lever for the public sector in attracting investment.
- Demonstration projects can be effective at illustrating potential market for and returns to new and unusual approaches.

Recommendation 5:

Central government should concentrate on fewer, larger, more flexible schemes which address the issues that matter and all new national programmes should be cleared through the Cabinet Office.

The sub-national review will address this issue, but government will have to be vigilant post review about new schemes and initiatives reappearing.

- There are too many schemes, initiatives and funding streams, many of which are very small compared with earlier programmes.
- LEGI illustrates the problems of duplication and competition for funds but LEGI does have flexibility to address a wide range of issues including the business environment.
- Small scale, unexciting measures to address the issues businesses care about are important and help business retention. For example, regeneration programmes often fail to address the core issues for existing business such as parking, transport, street cleaning, regulation - which lie outside of the economic development and regeneration departments.

Recommendation 6:

Deprived areas should be mainstreamed into wider planning policies.

Planning is critical and has not fully examined the issue of investment in deprived areas.

- More guidance is needed on how to deal with deprived areas which lie outside the town centre.
- Outside town centres, deprived areas should have more priority.

The Barker Review includes welcome recommendations on improving the efficiency of the planning system but does not refer to deprived areas at all.

The Planning White Paper will kick-start a review of the 'town centre first policy' with a view to reforming the needs test which places economic and market decisions in the hands of town planners who can prevent development should they feel that there is no shortfall in existing capacity.

Recommendation 7:

Business improvement districts should be made to have a property owner levy where appropriate.

Business improvement districts have, so far, been most successful at making good areas better. The vast majority of BIDs are located in established and successful centres of retail and leisure. Provision should be made to have a property owner BIDS levy, where appropriate. This would make BIDS viable in more areas, more equitable, secure more funds, and encourage a longer-term view.

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