LGF and EZ Programmes Interim Evaluation: Executive Summary

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This study

In early 2021, Steer Economic Development (Steer-ED) were commissioned to conduct an Interim Evaluation of the North East's Local Growth Fund (LGF) and Enterprise Zone (EZ) programmes. The objectives of the interim evaluation were to assess the programmes' impact and performance to date, including through targeted deep-dive cases studies of some of the most strategically important projects and investments.

This interim assessment will; provide evidence of progress to Government, help inform any related future funding rounds and provide a reference point and framework for the Final Evaluation of the programmes, scheduled to be undertaken in 2025. Analysis, findings and recommendations are structured around a logic model approach, with a clear emphasis on impacts over process.

Context, Rationale and Objectives

Context

The Heseltine Review (Autumn 2012) advocated for the decentralisation of resources and decision-making powers away from Whitehall and towards local areas, namely through LEPs[1]. The Government Response (Spring 2013) sought to establish a renewed vision for local growth[2] to be underpinned by the Single Local Growth Fund. Bespoke Growth Deals were negotiated between individual LEPs and Whitehall. The North East was well placed to enter these negotiations, having published the North East Independent Economic Review in Spring 2013. The development of the SEP followed on from this and it was published in April 2014.

The LGF programme budget has expanded and developed from July 2014 to 2016 under successive Growth Deals and are managed as a single integrated programme with a total budget of £270m.

First introduced in the UK in 1980s, EZs were established to catalyse the regeneration of underutilised, often brownfield, land in order to stimulate economic growth. EZ designation allows for tax and planning incentives to be offered to businesses locating on the sites and also provides a focus for public sector investment. The context for introducing EZs has not changed considerably with a continued emphasis on unlocking strategically located employment sites to encourage business investment, cluster development and job creation.

A new generation of EZs were promoted by UK Government as part of its response to the Heseltine Review. The North East has a high prevalence of strategically located brownfield sites with considerable viability constraints and infrastructure requirements which need to be addressed in order to unlock redevelopment. A distinctive dimension of this generation of EZ's was that any increases in business rates generated from occupying businesses are then retained locally for a period of 25 years. This model was borne out of a growing interest in, and use of, Tax Increment Financing mechanisms, both nationally and internationally (particularly in the US).

The EZ programme does not have an explicit funding envelope, and the cost of bringing forward key employment sites is funded via the future retained Business Rate Growth Income (BRGI), which involves the temporary use of capital grants, cash flow and borrowing against BRGI. Additionally, after covering the costs of investment on EZ sites any surplus can be retained and invested into further economic regeneration projects and programmes across the local area. Within the broader contexts of devolution and austerity, this represented a potentially important revenue stream for local areas in driving forwards their growth ambitions.

Over the duration of the LGF and EZ programme, in particular over the last few years, there have been significant shifts in economic and policy context, with notable change including the COVID-19 Pandemic, the UK's exit from the European Union, the Rebalancing Agenda and Net Zero. These macro shifts in context, to both LGF and EZ programmes, serve to bring into sharper focus the need for building greater resilience and driving increased and more sustainable growth across the North East economy.

Drawing on findings from case studies and wider consultations, it is important to highlight that partners across the North East chose to prioritise highly constrained, challenging sites across the first round of EZ allocations. In doing this, the rationale for intervention was driven by long-term, strategic regeneration ambitions. An alternative approach of prioritising 'easier-win' sites with greater potential for short-term business rate revenue generation was considered but discounted in favour of the long-term regeneration strategy. Nevertheless, the business rates mechanism remained a critical driver and dimension of the programme.

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/34648/12-1213-no-stone-unturned-in-pursuit-of-growth.pdf
[2] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/221902/PU1465_Govt_response_to_Heseltine_review.pdf

Rationale

The rationale for both programmes is still appropriate as market failures persist, particularly around bringing strategic brownfield employment sites back into use. The shifts in the macro context (e.g. COVID-19, Brexit and Net Zero), have brought the need for these types of intervention into sharper focus. The programmes have been flexible and proactive in responding to changes in operating context, including through deployment of a £4.4m Covid-19 recovery fund. Decisions to capitalise on low carbon opportunities have aligned well to local and national priorities and there is evidence of pivoting well to a changing wider context including opportunities in offshore wind and electrification.

Objectives

The LGF programme is broad and varied in nature and has a wide range of outcomes and consequently KPIs. The objectives are SMART but supplementary data is required to assess performance in deliver 'better jobs' objectives which has been hindered by the reduced capacity for businesses respond to additional data requests over the past two years due to the COVID-19 pandemic.

The EZ programme is currently lacking a single set of SMART objectives and accompanying KPIS across Round 1 & 2 explicitly aligned to SEP objectives.

Overall, the programmes' Context, Rationale and Objectives are well-aligned to the SEP and priority sectors (Health & Life Sciences, Digital, Advanced Manufacturing and Energy & Low Carbon) which has provided an effective roadmap for regional growth, that is conscious to the wider contextual picture, and has a coherent ambition to create more and better jobs in the North East LEP area by 2024. Both programmes have effectively positioned themselves within this framework and the SEP and investment programmes can be considered mutually reinforcing.

Recommendations for Context, Rationale & Objectives	
Ongoing Delivery	• Work with local delivery partners across EZ and LGF sites to continue to embed the principles and importance of generating 'better' jobs as part of job creation including in targeting private investment opportunities. • Continue to prioritise investment opportunities that align to opportunities in the North East LEP's priority sectors and communicate successes actively to attract further inward investment. • Continue to capitalise on investment opportunities in emerging technology areas, building on existing strengths, including within electrification and renewable technologies. • Continue to promote the net zero agenda through sustainable infrastructure and supporting the clean growth sector.
Future funding opportunities	• Continue to lobby central government for the further decentralisation of funding and decision-making powers locally for infrastructure investment. • Closely align any future Shared Prosperity Funding – or related sources – to priority EZ locations
The Final Evaluation	• Ensure that the additional data that is used to understand 'better' jobs for the LGF programme is collected in the upcoming years to provide a more robust data sample for an assessment of better jobs in the Final Evaluation. • Where possible, collate additional data on the number of businesses attracted into the area through the LGF programme and the number created through LGF funding. • Work with EZ sites to develop annual job targets to 2028 that align to their lifetime site targets (allowing for these to be aggregated and monitored at a site and fund level in the Final Evaluation). • Develop a series of SMART objectives for the EZ programme that sit across both rounds of site allocations to be used for evaluative assessment as part of the Final Evaluation. • Continue to review and update both programme-level logic models as relevant overtime using this as a framework for evaluative assessment (overtime and for the Final Evaluation) and ensuring programme activities are suitable to the changing context, and that outcomes and impacts are consistently delivering to programme objectives.

Inputs & Activities

Inputs

LGF funding originated from the North East LEP's Growth Deal allocation from central government with a total amount of £270.1m of capital grant funding. This was allocated in three rounds:

- **LGF Round 1:** In July 2014, £179.8m of LGF budget was agreed;
- **LGF Round 2:** A further £40.6m was agreed in January 2015;
- **LGF Round 3:** A further £49.7m was agreed in Autumn 2016 with the majority of the funds being allocated to the nationally significant IAMP site in Sunderland/ South Tyneside.

All of the £270m funding has been allocated and drawn down across a total of c. 100 projects. It is important to recognise that whilst the North East LEP is responsible for spend, it is not in control of project delivery, with projects generally being owned and delivered by local authority partners. The North East's progress in taking forwards projects has been recognised in annual performance reviews by Government which have consistently assessed the North East's delivery as 'good' or 'excellent'.

Resources have been effectively managed across programmes using the flexibility and freedoms allowed by MHCLG. This has included spending LGF monies on EZ projects in the form of Swaps (amounting to £12m to date). This has ensured the full draw down of budget allocation, in line with Government timelines, in spite of any LGF project slippage. As a result, when the EZ business rate incomes begin to pay back this borrowing, this Swap mechanism has generated a 'tail' of funding beyond the official programme end. The money returned to the LGF pot has greater flexibility and can be spent on revenue as well as capital initiatives, including pipeline development studies.

Overall, 21 EZ sites have been allocated within the North East LEP area, with ten sites being allocated in 2013, and a further ten sites allocated in 2017 and an additional site, IAMP, being allocated in 2018. There are clusters of co-located sites in single locations, for example, there are three EZ sites allocated within the A19 Corridor.

A number of consultees highlighted the political challenges, across a diverse political area spanning seven local authorities, around securing consensus to the Round 1 allocations. However, partnership arrangements have matured significantly in the interim with the IAMP project (the most significant in terms of funding across both programmes), providing a good example of more joined-up partnership thinking and working. The site has strong support from all seven local authorities, who recognise its potential in generating employment, supply chain, innovation and inward investment opportunities across the region.

In line with the national EZ programme, the primary financial incentives to businesses on offer at EZ sites comprise:

Business rate discounts for occupants (active for businesses for c. 5 years after allocations); or

100% enhanced capital allowances (active for businesses for c. 7 years after allocations);

It has not been possible to comprehensively assess the impact that these incentives have had on businesses' decisions to invest and locate on EZ sites. The North East LEP does not monitor the take-up of incentives across sites and no data has been made available around the extent to which businesses have taken advantage of incentives on offer. This gap in the evidence base should be addressed, potentially through a survey which includes exploration of business motivations for investing, as part of the final evaluation.

A total of c. £66m has been borrowed against anticipated future business rate incomes to be invested upon the EZ sites to date.

Activities

At the outset of the Programme, a number of consultees have highlighted that, with the exception of transport projects, there was a limited project pipeline. This created a process of accelerated and pressurised project development and prioritisation across the sub-region, which was sub-optimal. The LEP and local partners have since recognised the importance of developing and maintaining a strong economic development project pipeline, as evidenced by the North East's responses to recent Government calls for funding.

LGF investment is diverse in scope primarily spanning Skills, Economic Infrastructure, Transport Infrastructure, Innovation projects and latterly business support initiatives including a green energy focus. There is a predominance of Transport and Economic Infrastructure projects as would be expected of a capital investment programme of this nature. LGF investments in projects range between £13.9k and £41m, with an average cost of £2.6m. Generally, the more costly projects being within Economic Infrastructure and least costly being within Skills.

The EZ programme has experienced significant delays for a range of reasons including the challenging nature of the sites, shifts in macro context and uncertainty around investment decisions by public and private partners. The role of EZ designation in providing a focal point for public sector investment, political engagement, marketing/branding and sector orientated cluster development, is of greater importance and influence in attracting businesses than the incentives on offer. However, the take-up and impact of incentives has not been assessed through the interim evaluation process and this should be explored as part of the Final Evaluation.

The business rate borrowing mechanism has been critical to unlocking investment on these sites and the LEP's pooling mechanism has enabled local authorities to invest in projects that otherwise could not have come forwards. Local authorities' capacity and willingness to borrow, coupled with the blending of multiple funding streams and the creative use of funding swaps, has enabled the EZ programme to invest significantly on sites. A core added value of the programme has been its ability to co-ordinate this package of funding streams and ensure targeted and joined up investment into priority sites and locations. The borrowing mechanism also provides future scope for any surplus revenues to support wider economic development objectives across the sub-region.

Strategic Investment Deep Dives

Detailed Deep Dives into examples of large scale, strategic investments which demonstrate the breadth and progress of the two programmes were undertaken as a part of this study (fully set out in Appendix B). These were designed to go beyond the 'hard' quantitative monitoring data to provide a richer understanding of the qualitative impacts and Strategic Added Value (SAV) of the programmes and how they have interacted. A number of the case studies are also examples of co-investment through LGF and EZ in single locations, which are helpful in assessing the interaction and complementarity of the programmes. A headline summary of the case studies and their investments are included below.

Case Study	Overview	Investment
The Blyth Estuary	The Blyth Estuary is a manufacturing cluster across both banks of the river Blyth, Northumberland that comprises businesses which operate in the offshore and subsea renewable energy and engineering sectors and Port based training facilities.	LGF: £20.0m EZ: £5.4m
Helix Newcastle	Helix Newcastle is an innovation and technology cluster in Newcastle city centre. The site houses international science and tech businesses, University campus facilities as well as residential and green spaces.	LGF: £14.1m
NETPark	NETPark is a strategic Technology Park with CPI managed national research centres and innovation facilities based in Sedgefield, County Durham that comprises engineering and technology businesses as well as academia across nanotechnology, X-Ray technology, forensics and semiconductor technology.	LGF: £25.2m
Sunderland City Centre & Riverside	Sunderland City Centre and Riverside development is an urban renewal site designed to deliver green public spaces, and office and residential buildings. The area includes at its heart the former Vaux Brewery site that is being re-developed for mixed uses. .	LGF: £16.6m
A19 Corridor & IAMP	The A19 corridor is a group of advanced manufacturing parks running along the A19 in-between Sunderland and South Tyneside. The focus of these sites is the low carbon emissions automotive sector, supplying into Nissan.	LGF: £47.2m EZ: £49.9m
Baltic & Gateshead Quays	The Gateshead and Baltic Quays site will house incubation and innovation Centres, as well as providing 10-acres of Town Centre space for restaurants, hotels, and new regional arena, conference and exhibition venue on the waterfront.	LGF: £7.7m

The case studies are illustrative of the complex and challenging nature of driving forwards economic development across the sub-region. They clearly illustrate the high level of ambition and the assets, opportunities and capabilities for driving growth locally and also the complementary and reinforcing nature of the programmes where co-investment has occurred in targeted locations.

Recommendations for Inputs and Activities	
Ongoing Delivery	• Focus on supporting project delivery, ensuring appropriate levels of capacity and expertise are available across project partners to bring forward the existing portfolio of sites in line with agreed timelines. • Prioritise project delivery resource within the EZ programme on sites with the greatest ability to drive project outcomes to meet programme-level lifetime targets. • Continue to exercise good financial management working across available funding mechanisms to fund EZ investments through funding swaps from other sources (e.g., NEIF programmes) to be paid back by future business rate receipts. • Ensure future spend from EZ rates income is targeted at economic development opportunities that align to the SEP and EZ and LGF programmes, with a strong evidence of need.
Future funding opportunities	• Continue to build upon strengths in partnership arrangements locally in remaining project delivery and in the pursuit of other funding opportunities. • Continue to develop and maintain a live pipeline of economic development projects that can be pivoted to respond to any future funding opportunities. This should be formally reviewed and updated on a regular, rolling basis.
The Final Evaluation	• Undertake a survey of businesses to better understand the draws for locating at an EZ site, the take-up of incentives and the additional impact the EZ programme has generated to businesses as part of the Final Evaluation. • Undertake a mapping exercise across all public sector funding sources, including borrowing and revenue costs associated with EZs, to get a more detailed understanding of the nature of other public funds at an aggregate level as part of the Final Evaluation, • Undertake additional case study work with further deep dives into strategic investment sites and more extensive engagement with delivery partners as part of the Final Evaluation. • Ensure that the reinvestment of any business rates surplus is closely monitored and captured with the Final Evaluation. • Undertake a more detailed process evaluation as part of the Final Evaluation that assesses the economy and effectiveness of programme management arrangements to draw learning to inform future programme delivery

Measuring Impact

The LGF programme is performing well against the three indicators with established targets, in spite of the significant disruption caused by COVID-19 lockdowns. Strong performance at the programme levels is in part being driven by over-delivery across a small number of projects. Whilst overall skills attainment targets have already been exceeded, two thirds of projects are currently underdelivering against job targets.

Business rate incomes generated under the EZ programme are 77% of target (which was reprofiled in 2020) and only 7% of overall jobs targets have been delivered. As there are no annual job creation targets, it is not possible to assess whether performance to date is on track, although the outputs to date are proportionally low considering the point in delivery.

There is a subset of major employment sites where over 3k jobs are being targeted (A19 Corridor, North Bank of Tyne, Newcastle International Airport and IAMP) and where relatively modest proportion of total jobs have been delivered to date. The success of the overall programme hinges on the targeted quantum of jobs being created across these major employment sites. Whilst time-lags of this nature are not uncommon in challenging land and property regeneration schemes, the risks to delivery should not be overlooked or underestimated. Generally speaking, the longer the timeline, the greater the level of risk associated with delivery.

Combined the LGF and EZ programmes have so far levered over £470m private sector investment. This level of leverage is anticipated to accelerate across both programmes as sites, now readied for development, are built out by private developers/investors.

Indicative VfM calculations indicate that based on current output projections, both programmes could deliver strong VfM outcomes. The actual VfM outcomes from the programmes will need to be interrogated more thoroughly as part of the final evaluation.

The SAV and wider impacts of the programmes are essential to understanding the full impacts of the programmes and include:

- **Catalysing and accelerating investment and regeneration:** Including strong evidence of generating private sector investment for placemaking e.g., the relocation of Ocado's northern offer in Sunderland and accelerated capital delivery in the Port of Blyth by Advance Northumberland, Helix position supporting the securing of NICD, and further building investments in Hillthorn Park aligned to IAMP;
- **Enabling cluster growth and supporting priority sectors:** Investments shown to support cluster formation and branding improvements e.g., Baltic Quarter for Gateshead, NETPark, and the Biosphere on the Helix. All sectoral activity is well aligned to SEP priorities/ASIs;
- **Unlocking partnership and collaboration across public and private sectors:** Partnership working is evident throughout and has been a catalysis for knowledge transfer, innovation and sector growth e.g., through the provision of a structure for stakeholders to pool expertise and come up with a clear and combined vision, for example, in the Energy Central partnership in Blyth and IAMP;
- **Raising the image and profile of sub-regional 'offer':** Ambitious visions and leading investments have supported improving the region's reputation, changing perceptions and rebranding as a place to do innovation e.g., with Newcastle Helix, NETPark as an internationally competitive location for R&I and through the flagship status of IAMP nationally;
- **Driving the low carbon agenda:** Embedded through supporting sustainable modal shifts, promoting best practice in environmental design and through driving the low carbon sector itself for instance with Energy for Growth programme, Northumberland Energy Park and low Carbon Energy Centre on the Helix; and
- **Supporting community impact:** Evidenced through a combination of driving social value and local jobs across all projects, working to upskill the local workforce e.g., BEACH in Blyth and the Nexus Training Centre in South Shields and additional more targeted interventions on enable larger scale community investments to be realised including the Beacon of Light, Sunderland and Scotswood Community Arena, Newcastle; and flexible responses to the pandemic e.g., the CESAM building on IAMP turning into a Nightingale Hospital and a package of COVID-19 rapid response measures funded by LGF.

Overall, the Interim Evaluation has highlighted the complex and challenging nature of driving forwards economic development across the sub-region and the high level of ambition across local partners and the assets, opportunities and capabilities for driving growth, locally. A huge amount of progress has been made in bringing forward projects and sites that have the potential to deliver a truly transformative impact across the sub-regional economy. However, there is still a long way to go with significant risks around achieving programme targets. Whilst LGF monies have been spent and EZ sites are progressing, the North East LEP and its partners must retain a clear focus on delivery to ensure the success of both programmes.

Recommendations for Interim Outputs, Outcomes and Impacts	
Ongoing Delivery	• Focus on supporting project delivery, ensuring appropriate levels of capacity and expertise are available across project partners to bring forward the existing portfolio of sites in line with agreed timeline, with a focus on the package of major employment sites. • Continue to prioritise resource in driving better jobs that align to the priority sectors (Digital, Advanced Manufacturing, Health and Life Sciences, and Energy).
Future funding opportunities	• Anticipate and be proactive to changes in policy and economic environment including future funding opportunities to continue to advance related infrastructure activity (including the upcoming Shared Prosperity Fund). • Communicate LGF and EZ investment successes and opportunities externally targeting inward investment.
The Final Evaluation	• Continue to review, update and revise the business rates forecasts as needed, particularly considering the medium-to long-term impact of the COVID-19 pandemic. • Undertake a comparative dimension to the Final Evaluation that enables the benchmarking of LGF and EZ investment programme performance and lessons from elsewhere if evidence is available. • Undertake a more bespoke and comprehensive additionality assessment regarding job impacts that draws on a business survey and local intelligence as part of the Final Evaluation. • Broaden out the cost benefit analysis to include a wider package of benefits include an aggregate assessment of transport impact e.g., time savings. • Ensure that the outputs, outcomes and impacts arising from any reinvestment of surplus business rates beyond the EZ sites themselves.