Manchester City Council
Report for Resolution

Report to: Economy Scrutiny Committee – 17 October 2012

Subject: Impact of small infrastructure projects versus Regional Growth Fund (RGF)

Report of: Assistant Chief Executive (Regeneration)

Summary

Following a request at a recent Economy Scrutiny meeting, this report seeks to analyse the difference between the economic impact of:

- Regional Growth Fund (RGF) grants and loans targeted at small & medium enterprises; and
- minor infrastructure projects (such as alley gating schemes and maintenance of roads)

Because of the available evidence base, the analysis chiefly focuses on the difference in the number of jobs created per amount invested. This allows for a rough pound for pound comparison to be made. Issues relating to youth unemployment and apprenticeship creation are considered briefly, as are wider considerations such as the speed with which economic impacts are felt and the extent to which benefits are retained in the local area

Recommendations

Members of Economy Scrutiny Committee are recommended to review and comment upon the report.

Wards Affected: All

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	Investment in business and major / minor infrastructure projects utilising the Council's own resources and RGF support economic and job growth.
Reaching full potential in education and employment	Local economic benefit activity is built into in major and minor capital projects in Manchester to support local people to access jobs created.

Individual and collective self esteem – mutual respect	Investment in jobs and infrastructure will support the individual and collective self esteem of those living and working in the city.
Neighbourhoods of Choice	Investment in jobs and infrastructure will help ensure surrounding communities can secure benefits from future investment into

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

None

Financial Consequences – Capital

None

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

1. Introduction

1.1 Following a request at a recent Economy Scrutiny meeting, this report seeks to analyse the difference between the economic impact of:

- Regional Growth Fund (RGF) grants and loans targeted at small & medium enterprises; and
- minor infrastructure projects (such as alley gating schemes and maintenance of roads).

1.2 Because of the available evidence base, the analysis chiefly focuses on the difference in the number of jobs created per amount invested. This allows for a rough pound for pound comparison to be made. Issues relating to youth unemployment and apprenticeship creation are considered briefly, as are wider considerations such as the speed with which economic impacts are felt and the extent to which benefits are retained in the local area.

1.3 There are significant caveats on the analysis as it compares distinctly different forms of investment which target a range of (economic and non-economic) outcomes. The RGF aims to directly stimulate private sector investment to unlock sustainable employment outcomes in both the short and medium/long term (5 to 10 years). Infrastructure investment will stimulate the economy in the short-term through job creation, but the economic impact of this will be dwarfed over the long term by the indirect impact of the additional productive capacity it will unlock. Further it should be noted that there are few RGF projects ‘on the ground’ at present, it being a relatively recent initiative, and so impact and employment outputs tend to be based on estimates only at this stage. It will need to run probably for several more years yet to determine its full impact.

1.4 Capturing the full impact of minor infrastructure projects is a particular challenge. While the aggregate short-term economic impact can be estimated relatively easily, the longer-term impact on productive capacity is difficult to assess. Clearly, failure to maintain roads or other essential infrastructure would, over time, result in a reduction in economic capacity as these assets become less usable. However, such maintenance is better seen as a part of the full lifetime cost of the infrastructure, rather than a standalone ‘benefit’. Other minor infrastructure projects (e.g. alley gating) may not unlock significant economic capacity at all. However, they will have a range of other benefits and impacts such as community safety.

1.5 Practically, it should also be noted that the economic impacts of minor infrastructure projects are not usually collected and analysed whereas funds such as RGF, which have a clear economic rationale, are subject to significant scrutiny.

1.6 With these caveats in mind, this report presents economic impact evidence across a range of programmes and spending, including the Regional Growth Fund; Manchester City Council (MCC) Procurement Spending; the Neighbourhood Renewal Fund; and Future Jobs Fund.

2. Regional Growth Fund

2.1 In its emergency budget of June 2010, the Government established the Regional Growth Fund (RGF) with two objectives:

- to encourage private sector enterprise by providing support for projects with significant potential for economic growth and create additional sustainable private sector employment; and
- to support in particular those areas and communities that are currently dependent on the public sector make the transition to sustainable private sector led growth and prosperity.

2.2 In the first two bidding rounds completed so far, £1.4 billion has been allocated nationally to projects. To qualify for support from the Fund, applicants needed to bid for at least £1 million and demonstrate that their proposals would:

- create additional sustainable private sector growth;
- rebalance the economy in areas dependent on the public sector; and
- not otherwise go ahead without support from the Fund.

In the first two rounds, a number of Manchester and GM projects secured in principle approvals for RGF including the Former Royal Eye Hospital, Siemens, an SME Loan Fund and a wider GM Programme which will be administered by the Combined Authority. A third RGF bidding round is currently underway with announcements about successful projects anticipated later in Autumn 2012.

RGF expected impacts

2.3 The Regional Growth Fund will support a wide variety of projects nationally, with significantly varied cost per gross job contracted. Jobs contracted will typically include gross jobs created or safeguarded by projects directly, excluding supply chain and other multiplier impacts. The average cost per gross job contracted is £11,500.

2.4 To date it is anticipated that more than half the jobs are expected to be created by projects that provide support to small and medium-sized businesses, which were allocated nearly £400 million. These projects typically involve the Fund granting money to a bank or other intermediary, which will then use the money to make grants or finance available to assist business development. The cost per gross contracted jobs is expected to be relatively low, at £6,400 against an RGF average of £11,500.

Type of Project	Total Funding (£m)	Total Funding (%)	Gross contracted jobs expected	Cost per gross job
Access to finance	396	30	61,500	£6,400
Economic and social infrastructure	337	25	12,300	£27,400

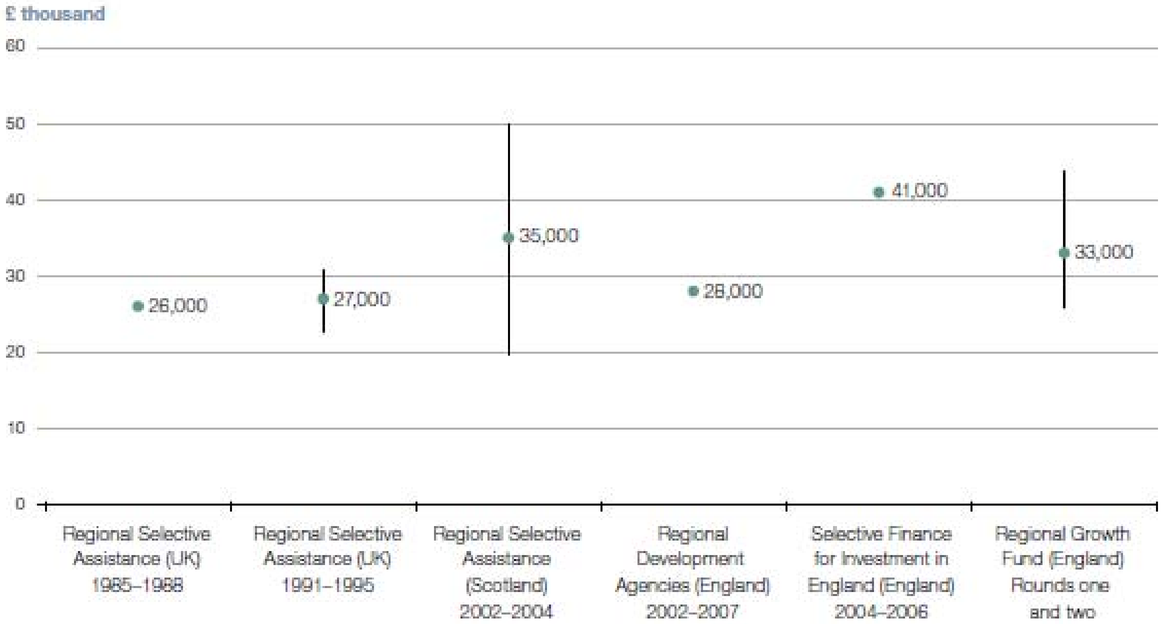
Business support and development	302	23	23,600	£12,800
Automotive	148	11	13,300	£11,130
Programmes	142	11	4,600	£30,900
Packages of smaller projects	12	1	1,600	£7,500
Total	1,337	100	117,000	£11,500

2.5 The Government's final offers to successful bidders are conditional on the average number of jobs maintained *over the full course of each project*. The average duration of projects is expected to be at least seven years. Taking seven years as the average lifespan would result in a cost per contracted job year of £1,640. These figures are based on estimates and will be tested when projects are fully implemented.

2.6 However, not all the jobs delivered will be 'additional'. Some of the jobs might have been created or safeguarded anyway, and assisting one firm over another might affect markets and competition. Taking account of these factors Government estimate that the RGF will create 41,000 net additional jobs, over and above what would have been created or safeguarded without intervention.

2.7 Therefore, if the Fund delivers in line with expectations, the average cost to the Fund of each net additional job would be £33,000. It is difficult to benchmark this cost against the cost per net additional job of similar previous programmes because evaluations do not contain strictly comparable information. However, based on the information available, a cost of £33,000 per net additional job is similar to the cost per net additional job achieved by programmes with comparable objectives (see chart below).

Expected cost per net additional job generated by the Regional Growth Fund, compared with average cost per net additional job generated by similar programmes



NOTES

1 Ranges and point estimates for cost per job are those reported from the relevant published evaluation, where available, presented in 2010 prices. The price base for each evaluation was assumed to be the middle year of the evaluation timeframe.

2 Regional Development Agency figures refer to all activities. This was thought to be a better comparison than simply business support interventions because the Fund contains significant infrastructure investment and some regeneration projects and programmes.

3 Ranges reflect uncertainty about the additionality of jobs created in the evaluation timeframe and alternative methods for generating the estimates. Estimates are not standardised for the timing, duration or quality of jobs, because not all the evaluations provided sufficient information to perform these calculations.

RGF realised impacts to date

2.8 The information above only provides the projected impact of RGF. Information provided by the Department for Business, Innovation and Skills (BIS) to the Public Accounts Committee recently states that, so far, after two years, 88 out of 236 offers of funding made in the first two bidding rounds had been finalised (with a combined value of £610 million) and only £470 million had actually been paid out. Only £60 million has been spent on front-line projects, the remainder going to intermediary bodies including Local Enterprise Partnerships. As a result, 2,442 (gross) new jobs have been reported to have been created and 2,762 (gross) existing jobs safeguarded so far in the 88 projects where offers had been finalised, against a target of 36,779 jobs being created or safeguarded over the economic life of these projects.

2.9 As the RGF does not actively target youth unemployment or apprenticeship creation there is no information available on its impact on these specific metrics.

2.10 The CA has, to date, agreed in principle to distribute £5.8m of RGF in grants and loans to 14 Greater Manchester firms which will create or safeguard 677 jobs, at an average cost per contracted job of £8,520. Assuming an average lifespan of seven years for these projects gives an average cost per contracted job year of £1,220. This figure will further improve once the additional impact of the jobs created through the recycled (i.e. loan) element of the GM programme are factored in.

3. Manchester City Council Small Infrastructure Spend

3.1 Manchester City Council utilises the North West Construction Hub and its associated frameworks to procure all of its Capital Programme activities, the three main frameworks are:

1. a regional framework for projects valued at £10,000,000 and over;
2. a medium value framework for projects with a value of between £500,000 and £10,000,000; and
3. a low value framework for project work up to £500,000.

3.2 In 2011/2012, MCC's Capital Programme activities were budgeted to be £270 million, of which £7,243,782 worth of projects were delivered via the low value framework between April 2011 and March 2012. Meaning that, in total, 2.7% of Manchester City Council's Capital Programme activities budget went into small infrastructure or construction projects worth £500,000 or less.

3.3 Members will be familiar with research undertaken by CLES in Manchester which has sought to understand the wider local economic impact of spending on construction. In order to estimate the direct employment supported by MCC's small infrastructure expenditure, the total amount spent has been divided by the average turnover per construction employee in the North West of £126,000 (calculated from the Annual Business Inquiry and Business Register and Employment Survey, Manchester level figures are not available). Taking the £7.2 million spent in 2011/12, this means that the investment supported approximately 60 jobs over the course of 12 months.

3.4 There will also be a further catalytic impact, with CLES estimating that for every £1 pound spent by MCC upon its top 300 suppliers, 25p is re-spent in the Manchester economy by suppliers upon their own suppliers and employees. Of the £7.2m that went into small infrastructure projects in 2011/2012, £1.8 million would have been re-spent into the Manchester economy and its supply chain.

3.5 Although no hard data is available, a series of face-to-face strategic interviews with suppliers sought to understand the supply chain's own employment and supply chain impact. With regard to construction it was reported that:

- the consideration of local labour (including targeting unemployed young people), training and apprenticeships is embedded into the culture of the construction sector;
- consideration of local labour and apprenticeships is already a key element of the Key Performance Indicators of housing associations and registered social landlords; and
- a key element of MCC activities around construction and Capital Programmes is the Manchester People into Construction Scheme (MPiC), developed in 2008. This seeks to place young Manchester residents into employment opportunities with contractors which sit on the Construction Framework. Although figures are not broken down by the size of the contract, in February 2012, the scheme was in its third year for the first cohort of apprentices. Of the 202 who had entered the programme by then, 171 had been taken on into full time permanent employment. Of the

remaining 31, two had recently been taken on with the remainder being in their third year of the scheme.

4. Future Jobs Fund

4.1 The Future Jobs Fund (FJF) is the only comparable programme to RGF that has a specific focus on youth unemployment. FJF was introduced to raise the longer term employability of young unemployed people as well as older unemployed residents in 'hotspot' areas. Full salary costs for FJF participants at minimum wage were funded for six months by government, which was intended to lead to a sustainable employment opportunity after the government subsidy ended.

4.2 The Greater Manchester FJF bid was the largest in the UK at £52 million over its lifetime, with 8,000 jobs approved in two stages – 1,500 by March 2010 and a further 6,500 jobs by March 2011, at an average cost of £6,492 per (gross) job. Manchester local authority hosted 1,511 (18.9%) of the total 8,009 jobs across Greater Manchester.

4.3 No local data has been made available by DWP on the proportion of FJF leavers finding work. However, analysis for the UK as a whole based on the benefit systems database reports that 51.4% of FJF participants had not re-entered the benefits system 10 months after starting their FJF job, although this declined to 39.7% after 14 months. The average length of time a FJF funded job lasted is therefore likely to be significantly below the RGF average of seven years, though clearly a seven year lifespan is part of the government's current expectations of RGF funded projects and today not directly verifiable.

4.4 Making a conservative assumption that only 40% of FJF placements lasted a year and 60% lasted only six months, gives an average cost per contracted job per year of £10,400.

5. Conclusion

5.1 Looking across the analysis, the comparison on a pound for pound basis that has most meaning is the cost per gross job contracted. It is estimated that nationally jobs contracted through the RGF will cost £11,500 each. Taking the average project length of seven years, gives a cost per contracted job year of £1,640. There will also be supply chain and other multiplier effects that contribute to the creation of further jobs.

5.2 However, all these benefits are simply estimates of what government expects to happen, and it remains to be seen whether these will be realised. The Public Accounts Committee recently expressed its scepticism when it reported that only £60 million had reached front line projects so far, creating or safeguarding a total of 5,204 jobs in the 88 projects where offers have been finalised. The RGF has therefore not yet provided a significant counter-cyclical boost to the economy.

5.3 Local data shows that RGF projects administered through the Greater Manchester Investment Fund are forecast to achieve an average cost per contracted job better than the national average (£8,520 per job – or £1,200 per job year – on RGF spend of £5.8m).

5.4 This report has sought to develop proxies for the impact of small infrastructure spending. Two considerations are important in this regard: short- and long-term impacts. In terms of long-run impacts, small infrastructure projects, while frequently necessary in maintaining productive capacity or justifiable in terms of environmental, social or other benefits, are not likely to expand the productive capacity of the economy in a significant way. This means that the impacts on the economy are, in main, likely to be through a short-term boost to employment. Using the average job-per-turnover figure for the construction sector in the North West gives the equivalent cost-per-gross job contracted figure of £126,000. Because these jobs are tied to specific procurement spending it would be reasonable to assume that they only last for one year. However, there will be further economic impacts due to effects on the supply chain and other multipliers.

5.5 Overall, the analysis suggests that RGF grants and loans targeted at small & medium enterprises can – if estimates are borne out when projects are implemented - deliver an economic impact significantly greater than that of minor infrastructure projects. However there are a number of important caveats to this conclusion:

- failure to invest in minor infrastructure (especially critical infrastructure maintenance etc) will ultimately result in a significant economic cost, much greater than the analysis here suggests;
- nationally RGF has been subject to significant delays meaning its counter-cyclical economic impact has been limited. Investment in minor infrastructure has the potential to have a much more immediate impact;
- spending on minor infrastructure through MCC’s sustainable procurement framework appears to result in more targeted impacts on youth unemployment and apprenticeships; and
- schemes targeted at the young unemployed or other groups (which can also be linked to small infrastructure works) can deliver short-term economic impact at a lower cost per job than those estimated for pure small infrastructure alone, but still higher than that for RGF.