making the most of housing and growth in the East Midlands

a report on removing the barriers to low public investment in the region

By Diana Gilhespy and Richard Clark

THE SMITH INSTITUTE

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Foreword

From their respective areas of expertise – economic development and housing – the authors of this report, Diana Gilhespy and Richard Clark, realised early in 2012 that something was going seriously wrong in the allocation of central government investment in the East Midlands. The region seemed to be losing out dramatically compared with its neighbours. This is cause for alarm in itself. But, as the research in this report shows, short-changing the East Midlands when it has so much to offer in terms of jobs and growth and in rebalancing the economy makes no sense whatsoever. This report offers an intelligent and timely insight into why this has happened.

The Smith Institute has been tracking the progress of the English regions since the 2010 general election. What we have found is that the government's response to the economic crisis has been uneven and at times unfair. The impact of fiscal austerity has been felt by all regions, but the ability of certain places to respond has been handicapped by a lack of understanding by government about real needs and opportunities. The East Midlands, for example, has suffered disproportionate cuts in housing and regeneration funding and has been overlooked in respect of central government support for manufacturing. The authors are not making a special case for the region; instead (on the basis of the evidence) they are asking why the East Midlands is losing out and, most importantly, what can be done to change the situation.

The research is based on the latest available data as well as interviews and round tables with key stakeholders from across the region, including opinion formers and decision makers from local enterprise partnerships, local authorities, government agencies, the business community and the not-for-profit sector. The Smith Institute would like to thank all those who took part. We would especially like to thank colleagues within the Economic Strategy Research Bureau (at Nottingham Business School, part of Nottingham Trent University) for the information and advice they brought to the project, and East Midlands Council, which co-hosted one of the round tables in Melton Mowbray.

The authors have done an excellent job and I am sure their report will stimulate debate both within the East Midlands and in Westminster and Whitehall. The Smith Institute would like to thank them for their work. We would also like to thank the sponsors of the project: Metropolitan, Longhurst Group, Midland Heart, Futures Housing Group, East Midlands Housing Group, asra Housing Group and William Davis.

The interpretation and recommendations are of course solely those of the authors and do not in any way seek to reflect the views of the project sponsors and interviewees.

Paul Hackett
Director of the Smith Institute

Executive summary

Executive summary

The Smith Institute, in association with the Economic Strategy Research Bureau at Nottingham Business School, has undertaken an investigation into the lack of central government investment in the East Midlands in housing and physical regeneration. The work has been based on desk research, two round tables with stakeholders (in Nottingham and Melton Mowbray) and interviews with over 30 decision makers, experts and opinion formers from across the region.

The objectives of the report were: first, to quantify the reduction in central government investment in the region compared with other regions; second, to suggest reasons why this might have occurred; third, to consider the impact that this might be having on the implementation of government policies such as housing provision, "rebalancing" the economy and achieving greater value for money for government investment. The report concludes with a number of recommendations for local enterprise partnerships (LEPs), local authorities, the housing sector and central government.

Governance and administration: The region has no dominant conurbation and comprises 36 local authority districts or boroughs, with five county councils and four unitary authorities. This fragmentation causes a lack of a consistent voice in Whitehall, which is exacerbated by the configuration of LEPs and the Homes & Communities Agency (HCA) in the region (of the 40 districts and unitaries, nine are covered by more than one LEP, with boundaries overlapping into other regions to the north and south). The HCA is organised on the basis of LEP boundaries and the former East Midlands has been merged with the West and South Midlands into one area or field which is administered from outside the region in Birmingham.

The economy: In terms of GVA and the impact of the recession on employment and business activity – especially in the city of Nottingham, north Nottinghamshire and north Derbyshire, and rural Lincolnshire – the East Midlands has suffered on a par with more northerly regions. It has a considerable strength, however, in manufacturing. Manufacturing gross value added (GVA) is 15.8% of total regional GVA, higher than for any other region (the average for the UK is 10.3%). Some of the region's manufacturing sectors are significantly more productive than nationally, and include companies of world-class reputation, such as Toyota and Rolls-Royce. In terms of government's aim of "rebalancing" the economy, there is therefore both a need and an opportunity in the East Midlands.

In addition, although the government has placed great store on cities as the engines of growth, there is no evidence to suggest that high-growth, recession-resilient companies are more likely to be located in cities than in less densely populated environments such as much of the East Midlands. However, recent research evidence on "high-growth businesses" – which were responsible for 50% of all new jobs created across the UK in recent years, despite making up only 6% of surviving firms – provides important indications on where LEP investment, and wider government strategy, may have the greatest impact on private-sector job generation. High-growth firms usually require skilled staff and quality infrastructure, but often struggle with accessing finance and locating appropriate grow-on space. Recognition of these factors – such as in enterprise zone plans and Regional Growth Fund (RGF) projects – would not only assist this "vital 6%" of firms,[1] but would also be beneficial to many businesses across the economy.

Housing demand and costs: The East Midlands has the fastest-growing population outside London and the East of England. High and growing household waiting lists suggest there is an unmet need for housing. The average valuation of building land for housing with planning permission is the lowest of any region, at less than a fifth of the valuation of land in London and only 45% of the national average. Build costs are also low. Rents are 21% to 32% lower, depending on the size of the property, than the national average, which makes the government's Affordable Homes Programme (AHP) (formerly the National Affordable Housing Programme or NAHP) difficult to operate within the region. The East Midlands is unusual in its housing profile in that it has both low relative housing costs and continuing high demand and need. As a result the country has a clear opportunity for housing-led regeneration within the East Midlands.

Central government housing and regeneration allocations: The East Midlands, at mid-2010, had a population of nearly 4.5 million, accounting for 10.1% of the total population in England outside London. Despite the area's housing provision advantages, the East Midlands was allocated only 3.7% of the NAHP, the main housing investment programme, for 2011-15. Of the RGF, the main government regeneration investment programme to 2015, only 4% was allocated to the East Midlands in the first two rounds, although the region accounted for over 11% of the bids. In addition, at mid-June, agreement had been concluded with only one East Midlands project, for £2 million, compared with agreements in the rest of England amounting to £689 million. The poor position of the region is exacerbated by its lack of a major core city and the government's focus on city deals.

Government policies and the East Midlands: Both the NAHP/AHP and the RGF are "challenge" funds, distributed on the basis of project or programme-specific competitive bidding, and administered from the central government departments, the HCA and the Department for Business, Innovation & Skills. There have been suggestions from both quarters that the poor quality of the bids from the East Midlands accounted for the region's lack of successful bidding. However, two National Audit Office reports on the RGF and NAHP, in May 2012 and July 2012 respectively, cast doubt on the transparency and consistency of the bidding processes and the basis on which bids were compared and funds allocated. As a result the NAO was unable to conclude that value-for-money outcomes had been achieved for housing and "rebalancing" the economy, and a concern arose that funding may have been distributed according to varying local capacities to produce effective bids rather than more objective and transparent considerations of need and opportunity.

In situations where the rules of the competition are unclear and open to interpretation, it is important to be able to articulate a clear case for funding. For the East Midlands this was not achieved. The reasons have to do with the region's polycentricity and fragmentation, complexity of administration, and lack of a history of collaboration – especially when competing with well-established and well-funded partnerships in the North East, North West and Yorkshire & Humber (such as Sheffield City Region). East Midlands LEPs, local authorities and housing organisations have little or no collective voice within Whitehall, and therefore the advantages of investing in the area are not heard where it matters. As a result the government has missed opportunities for housing and regeneration that could contribute effectively and efficiently to UK economic growth.

Recommendations

Actions for local authorities and LEPs: A coherent and consistent case for the region and areas that share the same characteristics as the East Midlands needs to be developed. This can be achieved only by investing in the collective capacity to make such a case. In addition, the organisations in the region need to develop an awareness of the considerable strengths of the region; in manufacturing, its environment and geography. This is important in challenging the policy of the large conurbations and central government of promoting core cities as the engines of growth. Alongside this, LEPs have a greater role to play in recognising and articulating the role of housing in economic development and regeneration and the competitiveness with which housing can be supplied. In addition, the LEPs can assist in mitigating the effects on the region of the predominance of two-tier local government.

Actions for the housing sector: With no locally based large housing association, the sector lacks capacity for making its case. However, greater collaboration across associations and with house builders is achievable in the current climate and could help to avoid future problems of the kind highlighted in this report.

Actions for government: By recognising the distinct economic opportunities that the East Midlands presents in terms of rebalancing the economy, national objectives such as stimulation of the construction sector and increased supply of social housing could be met in a cost-effective way (given the low unit costs alongside high demand for housing). In order to improve the effectiveness and efficiency of government investment, improvements need to be made in the transparency and processes for challenge funds. Such improvements are unlikely to occur without greater investment in the capacity of government departments and agencies to administer the funds. Finally, government could look again at the resourcing requirement and remit of LEPs to improve their effectiveness, especially in areas such as the East Midlands.

1. Introduction

1. Introduction

For over 70 years in the UK, government has implemented strategies for regional, subregional and local growth and development. These strategies have encompassed economic, physical and social objectives and have been accompanied by a wide variety of institutional arrangements and agencies. Although activity at a regional, subregional and local level has been constrained by the administrative and institutional structures of the day, these too have been constantly evolving over the period.

Over the past 25 years in particular, there have been a plethora of regional and subregional initiatives and agencies. Initiatives have been aimed at generating increased activity in particular areas and influencing the differential distribution of population growth, settlements and wealth creation. These initiatives have been set against the background of an inexorable trend towards economic growth and population growth in London and the South East of England. These trends are well documented – as are the various initiatives from central government to try and alter this dominant pattern. These initiatives have been evaluated over the years and the findings of such studies and reviews point to widely varying levels of success; for example, consider the failed attempt to establish regional assemblies compared with well-regarded initiatives such as the growth strategy centred on the Milton Keynes, Northampton and Cambridge areas.

Since the election of the coalition government in May 2010, the subnational statutory structures in England above local authority areas have been dismantled. The only remaining subnational structures are those in the devolved administrations of Scotland, Wales and Northern Ireland and the Greater London Authority. The government has instituted a web of local economic bodies called local economic partnerships (LEPs), but these are not statutory bodies and are partnerships of public- and private-sector parties. As a result, the distribution of resources in England is arguably at its most centralised for decades. This makes it imperative that the processes that remain, or have been newly implemented, continue to be sensitive to local and sub-national issues, such as through improving the clarity and transparency of competitive bidding processes. This is even more important as the public spending profile for 2011-15 is one of continuous reduction and grant funds available are being allocated against a general background of cutbacks and fiscal austerity. This is true for both revenue and capital spending plans.

It is widely accepted that the three Northern regions (the North East, North West and Yorkshire & Humber) collaborate together and represent their case in a far more cohesive way than the two Midlands regions. As a result the idea that there is a north-south divide is deeply embedded, not only in popular thinking, but in government and stakeholder thinking. There is an arguable tendency to marginalise the views and issues of the Midlands regions. In reality, the subnational issues in England do not break down neatly. The differences within regional and subregional areas are often greater than the differences between those areas. In addition, the problems of the South West, for example, in some ways mirror those of the Northern regions. The East Midlands is a complex region and is not easy to categorise. One of the reasons for undertaking this study is to illuminate the way in which such complexity is making it harder for partners within the area described as the East Midlands to fight their corner and receive an appropriate level of national investment.

Historically, significant proportions of public funds have been distributed between areas according to a variety of assessments of need and deprivation (i.e. on an allocative "funding formula" basis). Even where funds have been competitive, there has usually been a form of preliminary allocation of funds which has been related to the balance of population and need within the subnational geography. This has changed radically in the funding climate created since the 2010 election. As there are no subnational divisions within the country, the government has decided to allocate most economic, regeneration and housing funds on a fully competitive basis (such as through bids to "challenge funds"). This approach assumes that competition will maximise entrepreneurial behaviour and growth within the English regions. The purpose of this report is not to say whether this is right or wrong, but to illustrate some of the unforeseen consequences of this approach.

Centrally administered challenge funds and grants are of course not the only public regeneration and housing resource available to local areas. Under the 'localism' agenda, local authorities are being encouraged to use opportunities to forward fund developments through the New Homes Bonus and Tax Increment Financing (TIF), through which government is permitting retention of a proportion of business rates. TIF has been a feature, for example, of the recently announced City Deals for core cities. These resources are available to all local authorities (although some are in a better position to avail themselves of the opportunity). However, we exclude an examination of these sources in this report, as our point is to highlight the distinctiveness of the East Midlands and places like it and their relationship to centrally administered funding.

In addition, this report is not seeking to detail all centrally administered funds that have an impact on housing and regeneration. The most obvious of these is funding for transport infrastructure, but it also includes European Regional Development Funding, and funding to develop the cultural and heritage offer of the region. Our research has flagged up concerns about the ability of the East Midlands to attract funding from these sources, but researching and cataloguing these concerns would not have added to the main thrust of our argument on the ability of the region to attract resources from central government.

There are five different strands to this piece of work, looking at the impact of recent developments on economic development, regeneration and housing resources within the East Midlands area.

Strand one: The ability to quantify and account for the allocation of public funds. As a result of the decision to abandon existing English regions and decisions not to publish data on allocations fully, it is becoming increasingly difficult to assess what monies may have been made available and how that relates to historic distributions of funds. A continual problem throughout this study has been the difficulty of assessing accurately the amounts of money being dispensed within the area.

Strand two: Understanding the reasons for the apparent discrepancy between an evidence-based view of need and opportunity within the East Midlands area and the low levels of allocation, in both economic regeneration and housing funding terms, received by the area in recent years.

Strand three: Examining the position of the East Midlands area within national economic growth, regeneration and housing strategies and the degree to which that position appears to have been understood within national investment priorities.

Strand four: Understanding whether the current administrative arrangements within and around the area have resulted in a dislocation and a failure of representation which has contributed to a possible underfunding within the area.

Strand five: Examining the resourcing of the various agencies involved in growth regeneration and housing activity, which may lead to difficulties in producing coherent subregional and regional strategies for major initiatives.

In approaching this study, it is very important to emphasise that there has been no sense in which the previous arrangements (under former governments) are seen in any way as a blueprint for effective national strategies. There were many critics, both regionally and nationally, of the effectiveness of past arrangements. It is not the purpose of this work to defend those approaches. The central proposition from which this work originated was that the level of investment allocated to the area between 2010 and 2012 was radically less than under all previous arrangements. This discrepancy clearly merits examination and explanation. The emphasis of the work is on dealing with the world as it is and ensuring that the area is punching its weight and fighting its corner and that the contribution made by areas within the East Midlands are maximised within new and future arrangements.

Methodology

We conducted this study in six stages:

Stage one: Data collection and validation

We collected information on the resource allocations, covering all the major housing and regeneration allocations over the period 2011 to 2015. As many of these sources are not fully published or are not in a form that is amenable to analysis on the basis of existing or historic subnational boundaries, we have had to assemble the information from a variety of statutory and non-statutory sources, including through parliamentary questions.

Stage two: Assessment of the economic case for investment in the East Midlands

We involved colleagues from the Economic Strategy Research Bureau (ESRB) at Nottingham Business School, part of Nottingham Trent University, to look at the East Midlands area's strengths and weaknesses in terms of economic development, with particular attention to regional opportunities regarding "rebalancing" alongside challenges related to the relative regional impacts of recession and dependency on public-sector employment.

Stage three: Interviewing key stakeholders

We interviewed 30 key stakeholders within the East Midlands region. These included senior figures from government and government agencies, local government, LEPs, housing associations and the private sector. We asked a range of questions, linked to the basic propositions of the report, to establish a better understanding of why funding shortages may have occurred, and how these agencies saw the positioning of the region and its competitiveness.

Stage four: Round table discussions on interim findings

We held two round table discussions with key stakeholders and put forward to them the basic analysis and our interim propositions so that we could validate our understanding of the position.

Stage five: Draft final report and consultation

In July, we shared the draft with a few key stakeholders. The authors take full responsibility for the views in the report, but sought confirmation from stakeholders and partners that there were no major errors of fact or interpretation within the document.

Stage six: Final report and launch

The aims of the report have always been pragmatic. The overriding purpose has been to highlight the possible unintended consequences of a series of government decisions which, for whatever reason, appear to have impacted dramatically on the towns and cities comprising the former East Midlands. At a minimum level we wish to articulate these events clearly and ensure that everyone involved in these matters is aware of a series of core facts.

We hope to generate a positive discussion on the capability and need for the individuals and agencies in the East Midlands to present the arguments for investment in the region in a way that has the most impact.

We also hope to contribute to national debates on the general effectiveness of our institutional arrangements and to present some ideas that may allow the subnational machinery to work more effectively.

We are quite clear that this piece of work has had a limited scope. We are firmly convinced that there is a major need for wider and deeper analysis of the economic social and housing case for the East Midlands, but also possibly the Midlands as a whole. It has become quite evident to us that the East Midlands is under-resourced in putting its case forward. For example, the range of institutions that are researching, developing and promoting London, but also other regions like the North of England, exceeds significantly those in the Midlands. It is inevitable that the East Midlands will continue to lose out in contrast with other areas of the country. Significant further work needs to be done within the area and in partnership with the West Midlands to assess and develop the case for national investment in the area.

Table 1: Population of East Midlands counties, cities and main towns

Counties, cities and main towns	Population by local authority area
Northamptonshire	687,319
of which Northampton	*212,130*
Rutland	38,559
Leicestershire & Leicester	955,379
of which Leicester	*306,631*
Lincolnshire	703,008
of which Lincoln	*89,668*
Nottinghamshire & Nottingham	1,086,587
of which Mansfield	*99,635*
of which Nottingham	*306,697*
Derbyshire and Derby	1,010,579
of which Chesterfield	*101,036*
of which Derby	*246,855*
TOTAL East Midlands	**4,481,431**

Source: Derived from *Population Estimates Analysis Tool, Mid-Year Population Estimates* (Office for National Statistics, 2010)

2. The East Midlands

2. The East Midlands

Introduction

The East Midlands is a region of opportunity. Confidence in its future is founded on its generally diversified economic activity… its past and present level of employment, and the relative absence of the disadvantages associated with massive and congested conurbations.

East Midlands Economic Planning Council *The East Midlands Study* (1969)

This quote could have originated from a recent regional economic strategy, but does in fact date from the late 1960s, when the East Midlands Economic Planning Council operated under the auspices of Harold Wilson's Department for Economic Affairs. It is interesting in that it touches on a number of regional characteristics relevant to the arguments presented in this paper: specifically the importance of economic (sectoral) structure, the polycentric pattern of spatial and economic development in the region, and the importance of scale.

Although it has often been said that the region lacks a strong sense of identity, the East Midlands is an administrative geography that has been used for a lot longer than many people think. From 1939 the "North Midlands" – covering much of the present standard statistical region of the East Midlands – was used for civil defence purposes, and this continued into the post-war period.[2] It was during the 1960s that the East Midlands was first adopted as a geographic unit used as the basis of economic planning, with the advent of the East Midlands Economic Planning Council. This continued into the 1970s, until falling into abeyance following the election of a Conservative government in 1979.

The region re-emerged as an administrative entity under the then Conservative president of the board of trade, Michael Heseltine, who was instrumental in establishing the government office regions (GORs) in 1994. The new structure integrated departmental representation that was already present in most regions into single offices that acted as the "voices of central government" for the nine English regions. The GORs played a particularly active role in the administration of European funds, which were targeted at regions with below-average levels of wealth creation and aimed to facilitate physical regeneration investment and intervention in employment, training and education issues. The East Midlands GOR was given a more overt geographical focus in terms of economic governance with the creation of the East Midlands Development Agency (EMDA) under the 1998 Regional Development Agencies Act.

Geography matters

The East Midlands has a very central location (geographically and on the transport network) and lacks the physical constraints or clear boundaries of regions like the South West (a peninsula) or the North East (which is sandwiched between the Pennine Hills and the North Sea). This is reflected in the region's characteristic relatively dispersed pattern of spatial development, with concentrations of transport- and logistics-related activity and the presence of many businesses for which these attributes are advantageous.

The region's economic development (that is, past and current regional importance in aggregate and mineral extraction, metals, construction, power generation and heavy manufacturing) has been shaped by the presence of natural resources such as coal in the North, ironstone in the South, limestone, granite and other economically valuable minerals in Derbyshire and Leicestershire. To these considerable resources one can also add the greatest concentration of grade 1 agricultural land of any English region and the environmental quality of the nation's most visited national park: the Peak District National Park.

Economically speaking, the East Midlands is influenced to a significant extent by large conurbations outside its boundaries – Birmingham, Coventry, Manchester, Sheffield, Peterborough and Milton Keynes all attract significant commuting flows from within the region. Arguably, the "open" nature of the region, in economic and labour market terms as well as geographically, contributes to the weakness of regional identity. For example, communities in north Nottinghamshire and Derbyshire may, understandably, feel part of the Sheffield/Rotherham subregion.

The East Midlands is polycentric – and lacking a clearly dominant economic centre – although there are local politicians who might debate this characterisation. But it is far from being unique in this respect. In many senses the spatial pattern of development is very traditional, comprising six county towns/cities, each serving significant rural hinterlands. The strength of the economic linkages between these centres varies considerably.[3] The close proximity of Derby and Nottingham is reflected in the strength of commuting flows between them – albeit the relationship is asymmetric – with greater numbers flowing into Nottingham than Derby. In contrast, the labour markets of Leicester and Lincoln appear more self-contained. Northampton, on the other hand, clearly looks to the South, with large numbers of commuters taking advantage of relatively good transport links to access employment in London and the South East.

Is the lack of a massive conurbation a problem, or a positive advantage? The authors of the 1969 East Midlands Study took the view that the lack of a large dominant conurbation and the associated congestion represented a significant benefit to the region. From other perspectives it may be less positive. It is certainly possible that the perceived lack of regional awareness within Whitehall is, in part, a function of the lack of a conurbation on the scale of a Birmingham, Manchester or Leeds/Bradford.

2a. Governance and administration

The former government office region for the East Midlands corresponds to the current NUTS1 European statistical region, which remains an important geographical unit in the administration of European funding. It comprises

36 local authority districts and four (single-tier) unitary authorities (Derby City, Nottingham City, Leicester City and Rutland). In addition, there are five two-tier county council local authorities in the region: Nottinghamshire, Derbyshire, Lincolnshire, Leicestershire and Northamptonshire.

A number of key regional and local authority contacts interviewed by the authors highlighted the relative over-representation of two-tier governance in the East Midlands (63% of the East Midlands population was resident in an area administered by two tiers of local authority in 2010, compared with 46% for the eight English regions outside London).[4] Alongside the close relationships between local authority districts and neighbouring areas outside the region (such as Sheffield/Rotherham), the high representation of two-tier governance potentially contributes to problems around a lack of consistent messages and thinly spread distribution of administrative capacity when making the case in regional or subregional bids for challenge funding.

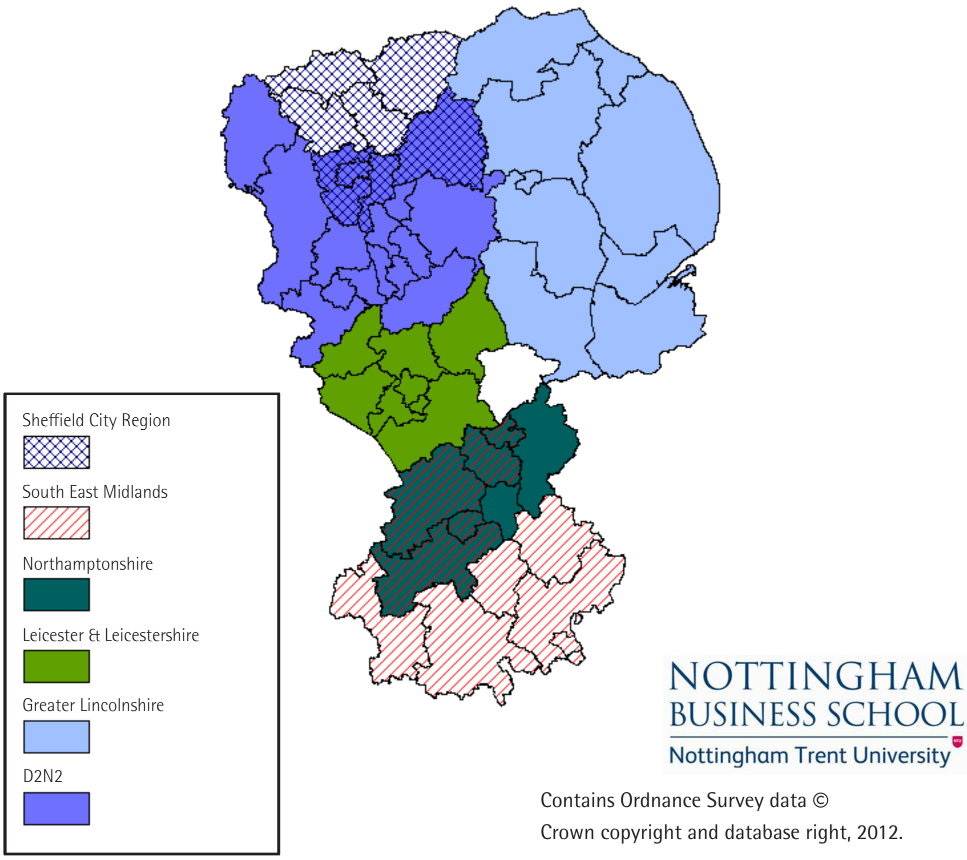
In June 2010, the government announced the abolition of the regional development agencies and invited local authorities to work with businesses to form local enterprise partnerships (LEPs) based on geographies that reflected the "natural economic geography of the areas they serve".[5] Practically speaking, LEPs would take the form of boards comprising private-sector representatives and elected local authority members, ideally chaired by a prominent local business leader, providing "strategic leadership in their areas to set out local economic priorities".[6] From 62 proposals received by the September deadline, 36 LEPs were eventually approved, covering 97% of England's population.[7]

Map 1 shows the LEPs that include local authorities in the East Midlands:

- **Sheffield City Region LEP** (which includes local authority districts in South Yorkshire);
- **Derby, Derbyshire, Nottingham & Nottinghamshire** (D2N2) LEP (which includes local authority districts that are also within Sheffield City Region);
- **Leicester & Leicestershire LEP**;
- **Greater Lincolnshire LEP** (which includes local authority districts outside the East Midlands – namely North Lincolnshire and North East Lincolnshire);
- **South East Midlands LEP** (which includes local authority districts from a range of areas outside the East Midlands, including Luton, Milton Keynes and Bedford); and
- **Northamptonshire LEP** (which includes local authority districts which are also in the South East Midlands LEP).

Note that Rutland Unitary Authority is not part of the above five LEPs. Instead it is part of Greater Cambridge & Greater

Map 1: Local enterprise partnerships in the East Midlands



Peterborough – which, with the exception of Rutland, covers areas outside the East Midlands.

Reflecting on the new geography of economic governance represented by the LEPs, two things are evident. First, in general, the LEPs are all far smaller than the old GOR for which the East Midlands Development Agency was responsible – although it is important to note that with a population of 2.1 million, the D2N2 is the fifth-largest of the current LEPs by population and is roughly equivalent in size to the entire North East region. Second, significant parts of the region and its surrounds fall within the boundaries of more than one LEP. Of the 40 local authority districts and unitary authorities in the former East Midlands GOR, 9 are covered by more than one LEP, as illustrated in detail in appendix 2. This clearly presents challenges in co-ordinating bids for RGF and other funding, and is also an issue for monitoring and evaluation.

Interestingly, the new geography of the LEPs in the region is not as new as it may seem. It is noteworthy that Derbyshire and Nottinghamshire were identified in 1966 as a discrete economic subregion, "the Northern Industrial Belt", by the East Midlands Regional Economic Planning Council. Similarly, the area covered by the Greater Lincolnshire LEP bears some similarity to the pre-1974 county.

It remains to be seen how significant these "overlaps" will prove to be. There is a risk that they will create unhelpful ambiguities in relation to the emerging roles and responsibilities of the new LEPs. It is also possible that a more fragmented and parochial regional voice will diminish the influence and awareness of the East Midlands within Whitehall and thereby adversely affect the area's ability to attract public resources.

Regional housing structures

The Homes & Communities Agency (HCA) was created in 2008 (by the Housing & Regeneration Act)[8] as a non-departmental public body responsible for funding affordable housing and physical regeneration investment in England, taking on some of the activities of the Housing Corporation, English Partnerships and the Academy for Sustainable Communities. The 2008 Act set out the principal responsibilities of the HCA as:

- improving the supply and quality of housing; and
- securing the regeneration or development of land and infrastructure.

Following the change of government in 2010, regional administration of HCA activities was reorganised. Previous regional boundaries were scrapped and activity related to the East Midlands was managed through the "central field", which covered the East and West Midlands and the northern Home Counties, including Buckinghamshire and Hertfordshire. This area has been administered from Birmingham since 2010.

Prior to the establishment of the HCA, there had been a Housing Corporation office in the East Midlands since the 1970s. The office had the same boundary as the East Midlands GOR throughout the period until the merger of activities within the HCA and its subsequent reorganisation. As a result it is possible to track the housing allocations for new provision against the GOR boundary throughout the period. Additionally, until the recent reorganisation, the Housing Corporation/HCA had consistently retained senior regional representation for the East Midlands – both to communicate national policy regionally and to relay regional issues back to the centre.

Regional co-ordination in housing

There has been a significant degree of co-ordination between the officers responsible for housing expenditure in local government and the Housing Corporation responsibility for funding housing associations and latterly other registered providers. This was driven forward from the early 1990s by low-level co-ordination around funding and liaison with local government and other statutory bodies. This was formalised through the operations of the Regional Housing Board – a body accountable to the regional assembly and administered by the government office for the region. This body was a forum for debate and made recommendations both on the total amount of funding required for housing at a regional level and on the subdivision between new-provision private-sector investment and regeneration. The major statutory agencies and other relevant bodies (such as the National Housing Federation) were represented on the Regional Housing Board.

However, a major weakness in this situation was the fact that RDA funding and related economic development priorities (as articulated in the regional economic strategies) were not formally integrated within these structures – causing a possible disconnect between economic development and housing objectives. In most regions, the linkages between the parties were maintained by more informal partnership working and the efforts of individuals.

The funding and institutional changes since 2010 have had three different impacts on partnership working. First, because of the level of funding cuts, all housing organisations are reviewing and changing their business strategies and to a good degree doing this in isolation from each other. Second, as LEPs do not have housing as a core activity, there has been a greater division between the economic and housing strategy work of the area. The HCA has been trying to encourage more joint working, but with limited success. There are signs, however, that a range of bodies, including East Midlands Councils, the Association of Directors of Economy, Planning & Transport, the National Housing Federation and the Chartered Institute of Housing, are all looking at ways to promote strategic partnership working which bridges the economic and housing divide. Most of this work is at an early stage and is affected by severe resource limitations, but it does indicate that there is awareness and a willingness to tackle these issues. The propositions in section 5 put forward ways in which these positive developments can be strengthened.

2b. Characteristics of the economy

In 2010, total gross value added (GVA) output in the East Midlands was just over £81 billion, 6.4% of the total for the UK, while GVA output per head in the East Midlands was 88.3% of the UK average. This output gap with the national average, which is also the case with regions like the North East and the West Midlands, was identified by previous governments (both Conservative and Labour) as the principal justification for intervention and investment. Tackling the "regional problem" of underperforming areas in the UK would ultimately increase overall national competitiveness.[9]

Within the East Midlands the latest data available is for 2009.[10] This shows that GVA output per head is highest in the cities, in Nottingham and Derby, and lowest in the region's more rural areas. However, this data needs to be treated with caution, as it is workplace-based and will overstate levels of GVA output per head in those areas that experience significant amounts of inward commuting (such as Nottingham and Derby) and understate it in areas that experience outward commuting.

Enterprise and business activity
In 2010 there were over 153,000 businesses in the East Midlands, or 6.7% of the total UK business stock.[11] This appears to be a significant under-representation compared with the East Midlands' share of national population, principally because London accounts for by far the largest share of the business stock (17.5%). Between 2009 and 2010 the number of businesses in the East Midlands fell by 2.8%, which exceeded the fall experienced nationally (the total business stock fell by 1.8% in the UK) – possibly indicating that business activity in the East Midlands had been more seriously affected by the recession than had activity elsewhere in the UK.

The number of businesses also fell in all three cities in the East Midlands between 2009 and 2010, and the extent of the decrease exceeded the regional average in both Leicester and Derby – raising challenges for private-sector job creation in these cities and the extent to which they can be regarded as "engines for growth" in isolation from other areas of the region, if recent trends continue. The most significant fall occurred in the relatively rural county of Lincolnshire, where the business stock declined by 4.3% – demonstrating the impact of the recession on rural enterprise.

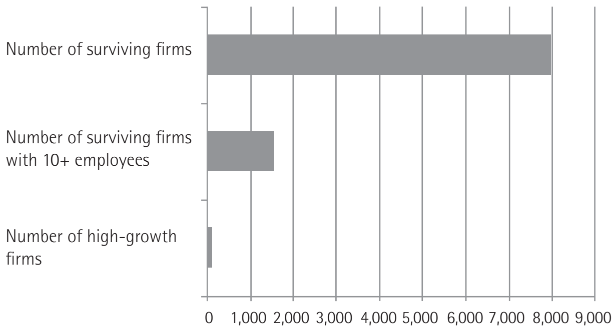
In 2010 the business birth rate in the East Midlands was 9.3%, which was also below the UK average of 10.2%.[12] In 2010 the business death rate in the East Midlands was 12.7%, just below the UK average of 12.9%. The business death rate was highest in Leicester (16.4%) and lowest in East Lindsey (10.1%). Business death rates are generally higher in the region's urban areas. Coupled with generally higher business birth rates, this suggests that levels of business churn are higher in the region's urban areas.

High-growth businesses and employment creation
Although business start-up and churn are clearly important in ensuring that resources continue to be efficiently allocated (with inefficient or uncompetitive firms dying and new, more competitive firms replacing them), what happens after the start of a business arguably has a much greater impact on economic growth and, particularly, employment creation. Recent research published by Nesta[13] on high-growth companies sheds some light on this issue.[14]

High-growth companies are important because they account for a significant proportion of employment growth in the economy, around half of that in the UK between 2002 and 2008.[15] They are also more resilient – they were less likely than other companies to become insolvent during the recession.

However, despite accounting for half of all new employment creation, such companies only accounted for around 6% of surviving businesses in the UK. Similar data is available for a number of economic centres in the East Midlands. Chart 1 shows the data for Nottingham for 2007-10 as an example – but the picture is consistent with this elsewhere.

Chart 1: High-growth companies in Nottingham 2007-10



Source: Nesta *Vital Growth: The Importance of High-Growth Businesses to the Recovery* (2011)

The chart shows that almost 8,000 businesses in Nottingham survived through the 2007-10 period. Of these, just over 1,500 had 10 or more employees at the end of the period. Finally, just under 100 experienced at least one year of high growth as defined above. This closely reflects the pattern in the available data at national level.

The local growth white paper[16] goes so far as to advocate LEP support for high-growth businesses. There is, however, a catch when one considers what this might mean in practice. The challenge for policy is that while we know a certain amount about the characteristics of high-growth companies – that they tend to have high demand for skills and to be "innovation-intensive" and can struggle to raise expansion capital – they are also very hard to identify before they have experienced a period of high growth, they appear no more likely to be located in urban than rural locations, and seem to be evenly distributed across industrial sectors.

Unemployment and the impact of recession
Prior to the onset of recession in 2008, the East Midlands was the only one of the Northern and Midlands regions to enjoy an employment rate higher than and an unemployment rate lower than the relevant national averages. The impact of the recession has been to increase unemployment across the whole of the region. However, consistent with the national picture, the greatest unemployment impacts have tended to bear hardest on those localities that had the highest unemployment levels before the recession. This means that the greatest unemployment impacts have been felt in the cities (especially Nottingham) and the Northern former coalfield areas of the region.

In order to discuss the possible impacts of recent interventions, such as the RGF, it is important to remember that the government's original objectives for such funds included the targeting of resources in areas that were experiencing significant employment losses owing to the recession and/or were likely to experience a relatively large share of job losses as a consequence of reductions in public-sector spending. [17] This is discussed in more detail in the following section on rebalancing.

Between September 2007 and September 2011, Nottingham went from having the 13th-highest to the eighth-highest unemployment rate (out of 378 local authority districts or unitary authorities) in England. Similarly, Mansfield went from 90th to 38th and Erewash from 148th to 72th. Unemployment in the D2N2 LEP increased by 3.4 percentage points, the seventh-highest increase out of the 39 LEPs nationally. This stands in marked contrast to parts of the South and East, where localities like Oxford, South Buckinghamshire and Cambridge experienced little increase in unemployment since the recession.

Economic structure and 'rebalancing'

"Rebalancing" has become a central tenet of the Coalition government's economic policy discourse. It is, however, a remarkably difficult concept to pin down. In use, it has proven to be an extremely flexible concept, meaning a number of different things:

- Originally, for the first round of RGF funding, it referred to "rebalancing" areas that were overly dependent on the public sector for employment – in other words, rebalancing towards private-sector job creation.
- DBIS policy statements (especially those from Vince Cable) have used it to refer to the need to rebalance the UK economy away from a reliance on financial services and towards manufacturing.
- It has also been used to refer to a wider "rebalancing" as part of the Coalition's macroeconomic policy, shifting the share of UK GDP away from public investment and household consumption towards an "export-led" recovery.

Each of these conceptualisations suggests that the present "balance" of the UK economy is sub-optimal. This of course raises the question: what is the optimal balance – either sectorally or spatially – of the UK economy? Sadly, this is not a question to which there is an obvious analytical response. In this context, however, it is worthwhile to consider the economic structure of the East Midlands economy.

As a region, the East Midlands is not atypical in terms of the degree to which it is reliant on public-sector employment, although most of the region's cities and large towns do host significant concentrations of public-sector employment – particularly linked to health, education and wider public administration. The proportion of public-sector employment in total employment in the East Midlands fell from 20.1% to 19.2% between Q4 2010 and Q4 2011 – a loss of 15,000 jobs over the period.[18]

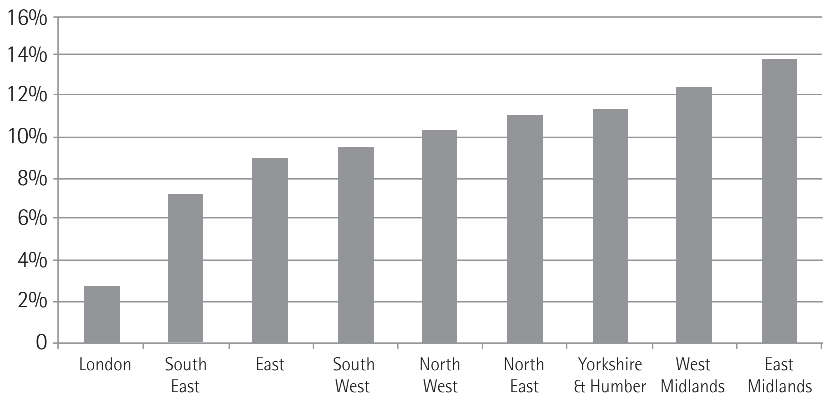
However, the fact that it is home to a nationally, and indeed internationally, significant concentration of manufacturing activity makes the East Midlands exceptional.

Manufacturing in the East Midlands

In light of the second interpretation of "rebalancing" set out above, as elaborated by business secretary Vince Cable[19] – namely the perceived need to "rebalance" activity away from an over-reliance on financial services and towards sectors such as manufacturing – it is important to note that manufacturing is a more significant part of the East Midlands economy than in any of the other English regions. Manufacturing gross value added in the East Midlands in 2009 was around £12.4 billion, which is 15.8% of total regional GVA output, a higher proportion than in any other region. The average for the UK is 10.3%.

In 2010 around 265,400 people were employed in manufacturing in the East Midlands. This is 13.3% of total employment in the region and is, again, the highest proportion of any of the English regions, as illustrated in chart 2 and table 2. The average for the UK is 8.5%.

Chart 2: Manufacturing employment (percentage of total workplace-based employment, 2010)



Source: ONS Crown Copyright, 2010, *Business Register and Employment Survey.* From NOMIS, 3rd May, 2012.

Table 2: Manufacturing in the English regions

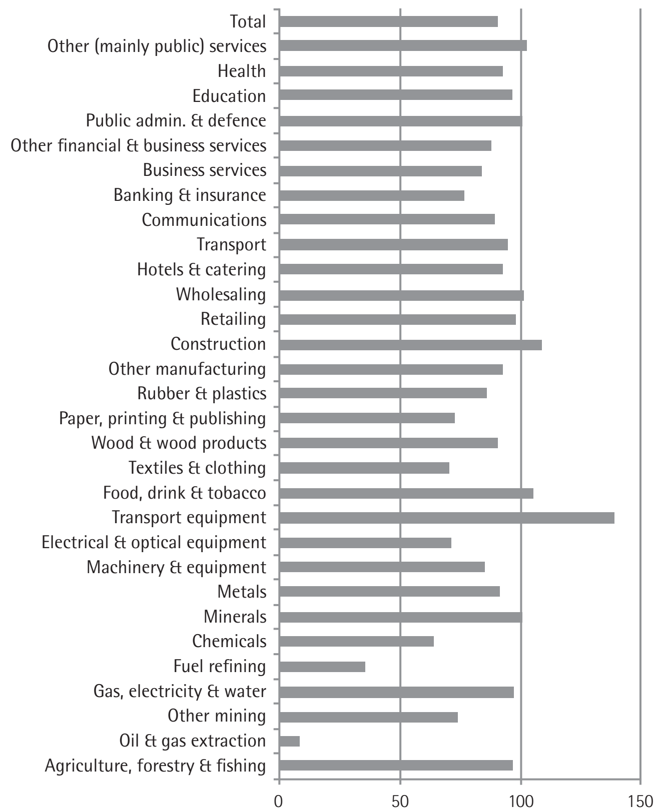
	GVA output, 2009		Employment, 2010	
	£bn	% of total	Number	% of total
North East	5.457	13.8	113,600	10.9
North West	16.103	13.8	308,100	10.0
Yorkshire & Humber	12.774	14.7	254,200	11.1
East Midlands	**12.354**	**15.8**	**265,400**	**13.3**
West Midlands	11.832	13.1	289,500	12.0
East of England	11.782	11.0	221,600	8.8
London	7.685	2.8	116,300	2.7
South East	15.707	8.8	275,500	7.0
South West	10.710	11.3	222,400	9.1
UK (GB for employment)	**126.739**	**10.3**	**2,372,400**	**8.5**

Source: ONS Crown Copyright, 2011, *Regional, sub-regional and local gross value added*; and ONS Crown Copyright, 2010, *Business Register and Employment Survey.* From NOMIS 22nd March 2012.

The importance of sectors is not just a function of scale. Chart 3 shows sectoral productivity (GVA per full-time-equivalent job) in the East Midlands compared with the UK overall (UK=100). Note that some sectors are significantly more productive regionally than nationally – the East Midlands has a competitive advantage. The outstanding sectors by this yardstick are the manufacture of transport equipment, the manufacture of food and drink, and construction.

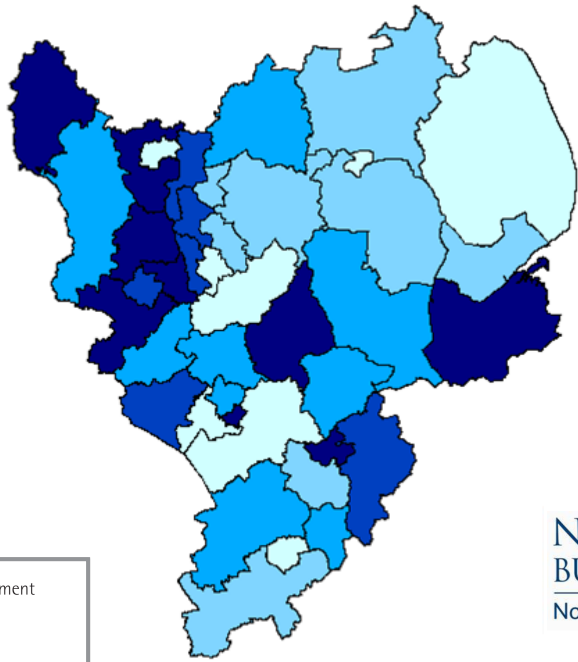
Manufacturing employment as a proportion of total employment is highest in the East Midlands compared with all other regions, but it is far from evenly distributed across the region, as map 2 demonstrates.

Chart 3: Productivity by sector (GVA per full-time-equivalent job) compared with UK overall (UK=100)



Source: Experian Regional Planning Service, 2011

Map 2: The distribution of manufacturing employment in the East Midlands (% of total workplace-based employment, 2010)



NOTTINGHAM BUSINESS SCHOOL
Nottingham Trent University

Source: ONS Crown Copyright, 2010. *Business Register & Employment Survey.* From NOMIS, 3rd May 2012.
Contains Ordnance Survey data © Crown copyright and database right, 2012

What map 2 does not show is that the local concentrations of manufacturing more widely reflect specific subsectoral concentrations:

- transport equipment manufacturing (automotive, aerospace, rail) around the M1 corridor and Derby; and
- food and drink manufacturing in South Lincolnshire, Melton Mowbray and East Northamptonshire.

These concentrations of high-quality manufacturing are clearly of great relevance to the on-going discussion of the sectoral "rebalancing" of the UK economy.

Indeed, the presence of this world-class manufacturing capability, associated with companies such as Rolls-Royce and Toyota, raises interesting questions about the spatial distribution of funds such as the RGF that are explicitly intended to promote manufacturing-led or export-led recovery. These are manifest strengths that UK plc can ill afford to ignore, and yet, with the exception of one significant allocation of around £40 million in RGF funding to Derby City Council (linked to the aftermath of Bombardier's failure to win the recent Thameslink contract), this is exactly what appears to be happening.

The East Midlands – the region with the highest manufacturing share of both employment and output of any English region – has been remarkably unsuccessful in securing public investment geared towards "rebalancing", as is documented elsewhere in this paper.

As discussed in the propositions in this paper, in section 5, the under-recognition of the East Midlands' unique manufacturing strengths is not a criticism of Whitehall. Rather, it corresponds to a lack of awareness and consistency in messages from regional and local partners, a lack of staff capacity to engage with economic evidence amongst these organisations, and thus an under-reflection of manufacturing in bid submissions funding related to the government's "rebalancing" objectives. For example, during the interviews we conducted with regional stakeholders as part of this project, no interviewee was aware that the East Midlands had the highest proportion of output or employment in the manufacturing sector, nor were they aware of the particular productivity advantages related to subsectors such as transport equipment manufacturing.

2c. Housing demand supply and costs

Population

According to the mid-year population estimates for 2010, the East Midlands had a population of 4.48 million. The region's population is estimated to have grown 7.5% since 2000 (from 4.17 million), which is the third-highest regional growth rate in England (compared with average UK growth of 5.7% over the decade, as shown in table 2).[20] Although the percentage change is the third-highest of the nine regions, absolute change is the sixth-highest – but is still significantly greater than for the West Midlands (185,600 additional individuals); the North West (161,500) and the North East (63,200). These growth rates are particularly striking when compared with those of the other

Midlands and Northern regions.

Table 3: Total resident population by NUTS1 region

NUTS1 region	2000	2010	% growth
North West	6,774,200	6,935,700	2.4
North East	2,543,400	2,606,600	2.5
West Midlands	5,269,600	5,455,200	3.5
UK total	58,886,100	62,262,000	5.7
South East	7,990,600	8,523,100	6.7
Yorkshire & Humber	4,958,600	5,301,300	6.9
Northern Ireland	1,682,900	1,799,400	6.9
South West	4,917,100	5,273,700	7.3
East Midlands	4,168,100	4,481,400	7.5
London	7,236,700	7,825,200	8.1
East of England	5,375,000	5,831,800	8.5

Source: ONS *Mid-Year Population Estimates 2000-2010*

Looking forward, the East Midlands population is expected to increase by around 45,000 a year from 2006 to 2031.[21] It is anticipated that this will equate to the formation of an additional 27,570 households each year. It is further estimated that to meet this demand for housing, some 28,600 new dwellings will be required each year from 2006 to 2031. This is exactly double the average annual number of housing completions of 14,300 between 2000 and 2010.[22] Furthermore, some 123,000 households are known to be on waiting lists for social housing within the region.

Housing demand

As the population forecasts indicate, population growth and household change are strong and continuing in the East Midlands. There is clearly significant unmet demand in the area. In 2010 there were 123,000 households on housing waiting lists, which was 7% of the national total. This is an increase of 23% over the decade, from 100,611 in 2001.[23] In the same year, households accepted as homeless by local authorities were 7.9% of the national total, which was an increase from 6.1% in 2001. The level of homelessness in the area in 2010 was only marginally below the national average including London.[24]

The East Midlands has the third-fastest growing population in England. The Office for National Statistics estimates indicate that population in the area is likely to increase at 45,000 a year for the next 20 years and that over 28,000 homes are needed annually just to meet household growth. This figure has been adjusted downwards from the original 2006 base.

The housing stock in the East Midlands

In 2010 there were 1.9 million dwellings in the East Midlands. This represented 8.6% of the national housing stock and was an increase from 2001 of around 150,000 homes.[25] Table 4 shows the total housing by tenure nationally and in the East Midlands between 2001 and 2010.

Housing growth in the East Midlands has been slightly higher than the national average. However, the changes in tenure are much more striking than the overall change. Nationally there was an absolute reduction in the number and proportion of owner-occupied homes, while in the East Midlands there was a very small increase. At the same time there was a very dramatic increase in both private renting and in renting from housing associations. In many respects this reflects the fact that renting in these categories was behind the national profile in 2001 and caught up in 2010. In the same period, renting from local authorities fell by 71,000 homes, a drop of 28%, reflecting the impact of right-to-buy and transfers to housing associations.

Lettings made by local authorities and housing associations in 2010 in the East Midlands amounted to 30,828 homes, forming 9.1% of the national total lettings.

One irony is that, despite the large amounts of capital funding to housing associations over the past 10 years and an increase of almost 50,000 housing association homes in the area, lettings of housing association properties (in terms of new tenancies) in the East Midlands actually fell by almost 10% between 2001 and 2010, from 7,907 to 7,242 a year.[26] This is the most striking indication of shortage in the area. The reason for the fall in new tenancies is the difficulty of obtaining decent alternative

Table 4: Comparison of dwellings growth in England and the East Midlands 2001-10

Area	Year	Owner occupied (%)	Private rent (%)	Housing association (%)	Local authority (%)	Total ('000)	Change (%)
England	2001	70	10	7	13	21,207	
	2010	65	17	10	8	22,693	
	Change	-7	+70	+43	-38	1,486	+7
East Midlands	2001	73	9	4	14	1,797	
	2010	68	16	6	10	1,950	
	Change	-7	+78	+50	-29	153	+9

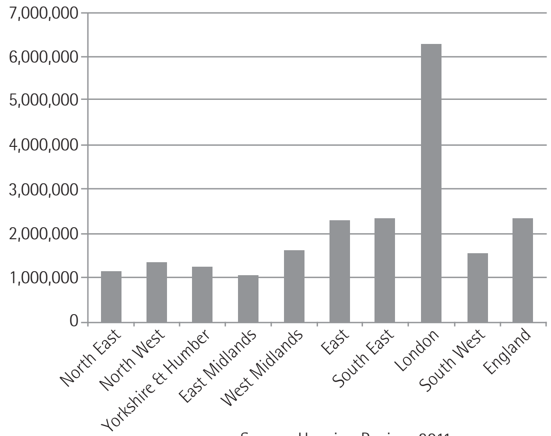
Source: DCLG live tables, 2012

accommodation, which means that people do not move on from housing association homes to other forms of occupation. In particular, it reflects increasing demand for all properties and the difficulty for first-time buyers in buying owner-occupied property in the area.

House prices

Average house prices in the region in 2010 were £185,000, an increase on 2001 prices of close to £100,000.[27] This figure was significantly higher than for the North East, but was almost identical to for Yorkshire & Humber and the North West, and was actually lower than the figure for Scotland. The National Housing Federation calculated that the ratio of house prices to income in the region was 8.3%, compared with a national average of 11.2%. Also, the gross annual income needed to repay a mortgage on a lower-priced house was £51,000 – 2.5 times average incomes in the area.[28] One very important statistic was that in 2010, the average valuation of building land for housing, with planning permission, was the lowest of any region including the North East, and was less than a fifth of the valuation of land in London and only 45% of the national average.

Chart 4: Average land value with planning permission for housing 2011 (£/hectare)



Source: Housing Review, 2011

Affordable rents

Rents in the East Midlands are some of the lowest in the country. Affordable rents have been defined by the government as 80% of full market rents. As can be seen from table 4 below, rents of all sizes of property in the East Midlands are between 10% and 15% lower than in the West Midlands and between 21% and 32% lower than the national average.[29] Rents are more affordable in the region than in most other regions. On the other hand, the national Affordable Homes Programme for 2011 to 2015 has been based on increasing supply funded from higher rents. This approach is not likely to work well in a region like the East Midlands, because of the relatively low amount of additional money raised from 80% market levels. This is also an argument for higher, rather than lower, subsidy levels in the area.

Table 5: 80% market rents by region

(£/week)	1 bed	2 bed	3 bed	4 bed	5 bed
East Midlands	89	109	125	165	204
West Midlands	98	120	139	186	233
South East	128	160	195	267	364
London	201	260	329	400	400
England	113	141	169	226	301

Source: National Housing Federation, derived from valuation local-level data (June 2010)

Current house building in East Midlands

The East Midlands makes a very big contribution to improving housing in the UK. Table 5 shows house building over the last 10 years. As the table indicates, over the past 10 years the East Midlands has contributed a more than proportionate share of the national housing supply. Almost 18,000 homes were completed in 2007, making it the highest year; 2011 was the lowest, with just under 10,000 completed. The average over the period was around 14,000 homes. Throughout this period the East Midlands completed more homes than the West Midlands. The reduction in the proportion of the national supply built in the East Midlands was significantly less than for the West Midlands, which lost more than a third of its 2001 supply. What is even more striking is that the decrease of around a third in the East and West Midlands is in sharp contrast to a 44% increase in the production of homes in London over the same period.

Table 6: Housing completions in England 2001/11

	East Midlands		West Midlands		London		England
Dwellings completed	**Homes**	**%**	**Homes**	**%**	**Homes**	**%**	**Homes**
2001	14,100	10.9	13,370	10.3	13,930	10.7	129,870
2011	9,930	8.5	8,640	7.3	20,040	17	117,870
Change (%)	-4,170	-29	-4,730	-35	+6,110	+44	-12,000

Source: DCLG live tables, 2012

3. Lost opportunities

3. Lost opportunities

3a. Housing

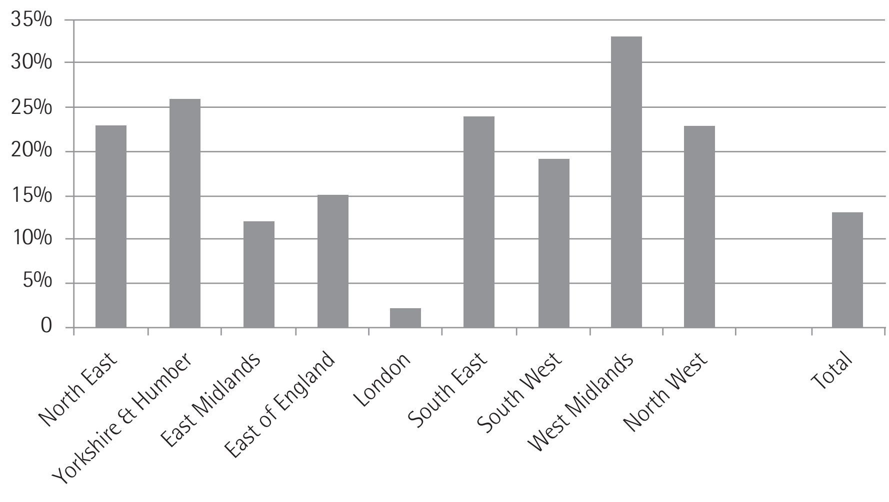
Current housing stock and building levels
The East Midlands has been making a major contribution to improving housing in the UK. Although the total stock of housing association dwellings in the East Midlands was well below the national average in 2010-11, the area accounted for 8.4% of social housing completions in England. The private sector also delivered above its current national proportion, with 10.2% of private house completions nationally in the same year.[30]

Funding for new affordable homes 2008-15
The ability of the region to deliver a disproportionate number of homes has not been reflected in government funding. Since 2008, the region has been receiving a disproportionately small share compared with other regions. In the Homes & Communities Agency funding round for 2008, the three-year programme for affordable housing was increased by 23% outside London, but the East Midlands received the lowest increase of all provincial regions: a proportionate cut of almost 10%.

This situation was made worse when the new Affordable Homes Programme for 2011-15 was announced. That programme was much smaller than previous programmes at the national level, but the allocation of funds to the East Midlands was disproportionately reduced. As the figures in table 7 show, only 4.1% of national funds have been allocated to the area in 2012, and this will provide enough funding for only 4,183 homes (5% of the national total). As housing associations in the East Midlands produced 3,800 homes in 2010,[31] this means that over the four-year period, housing associations are being funded to provide only the equivalent of around one year's previous output.

Cost of provision in the East Midlands
The explanation given by the Homes & Communities Agency for the poor allocation of funds to the East Midlands is that the bids from East Midlands housing associations were not competitive and failed to meet cost criteria. We have carried out an analysis of the funding in the 2011-15 Affordable Homes Programme round, and conclude that this explanation lacks credibility. The average grant rate in the East Midlands in 2012 is below both the Midlands and national averages.

Chart 5: Regional increases in allocation for affordable housing 2008-11



Source: DCLG *Regional Housing Pot 2008-2011* (2012)

Table 7: Regional distribution of the HCA's Affordable Homes Programme 2011-15

Area	Rent		LCHO		Total		Funding		
	Homes	%	Homes	%	Homes	%	Total £m	%	Average £ per home
East Midlands	3,175	4.7	1,008	5.3	4,183	4.9	68.1	4.1	£16,281
Midlands	11,841	17.7	3,158	16.6	14,999	17.4	270.7	16.1	£18,046
England *	66,964	100	18,972	100	85,936	100	1,678.1	100	£19,527

Source: HCA, 2012; London figures included are recorded at a different start date

If we look back at the 2008-11 programme, this cost argument becomes even harder to understand. The cost breakdown in table 8 demonstrates that, overall, the East Midlands had the second-lowest cost of provision in the country, well below that for the other Midlands regions. Table 9, meanwhile, shows that land costs were also the fifth-lowest, and below those for the West Midlands.

Table 8: Regional costs in the 2008-11 National Affordable Housing Programme
HCA total cost per rented home 2008-11

Region	Total cost per unit £'000	Percentage of national average %
London	206	151
South East	151	111
South West	132	97
East	130	96
West Midlands	127	93
North East	123	90
North West	120	88
East Midlands	117	86
Yorkshire & Humber	116	85
England	136	100

Source: HCA, 2011

Table 9: Regional land costs in 2008-11 National Affordable Housing Programme
HCA land cost per rented home 2008-11

Region	Land cost per unit £'000	Percentage of national average %
London	63	210
South East	32	106
West Midlands	30	100
South West	29	97
East Midlands	28	93
East	25	83
Yorkshire & Humber	23	77
North West	20	67
North East	19	63
England	30	100

Source: HCA, 2011

The East Midlands consistently lost market share between 2008 and 2011. Table 10 shows that the grant rate per property in the East Midlands during that period was again the third-lowest in the country.[32] The Homes & Communities agency reports that the cost of grant per person during that period was the lowest of all regions. These facts, together with the average grant rate for 2011-15, cast doubt on whether cost of provision/grant cost has been used consistently to judge Affordable Homes Programme bids.

Table 10: National Affordable Housing Programme regional rented grant rates 2008-11

Region	Average grant % per rented home
London	48
North West	43
West Midlands	42
South West	41
South East	41
Yorkshire & Humber	41
East Midlands	41
North East	39
East	35
England	41

Source: HCA, 2011

This contradiction that, despite the competitive cost of historic National Affordable Housing Programme allocations and new Affordable Homes Programme bids in the East Midlands, a disproportionately low allocation was made in 2011, requires further examination. The National Audit Office published a report into the allocation of the national Affordable Homes Programme for 2011-15 in July 2012. In paragraph 9 of the executive summary of this report, it states:

… [The Homes & Communities Agency] considered a number of different factors when assessing bids, but the grant per home was the key driver. The number of homes offered by providers afforded some scope for competition; because offers exceeded expectations the agency could choose between providers and encourage providers to resubmit offers so as to reduce the amount of grant required. As a result, the agency was able to reduce the grant per home from an average of around £22,000 in providers' initial bids to around £20,000. However, its final decision-making process was not fully prescribed so we could not repeat the process to see how the agency made individual decisions or whether it could have secured better value for money.[33]

This raises two issues for this report. First, that the National Audit Office indicated that the decision-making processes were not sufficiently transparent to allow a true value-for-money assessment to be made, which is consistent with the difficulty we have had in understanding the logic of the relative allocations to the East Midlands.

Second, and crucially, the report indicates that a negotiation period took place nationally, which reduced the grant rate nationally by 10% from £22,000 to £20,000. There is no evidence that such negotiation was offered to associations in the East Midlands, and it could be that the associations were under the mistaken belief that their original grant rate submissions were acceptable to the HCA. As some of the associations with the largest programmes historically received nothing at all in the allocations, this lack of an opportunity to negotiate is difficult to explain.

If the distribution of these resources cannot be explained on grounds of cost of provision, this points to the fact that a lack of locally accountable structures has indeed had a very adverse effect on the local affordable housing provision within the counties making up the East Midlands. No other region has had such a negative movement in the last few years. The East Midlands has some geographic and institutional similarities with the East of England and the South West, but appears to lack the political priority of those areas.

Additional programmes 2011-15

Empty Homes: The government has made available £100 million to local authorities, registered providers and other organisations to tackle the problem of the 700,000 homes that lie empty nationally. This programme was allocated in two tranches, separately from the Affordable Homes Programme (although some of the terms of the allocations under this programme are the same as for the main affordable housing programme). The total amount of money available for this programme is relatively small, but it can be seen from table 9 that both the Midlands as a whole and the East Midlands received a more than proportionate allocation. The East Midlands received over half of the allocation to the Midlands area, and the Midlands received significantly more as a proportion than under the Affordable Homes Programme.

Table 11: Empty Homes allocations 2011-15

Area	Total	2011-15		
	£m	units	Average £ share	Share %
East/South East	10.7	748	14,304	14.7
London	16.2	1,155	14,102	22.4
Midlands	15.9	1,303	12,204	21.9
East Midlands	*8.4*	*740*	*11,281*	*11.5*
North East/ Yorkshire & Humber	11.5	1,094	10,560	16.0
North West	11.6	1,081	10,729	16.0
South/South West	6.5	480	13,602	9.0
Total	72.6	5,861	12,381	100.0

Source: HCA, 2012

Get Britain Building: This funding is significantly different from the other funds in the HCA portfolio. The funding is provided as either a loan or an equity investment. The purpose of the programme is to unlock private-sector housing schemes that have planning permission but are stalled because of cash-flow difficulties. The programme is targeted both on private developers and on sites that are described as "shovel-ready", that is, that can be quickly progressed. This programme had £523 million allocated to it in round 1; therefore it is significantly larger than the Empty Homes programme. Table 10a shows that while the Midlands as a whole received a high allocation of this funding, the East Midlands (table 10b) received only marginally more than under the main national affordable homes programme.

The reason for this is not clear, as again, the average cost of allocations is competitive in the East Midlands, but the area has suffered a further underinvestment. It could be linked to the requirement for all eligible sites to comprise more than 25 homes, but this is conjecture. What is of particular concern about these figures is the impact not only on housing supply, but also on the construction industry, which is in effect hit by a double blow. It also indicates that registered providers and the private sector are being equally affected by limited government investment. The reasons for this must be multiple and complex.

Table 12a: National allocations under Get Britain Building

Area	£m	Units	% share
East/South East	52.6	1,324	10.0
London	103.2	2,712	19.7
Midlands	111.7	3,371	21.3
North East/ Yorkshire & Humber	95.3	2,569	18.0
North West	101.7	2,461	19.4
South/South West	59.2	1,771	11.3
Total	523.6	14,208	100.0

Source: HCA, 2012

Table 12b: Midlands allocations under Get Britain Building

Area	Units	Regional share %	National share %
East Midlands	856	25	6.1
West Midlands	1,575	47	11.0
South East Midlands	940	28	6.6
Total	3,371	100	23.7

Source: HCA, 2012

3b. Regeneration funding

Until the Coalition's changed approach to funding subnational development within a wider programme of fiscal austerity, most English area-based regeneration funding outside the housing sector was allocated using a formula that included components such as population share and weighted indicators of need and opportunity (such as deprivation, business start-ups, innovation and so on). The largest allocations were to the regional development agencies, which amounted to £2,190 million in 2009/10. The business-led RDA boards decided, also partly on the basis of population and need but also, importantly, on the basis of opportunities, how this allocation would be invested subregionally and locally in order to achieve the greatest social, economic and environmental returns.

Undoubtedly most of these funds were allocated on the basis of competitive bidding, and all projects would have been scrutinised for their value to the public purse. The difference now is that the majority of funds available for physical regeneration projects have been contracted through a competitive process that is managed by central government. The largest of the grant funds, the Regional Growth Fund (RGF), has been managed directly by the DBIS and the DCLG. The outcome – presumably unintended – is a massive decline in the funds allocated to the East Midlands relative to other areas as well as in absolute terms.

In this section we look at the extent of the reduction in regeneration funds that have been allocated within the East Midlands area.

Regional Growth Fund
The Coalition government has initiated a new approach to subnational economic development, which has replaced the RDA formula-based allocations with a number of nationally administered initiatives, some of which (like the Manufacturing Advisory Service) have seen the continuation of work undertaken by the RDAs. Initiatives to invest in physical regeneration have been marked with the withdrawal of support for urban regeneration companies and with competitive bidding for funds. The first of these "challenge fund" opportunities was the Regional Growth Fund. Rounds 1 and 2 of the fund made £1.4 billion available, while £1 billion was made available in round 3 (bids for which are now being assessed). The funds therefore total £2.4 billion so far – to be spent over the four years 2011/12 to 2014/15.

Bids from within the East Midlands accounted for 13% of the total for RGF round 1 and 11% of the bids for round 2. The DBIS has calculated that the percentage of the number of projects allocated to the East Midlands is 4% of the total.[34] This is less than the South East & East's allocation of 5% and the South West's 6%, and significantly behind the 13% allocation to the West Midlands. The originally stated aim of the RGF is to rebalance the economy in those areas dependent on the public sector – the primary reason given by government for a third of the funding going to projects in the North East. However, this argument does not seem to justify the low allocation to the East Midlands, as we will explore in section 3.

The DBIS also calculates that the East Midlands – unsurprisingly, given the number of successful bids – has the lowest level of job creation resulting from RGF. This is substantiated by National Audit Office analysis of the impact of the RGF, with less than 2,000 jobs projected to be created or preserved by the RGF funding in the East Midlands in rounds 1 and 2.[35]

In total, the East Midlands had two successful bids (one of which has now been withdrawn) for RGF1 and seven successful bids in RGF2, out of a total of 89. Four of the successful bids were from companies in the D2N2 area and three from Leicester & Leicestershire. The value of these successful bids is £75 million,[36] which represents 5.4% of the £1.4 billion available. Over half of the total amount of the successful bids comprises one allocation to Derby City Council, in order to implement regeneration investment to compensate for the loss of jobs resulting from the government's decision not to award a contract to locally based rail manufacturer Bombardier.

No RGF funding has yet been allocated to the counties of Lincolnshire, Rutland and Northamptonshire. The North Lincolnshire and North East Lincolnshire districts are in the Greater Lincolnshire LEP area but in the Yorkshire & Humber government office region, and were each awarded project funding.

The actual amount drawn down depends in the first instance on the successful conclusion of negotiations to agree the terms and eligible expenditure for the grant. By mid June 2012 agreements had been signed for just under half of the £1.4 billion, on a total of 96 projects. Despite being a "regional" programme, seven of these projects, with a combined value of £231 million, were national projects, with funding going to Capital for Enterprise Ltd, the Community Development Finance Association, the Fredericks Foundation, VisitEngland, Creative England and Santander UK. Of the remaining £460 million agreed with projects in the regions, only £2 million has been agreed for a single project in the East Midlands.

In contrast, during the past three full years of RDA operation, the East Midlands had nearly 8.9% of the single-budget funds allocated to it,[37] representing £493 million. This is demonstrated in table 11. The table gives the allocation of funding to all RDAs, excluding London – given that physical regeneration in the capital has been skewed towards investment for the 2012 Olympic Games in recent years, with for example more than £500 million allocated to legacy on the main Games site alone.

The reasons for the massive difference between the proportion of RGF allocated to the East Midlands and the allocation of single-programme funding to the RDAs is at one level obvious, in that the RGF is a competitive fund and there were fewer projects of sufficient quality in the East Midlands than in other regions. However, the National Audit Office has cast doubt on the way in which the competitive process was conducted. It states that "a significant number of projects in the first two rounds performed relatively poorly on criteria such as the amount of additional employment supported and the ratio of economic benefits to public costs" and that there was no clarity as to how any other criteria used were either defined or applied.[38]

This implies that the decisions on the RGF were not based on consistently and objectively applied criteria, nor were the criteria themselves generally known to bidders. This would have made it extremely difficult for potential projects bidding into the second and third rounds to have considered whether they were eligible to apply, and to make applications that directed their focus at potentially "winning" criteria. It also raises the suspicion that successful projects were ones that were "in the know" or had other mechanisms for influencing government decisions on RGF funding. The analysis in the rest of this paper will suggest that these are important reasons for the lack of success in the East Midlands. We explore the relationship between the quality of local and subregional bids and the transparency of the central decision-making process in more detail in section 4.

Core cities and city deals
As well as stating that funding is targeted at areas of high dependency on the public sector, the government is also targeting the core cities.[39] According to the DCLG, 47% of round 2 of the RGF, amounting to £451 million, went to these cities and their hinterlands.

City Deals, which have recently focused on the political deal of elected mayors and associated devolution of powers to the mayoral offices, are another source of substantial government investment. The first two deals were for Liverpool and Manchester. For Liverpool the deal reportedly amounted to a package worth £130 million (most of which is capital investment supporting economic growth). Manchester's deal involves investing £1.2 billion into a revolving infrastructure fund, from which it will "earn back" an estimated £30 million a year of tax for the growth it creates. In July 2012, the government announced the deals in the remaining six core cities.

Significantly, the deals relate to areas wider than the cities themselves in all areas except Nottingham. In addition to Nottingham, the deals concluded are with Greater Birmingham & Solihull LEP, Bristol & West of England LEP, Greater Manchester, Leeds City Region, Liverpool City Region LEP, Newcastle/North Eastern LEP and Sheffield City Region (which includes some districts in the north of Nottinghamshire and Derbyshire – see appendix 2 for details).

Even though the deals are "payment by results" deals, they none the less divert revenues to the big cities that otherwise would have gone to the Exchequer. The summary of the City Deals to date[40] does not estimate the value over time of the resources reclaimed by the cities from central government if their growth plans are achieved, but with an ambition to collectively create 175,000 jobs over the next 20 years and 37,000 new apprenticeships, the resource will not be insignificant.

With only Nottingham and parts of Nottinghamshire and Derbyshire covered by a City Deal, this leaves the majority of the East Midlands outside this potential driver of growth and resources. Given that City Deals are a major part of the government's agenda for economic growth, and therefore a subject of government attention and scrutiny, it also leaves the East Midlands out of that sphere of influence and notice.

Table 13: Total RDA allocation by region (excluding London)

RDA/region	**£m**				**%**
	2007/08	**2008/09**	**2009/10**	**Total**	
Advantage West Midlands	291	279	275	845	15.26
East of England Development Agency	137	132	130	399	7.21
East Midlands Development Agency	176	159	158	493	8.91
North West Development Agency	395	391	386	1172	21.17
One Northeast	277	248	244	769	13.89
South East England Development Agency	163	160	158	481	8.69
South West of England Regional Development Agency	159	157	155	471	8.51
Yorkshire Forward	304	303	299	906	16.37
TOTAL (single budget)	1,902	1,829	1,805	5,536	100.00

Source: House of Commons Business & Enterprise Committee *Regional Development Agencies & the Local Democracy, Economic Development & Construction Bill*, fourth report of session 2008-09 (March 2009)

The government's position on the importance of the cities for growth has been exemplified by the creation of a cities minister and its avowal that cities are "the engine of growth". This is despite the government's own evidence, which suggests that the core cities have underperformed relative to smaller cities.[41] Drawing from information in the Annual Business Inquiry, the DCLG notes a correlation between private-sector knowledge-intensive business services and lower increases in claimant count in the economic slowdown.[42] However, the information alsodemonstrates that while core cities tend to have a higher share of knowledge-intensive business services, only Bristol has performed as well as the best on claimant count. The cities minister sees the size of the cities as an opportunity to exploit agglomeration effects and attract knowledge-intensive businesses. But arguably, there are other issues that affect the growth of companies (as we show later in section 3).

Growing Places Fund
Recognising that local enterprise partnerships had little tangible

role in economic development and that there were infrastructure barriers to economic growth, the DCLG and the Department of Transport jointly launched the £460 million Growing Places Fund, which allocated resources on a formula basis, to be accessed by all LEPS. The formula gives equal weighting to population and "employed earnings" (employment multiplied by earnings), thereby potentially favouring more successful areas. The weighting of allocation for the RDAs by contrast included a factor for deprivation – or need. The fund is a loan fund, with LEPs enabled to reinvest returns on their investments. Accountability for the LEP allocation is vested with one of the partner local authorities.

The five LEPs within the East Midlands have been allocated £37.5 million, which at 8.2% of the total fund is nearer, in proportionate terms, to the 8.9% allocation to the East Midlands Development Agency in the three years up to 2009/10. However, it is less than a quarter of the total Single Programme available to the RDA in a year, and only a third of the annual capital grant available through the Single Programme. And the Growing Places Fund has a wider remit, as it can fund infrastructure related to unlocking housing developments as well as developments targeted at employment generating developments. The total value of the fund is of course under a fifth of the Regional Growth Fund, making it a relatively small addition to the overall funds available from central government for physical regeneration.

Summary

It appears that the voice of the East Midlands in housing has not been strong for some time. This is despite the East Midlands having the lowest land price for house building in the country and the fact that, on all indicators, it appears that East Midlands housing provision is built more cheaply than in six of the other English regions.

There is no doubt that this pattern requires explanation, and the case put forward by the Homes & Communities Agency that underfunding of the National Affordable Housing Programme was the result of poor bidding by housing associations appears unsatisfactory.

Similarly, an explanation is required for the extremely low allocation of regional growth funding, the main source of physical regeneration government investment, which has been allocated on the basis of a national competition. The amount allocated is in stark contrast to the funds available to the region on the formula funding of previous years. The poor position of the region in terms of government investment is exacerbated by its lack of a major core city and the government's focus on City Deals.

We look for the reasons for this apparent anomaly and examine the institutional weaknesses behind it in section 4.

4. How the government's regeneration and housing policies work in the East Midlands

How the government's regeneration and housing policies work in the East Midlands

The outcomes, unintended or otherwise, of the current focus and methods for investing public funds in housing and regeneration have resulted in resources available to the East Midlands that reflect neither the opportunities nor the needs of the area compared with the rest of England.

The problem derives essentially from the East Midland's polycentricity, complexity of administration and capacity of local partnerships. The region is not unique in these characteristics – the South West shares them, for example, as do parts of other regions – but, as section 3 on lost opportunities indicates, the East Midlands seems to be at the bottom of the league tables for both housing and regeneration investment from government.

This section will explore the relationship between the government's policies and its impact on investment in the East Midlands.

Competitive bidding

Although the East Midlands area has been formally recognised for the past 70 years, the impetus to identify it as such has entirely come from central government for reasons of civil defence, land use planning and, more recently, as a precursor to developing a different political landscape in the form of regional government. From within the region there is a more fractured identity. This has been exacerbated by the predominance of two-tier government over most of the geography, with relatively small unitary cities (Derby, Leicester and Nottingham) and one unitary county (Rutland) making up the balance.

Polycentricity has its benefits in economic development terms, but its weakness is evidenced when there is a requirement to administer and resource competitive bidding. The cities, towns and counties of the region have little history of combining together to resource the common case for their wider areas. Even where there is an LEP covering two counties and two cities – such as D2N2 – the relative newness of the alliance and the limited resources available mean that capacity and capability to work towards a common purpose is limited, especially while local authorities are facing pressures to reduce their spending in light of wider fiscal austerity measures.

This is not to say that local authorities in the East Midlands are unaware of the efficacy of joint working or that they are incapable of working together. Some of England's primary examples of joint working across local authorities to produce joint planning documents are in the East Midlands. Lincoln and neighbouring local authorities have combined to work on plans for housing, while in north Northamptonshire the joint planning unit has agreed key policies on housing and employment, and Nottinghamshire and Nottingham are working jointly on a number of mutual interests such as skills and transport.

In addition, there are a number of examples of where local authorities are working with neighbouring councils outside and along the border with the East Midlands. Northamptonshire and its districts are working closely with the South Midlands LEP, especially as the latter has succeeded in winning an enterprise zone for the centre of Northampton. Derby is working with cities of a similar size to develop their case for a stronger role in economic growth.

Recently, LEPs and local authorities in the East Midlands combined with Sheffield City Region, South Yorkshire Transport Executive and MPs to write a joint case for Midland Mainline electrification and mount a co-ordinated debate in parliament, led by Loughborough MP Nicky Morgan. Participation by the East Midlands authorities was co-ordinated by East Midlands Councils (EMC).

These examples of working together are by their nature fragmented. They do not lead to the build-up of a consistently articulated picture of the needs and opportunities within the East Midlands. At present the only pan-regional organisation with a democratic mandate that could potentially co-ordinate this higher-order case for the region is EMC. However, EMC does not have the remit or the funding to co-ordinate a higher-order case for the region. The LEPS and local authorities in the region collectively have no voice.

The development of such a picture and voice is important not only for the immediate requirements of bidding for government resources (and other inward investment) but also for the longer-term shaping of future policy, which then in turn informs future government investment decisions. For example, the government has started the process of considering its approach to negotiation for and expenditure of European Regional Development Funding (ERDF). From the 2007-13 ERDF programme, the English regions have access to over £2.8 billion, of which the East Midlands has an allocation of £232 million (8.2% of the total). The allocation of resources in the future, and indeed eligibility for *any* resources, is likely to be very competitive. If the areas covered by the East Midlands are unable to articulate collectively the needs and opportunities they offer in order to achieve the objectives of the European fund, they are unlikely to be successful in having access to such funding in the future.

As described in section 3b, under the previous government, a large proportion of subnational funding for regeneration and economic development was allocated via formulae of need and opportunity (such as the RDA single pot). In order to place the onus on local identification of needs and opportunities, the Coalition has fundamentally changed this approach – with RGF and other funds described as "challenge funds" distributed on the basis of project or programme-specific competitive bidding. While the objective of this approach is clearly in line with the wider aim to achieve a more responsive, flexible and business-led approach to regeneration and economic development funding, it also has the consequence of disproportionately benefiting those local areas with long-established records of partnership working and organisational capacity – as also explored elsewhere in this paper.

A key argument made throughout this paper is that the East Midlands and its constituent local areas have many assets that complement the government's growth strategy (not least in terms of advanced manufacturing) but this case has not always been effectively made – arguably because of a lack of established partnership capacity. This view informs some of our propositions for local authorities at the end of this paper, but it is also important to consider whether there are any learning points for central government and its management of competitive bidding processes – not least in light of the National Audit Office's recent report on the Regional Growth Fund. This made the following suggestions:

- Appraisal techniques for bids should be standardised – in order for ministers to make objective decisions between bids, and in order to provide better feedback to bidders – embedding good practice in project appraisal used elsewhere in government departments.

- The government should consider setting published, quantified high-level objectives and measurable success criteria for the RGF as a whole – in line with cross-departmental good practice (such as the Treasury's Green Book guidance on appraisal and evaluation). This would also improve the quality of bids, as bidders would have a clearer idea of how their proposals could contribute to overall objectives and the ultimate success criteria of the fund.[43] Instead, information on success criteria has been limited prior to the submission of bids, while feedback to bidders has tended to be informal and has lacked a consistent and comparable appraisal of strengths and weaknesses against such criteria.

- Finally, the National Audit Office felt that some of these issues around transparency, consistency and quality of feedback to bidders were due to limited capacity on behalf of the RGF secretariat itself, which at times "struggled to manage the volume of work to conduct the appraisals for the second bidding round".[44]

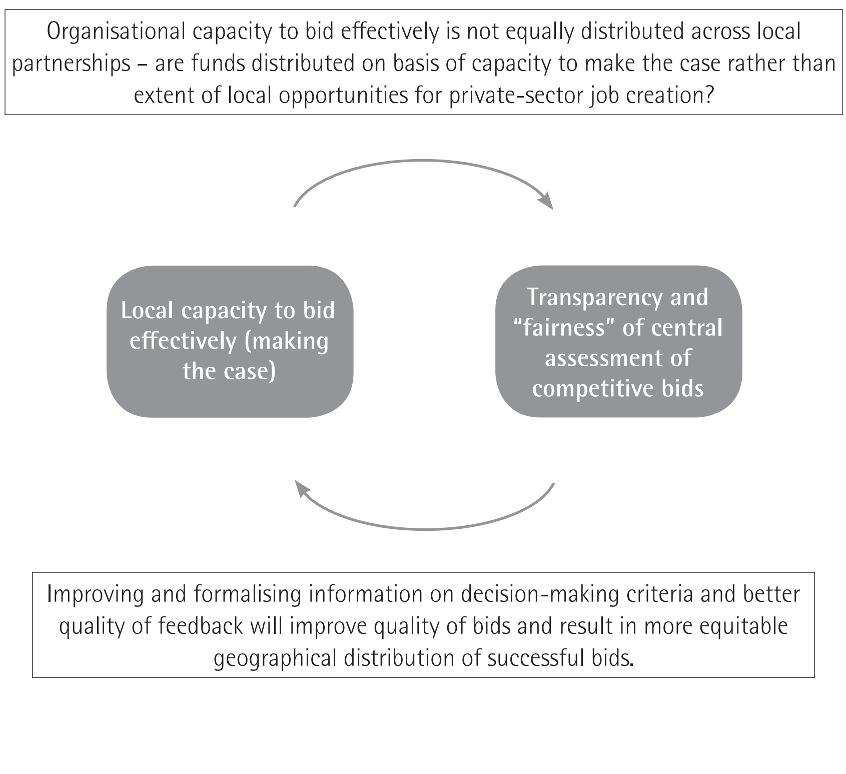
City focus

The situation produced by the East Midlands' polycentricity and administrative complexity contrasts strongly with the length of history of co-operation and resource available to the larger nearby cities and their wider conurbations, such as Sheffield, Liverpool, Manchester and Birmingham.

The resource available to the large conurbations has resulted in a significant lobby for the core cities, focused recently on the work of the Centre for Cities, which was set up in 2005. This has resulted in the establishment of a minister for the cities, a position currently occupied by Greg Clark.

The focus on cities has led to some convoluted attempts to include wider parts of the East Midlands within the remit of the Cities Ministry. So the D2N2 area is described as a city in Greg Clark's *Unlocking Growth in Cities*,[45] despite covering not just two cities – Nottingham and Derby – but also the surrounding two counties, which each have a number of significant towns. The suspicion is that this device has enabled the DBIS to justify the allocation of the single largest East Midlands RGF bid to Derby, rather than the core city Nottingham. Nonetheless a City Deal with Nottingham city has been negotiated by the DCLG separately, while Derby awaits later "deals".

Chart 6: Competitive bidding – local capacity and central processes



The case for cities as "engines of economic growth" on the basis of the agglomeration effects of the close proximity of centres of learning, population and attractive cultural offers has been effectively made. There has apparently been very little countervailing consideration concerned with the evidence of the location of high-growth firms and firms that are able to sustain themselves through recessions.

Rebalancing and the case for investment in the area

The converse of promoting core cities as the engines of growth is the recognition of the importance of smaller cities and towns and urban-rural dependency for economic growth and housing.

We have shown that spatial configuration is not a determinant of the location of high-growth, recession-resilient companies, and therefore there is limited economic justification for prioritising investment in large cities. There are, however, reasons to favour investment in areas like the East Midlands.

Government has articulated a desire to rebalance the economy, initially away from dependence on public-sector employment and towards greater private-sector employment. It has also articulated a desire to strengthen the manufacturing base. The East Midlands has a particular strength in manufacturing, with the highest proportion of employment and output in the sector of any English region, alongside a national productivity advantage in key subsectors, including transport equipment and food and drink.

This is not a coincidence. Economies such as the East Midlands are particularly attractive to inward investment and continued investment by manufacturers. Relatively easy access and egress for materials and finished products to places of manufacture and assembly is a critical issue. Similarly, improvements in processing upstream from local sources of crops and livestock in Lincolnshire have contributed to significant increases in productivity in that sector.

At the same time, in order to compete globally, the manufacturing sector requires a highly skilled workforce. The cities in the East Midlands provide excellent student and research and development facilities linked to the requirements of manufacturing. The rural and city interface provides easy access between good living environments and places of work that are important in attracting and retaining skilled labour.

Linked to good living environments is the quality and availability of housing. Both the Greater Lincolnshire and Leicester & Leicestershire LEPs have recognised, through their investment proposals for the Growing Places Fund, that housing development is an important element of economic growth, with their focus on using the loan fund to unlock housing.

From a government perspective, the recognition of the economic importance of housing does not appear to have been followed through to investment in social housing. Government appears to be concerned with the costs to the public purse of welfare payments to those in high private-rented areas but pursues a policy of affordable rents that does not recognise the very large differentials in the return on public investment in housing that is available in different parts of the country.

The increase in housing waiting lists of 23%, the increase in the proportion of homeless people in the area and the clear indication that households are not able to move easily in the region all point to a high level of demand in the East Midlands. The fact that government can deal with this shortage in a way that offers more value for money – through lower costs of house building and land acquisition – than in the vast majority of other parts of the country has not been recognised in recent government decisions.

The housing industry

Although the absolute size of the social housing sector within the East Midlands has increased significantly in the past 10 years, the sector has been less powerful in the area than in others. This is for two reasons. Overall, the level of social renting is 66% less than the national average and well below the level in the metropolitan city regions. Second, the area is characterised by several medium-sized local organisations and has neither national associations with their head office in the area nor any top 20 associations by size. This is in stark contrast to other Northern areas and the West Midlands, which each have several. This has severely limited the voice of associations and has meant that the resource level available to fund "added-value activities" such as innovation, experimentation, R&D and lobbying have been very restricted. It also tends to mean that direct avenues into government for consultation and comment are more limited than in other areas, and associations are therefore recipients rather than shapers of policy.

This picture is further segmented by an amount of local authority housing in the area that is above the national average and by the presence of several strong arm's-length management organisations (including in Nottingham and Derby), as well as retained housing in some of the larger towns and cities (such as Leicester and Mansfield). All of this has a tendency to dilute the capability of the housing sector to take common cause in the area. There are joint sector bodies in the National Housing Federation, representing housing associations, and the Chartered Institute of Housing, representing housing professionals, but they are beset by the difficulties of the fragmentation and resource shortage in the area.

In many ways this is doubly unfortunate because so many of the associations in the area, while evolving, have retained a strong sense of local identity and values which support the localism agenda of the government.

The private house-building sector is somewhat better represented, with several medium and large companies located in the region, and in many ways this is reflected in the high output of homes for owner-occupation.

Similarly, with a relatively small proportion of the population resident within unitary authorities (37%, compared with 65%

in the West Midlands and 89% in South Yorkshire) and housing being the remit of the second tier, social housing has a relatively small voice in LEPS. In the largest LEP, D2N2, there is no second- tier representation and no housing industry representation. Neither the private nor the social housing sectors have representatives until recently on the LEPs.

Government's policy on economic development makes no explicit link to investment in new and refit housing as being a way of getting economic activity into the economy and boosting growth while at the same time removing some of the barriers to growth by increasing labour mobility. Instead the government's growth agenda is focused on the economic impact of companies in general.

This may be because housing is a problem for cities. It is seen as just a social requirement rather than a part of the solution to economic growth – on the welfare state side of the government equation (and hence a drain on resources) rather than the dividends side. Consequently there has been a lack of articulation of the link between housing and economic growth and the costs of housing – especially social housing – within large centres of population.

Were the role of housing in regeneration and economic growth to be properly reflected in government policy, there might be a greater consideration of the role of the East Midlands in the housing and growth agenda.

5. Recommendations

Recommendations

What needs to happen to ensure that partners in the East Midlands area can achieve a more representative share of public investment, which will also maximise the wider impact of that investment in terms of national growth and "rebalancing" objectives?

The answer lies in actions taken by organisations within the region and central government. Presented below are some propositions that arise from our analysis of the lower relative share of public investment in the region to date.

Local authorities and LEPs

A coherent and consistent case
In order to be heard by government, local and subregional organisations need to develop a coherent and consistent case that is not necessarily defined solely by the counties, districts, boroughs and cities of the East Midlands, but which articulates the wider needs and opportunities of areas *like* the East Midlands.

Investment in capacity
Overall there needs to be recognition that the lack of capacity within partner organisations in the East Midlands compared with elsewhere (for instance, the North East or the Sheffield City Region) skews the basis on which government makes investment decisions, to the detriment of both the short-term and long-term prospects of areas like the East Midlands. There needs to be recognition that such capacity needs to be resourced. Local government and LEPs need to re-examine the resourcing of the LEPs themselves and the need to find a way to work together to promote ideas and issues that cross LEP boundaries. The statutory authorities in the area need to examine co-funding options that would increase the capacity of the current LEPs.

The Smith Institute's discussions with 30 organisations in the East Midlands in the development of this paper indicated that there was no appetite for a new organisation to adopt this role. The role therefore needs to form part of the work of an existing organisation, such as the East Midlands Councils, or a body that represents a wider geography but none the less can articulate the case for areas covered by the former East Midlands.

Shared awareness of strengths
There needs to be a shared awareness of the distinct strengths of the area, in terms of existing manufacturing capability, attractiveness for potential further inward investment in manufacturing, and the contribution this strength can make to the government's growth agenda.

Linked to this is the wider case for polycentricity and the interdependence of the rural and urban environments and economies. This contrasts with the dominance in policy thinking of the main cities and what is described as their "hinterlands" – a description that characterises the wider urban area as servicing the core city engine of growth but which is not a reflection of the reality in much of the East Midlands.

The East Midlands has both geographical and environmental advantages. The connectivity of the area to London and the rest of the country and beyond is second to none. As a choice of location for both individuals and corporations, the communications linkages are first-class. This is allied with an environment that combines sustainable-sized communities with high-grade rural areas. In any situation where there was a positive move to shift the population growth of the country away from the overheated South, then the East Midlands region would be a natural hub for that change to happen.

Linked housing and regeneration strategies
Along with a recognition and celebration of the area's strengths in manufacturing, there needs to be recognition of the role of housing and the competitiveness with which housing can be supplied in the East Midlands. In general LEPs have articulated the interrelatedness of strategies for transport infrastructure, business support, physical regeneration and skills development but have yet to make a connection between the role of housing in achieving wider economic development objectives.

Although some LEPs have promoted housing developments within their plans for the Growing Places Fund, greater connections between housing interests and the LEPs could be made through representation on the LEP boards by housing organisations.

More effective working with LEPS and the two-tier local government arrangements
Local government should recognise the risks of diluting the strength of their case for funding by engaging in multiple bids with various partners, rather than working collectively and positively with LEPs. Region by English region, the success in bidding for Regional Growth Funding is roughly in proportion to the percentage of a region's population in a unitary or metropolitan area. Although most local authorities will have unhappy memories of previous attempts to create unitary authorities, given the potential impact on future resources, LEPs provide an opportunity in areas like the East Midlands for many smaller local authorities to come together and successfully compete against the established metropolitan and pan-regional partnerships in the Northern regions (such as the Sheffield City Region, Greater Manchester, or North East and North West partnerships, built from previous Northern Way activities).

The housing sector

Greater collaboration in the housing sector
The housing association sector is affected by capacity difficulties, as outlined in the report. The region lacks very large locally based associations. At the same time there are several very capable locally responsive organisations, but none

above medium size. A greater willingness to collaborate on larger-scale projects and initiatives and to pool resources to a greater extent for innovation and development would almost certainly increase the housing capacity of the area.

In our work we found that the private-sector partners were very open to new ideas and approaches to tackle the cripplingly low level of current house-building activity. The interests of private house builders and those of registered housing associations and other providers have never been more closely aligned. The potential for greater collaboration, partnership working and risk sharing needs to be explored to avoid future problems like those listed in this report and to increase the capacity of the region to respond to current challenges.

Government

The propositions for government are centred on the need for departments and policy makers to review the impact of investment decisions in housing and economic growth and reflect on whether the best value for money has been achieved, and whether opportunities for supporting the UK economy and housing have been lost. Specifically, we propose that the government should do the following:

Reconsider the economic role of areas like the East Midlands

The government should recognise that large core cities and their hinterlands are not necessarily the only preferred location for high-growth, recession-resistant companies. And conversely there should be recognition of the distinctive importance of smaller towns and cities and of the urban and rural interdependency afforded by areas like the East Midlands. In particular, there should be a recognition of the role that areas like the East Midlands can play in rebalancing the economy towards a greater reliance on productive, innovative and export-orientated manufacturing (of a kind rarely found in the UK's largest cities).

Recognise opportunities of housing investment in East Midlands

The government should recognise that unit costs for housing in the East Midlands are low, while demand is high, and that therefore the region presents an opportunity both to stimulate the construction sector through value-for-money investment and to meet demand for social housing. The HCA could consider examining the factors that led to the under-allocation of affordable housing programme funds to the East Midlands and identify the role that its structures and processes played in arriving at spatial distributions of resources that are highly questionable. The HCA could identify the East Midlands as a first priority for any further rounds of government investment in social and affordable housing.

Improve transparency and availability of information on funding

There has been a problem with transparency and availability of information throughout the formulation of this report. Two successive National Audit Office reports have indicated that the level of information available on criteria and processes involved in the administration of challenge funding was not sufficient to determine whether the NAHP or the RGF had been allocated in a way that achieves value for money. In an era of constrained public funding, the transparency of these processes needs to be addressed as a matter of urgency.

Investment in capacity

If the preferred allocation method of regeneration investment is through national competition, there should also be investment in the capacity of government departments and agencies to:

- develop consistent and transparent criteria for bidding that learns from and is informed by successive competitions; and
- enhance capacity in regions and subregions where public-sector capability is weak in order that companies and LEPs are clear about the bidding process and the competition maximises the value of the outcome for the public purse. If funds are awarded to areas that happen to have the most developed capacity to bid successfully, rather than necessarily the strongest case in terms of need and opportunity, then that investment will have a less than optimal impact, as well as reinforcing entrenched inequalities.

Government to widen the remit and resources to LEPs

LEPs have been given a major role in supporting economic growth and well-being in their local areas. It appears that significant efforts are being made by the LEPs to deliver the agenda that they have been given, which is of critical importance because of the absence of any other supra-local authority body in the area. However, all the indications, including from independent assessments,[46] are that resources available to the LEPs are inadequate and that their remit is too narrow.

We do not believe that government should be required to fully fund local agencies that are undertaking promotional work. Government could look again, however, at the level of resource expectation of LEPs and their ability to carry out co-ordinated work that will enable them to deliver. In addition, there are no bodies above local authority level with a responsibility for assessing housing strategies and programmes. There is a strong case for close links between the economic and physical regeneration programmes and housing, which could be co-ordinated through a well-resourced LEP.

If new money cannot be made available, LEPs should be able to use local discretion on already allocated funding, such as the Growing Places Fund, to resource capacity. This flexibility is even more important in areas like the East Midlands, where there is no historical development of capacity.

Notes and appendices

Notes

1 Nesta *The Vital 6 Per Cent: How High-Growth Innovative Businesses Generate Prosperity & Jobs* (2009) (http://www.nesta.org.uk/library/documents/Vital-six-per-cent-Nov2010-v3.pdf)

2 Hardill, I, Benneworth, P, Barker M, and Budd, L (eds) *The Rise of the English Regions* (Routledge, 2006)

3 Combes, M, Charles, D and Raybould, S "City Regions and Polycentricity: The East Midlands Urban Network", paper prepared for EMDA (EMDA, 2005)

4 Derived from *Population Estimates Analysis Tool, Mid-Year Population Estimates* (2010, Office for National Statistics)

5 Letter from Dr Vince Cable MP and Eric Pickles MP to local authority leaders and chief executives inviting the establishment of LEPs, 29 June 2010

6 Ibid

7 HM Government *Local Growth: Realising Every Place's Potential* (October 2010)

8 HM Government *Housing & Regeneration Act 2008, Part 1: The Homes & Communities Agency* (2008)

9 Griffiths, A and Wall, S (eds) "Regional and Urban Policy" in *Applied Economics* (Pearson, 2007)

10 Office for National Statistics *Regional, Sub-Regional and Local Gross Value Added* (2011)

11 Office for National Statistics *Business Demography 2010* (2011)

12 Ibid

13 Nesta *Vital Growth: The Importance of High-Growth Businesses to the Recovery* (2011)

14 High growth is defined as annual employment growth of 20%.

15 Nesta *The Vital 6 Per Cent: How High-Growth Innovative Businesses Generate Prosperity & Jobs* (2009) (http://www.nesta.org.uk/library/documents/Vital-six-per-cent-Nov2010-v3.pdf)

16 HM Government *Local Growth: Realising Every Place's Potential* (October 2010)

17 For example, see the Criteria & Fund Objectives for the RGF published by the DBIS, which include "rebalancing the economy in those areas currently dependent on the public sector" (http://www.bis.gov.uk/policies/economic-development/regional-growth-fund/how-to-apply/criteria-and-fund-objectives)

18 Office for National Statistics *Public-Sector Employment, Quarter 4 2011* (2012)

19 For example, see Vince Cable's recent interviews in the *Financial Times* (18 June 2012) and *The Independent* (30 June 2012), where he stated that he would "hope and expect" the current share of UK GDP accounted for by manufacturing to edge up into the "high teens" (*FT*) and explicitly associated manufacturing with both the UK's export performance and the impact of productivity advantages on national living standards (*The Independent*).

20 Note: these estimates were current at the time of writing. With the recent publication of the 2011 Census, the East Midlands is now estimated to have grown at the second-highest rate in England between 2001 and 2011.

21 DCLG 2006-based population projections

22 The projections are trend-based and indicate the number of additional households that would form, and thus derived demand for additional dwellings, if recent demographic trends were to continue. Dwelling projections are from the ONS 2006-based subnational population/household projections commissioned by East Midlands Councils for RSS Partial Review 2008-2011. Note that later projections (2008-based) have been revised down slightly – but what remains consistent is the magnitude of the difference between demand and supply (that is, dwelling completions are less than half the level implied by population growth).

23 DCLG local authority tables

24 DCLG live tables

25 DCLG live tables

26 DCLG live tables

27 Housing Review

28 *Home Truths 2011: Fixing Our Broken Housing Market – East Midlands* (National Housing Federation, 2011)

29 National Housing Federation, 2012

30 DCLG live tables

31 DCLG live tables

32 HCA, 2011

33 National Audit Office *Financial Viability of the Social Housing Sector: Introducing the Affordable Homes Programme* (July 2012) (http://www.nao.org.uk/publications/1213/affordable_homes.aspx)

34 See: http://www.bis.gov.uk/assets/biscore/corporate/docs/r/

regional-growth-fund-summary.pdf

35 National Audit Office *The Regional Growth Fund: A Report by the Comptroller and Auditor General* (May 2012)

36 BIS PQ no 2012/496 (http://www.publications.parliament.uk/pa/cm201213/cmhandsrd/cm120619/text/120619w0006.htm

37 Allocated in the 2007 comprehensive spending review settlement; outcome expenditure differed from these amounts.

38 National Audit Office *The Regional Growth Fund: A Report by the Comptroller and Auditor General* (May 2012), p8

39 Department for Communities & Local Government *Unlocking Growth in Cities* (December 2011)

40 Cabinet Office *Unlocking Growth in Cities: City Deals – Wave 1* (2012)

41 Department for Communities & Local Government *Unlocking Growth in Cities* (December 2011)

42 Ibid

43 National Audit Office *The Regional Growth Fund: A Report by the Comptroller and Auditor General* (May 2012)

44 National Audit Office *The Regional Growth Fund: A Report by the Comptroller and Auditor General* (May 2012), p33

45 Cabinet Office *Unlocking Growth in Cities: City Deals – Wave 1* (2012)

46 Pugalis, L, Shutt, J and Bentley, G *Critical Issues in Economic Development: Local Enterprise Partnerships: Living Up to the Hype?* (Institute of Economic Development, 2012) (http://www.ccoc.org.uk/documents/Critical_Issues_LEPS_Issue_4.pdf)

Additional reference

Beckett, JV *The East Midlands from AD 1000* (A Regional History of England) (Longman, 1988)

Appendix 1: East Midlands key statistics table

Indicator	Value (date)	Source (all Office of National Statistics)
Total resident population: East Midlands NUTS1 region	4,481,400 (2010)	Mid-Year Population Estimates 2010
Population growth 2000-10: East Midlands	7.5%	Mid-Year Population Estimates 2000 and 2010
Population growth 2000-10: UK	5.7%	Mid-Year Population Estimates 2000 and 2010
Employment rate (% residents 16-64): East Midlands	70.9% (July 2010-June 2011)	Annual Population Survey, July 2010-June 2011
Employment rate (% residents 16-64): UK	70.1% (July 2010-June 2011)	Annual Population Survey, July 2010-June 2011
ILO unemployment rate (% of economically active residents 16-64): East Midlands	7.8% (July 2010-June 2011)	Annual Population Survey, July 2010-June 2011
ILO unemployment rate (% of economically active residents 16-64): UK	7.9% (July 2010-June 2011)	Annual Population Survey, July 2010-June 2011
Total GVA: East Midlands	£81.067 billion (2010)	Regional, Subregional and Local Gross Value Added, December 2011
GVA per head: East Midlands	£18,090	Regional, Subregional and Local Gross Value Added, December 2011
GVA per head as an index of UK=100: East Midlands	88.3	Regional, Subregional and Local Gross Value Added, December 2011
Total business stock: East Midlands	153,615 (2010)	Business Demography 2010, December 2011
Business birth rate (births as a % of total stock): East Midlands	9.3%	Business Demography 2010, December 2011
Business death rate (deaths as a % of total stock): East Midlands	12.7%	Business Demography 2010, December 2011
Business birth rate (births as a % of total stock): UK	10.2%	Business Demography 2010, December 2011
Business death rate (deaths as a % of total stock): UK	12.9%	Business Demography 2010, December 2011

Source: ONS Crown Copyright

Appendix 2: East Midlands LEPs – table of constituent local authorities

LEP	LA (district/unitary authority) covered – East Midlands LADs/ UAs in red	ONS LA (district/ unitary) code (NEW)	In the East Midlands GOR/NUTS1 region	In multiple LEPs
Sheffield City Region	Rotherham	E08000018	N	N
Sheffield City Region	Sheffield	E08000019	N	N
Sheffield City Region	North East Derbyshire	E07000038	Y	Y
Sheffield City Region	Chesterfield	E07000034	Y	Y
Sheffield City Region	Bassetlaw	E07000171	Y	Y
Sheffield City Region	Barnsley	E08000016	N	Y
Sheffield City Region	Bolsover	E07000033	Y	Y
Sheffield City Region	Doncaster	E08000017	N	N
D2N2	Derby	E06000015	Y	N
D2N2	South Derbyshire	E07000039	Y	N
D2N2	Erewash	E07000036	Y	N
D2N2	Amber Valley	E07000032	Y	N
D2N2	North East Derbyshire	E07000038	Y	Y
D2N2	Chesterfield	E07000034	Y	Y
D2N2	Nottingham	E06000018	Y	N
D2N2	Bassetlaw	E07000171	Y	Y
D2N2	Newark & Sherwood	E07000175	Y	N
D2N2	Mansfield	E07000174	Y	N
D2N2	Gedling	E07000173	Y	N
D2N2	Broxtowe	E07000172	Y	N
D2N2	Ashfield	E07000170	Y	N
D2N2	Rushcliffe	E07000176	Y	N
D2N2	Bolsover	E07000033	Y	Y
D2N2	High Peak	E07000037	Y	N
D2N2	Derbyshire Dales	E07000035	Y	N
Leicester & Leicester-shire	Blaby	E07000129	Y	N
Leicester & Leicester-shire	Charnwood	E07000130	Y	N
Leicester & Leicester-shire	Harborough	E07000131	Y	N
Leicester & Leicester-shire	Hinckley & Bosworth	E07000132	Y	N
Leicester & Leicester-shire	Leicester	E06000016	Y	N
Leicester & Leicester-shire	Melton	E07000133	Y	N
Leicester & Leicester-shire	North West Leicester-shire	E07000134	Y	N
Leicester & Leicester-shire	Oadby & Wigston	E07000135	Y	N
Greater Lincolnshire	West Lindsey	E07000142	Y	N

LEP	LA (district/unitary authority) covered	ONS LA (district/ unitary) code (NEW)	In the East Midlands GOR/NUTS1 region	In multiple LEPs
Greater Lincolnshire	East Lindsey	E07000137	Y	N
Greater Lincolnshire	North Kesteven	E07000139	Y	N
Greater Lincolnshire	Boston	E07000136	Y	N
Greater Lincolnshire	South Kesteven	E07000141	Y	N
Greater Lincolnshire	South Holland	E07000140	Y	N
Greater Lincolnshire	North Lincolnshire	E06000013	N	Y
Greater Lincolnshire	North East Lincolnshire	E06000012	N	Y
South East Midlands	Bedford	E06000055	N	N
South East Midlands	Central Bedfordshire	E06000056	N	N
South East Midlands	Luton	E06000032	N	N
South East Midlands	Milton Keynes	E06000042	N	N
South East Midlands	Aylesbury Vale	E07000004	N	Y
South East Midlands	Northampton	E07000154	Y	Y
South East Midlands	Kettering	E07000153	Y	Y
South East Midlands	Corby	E07000150	Y	Y
South East Midlands	South Northamptonshire	E07000155	Y	Y
South East Midlands	Daventry	E07000151	Y	Y
South East Midlands	Cherwell	E07000177	N	Y
South East Midlands	Dacorum	E07000096	N	Y
Northamptonshire	Daventry	E07000151	Y	Y
Northamptonshire	Kettering	E07000153	Y	Y
Northamptonshire	Corby	E07000150	Y	Y
Northamptonshire	Northampton	E07000154	Y	Y
Northamptonshire	East Northamptonshire	E07000152	Y	N
Northamptonshire	Wellingborough	E07000156	Y	N
Northamptonshire	South Northamptonshire	E07000155	Y	Y

Source: Adapted from Department for Business, Innovation & Skills *Local Authority (District/Unitary) Areas Covered by LEPs* (5 January 2012), accessed from www.BIS.gov.uk and reused according to the open government licence: www.nationalarchives.gov.uk/doc/open-government-licence/ Accessed by NBS on 19th March 2012

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Diana Gilhespy trained as an economist and has worked in universities, consultancy and a national trade union. She has over 25 years experience delivering economic development, 15 of which are with local authorities. In 2005 she was appointed as Executive Director of Regeneration and Development at the East Midlands Development Company and worked there until 2011.

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Richard Clark has worked in housing and regeneration for over 30 years. He has worked for local government, a new town the Housing Corporation and for 14 years was Chief Executive of Midland Heart Housing Association. He has championed diversity, community enterprise and housing for support throughout his career. He was Chair of the National Housing Federation from 2003 to 2003 and was awarded the OBE for services to housing in the West Midlands in 2003. Since 2008 he has been a housing and regeneration consultant with CIH and his own company.

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