

MR NORGROVE

6 November 1987

cc MR SORENSEN

MAXIMISING PRIVATE/PUBLIC LEVERAGE IN INNER CITIES

Getting the maximum "bang for the buck" from public sector investment is obviously a crucial consideration in our inner cities policy. However, the gearing ratio is not determined solely by the effectiveness with which individual projects are designed; it is also crucially affected by the general level of business confidence in the area which feeds through into the appraisal of investment opportunities. Thus, expressed as an equation:

$$\text{Private sector gearing} = \left(\text{Efficiency of Government schemes} \right) \times \left(\text{Private confidence multiplier} \right)$$

These terms are defined below.

- 1 The efficiency of public sector pump priming is a measure of the cost-effectiveness of Government input - the degree of targetting, level of displacement, substitution, etc. A key factor is the effectiveness of co-ordination at both national and local level.
 - At national level, ensuring the major initiatives are focussed on the same area at the same time when by doing so one can create a snowball effect that multiplies the impact of any one initiative on its own.
 - At local level, ensuring a proactive public sector role in pulling together packages across Government departments that can achieve the right mix to catalyse a particular

local development opportunity. The CAT team can provide a basic level of co-ordination, but a proactive response is likely to require a single individual within a local area who can take project management responsibility across departments for pulling packages together.

2 The private confidence multiplier - a measure of the willingness of business to invest private funds on the back of Government pump priming - is potentially even more significant in determining the leverage effect. It is on this factor that local business leadership teams can have a dramatic effect - by demonstrating commitment to get the regeneration process under way. The level of investment confidence obviously has much to do with subjective attitudes on the future prospects for a currently run down area. Getting some initial projects underway and demonstrating business commitment to the area can create a bandwagon of success which becomes self-sustaining - ultimately allowing the public sector to drop out completely. For example, in both LDDC and Glasgow, this has been reflected over the last couple of years in:

- rising rental values;
- rising land prices, making previously derelict sites worth restoring and developing;
- further investment proposals attracted to what now becomes classed as a "rising" property area.

In both areas, initial high leverage ratios have consequently been significantly reduced over time. By contrast, in Liverpool - despite huge injections of Government funds - the confidence factor has remained low, and private sector leverage has consequently been disappointing.

Conclusion

The conclusions from this analysis are:

- 1 We cannot measure the leverage effectiveness of a particular type of initiative in isolation - the success of any project will depend crucially on the wider confidence climate in that location.

- 2 Public sector investment is only likely to be highly effective in creating private sector leverage in situations where it fuels growing business confidence. We should therefore look for evidence of committed business leadership before committing significant public sector funds.

- 3 Private/public sector leverage might start out quite low, but as business confidence snowballs the attractiveness of private investment will increase and - raising the leverage effect to the point where public sector funds can ultimately be withdrawn.

NB.

NORMAN BLACKWELL

MR NORROVE

6.11.87



10 DOWNING STREET

David go.

Brian mentioned your concerns over ensuring we kept focus on private sector leverage in inner cities.

Could we use the attached as the starting point for a brief discussion with yourself, Eric Sorensen, BG & HB early next week?

Brian thinks it is too gimmicky! - but I'd be interested in your views on whether it helps take us forward.

Nam