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Local government's role in promoting economic growth: removing unnecessary barriers to success

Report

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Local government's role in promoting economic growth

Removing unnecessary barriers to success

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An independent report commissioned by the LGA

This report was commissioned by the Local Government Association (LGA) from Professor Tony Travers of the London School of Economics and Political Science. The text and the conclusions are his but he would like to acknowledge the assistance of LGA staff in undertaking some of the research and statistical analyses.

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Foreword

Councillor Sir Merrick Cockell
Chairman, Local Government Association

The Government has declared that it is going all out for growth, with the Prime Minister calling for war-time resolve in the effort to secure economic prosperity.

In its relentless desire to be seen to cut red tape, free businesses from bureaucracy and create an environment in which enterprise can flourish, the Government has embarked on a series of reforms. Many will help deliver local growth, such as the expansion of City Deals, plans to let councils share in the proceeds of any increase in business rates income and streamlining national planning policy to put local plans at the heart of development and growth. Some have been less productive, such as cuts to road maintenance funding and proposals in the Growth and Infrastructure Bill which will increase the powers, size and resources of a central government quango at the expense of local democracy.

The intention behind these reforms is laudable but the haphazard approach is throwing up unintended consequences and the direction of travel seems unclear. Sometimes it appears as if government departments are each dancing to their own tune, creating policies without speaking to one another or considering the broader consequences.

Simple mathematics dictates that until economic growth delivers more taxes to the Treasury the deficit cannot be reduced without cuts to public spending. As we approach the Autumn Statement, which will set out the Government's public spending intentions beyond the current Comprehensive Spending Review, it is time to re-open the debate on how best to deliver growth. That must include where in the public sector the greatest burden of future cuts should fall.

Local government is one of the few parts of the public sector which actively promotes economic growth. It is doing that in every single local economy in the country in a way which cannot be replicated by central government and is impossible to deliver through any other public body, a point which was recognised in Lord Heseltine's 'No Stone Unturned' report which rightly called for the greater devolution of power and resources to local areas. This is a policy that, if adopted, will deliver. But it requires courage, vision and political conviction. From that point of view the Government needs to be a bit more Tarzan and a lot less Jane.

But as local government's funding shrinks and demand for the most pressing council services, such as adult care and children's safeguarding, rises, that growth-promoting role is coming increasingly under threat. It is a frustrating irony that cutting local government funding undermines the chances of the swift economic recovery which would in turn help shore-up funding for local services.

Earlier this year our ‘Funding outlook for councils’ report clearly demonstrated that the rising cost of providing adult social care, combined with the growing cost of delivering councils' other explicit statutory responsibilities like children’s social services, waste collection and concessionary travel, would increasingly command resources to the point where the money available for non-statutory services would fall by 90 per cent by 2020. It is a stark reminder that debates on public spending are not about the respective balance sheets of public institutions but the provision of vital services on which people rely.

The pressure will become even greater as councils take on more responsibilities in coming years, with public health, council tax support and a range of other new roles contributing to the demands on and risks to local government funding.

This report, for the first time, shows the impact cuts are already having on the pro-growth services councils provide. It reveals that since 2009 the budgets for housing, planning and development, roads maintenance and culture have been cut by between 10 and 40 per cent nationally. Set against the context of the ‘Funding outlook’ report, the likelihood of meaningful expenditure on these services in future looks worryingly bleak, even in the short term. This would be hugely detrimental to the national economy.

The case studies in this report demonstrate that despite the pressure on local government finances, councils have been remarkably effective at instigating and delivering projects which create jobs and help businesses to flourish. In the West Midlands a group of councils beat international competition to convince Jaguar Land Rover to build a new engine factory in South Staffordshire. This is expected to attract £400 million in private sector investment over two years, along with more than 4,000 new jobs at the plant and in the wider supply chain. At the other end of the scale Calderdale Council has freed up funds to directly support new small to medium sized enterprises. This has so far led to 150 new businesses, created 500 jobs and attracted private investment exceeding the initial seed money.

Councils are also actively exploring opportunities to deliver new infrastructure and housing by levering investment from pension funds, attracting inward investment and pursuing greater freedom to be active in bond markets.

Up and down the country there are many more examples of similarly enterprising work from councils. But this vital work is now under threat.

This report clearly demonstrates that funding for local government has fallen by 15 per cent in real terms at the same time central government spending has risen. This is down to the fact that spending on health, schools, international development and social security are protected. If that remains the case, and the economy stagnates, it is inevitable that local government funding will continue to fall along the lines described in our ‘Funding outlook’ report. The consequence of that would be enormously damaging for many of the local services residents currently expect their council to provide, while undermining attempts to generate growth and deliver economic prosperity.

It is time to look at Whitehall’s increasing budget and question whether some of that money could be put to more effective use in supporting the locally based growth promoting projects which will help shore-up the economy, increase the tax take and help Britain pay down its deficit. We also need to examine how the protected parts of the public sector can be made to deliver the efficiency savings which are taken for granted in local government.

Local government was already the most efficient part of the public sector before the CSR set out the 28 per cent cut to the funding councils receive from central government. Since then, councils have been driven to even grater efficiencies, a process which has included downsizing the workforce by 230,000 staff and trimming £1.4 billion from the annual wage bill. None of this has been easy. And it will be impossible to repeat without ending some of the services which residents currently expect their council to provide, or changing silo-based nationally led public service delivery.

The Government listened when we called for councils to be allowed to keep a share of any growth in local business rates revenue as an incentive to promote local economies. It is predicted that this relatively modest step will deliver national economic benefits of somewhere in the region of £10 billion over the next seven years.

The Government also delivered on a promise to help councils foster local growth by devolving more power and resources to local areas through City Deals. These are already creating jobs and pumping money into local economies.

Both policies recognise that national economic recovery rests in large part on helping local areas to proper and grow. They provide a powerful pointer as to the direction in which this Government should travel if it wishes to secure prosperity.

It would be a fatal error to scale back local government funding to the point where councils can no longer provide local businesses with the support they need to get Britain back on its feet.

Councillor Sir Merrick Cockell
Chairman, Local Government Association

Introduction

Local government in the UK has delivered prudent economic management in recent decades. This approach has left it with a relatively strong financial position today. Councils are not heavily indebted, are cutting their spending in line with Treasury plans and have been credited by leading government politicians as being among the most efficient parts of the public sector. Yet the way in which overall public expenditure policy is operating is having the effect of reducing local authority expenditure faster than most major central government programmes. Within local government, demographics and risk of service failure mean that social care spending is being protected. Consequently, expenditure on pro-growth services such as housing, planning, economic development, culture, and highways is having to be reduced disproportionately. Comparisons of staff reductions within central and local government show councils have shed employees far faster than centrally-provided provision.

Local government in England is two and a half years into what is likely to be the longest period of public sector austerity in modern times. All the major political parties in the UK accept the need to reduce the large government deficit that has existed since 2009/10. In the 2010 'Spending Review' the Chancellor decided to cut local government at a faster rate than health, education, or work and pensions[1]. Because UK economic growth has been slower than expected in the two years since the 'Spending Review', it now appears likely that the period over which council spending will be reduced will extend well beyond the final year of that review. Local government has been told to expect such reductions until perhaps 2020. There is no reason to believe that the original decision to require disproportionate spending reductions from councils will not be repeated in the next spending review. Recent analysis from the Institute for Fiscal Studies reinforces this likelihood[2].

Yet local government has also been seen as a key agent in promoting the renewed economic growth required to help strengthen the British economy. Councils are pursuing pro-growth policies to attract businesses and investment. Soon after the 2010 'Spending Review' was published, the Deputy Prime Minister (DPM) launched a white paper entitled 'Local growth: realising every place's potential'[3]. In his foreword the DPM noted: "We are bringing an end to the top down initiatives that ignore the varying needs of different areas. We are creating local enterprise partnerships to bring together business and civic leaders to set the strategy and take the decisions that will allow their area to prosper". Localities were to be the key to growth.

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[1] *Spending Review 2010*, HM Treasury, Cm 7942, Table 1 and Table 2.21

[2] Institute for Fiscal Studies Autumn Statement 2012: More fiscal pain to come?, IFS, http://www.ifs.org.uk/bns/bn136

[3] *Local growth: realising every place's potential*, Cm 7961, October 2010

But there is an obstacle to this policy. The decision to require local government to make disproportionate spending reductions has directly led to the need to reduce spending on pro-growth services. Within the budgets that Whitehall has decided to cut, councils have little option but to protect social care for children, older people and people with disabilities. Similarly, street cleaning, refuse collection, waste disposal, and other basic public provision will have to be protected. With overall budgets falling and relatively large-ticket items such as social care and local street services protected, it is inevitable that heavy cuts fall on all remaining provision. If local government's books are to balance, then growth-related services such as planning, economic development, transport and housing will have to dwindle.

The decision to require councils to make relatively large reductions in spending cannot have been related to their propensity to manage budgets or hit spending targets. No local authority can, by law, budget for a deficit. Indeed, central government's longer-term role in managing public expenditure has been a barrier to councils' medium-term budget planning. Because of top-down control of local government by the centre, national economic management has constrained councils in delivering consistent budgeting over time. England is a remarkably centralised country, a point made recently in Lord Heseltine's report 'No Stone Unturned'[4]. More problematically, Whitehall has often delivered erratic economic management which councils have been obliged to follow. This issue is considered below.

[4] *No Stone Unturned in pursuit of growth*, Lord Heseltine of Thenford CH, DBIS, October 2012, para 2.7

1. Central control of local government and its effects

1. Longer-term impacts of public expenditure planning

As the recent Heseltine Report has acknowledged, taxation and public finance in the United Kingdom are, by international standards, highly centralised. OECD statistics suggest that compared with other large democracies in Europe and North America, the British Chancellor controls almost all taxation. In the UK only council tax, representing 1.7 per cent of GDP, is not set by central government. Of course, in England even this tiny amount has been capped by Whitehall for over 25 years. The proposed retention of part of the non-domestic rate from 2013 will increase the 1.7 per cent figure to approximately three per cent of GDP.

In Canada, Germany, Spain and Sweden the taxes determined by local and state/regional government exceed 10 per cent of GDP. None of the other major OECD countries shown, even France, has such a small proportion of overall tax determined by local government. Britain is the ultimate top-down major democracy.

Tax-setting in Britain is extremely centralised

Tax set at each level of government as a % of GDP

	Local government	State/regional government	Local + state/regional	Central government	Social security	Total
Canada	3.1	12.2	15.3	12.8	2.9	31.0
France	5.8	0	5.8	14.4	23.9	44.2
Germany	3.0	7.9	10.9	11.8	14.3	37.1
Italy	6.8	0	6.8	22.6	13.4	42.9
Spain	3.0	7.3	10.3	9.5	11.7	31.6
Sweden	15.9	0	15.9	22.8	5.6	44.5
United Kingdom	1.7	0	1.7	26.9	6.7	35.5
United States	3.9	5.2	9.1	10.3	5.7	25.1
OECD (2010)	3.9	5.0	8.9	20.2	8.3	33.8

All figures are for 2011, except the OECD totals, which are for 2010. Data for 2011 incomplete.

Source: Derived from 'OECD Revenue Statistics Comparative tables', http://tinyurl.com/revenuestatistics

In common with many attributes of Britain's constitutional arrangements, the uniquely centralised nature of public finance is an accident of history. Even in the recent past, local government tax income as a proportion of GDP was substantially higher than it is today. Between 1920 and 1975, the figure ranged from about 4.4 per cent to 4.8 per cent[5].

[5] Figure 1.5.2: 'Local authority rate income and gross domestic product at 1975 prices', in *Local Government Finance in a Unitary State*, C D Foster, R Jackman and M Perlman, George Allen and Unwin, 1980

In the 19th and early 20th centuries, local taxation raised more resources than income tax in the UK.

During the 1970s and 1980s, a debate took place about the extent to which the Treasury needed to control local authority spending as part of macroeconomic management[6]. Today's Treasury documentation locates local government spending within 'Total Managed Expenditure' which is the overall headline figure used for macroeconomic control purposes. It is assumed that council spending will be limited as part of the wider management of the public finances.

Indeed, in a document published as part of the Government's business rate retention proposals, the Department for Communities and Local Government (DCLG) made clear that: "Spending Review 2010 set out expenditure control totals for local government over the four-year period from 2011/12 to 2014/15. We expect that business rates collected in England in 2013/14 and 2014/15 will be greater than these expenditure control totals…To deliver a fiscally sustainable system and avoid putting at risk the Government's deficit reduction programme, we will ensure that the business rates retention scheme operates within the set limits."[7] Local government spending is directly controlled by the Treasury as part of its efforts to cut the deficit.

Yet the evidence suggests that in the United Kingdom local government is arguably better at controlling its expenditure than central government. The Government's own data show an erratic path of growth in recent decades for total expenditure, current expenditure and capital expenditure.

The figure below shows the results of central government's control over spending in the 40 years since 1972. Annual increases in Total Managed Expenditure have exceeded 10 per cent in real terms twice, in 1973/74 and 2001/02, and more than five per cent in real terms in eight out of 41 years. In 21 years out of 41, real growth was below two per cent, including seven when it fell. There are regular changes to the rate of growth (and decline) in expenditure, sometimes in a counter-Keynesian direction. There are times when spending rises while the economy is growing and then falls during a recession. There were particularly sharp downwards adjustments after both the 'Heath-Barber' boom of the mid-1970s and the 'Blair-Brown' boom of the 2000s.

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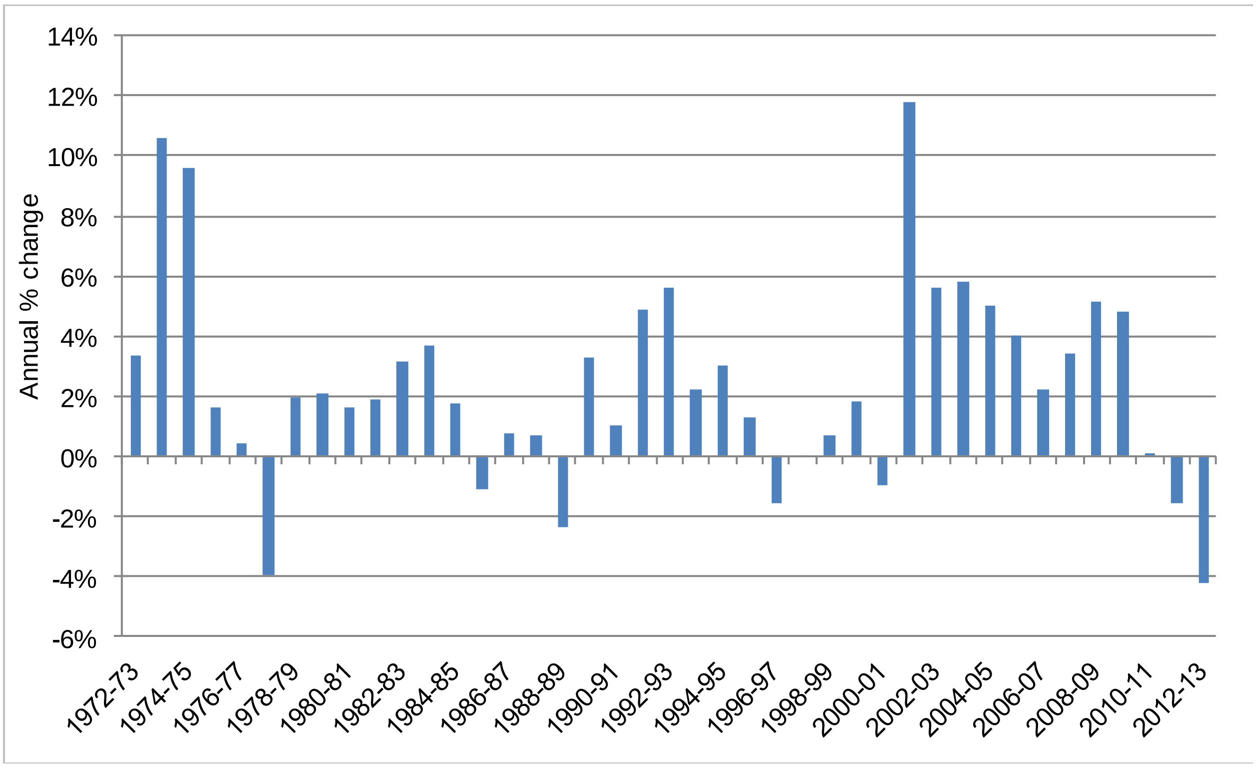
[6] See, for example, 'Evidence by HM Treasury' in *Local Government Finance Report of the Committee of Inquiry* (The Layfield Report), page 277-285, London:HMSO, 1976

[7] *Local Government Resource Review: Proposals for Business Rates Retention Consultation*, DCLG, July 2011, paragraphs 3.4 and 3.5

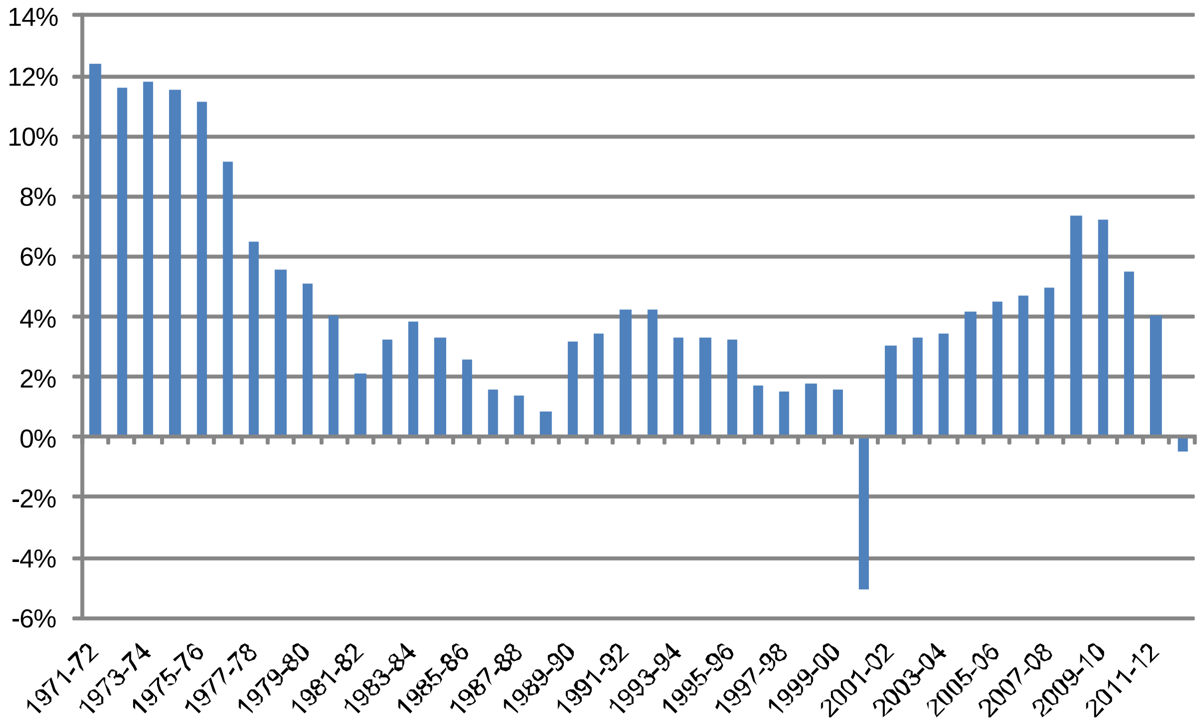
Public spending growth is erratic over time



Source: Office for National Statistics (Public Expenditure Statistical Analyses, 2012)
Note: chart shows percentage annual change in total managed expenditure.

Central government has also chosen to favour consumption over investment. The figure below shows public sector net investment as a proportion of Total Managed Expenditure in the years since 1972/73. In most years, net investment is less than five per cent of all public expenditure. Even allowing for the netting-off of asset sales and off-balance sheet arrangements, the proportion devoted to capital investment is small. Local government capital spending has been constrained over this period by tax-capping and other controls put in place by the Treasury.

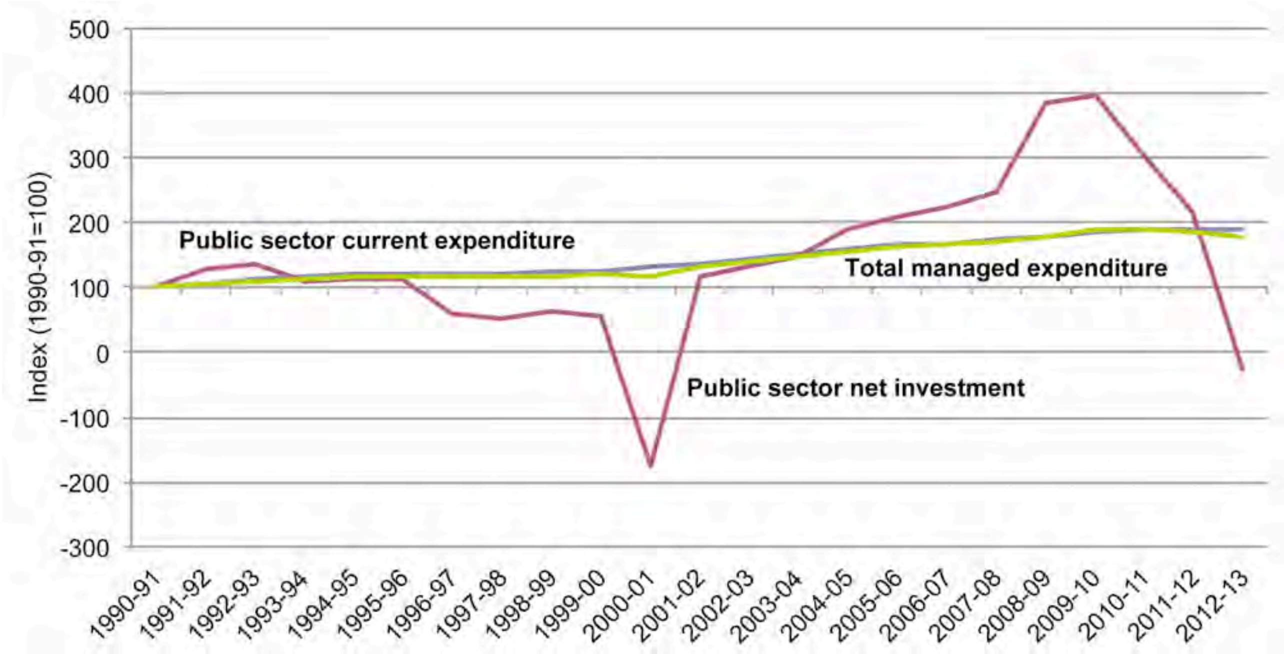
Successive governments have favoured consumption over investment



Source: Office for National Statistics (Public Expenditure Statistical Analyses, 2012)
Note: chart shows public sector net investment as a percentage of total managed expenditure.

As the figure above shows, investment has been only a relatively small percentage of all public expenditure in the years since the late-1970s. In almost all years since 1979, net investment has been less than five per cent of all State spending. Of course, there have been asset sales and a number of off-budget initiatives such as PFI, but even allowing for these factors the level of investment implemented by successive national governments has been, at best, modest. In addition, the rate of capital investment has varied enormously from year to year. In almost half of the years since 1972/73, capital spending has fallen in real terms. Occasionally there are sharp bursts of growth. But the overall pattern is, at best, unpredictable. Local government has been required to fit its investments in housing, leisure facilities, transport, roads and economic development projects within this erratic system of control.

Government capital investment varies sharply over time

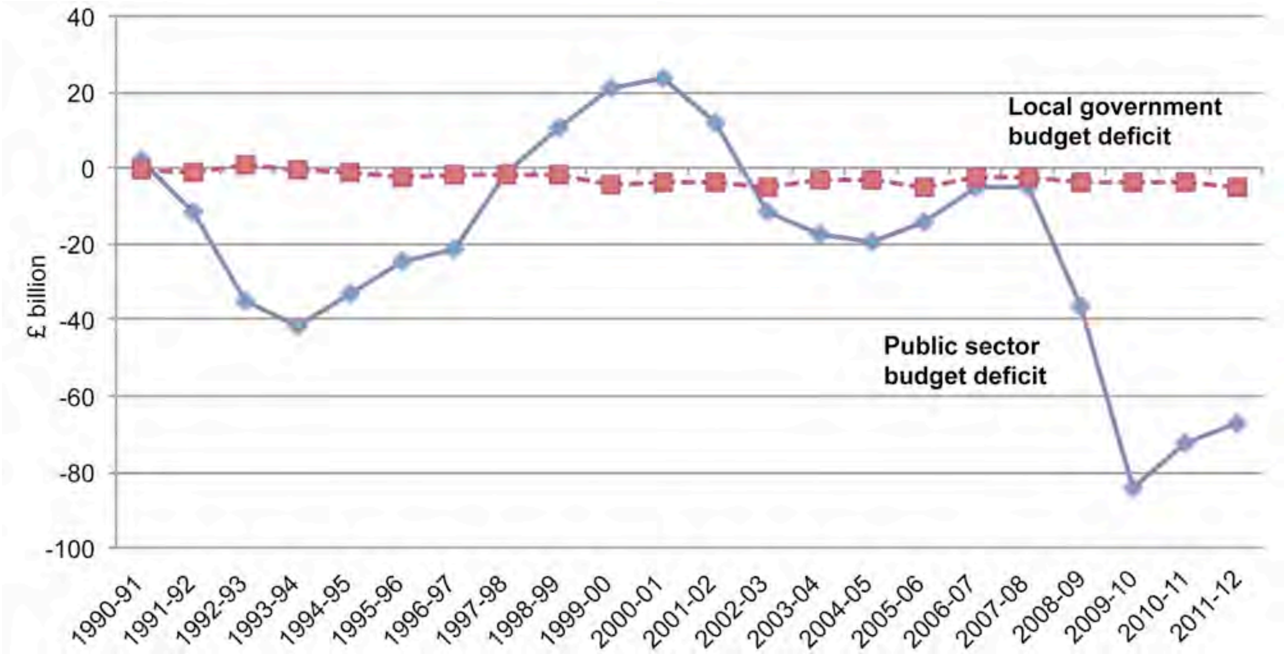


Source: Office for National Statistics (Public Expenditure Statistical Analyses, 2012)

The above charts reinforce the observation that there has not been a consistent longer-term public expenditure planning approach, particularly in relation to capital investment. Local authorities have had to cope with these changes in planned investment as they have been driven through the various public expenditure control regimes put in place since the 1970s. Councils find themselves having to react to changing Treasury policy.

Local councils have managed to avoid the kind of budget deficit that has become so problematic for national governments at home and abroad. The chart below compares local government's budgetary results with those of the wider public sector. Local authorities have maintained remarkable budget stability for the whole period since 1990/91. The same would have been true in earlier decades, largely because councils are not allowed to borrow to finance current spending. Central government is under no such constraint. As a result, successive governments have been able, from time to time, to run substantial public sector deficits. Because the sum-total of deficits since 1990 has exceeded surpluses, national debt has increased.

Local government consistently balances its budget

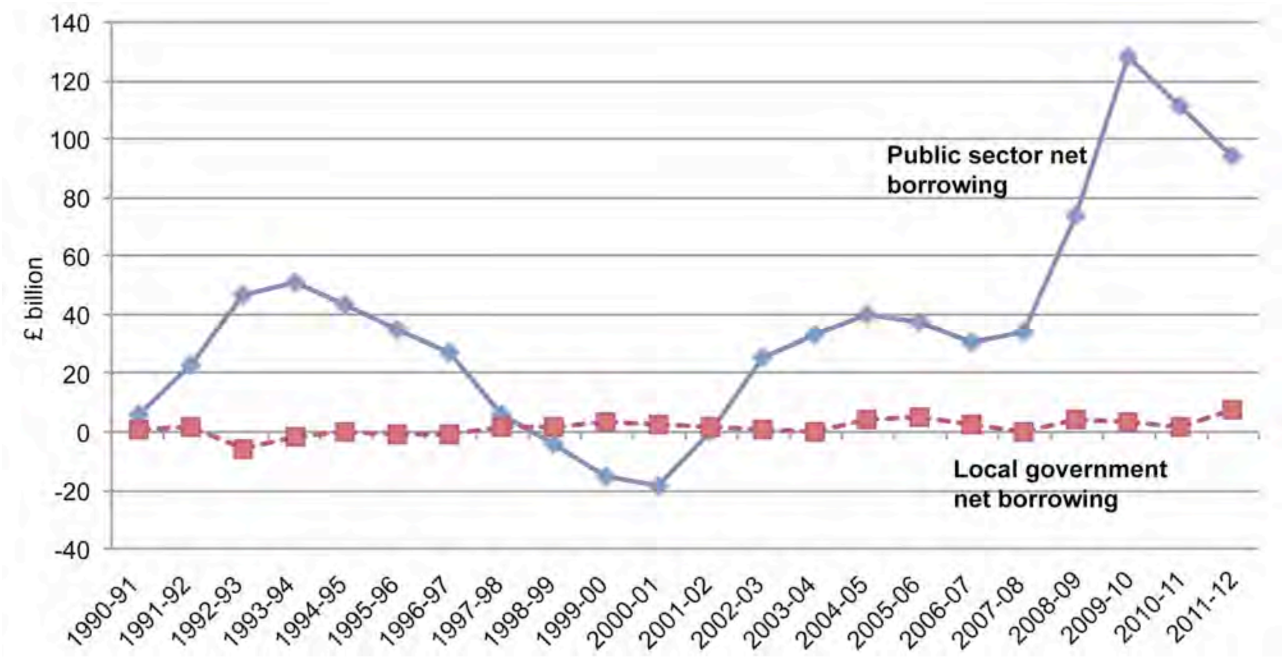


Source: Office for National Statistics

Of course, central government may choose to run a deficit during a recession in an attempt to provide a 'stabiliser' to the shrinking economy. Yet, during the period shown in the chart above, many of the years when central government chose to run a deficit were in years when there was GDP growth. This was true, for example, between 2002/03 and 2007/08. The point made by this chart is simple: because of the requirement to produce a balanced budget each year, councils have not found themselves with the kind of deficit and debt problems that face central government. Greater local autonomy could not lead to uncontrolled indebtedness because (a) councils cannot budget for a deficit on their current account and (b) revenue income to fund debt repayment is constrained.

This latter point is reinforced by the following chart, which considers borrowing by local government and the wider public sector (consisting almost entirely of central government). Councils' borrowing, to finance capital investment only, is very modest. The public sector more generally has to borrow to finance the deficits discussed above, creating the path of borrowing shown in the chart below.

Councils' borrowing is modest and consistent



Source: Office for National Statistics

The deficit and borrowing figures shown above have generated a substantial increase in public indebtedness, notably in the years since 2007/08. If the effects of financial interventions are excluded, the Government's borrowing has risen from just over 30 per cent of GDP in 2002/03 to over 90 per cent today. In the same period, local government debt has remained very low in relation to GDP and total council spending.

It would be naïve and wrong to blame central government for the whole of the sharp growth in debt that has occurred under successive governments since 1990. Having said this, greater control over spending at various points would have led to lower public debt today. The chart suggests local government has been effective and cautious in controlling indebtedness. This is hardly surprising, as there have either been Whitehall-imposed controls or a 'prudential rules' regime. The twin effects of the prudential borrowing rules and local tax capping have made it very difficult for councils to increase their debt.

2. Local government has been singled out for disproportionate cuts since 2010

Speaking in 2009, in a speech about 'Cutting the Cost of Politics', David Cameron stated: "Local government is officially the most efficient part of the public sector. Councils achieve well in excess of the sector's spending review targets, beating central government savings by a country mile. That shouldn't surprise anyone – a pound spent closer is a pound spent wiser"[8].

In July 2012, the then planning minister Bob Neill claimed: "We know councils are much better at finding efficiency savings than Whitehall. I know many are using that local knowhow to look across their whole budgets to do so"[9]. These remarks run against the general view of local government.

Such observations also stand in sharp contrast to the approach of successive governments to council spending and taxation. In the period since the late 1970s, Whitehall has transferred control of a number of major services, notably schools, further and higher education, from local to central control. Local taxation has been, in effect, capped since 1984, while half of local government's tax base was nationalised in 1990.

The 2010 'Spending Review' planned four years of reductions in local government spending between 2011/12 and 2014/15. Government grants to councils will have fallen by 28 per cent over this period. The Prime Minister has made it clear that because deficit reduction will take longer than envisaged in the early months of the Coalition, the period of austerity may last until 2020[10]. The 'Spending Review' included plans that showed local government was to face disproportionate reductions in its expenditure compared to the NHS, international development and schools. Other elements of expenditure such as social security were deemed to be demand-driven and thus not susceptible to expenditure limits. Most of the protected and demand-led spending programmes fell within central government's sphere of control.

It is surprisingly difficult to produce consistent figures for central or local government spending in the period since 2009/10. Transfer of service responsibilities, one-off spending adjustments and redefinitions render precise comparisons difficult. But it is possible to compare the Office for National Statistics' figure for 'Central Government Account current expenditure' with an adjusted local government current spending total. As the chart below suggests, councils have found their spending reduced while central government expenditure has risen in the three years since 2009/10.

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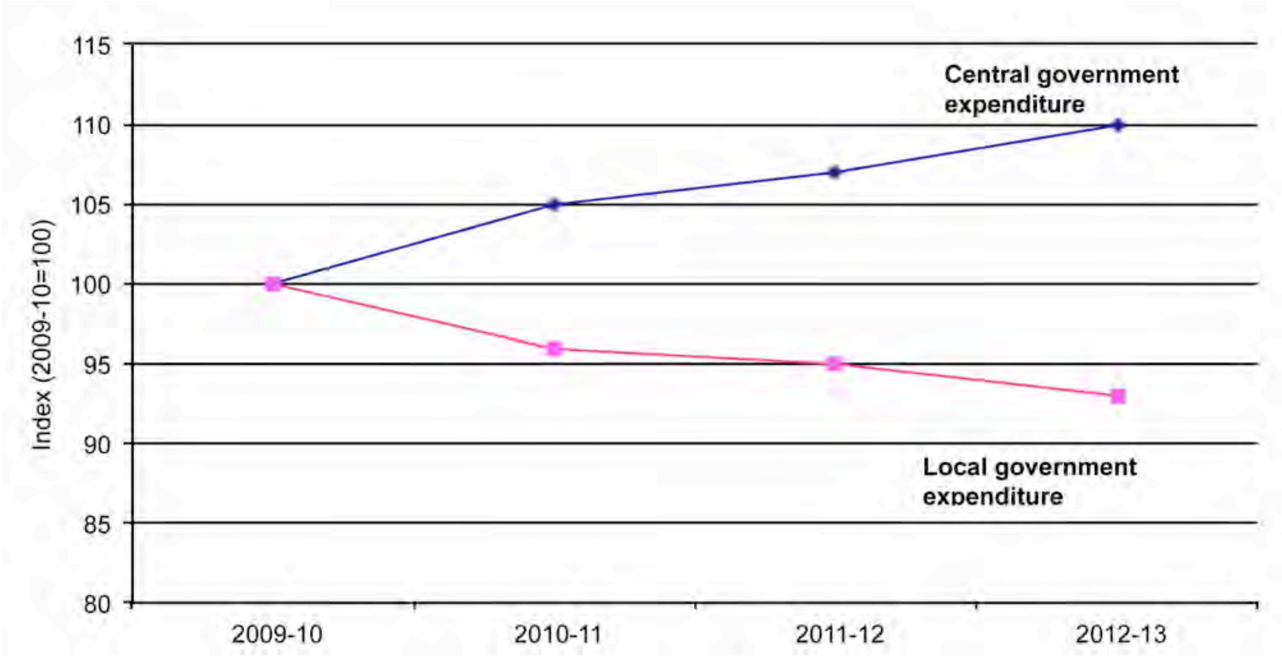
[8] 'Cutting the Cost of Politics', a speech given by Rt Hon David Cameron MP, 8 September 2009, http://www.conservatives.com/News/Speeches/2009/09/David_Cameron_Cutting_the_Cost_of_Politics.aspx

[9] "It's nonsense to call this a return of the poll tax" by Bob Neill MP, *Guardian*, 31 July 2012

[10] 'No end in sight for austerity' *Daily Telegraph*, 18 July 2012

Local government spending is falling, in contrast to central government



Sources:
Local government – Department for Communities and Local Government (Statistical Release, July 2012)
Central government – Office for National Statistics (Public Sector Finances, September 2012)

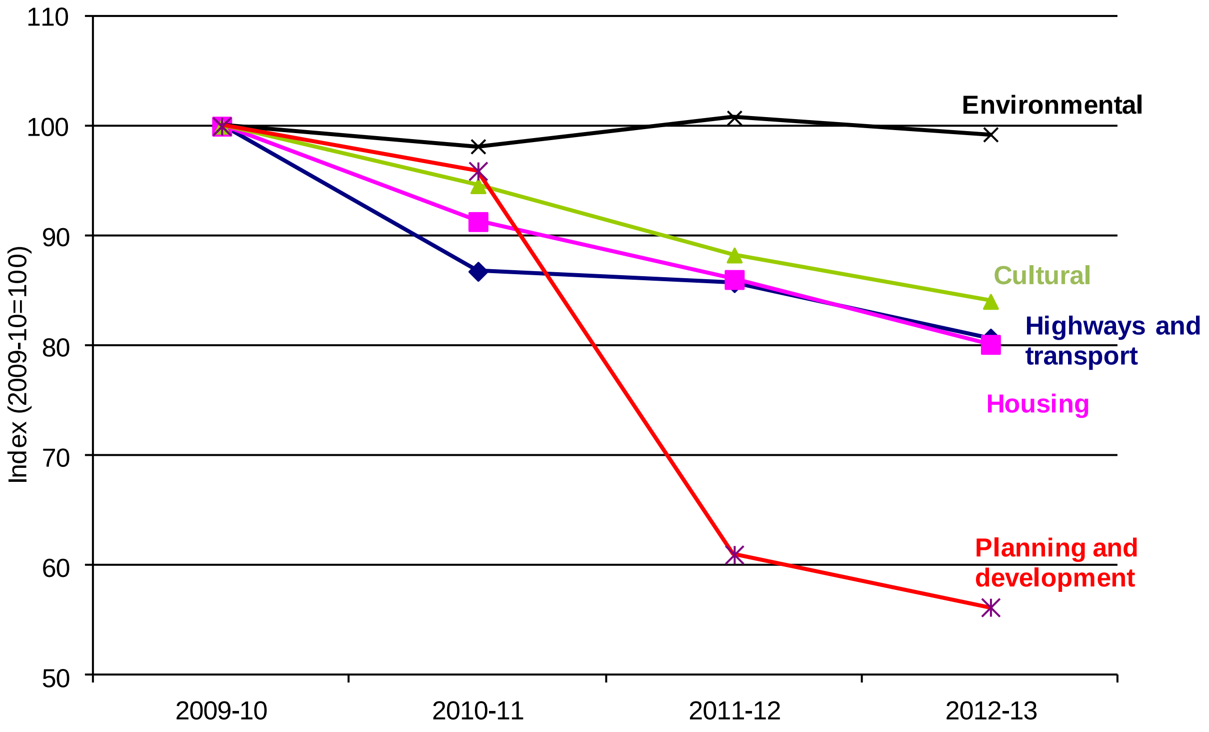
Notes:
Local government – figures exclude education and mandatory housing benefits in order to maintain consistency over the period by removing the effect of staff transferring to academies, and transfer payments which do not reflect the definition of spending used for Revenue Settlement Grant.
Central government – 2012/13 full-year total estimated by calculating the percentage change between Apr-Sep 2011/12 and Apr-Sep 2012/13 and applying to the 2011/12 full-year total.

This result is the consequence of the path for expenditure set in the 2010 Spending Review. Local authorities have delivered the spending reductions required, with cash spending down about seven per cent over three years, equivalent to real terms cuts of between 12 and 15 per cent. In the same period, central government spending (including both 'annually managed' and 'departmental expenditure limit' programmes) has risen by 10 per cent in cash, about two or three per cent in real terms.

Whitehall spending programmes (eg the NHS, international development, schools, social security) have been ring-fenced, increased as a matter of policy or are demand-driven, while local government was required to deliver cuts. It is evident local government has faced a significantly more demanding set of pressures in relation to its spending.

The Government can increase or decrease individual public spending programmes. The chart above suggests that councils have been effective at delivering expenditure reductions which will contribute towards deficit reduction. Central government programmes have proved more difficult to rein in. Looking ahead, there must be a risk for local government that its very capacity to deliver spending cuts makes it vulnerable to being required to deliver disproportionately more reductions in future. If the Treasury is to continue to increase spending on central government spending programmes and the deficit is at the same time to fall, then even deeper cuts will have to be imposed on local councils. There is no alternative.

Pro-growth services are being cut hardest



Source: Department for Communities and Local Government
Note: housing excludes housing revenue account.

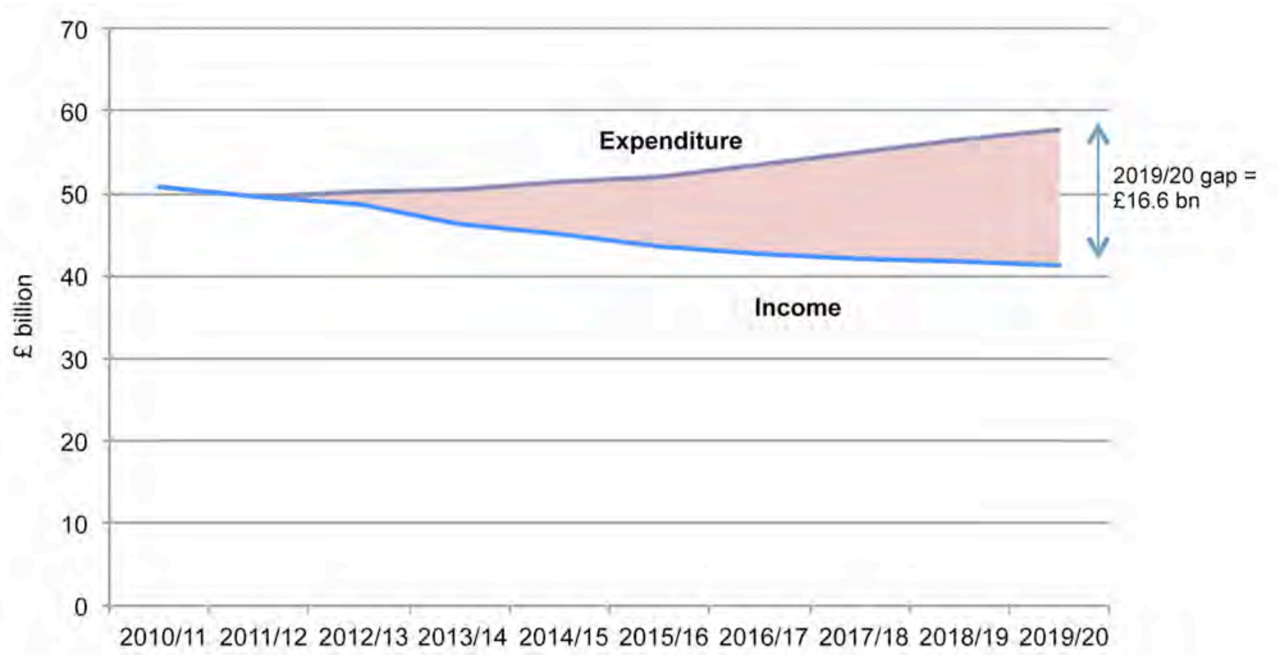
The chart above looks at the change in expenditure on a number of local government services including those that might be expected to have a direct influence on economic growth. Social care for children and older people is being protected, as are the bundle of 'environmental' services which include refuse collection, street cleaning and graffiti-removal. Because the overall 'spending envelope' for local government is being sharply reduced by the Treasury, other council services have seen their expenditure disproportionately reduced.

As a result, spending on housing, highways and transport, cultural and, particularly, planning and economic development services is being reduced far faster than the average for all of local government. The consequence of requiring local government to make reductions that exceed those made to the NHS, education, work and pensions and international development, coupled with inescapable pressure on councils to protect social care and local environmental provision delivers, however accidentally, a result which is likely to undermine growth.

2. Impacts on councils of extending the current pattern of expenditure plans

The Local Government Association (LGA) has produced research on the authority-by-authority impact of rolling forward the impact of the Government's 2011/12 to 2014/15 plans to 2020[11]. The overall impact on councils of continuing the pattern established by the 2010 'Spending Review' is shown in the two charts below. Expenditure on social care and the environment will continue to rise, partly for demographic reasons, while income will fall each year. A gap between expenditure and income of £16.6 billion emerges by 2020.

A gap will emerge between councils' spending and income in the years ahead



If this accumulating gap between spending on social care plus environmental services and, on the other hand, projected income is expressed as a percentage of spending on all other services, there is an inevitable disproportionate impact. By 2020, a significant percentage of remaining expenditure on services such as highways, economic development, planning, and cultural services will have to be reduced. This scale of reduction would have challenging and possibly unmanageable impacts on services apart from social care and the environment.

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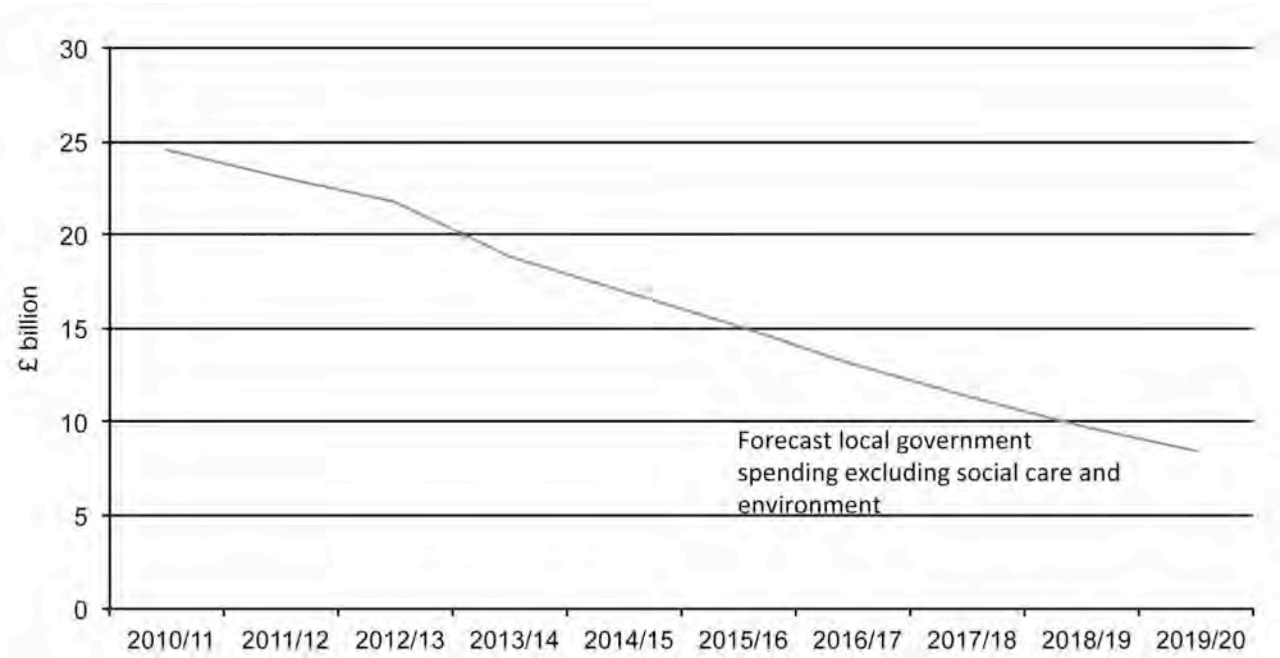
[11] *Funding outlook for councils from 2010/11 to 2019/20: Preliminary modelling*, Local Government Association, 2012

If councils have to fund the rising costs of social care and the environment, spending on other services will decline



3. Cumulative impacts and risks associated with new government policies

Councils face the need to handle the implementation of a number of significant public policy reforms which will all start to have an impact from April 2013. This means they are dealing with the cumulative effects of a number of parallel changes. These impacts will have significant consequences for councils' budgets and their ability to plan for and invest in growth.

The reforms include councils' new responsibilities for public health, the continuing transfer of schools' funding for academies, Department for Education retention of early intervention grant resources, streamlining of national planning policy and increased emphasis on local plans, and the consequences of the introduction of police and crime commissioners. Adding to the patchwork of reform and change there are also new policies designed to incentivise development that will affect the link between growth and councils' revenue, such as the New Homes Bonus and Community Infrastructure Levy as well as bespoke approaches to allow certain freedoms in certain areas though Enterprise Zones and City Deals.

These reforms could, in theory, be entirely revenue-neutral for local government. In reality it is likely each change will affect councils' role and budgets. There are inevitably disagreements between central and local government about the impact of any individual reform. At a time of pressure on public sector finances, there is always a risk that a change will add to the pressure facing some or all councils. The cumulative impact of increased risk and uncertainty for these reforms will affect councils' ability to plan future services delivery and detract from their ability to invest in growth.

Three of the biggest reforms facing local government in terms of their likely impact are:

- changes to the business rates system
- council tax support localisation
- welfare reform.

Together, the new business rates retention scheme and localisation of council tax benefit represent a significant transfer of financial risk from central to local government.

Business rate retention

Councils will be directly exposed to the impact of any potential fall in their business rates revenue; the Government has already indicated that councils may have to manage a fall of up to 7.5 per cent in their retained business rates income without protection from a national 'safety net'. It is almost inevitable under current and expected national economic circumstances that some councils will experience a falling business rate yield.

Where business rates increase, councils will benefit from being able to keep 50 per cent of that increase. However, it is impossible to be certain the Government may not choose to reduce further the total retained locally. If, for example, councils as a whole generate business rates that exceed a total consistent with government spending plans, there can be no certainty any excess might be 'clawed back'. Similarly, if any individual council were found to be enjoying a growth in its business rate yield which the Government saw as disproportionate, it would be possible for the Government to claw back part of the additional money. Uncertainty will affect all councils' capacity to be certain of their future resource position.

The New Homes Bonus, which is a separate reform, represents a potentially significant source of additional income for individual councils, although for local government as a whole the effect is largely redistributive rather than providing extra funding. In 2012/13, almost £432 million in Bonus payments were made to councils, with the highest single award at £10.1 million and the lowest at just under £23,000. One-third of the entire pot was paid to 37 councils. For many councils there is a risk that the New Homes Bonus will operate in such a way that their potential gains are outweighed by the costs of funding the system from within the overall local government funding total.

Council Tax Benefit localisation

Also from April 2013, councils will assume direct responsibility for administering council tax benefit. However, the Government will cut the grant which funds the benefit by 10 per cent. Pensioners will not see their council tax support affected, which will increase the impact on other households. If demand for council tax support were to increase, as has been the recent trend, the shortfall between the actual cost of local council tax support schemes and government funding could be several hundred million pounds.

Some authorities will make up the 10 per cent cut in grant funding of council tax benefit by transferring spending from services. Latterly, the Government has offered some additional temporary funding, which may ease the situation. But the challenge in future years will be the risk that demand for benefit increases as economic growth falters and/or the population ages. There is a further risk to councils' funding position here.

Welfare Reform

A number of welfare changes, including the application of the 'benefit cap', social sector housing size rules, restrictions on the payment of local housing allowance and the reform of housing benefit to become part of the universal credit will have a significant impact on many recipients of government support, and also on the councils in which these people live.

The Government's statistics show a steady rise in the use of temporary and bed and breakfast accommodation over the past year. This increase will lead to growing resource costs and uncertainties for councils. Schools, social and welfare services will also be affected with the risk of vulnerable children and families being moved from place to place. The benefit cap and direct payments of benefits to tenants is likely to increase the risk of non-payment and default of rent from tenants, risking lost income to councils and creating a lack of certainty about future income streams.

The Government has undertaken to compensate councils for additional costs to local government resulting from the Universal Credit reform, but it is hard to know if such funding would fully compensate for the full range unidentified costs they may face.

4. Could councils stop providing some services?

One way of bridging the gap between expenditure and income would be for local authorities to stop or radically reduce the provision of some services. The kind of provision which is likely to be most under threat as the squeeze described above continues will include coastal protection, economic development, youth services, elections, licensing, recycling, swimming pools, leisure centres, libraries, planning and housing regulation. Such provision is not unimportant, but it is unlikely to be protected if budgets decline as projected on the basis of existing plans and social care expenditure is maintained.

Of course, it has always proved difficult for councils to cease providing services. There is a risk of legal challenge and the possibility that local MPs or ministers would oppose such radical change. But if the scenario outlined above comes about, it is hard to see how all the services listed above could be protected. Unhelpfully, some of this provision is important to the promotion of growth.

5. Could reserves be used to reduce the impact of central grant reductions?

Councils are legally required to balance their revenue expenditure with their income each year. Unlike the Government, a council cannot plan for a deficit on its annual current budget. This constraint is particularly challenging during a period of declining income. As the result of government policy, councils' main sources of income, notably council tax and business rates, cannot be increased faster than inflation. Indeed, council tax is now, in effect, capped below the rate of inflation. Government grants are being sharply cut back to bring down the total of local authority spending.

Local authorities maintain reserves to help them manage changes in income or spending from one year to the next. At 31 March 2012, according to DCLG's provisional outturn statistics, local authorities in England had just under £4.0 billion in unallocated reserves which were not already ring-fenced to cover particular items of future spending. Earmarked and unallocated non-schools reserves at the end of 2010/11 were equivalent to 50 days' expenditure. Of course, the total of reserves and investments is significantly greater in size, though generally these are set aside to fund particular items of expenditure.

When setting the budget a council's finance director must, by law, consider the reasonableness of its budget and propose levels of reserves sufficient to cover unexpected events. Councils are now entering into a period of significantly higher risk, with the start of business rate retention and the localisation of council tax benefit in April 2013. These reforms will transfer risks that hitherto have been borne by the Exchequer to councils. The impact of such risk and pressures are hard to estimate precisely. Total expenditure on council tax benefit in 2012/13 is about £4 billion, having risen by 45 per cent since 2005/06. Business rates being retained locally will total some £10 billion. If councils believed it was prudent, over time, to plan on the basis of a potential unpredictable variance of 10 to 20 per cent of this total sum – this would amount to a sum in the range £1.4 billion to £2.8 billion. For any individual council the impact might be greater.

The formula grant paid to local government has been reduced by 28 per cent during the period covered by the 2010 spending review. This reduction in grant is permanent, and there will be further reductions annually for at least the next four to five years.

Earmarked reserves, which constitute over 70 per cent of resources held in this way, are set aside for particular purposes. Local Government Association (LGA) analysis has shown that almost half earmarked reserves are being held to support future capital investment, a government priority at a time when economic growth is slow. Other reserves are held to help with restructuring, paying for Private Finance Initiatives or to provide short-term cover for grants which are paid at the end of the financial year.

Auditors have long acknowledged councils have good reasons to hold reserves which constitute a sensible part of strategic financial and risk management. Reserves can be used to smooth variations between income and spending and to cope with uneven cash flows. If councils used their reserves as an alternative to making cuts, such resources would be used up rapidly. Reserves can be used to smooth cuts, but they cannot prevent them. Reserves can only be used once.

6. Working successfully to deliver growth – and 'blockages' to council action

Economic development has become a major local government activity in the past three decades. Radical changes to the UK economy have left many areas with little alternative but to act to regenerate their economies. A range of policies have been adopted in relation to land clearance, retail development, public transport, roads, housing, and marketing. As government capital grant reduces and access to traditional bank finance becomes harder for the private sector to raise, councils are exploring opportunities for new ways to lever in investment to support growth including from pension funds and more flexibility to be active in the bond markets. Pro-growth policies are the norm in many areas, particularly where unemployment is high. This section of the report describes a number of examples, researched by the LGA, of local government working to deliver growth. It also considers a number of cases where councils have faced barriers to optimum performance.

Examples of councils successfully working to deliver growth

This section of the report considers a number of case-studies where councils have been active in encouraging economic development and, thus, growth. These are simply examples of the kind of practice that could be encouraged if councils had more freedom to act. It is also possible that as local authority budgets are further reduced, these kinds of initiatives will become less common.

For example, **Wychavon** Council took part in a joint venture with Waitrose to acquire land and build a supermarket in a previously run-down high street with an out-of-date 1970s precinct. Waitrose had been having problems with land acquisition. The joint venture allowed the project to be completed and improve trading conditions within the town centre.

Wycombe District Council led on a major new retail development which provided 675,000 sq ft of floor space including a House of Fraser department store, a Marks & Spencer store, a Sainsbury's, and 54 other retail units as well as a new civic square, restaurants and cafes, plus a cinema complex and bowling rink. The scheme also provided a new library and bus terminus, plus 48 new residential units. Shopper numbers have increased and 2,200 jobs created. The council has also encouraged the creation of a Business Improvement District to work with local businesses to improve the area.

Calderdale has been working to diversify the local economy away from a traditional reliance on financial services and manufacturing. An Economic Task Force managed a £2.8 million fund for small projects to stimulate the economy. The Task Force has commissioned over 60 projects from the private, public and voluntary sectors, encouraging start-ups, social enterprises, Community Asset Transfers and innovative projects such as Business Growth Calderdale, Totally Locally, Creative Calderdale and Silver Entrepreneurs. So far, this activity has created more than 150 businesses and supported 900 other new-starts, creating over 500 jobs and drawing in private sector investment of over £2.9 million.

Sunderland City Council has been working closely with its existing businesses. Vantec Europe has invested £22.5 million in a major new building, contributing up to 230 jobs by 2015. Vantec Europe was awarded £2.7 million from the second round of the Regional Growth Fund, to support the project. Sunderland City Council worked closely with Vantec on the RGF application and the plans for the expansion. Vantec's investment is the largest investment ever made by the company during its 20 years in the northeast. This will be the first development in the UK to get underway from the latest round of Enterprise Zones.

Lear Corporation also worked with Sunderland. Lear's decision to site its new manufacturing unit at Sunderland followed more than 18 months of talks between Lear Corporation and Sunderland City Council. Lear's decision to manufacture the foam for vehicle seating in Sunderland strengthens the manufacturing sector in the northeast of England.

Staffordshire County Council, South Staffordshire District Council and Wolverhampton City Council worked in partnership to secure the development of the Jaguar Land Rover low engine emissions plant in South Staffordshire. The partnership enabled issues such as transport access and planning concerns to be overcome and was able to convince Tata Ltd, the Indian owners of JLR, to invest in the Birmingham sub-region, out of the options they had, which included sites overseas.

The outcome of this partnership is a new manufacturing plant, funded with £25 million Regional Growth Fund bid, that is forecast to attract approximately £400 million private sector investment in two years, with 750 jobs based at the new plant, and a further three to four thousand further jobs forecast in the wider supply chain. A key success factor also included commitment by Wolverhampton and Staffordshire councils jointly to fund development of critical road infrastructure, which involved £36 million of prudential borrowing.

In **Manchester**, partnerships have allowed the council to identify and exploit opportunities for growth. The new campus development by Manchester Metropolitan University (MMU) is one of the largest regeneration projects in the northwest, creating jobs for hundreds of people. The new campus is the final part of a £350 million capital investment programme and will provide a space for more than 5000 students, with 1,200 being resident on the site. Independent economic research suggests the project will generate gross value added of £29.2 million per year for the economies of Hulme and Moss Side and will create direct additional revenue of £76.7 million to the Hulme and Moss Side area.

Halton is a member of The Halton Employment Partnership (HEP) which brings together expertise from various employment, learning and skills development agencies working to support inward investors and local businesses with a 'complete employment offer'. The HEP was approached in May 2011 to meet with the Regeneration Partnership Manager of Tesco Stores Limited and the local Job Centre Plus to discuss the recruitment of staff and identify the support HEP could offer to this recruitment drive. The partners of HEP established and managed a hotline through which applicants could apply for places to join interviews skills workshops. Attendees received a numeracy and literacy assessment, a session on interview skills and techniques and training on the completion of application forms. As a direct consequence, Tesco invited 100 candidates to join their workforce.

Barnet's biggest post-war housing estate will be largely demolished and replaced by around 3,400 new homes. The council's regeneration partner, Genesis Housing Group has worked with the council to develop a radical plan to transform the estate into a high quality mixed neighbourhood by 2026. The redevelopment of the estate is underway and is being built in phases taking a number of years to complete. It is a rolling phase by phase regeneration. The early phases of the scheme will bring forward infrastructure (partly funded by S106 deals) vital to the wider transformation of the Colindale area helping to encourage development across the area.

The Greater **Birmingham and Solihull** LEP recognising opportunities afforded by automotive investments by Jaguar Land Rover and other major engineering companies, began looking at ways to develop a supply chain programme which would enable smaller companies to be more competitive and able to benefit from these opportunities. Working with other LEPs which share similar demands, notably Coventry and Warwickshire, the Black Country and Liverpool, a proposal was submitted to the Regional Growth Fund for £25 million of funding.

Working together, the joint submission from the four LEPs to establish the Advanced Manufacturing Supply Chain (AMSCI) Initiative was not only approved, but expanded to form a national programme worth a total of £125 million. Launched in March 2012, AMSCI aims to create more competitive supply chains, sustain or create new employment opportunities, and create better joint working and sustained collaborative relationships throughout supply chains that participate in the initiative.

Examples of councils facing barriers to their efforts to promote growth

The Newark Growth Point has been a priority for **Newark and Sherwood** Council since 2006. Plans include an additional 6,000 homes over and above anticipated growth together with an additional 53 hectares of employment land over the next 15 years. Good progress has been made over the last six years and the council has put in place its Local Development Framework, adopting a Community Infrastructure Levy and granting planning consent for its first strategic site which includes 3,150 homes, 38 hectares of employment land and a new southern relief road to link the newly dualled A46 to the A1.

Recognising the impact of economic recession on the construction industry the council worked with the developer to agree reduced levels and types of affordable housing in order to secure a viable scheme. This has still left a problem for the developers through the lack of availability of sufficient finance. The council is therefore working with the developers to explore alternative ways of kick-starting the development including the possibility of the council using its own borrowing powers to finance the scheme for the first nine years.

Stroud District Council planned to invest over £23 million over the first five years in catch up repairs to obtain Decent Homes Standard for its social housing. Over the same period the council is looking at utilising the £10 million 'headroom' it has to build over 100 new council owned properties to extend and increase its stock.

If rules for authorities were closer aligned to those for housing associations it would provide an environment in which authorities could adopt a more ambitious approach to developing new homes to help stimulate the economy nationally and locally. Stroud would like to retain all capital receipts under the right to buy scheme (to be utilised for new build) and also to be able to borrow through the Housing Revenue Account (HRA) based on the future rental.

These changes would put authorities on a par with housing associations. In Stroud's case this would enable the council to build an extra 188 properties making a total of 288 properties, whilst at the same time giving a positive stimulus to the economy.

Mid Devon District Council has taken the opportunity to use the 'borrowing headroom' provided by the new HRA funding arrangements to support housing growth. The additional funds have enabled a number of initiatives including the exchange of contracts on stalled sites to produce new homes and refurbish long term empty properties. A net spend of approximately £4 million will generate an additional 83 homes for the community, without grant or subsidy from the HCA or other bodies.

One of the stalled sites had planning permission but the developer was unable to raise finance due to the changed economic circumstances. Additionally the lack of a financially sustainable development undermined the Compulsory Purchase Order (CPO) for part of the land that was integral to the scheme. However, the restriction on council borrowing under HRA is limiting the amount of housing growth it is possible to deliver. If councils were provided with freedom and the prudential borrowing code applied to the HRA, Mid Devon would have ambitions to develop 1,000 homes over the next 10 years.

Wellingborough Council is developing a 360 hectare 'Sustainable Urban Extension' site. The site was granted outline planning permission in 2008 for mixed use including 3100 residential units consisting of a range of tenures with 20 per cent allocated as affordable housing. The council are part way through a CPO for part of the land required to build a bridge across the railway for access purposes. The CPO process is significantly complex and cumbersome. In order to confirm title, compensate the existing owners and extinguish previous interests to prepare the land for planning development, the council need to use powers derived from five different pieces of legislation including the Town and Country Planning Act 1990, The Local Government Act 1972, and The Compulsory Purchase Act 1965.

The impact of this added complexity has been a twelve month delay and additional costs of over £100,000. The CPO was issued in May 2012 and is still in progress after a period of negotiation. Confirmation is expected by early 2013.

The development represents a £500 million investment, anticipated to create between six and seven thousand local jobs and 200 construction jobs. Investment in infrastructure totals £80 million and includes a new railway station and a new 1000 space car park. It would ultimately unlock development more quickly if all the necessary powers were consolidated under one piece of legislation.

These examples of councils' efforts and the barriers they face represent a small, unrepresentative sample of the range of what is going on across the country. But they suggest local government is driven by civic initiative in a way that is consistent with the Government's pro-growth policies. More could be done if local authorities were less constrained and faced fewer barriers to action. The earlier sections of this report made the case that local government has a strong financial position and is not prone to financial mismanagement. Greater financial and other autonomy would allow councils to do more to encourage economic development and infrastructure improvement.

7. What might be achieved with greater freedom and autonomy

The sections above have examined the economic management of local government and shown how councils have been relatively successful in avoiding the build-up of deficits and debt. Councils have also proved successful in reducing expenditure as their contribution to deficit reduction. This section considers examples of how local authorities might be given greater freedom to deliver projects that would stimulate growth. The examples given are not exhaustive, rather suggestions, based on existing practice, about how freedoms might liberate growth.

Management of assets

The book value of the entire public estate is about £354 billion, of which £230 billion worth is owned by local authorities. The capital asset pathfinder programme initiated by the LGA suggests that local authorities could save up to £4 billion across a total asset base of over £20 billion over a ten year period. If this kind of saving was to occur throughout the public sector estate, including central government owned assets, the savings would be sizable. Such improved management would assist in the Government's top priority of reducing the deficit and promoting growth.

It would free up land and property for more productive, locally appropriate, uses and thus help to create conditions that support growth. Most local authorities have begun to rationalise their assets, however coordination with other public sector asset holders (mostly central government and its agencies) is patchy. The pace of change is slow as the landscape is complex with national and local organisations often working in isolation with different priorities. Local authorities, working with other locally based organisations, are best placed to carry out this task. Because of their economic development role, councils are the only public body with a vested interest in removing blight and unlocking development and are thus key partners in driving economic growth.

'Single pot' regeneration allocations

Recent work undertaken by the LGA and the British Property Federation suggested that if local government were less constrained there would be opportunities for faster and more predictable economic growth. Lord Heseltine's report 'No Stone Unturned', published last month, makes a number of similar points. The key needs include strengthening of Local Enterprise Partnerships (LEPs), greater freedom to use Tax Increment Financing (TIF), the pooling of public sector capital funding, certainty in the planning system and new sources of funding.

Local Enterprise Partnerships are voluntary organisations that have been created within the last two years. Michael Heseltine has suggested stronger LEPs with greater control of resources now held within central government.[12] He also stated that there should be a single funding pot for capital expenditure. There can be little doubt that so long as most decisions about investment and other funding are made in Whitehall, impacts are unlikely to be sensitive to local needs.

[12] *No Stone Unturned in pursuit of growth*, Lord Heseltine of Thenford CH, DBIS, October 2012, para 2.25

Improved predictability of public funds leading to better leverage

£8 billion will be invested in UK regeneration through the EU structural funds between 2007 and 2013. This money will be matched by UK resources, resulting potential investment funds of £16 billion. Since the financial crisis there has been a real concern about the UK's ability to find match EU resources. One of local government's main concerns has been the lack of responsiveness of national programmes to local need. This lack of responsiveness acts as a blockage to local private sector support.

Whilst this is anecdotal and related to a specific EU fund, there are wider lessons. It does point to the need for a diversity of investment measures at both a local and national level to attract private sectors investment.

The LGA has called for a local investment fund (LIF) to be created across the country to lever new private sector resources. These would bring together existing national regeneration funds spent at a local level, such as Growing Places funds, RGF, EU funds, into a single pot under the management of local partners. City Deals have already achieved this goal. These LIFs fund should become a given for future City Deals and be available to any LEP areas that had a transformative idea to attract new investment.

Training and job support

The LGA has also identified 33 national funding streams from across Whitehall delivering employment services to young people. A reform of the skills funding system is required which would give employers and councils the ability to influence and coordinate funds to maximise local employment. The Bristol City Deal offers a solution to this problem. It includes the development of a single skills investment plan linked to LEP jobs and growth agenda, giving the business community influence over skills. Local partners have committed to a year on year growth in apprenticeships of five per cent.

Removing restrictions on councils investing in housing

The new self financing system brought in from April 2012 gives councils increased flexibility to borrow to invest in new stock for some authorities. However, as the examples above demonstrate, the cap on councils' borrowing means in many areas this opportunity is constrained.

Recent research from the LGA and housing organisations estimates that councils could deliver up to 60,000 homes in five years if the borrowing cap were removed and could lead to a doubling or trebling of the new build programme in some local authorities. In addition to increasing housing supply, a bigger local authority house building programme would have wider economic benefits. It is estimated that every £1 spent on construction generates a total of £2.84 in extra economic activity.[13]

[13] L.E.K. Consultants (2012) *Construction in the UK: The benefits of investment.* London: UK Contractors Group (see www.ukcg.org.uk).

Transport investment

LEPs and local partners can move more quickly than Whitehall when developing local packages to attract inward investment. One of the key findings of the LGA's 'Local Growth Local Leadership' report in May 2012 was that transport investment is seen as particularly convincing by investors. National bodies are unlikely to be able to apply such local knowledge, nor are single arms of national government able to develop a local package of transport, skills, and regeneration that is required by local investors.

New sources of infrastructure finance

Across both the public and private sector there is a need to find new sources of capital finance. With government capital grant decreasing and traditional bank finance difficult for the private sector, councils are actively exploring opportunities for alternative means of capital finance and investment in infrastructure that can support development and growth. This includes the potential for greater pension fund investment in infrastructure, potential for greater use of bonds and competing in the global market for inward investment from overseas.

Tax Increment Finance (TIF) is a good example of a proposal for greater local discretion in investment which has taken a very long time be implemented and even now is has been limited by central government so that it cannot be used in the majority of cases. First proposed by Lord Rogers of Riverside's Urban Task Force report in 1999, there are still no TIFs in operation in England. Recent City Deals have included TIF-style proposals, though these are not generally of the kind used in the United States. The slow pace of moving towards the introduction of TIF freedoms is suggestive of wider conservatism in allowing councils greater freedom to drive economic growth.

Local government's relatively strong financial position and annual balanced budgets would ensure that additional freedoms did not lead to undue risk or indebtedness. History suggests local government finance directors would be cautious in their use of new freedoms and powers. But unless there is a move towards greater local autonomy, councils' role in promoting economic activity will be limited.

8. Conclusions

Looking ahead, the Government will be seeking both further opportunities to reduce public expenditure and, in parallel, ways to stimulate growth. One important contender for reducing public expenditure and increasing efficiency across the public sector would be the increased use of so-called 'community budgets'. The Government has already piloted 'community budgets' in spheres of provision such as troubled families and so-called 'whole place', and in neighbourhoods. Until now there has been little willingness in much of Whitehall for any comprehensive approach to merging budgets and co-investing in new ways of delivering public services at the local level. The whole place pilots have shown that there is a strong evidence-based case for more closely aligning budgets and delivery for local government, education, health, police, and fire, with the potential to deliver significantly better outcomes.

Total England 'Departmental Expenditure Limits' for local government, education, health, police and fire services in England in 2012/13 amounted to over £250 billion. If budgets could be fully aligned and jointly planned, then the whole place pilots have shown that substantial savings could be made. But for the pilots proposals to be implemented, Whitehall must change the way government departments fund public services, co-investing in new ways of delivering public services that tackle previously intractable social problems and giving places much more strategic direction over the use of public funds, for example to provide vocational skills.

If the Government is to be able to reduce public expenditure in such a way as to avoid a long period of declining service quality, it will have to allow public services to align or pool their budgets. There would then be opportunities for new ways of delivering public services. Despite successive governments having attempted to bring together public provision in this way, little has been achieved. Local government would also be well placed to act as the lead agency in delivering administrative and procurement improvements across the NHS, schools, benefits, the Police, fire and, of course, its own provision.

In its efforts to stimulate growth, the Government has accepted the need to remove barriers and reduce red tape. City Deals, in particular, suggest the Treasury and Cabinet Office are alert to the need to give councils and Local Enterprise Partnerships longer-term incentives to grow their economies. A concerted effort will be needed, involving the Treasury, Cabinet Office, Department for Business, Innovation and Skills (BIS), DCLG and local government if a number of barriers to development are to be lowered. In addition to issues such as compulsory purchase and HRA restrictions outlined earlier in this report, such improvements might include:

- greater local freedom to use Tax Increment Financing to allow infrastructure projects to go ahead
- extension of 'City Deal'-type freedoms to a wider number of authorities, possibly including different versions of the policy for counties
- removal of restrictions on councils' ability to borrow for house building
- local control of major roads where charging-based investment could be considered
- greater discretion to charge for services, including the removal of limits on charges for services such as planning
- greater certainty in relation to the rates charged by the Public Works Loan Board, thus allowing bond-financed infrastructure to be developed.

More generally, the good management of local government spending and borrowing outlined in the early sections of this report would mean that allowing councils greater financial autonomy would not present a threat to the UK's public finances. Rather the opposite. Councils could use greater freedom and autonomy to promote growth. At present, the tight constraints on all local government activity would appear to be impeding the government's own policies to stimulate economic growth.

Appendix: growth initiatives and barriers

1. Examples of where local authorities have been successful

Access to finance – Calderdale

The recession has had a significant impact on Calderdale's economy, especially with the area's historic reliance on financial services and manufacturing. There was seen to be an urgent need to diversify into new economic sectors (particularly into creative and digital, retail and tourism/leisure), to encourage enterprise and to increase skill levels.

The council developed an 'Economy and Enterprise Strategy' and introduced an Economic Task Force (including cross-party senior member support) to manage a £2.8 million fund for small projects to stimulate Calderdale's local economy.

So far, the Task Force has commissioned over 60 projects from the private, public and voluntary sectors, encouraging start-ups, social enterprises, Community Asset Transfers and innovative projects such as Business Growth Calderdale, Totally Locally, Creative Calderdale and Silver Entrepreneurs. So far, this activity is estimated to have generated more than 150 businesses (and supported 900 other new-starts), creating over 500 jobs and drawing in private sector investment of over £2.9 million. The council has also increased the support provided to existing businesses from 150 per year to over 1,200 contracts per year.

Floods during the summer of 2012 affected 900 homes and 250 local businesses, and threatened the economic progress that had already been made. The council introduced a grant fund to support businesses to improve flood defences and start trading again. The council is also working with local partners to create a "Valley of Lights" to encourage trade and visitors to the affected towns, especially in the period up to Christmas.

Proactive approach to development – Wychavon

In 2005 Wychavon undertook a joint venture with Waitrose to build a supermarket and help to regenerate Droitwich Spa town centre. The project was required because Waitrose were having with acquiring land to build a new store. Wychavon were keen that the supermarket were able to get the land they needed, as the retail area was split between the run down High Street and a 1970's suburban precinct in serious need of an update.

The joint venture was to acquire land and build a supermarket that would house Waitrose and would also mean a refurbished car park providing over 340 spaces in the heart of the town. The project has helped to regenerate the town centre, attract more vibrant shops, provided a better car park, and ensure Waitrose secured a prime spot for their store and give Wychavon a better return on their investment through renting the site back to Waitrose, which ultimately helps keep council tax down.

As part of the arrangement we now own the entire site plus the supermarket and it has been leased to Waitrose until 2030. The Waitrose store has been successful and is trading over its expected levels. There are early signs of increased visitor numbers to the town and anecdotally the retail sector has remained relatively strong. The retail vacancy level in Droitwich town centre has remained below national and regional levels.

Wycombe

The Eden shopping centre which opened in spring 2008 is a key step on the regeneration of High Wycombe town centre. Wycombe District Council has taken the lead on schemes like Eden and the forthcoming Handy Cross development to help stimulate the economy, promote Wycombe as a destination and create an attractive place to live, visit and do business. The town centre has also recently inaugurated a Business Improvement District to work with local businesses to continue improving the area.

The Eden development provided 675,000 sq ft of floor space including a 141,500 sq ft House of Fraser department store, a 104,000 sq ft Marks & Spencer store and 54 other retail units as well as a new civic square, restaurants and cafes, plus a cinema complex and bowling rink. The scheme also provided a new library and bus terminus as well as 48 new residential units. At the same time, a new Sainsbury's store was built and opened close to Eden shopping centre, which further developed the town centre.

As a result of the £185 million scheme over 16 million visitors have been attracted into High Wycombe town centre since Eden was opened in March 2008 and 2,200 jobs have been created locally as a result of this development alone.

Encouragement of manufacturing – Sunderland

A) Vantec

Sunderland City Council has been working closely with its existing businesses to ensure growth and job opportunities remain in the local area. Vantec Europe has invested £22.5 million in a 421,000 sq ft building at Turbine Business Park, Sunderland, contributing towards 230 jobs by 2015. Vantec's investment is the largest investment ever made by the company during its 20 years in the northeast.

This will be the first development in the UK to get underway from the latest round of Enterprise Zones. Vantec Europe was awarded £2.7 million from the second round of the Regional Growth Fund (RGF), to support the project.

Sunderland City Council worked closely with Vantec on the RGF application and the plans for the expansion. The new building will complement Vantec's existing 148,000 sq ft warehouse. The 43 acre site has planning consent for up to 715,000 sq ft of employment space. The new Vantec Europe warehouse will handle around six million plastic and metal containers containing Nissan car parts each year which will be received from the UK and European supplier base.

B) Lear Corporation

Lear Corporation opened its first UK foam manufacturing plant in March 2012 at Rainton Bridge Industrial Estate in Sunderland. The new factory will bring 300 jobs to Sunderland in its first three years. The strongly performing company is one of the world's top component organisations, supplying everything from seats to fascias to automotive companies across the globe.

Lear's decision to site its new manufacturing unit at Sunderland followed more than 18 months of talks between Lear Corporation and Sunderland City Council. Gideon Jewel of Lear said: "We're impressed with the superb support we've had from Sunderland City Council's business investment team, who have worked tirelessly to help bring about major new investment and new jobs to the city."

Lear's decision to manufacture the foam for vehicle seating in Sunderland rather than in source strengthens the manufacturing sector in the northeast. It has also created a single site location for the comprehensive manufacture and building process of automotive seating, radically cutting environmental and transport costs.

Transport – Staffordshire, South Staffordshire and Wolverhampton

The development of the Jaguar Land Rover low engine emissions plant in South Staffordshire is important for local jobs and growth. It was achieved as the result of a pro-active partnership working with local councils across boundaries, which had enabled issues such as transport access and planning concerns to be overcome.

The outcome of this partnership is a new manufacturing plant, funded as the result of a £25 million Regional Growth Fund bid, that is forecast to attract approx £400 million private sector investment in two years, with 750 jobs based at the new plant, and a further 3 to 4000 further jobs forecast in the wider supply chain. By working together, the partnership was able to convince Tata Ltd, the Indian owners of JLR, to invest in the Birmingham sub-region as opposed to outside the UK. A key success factor also included commitment by Wolverhampton and Staffordshire councils to jointly fund development of critical road infrastructure, which involved £36 million of prudential borrowing. All of this support, and including information on provision of local skills, helped give Tata Ltd certainty and confidence in making the investment decision.

Regeneration – Manchester

In Manchester, strong partnerships have allowed the council to identify and exploit opportunities for growth. For example, the new campus development by Manchester Metropolitan University (MMU) is one of the largest regeneration projects in the northwest, creating jobs for hundreds of people. The new campus is the final and largest part of a £350 million capital investment programme and will provide a space for more than 5000 students, with 1,200 being resident on the site.

The City Council has worked closely with MMU to develop a masterplan for the site and to manage the wider stakeholder consultation. A development agreement has been used to ensure that the regeneration benefits of the Birley Fields site (which is council owned) are realised.

Independent economic research commissioned by the partners involved in the regeneration scheme anticipates that the Birley Fields campus development will have significant outcomes for the local economy, including supporting 877 local jobs, generating a gross value added (GVA) of £29.2 million per year to the economies of Hulme and Moss Side and creating direct additional revenue of £76.7 million to the Hulme and Moss Side area. In addition, the university as a purchaser of goods and services predicts that an additional £3.99 million could be spent in the local area as a result. MMU has made a commitment to be part of the local community, and employ local people.

Over the past 20 years the area, Hulme, has seen remarkable regeneration from an inner city area high in unemployment and low on jobs, regenerated into a thriving community with a mix of social and private housing for young professionals and families. In many ways the new MMU campus is the final piece of the jigsaw - evidence of the scale of the change which has transformed the area.

Skills – Halton

Halton Council is a member of The Halton Employment Partnership (HEP) which brings together expertise from various employment, learning and skills development agencies working to support inward investors and local businesses with a ‘complete employment offer’. Evidence of the success of this approach is the recruitment programme run for the new Tesco Logistics centre in Widnes, which opened in March 2012.

The Partnership was approached in May 2011 to meet with the Regeneration Partnership Manager of Tesco Stores Limited and Job Centre Plus (Merseyside) to discuss the recruitment of staff and identify the support HEP could offer to this recruitment drive. The partners of HEP established and managed a hotline through which applicants could apply for one of a 1000 places to join interviews skills workshops. Attendees received a ‘skills for life’ numeracy and literacy assessment, a session on interview skills and techniques and training on the completion of application forms. As a direct consequence, Tesco invited 100 candidates to join their workforce, and offered pre-employment training. A total of 96 completed the pre employment training and were offered permanent employment contracts.

Tesco stated: “The overall service has been of a high standard and it has been a fantastic benefit to Tesco in terms of a smooth opening of the new Widnes site… we have been able to recruit 75 per cent of the workforce from the local area. I would recommend the support of the HEP to other businesses.”

Housing – Barnet

The London Borough of Barnet’s biggest post-war housing estate, Grahame Park, will be largely demolished and replaced by around 3,400 new homes. The council’s regeneration partner, Genesis Housing Group has worked with the council to develop a radical plan to transform the estate into a high quality mixed neighbourhood by 2026. The scheme seeks a fundamental change in the environment of the estate and perceptions of it, so that it becomes a place where homeowners as well as those in rented accommodation wish to locate. The redevelopment of Grahame Park is underway and is being built in phases taking a number of years to complete. It is a rolling phase by phase regeneration.

A demonstration phase of 32 homes was completed in October 2007, 16 of which were affordable and 16 for market sale. The first major phase, comprising of 319 new homes (155 of which are for private sale/market rent and 164 affordable), was completed in July 2012. Later phases are due to start on site in November 2012. These will deliver a further 182 new homes (106 private and 76 affordable).

There are a number of infrastructure requirements associated with the scheme; £7 million funding has already been used to improve access, which along with S106 contributions has funded replacements of the two railway bridges. The early phases of the scheme will bring forward infrastructure vital to the wider transformation of the Colindale area helping to catalyse development across the area.

2. Councils facing barriers to their efforts to promote growth

Housing and employment – Newark and Sherwood

The Newark Growth Point has been a key priority for Newark and Sherwood District Council since 2006. Plans include an additional 6,000 homes over and above anticipated growth together with an additional 53 hectares of employment land over the next 15 years. The council has seen the 'Growth Point' as an opportunity to reinforce sustainable urban development and improve the infrastructure in and around Newark whilst conserving its architectural assets and historic environment.

Effective progress has been made over the last six years and the council has put in place its Local Development Framework, adopting a Community Infrastructure Levy and granting planning consent for its first strategic site which includes 3,150 homes, 38 hectares of employment land and a new southern relief road to link the A46 (which has been made a dual carriageway) to the A1.

Recognising the impact of economic recession on the construction industry the council worked with the developer to agree reduced levels and types of affordable housing in order to secure a viable scheme. This has still left a problem for the developers through the lack of availability for medium term finance. Banks and financial institutions are reluctant to fund development in the way they did in then past. The council is therefore working with the developers to explore alternative ways of kick-starting the development including the possibility of the council using its own borrowing powers to finance the scheme for the first nine years. This would require the council to support significant borrowing.

The council is also exploring whether government funding could be secured to finance the road as this would unlock private investment in the overall scheme.

Housing – Stroud

Stroud District Council has a stock of just over 5,200 properties. As part of the new Housing Revenue Account (HRA) self-financing regime the council borrowed £91.7 million and will now keep all future surpluses. Stroud has planned to invest over £23 million over the first 5 years in catch up repairs to obtain Decent Homes Standard. Over the same period SDC is looking at utilising the £10 million headroom it has to build over 100 new council owned properties to extend and increase its council house stock.

If rules for authorities were more closely aligned to those for housing associations it would provide an environment in which authorities could adopt a more ambitious and/or aggressive approach to developing new homes to help stimulate the economy. It would also encourage authorities to participate more actively in the new right to buy rules as they would not be financially disadvantaged by selling their existing stock. Stroud would like to retain all capital receipts under the right to buy scheme (to be utilised for new build) and also to be able to borrow through the HRA based on the future rental.

These changes would put authorities on a par with housing associations and in Stroud's example would enable the council to build an extra 188 properties making a total of 288 properties whilst at the same time giving a definite and positive stimulus to the economy.

Housing – Mid Devon

Mid Devon District Council has taken the opportunity to use the 'borrowing headroom' provided by the new HRA funding arrangements to support housing growth. The additional funds have enabled a number of initiatives including the exchange of contracts on stalled sites to produce new homes and refurbish long term empty properties. A net spend of approximately £4 million will generate an additional 83 homes for the community, without grant or subsidy from the HCA or other bodies.

One of the stalled sites had planning permission but the developer was unable to raise finance due to the changed economic circumstances. Additionally the lack of a financially sustainable development undermined the CPO for part of the land that was integral to the scheme. The council has divided the scheme up and taken direct ownership of 10 long term empty homes to allow those to be refurbished and added to the housing stock, using part of the HRA borrowing headroom.

The council also holds some revenue resources in the HRA (c£1.5 million) that will be used to purchase properties from local builders and support the local construction industry. The restriction on council borrowing under the new HRA rules is limiting the amount of housing growth they are able to deliver. If councils were provided with greater freedom and the prudential borrowing code applied to the HRA, Mid Devon would have ambitions to develop 1,000 homes over the next 10 years. This would represent an increase of over 30 per cent in retained stock from 3,100 to 4,100.

Compulsory purchase – Wellingborough

Wellingborough Council is progressing the development of a 360 hectare sustainable urban extension site. The site was granted outline planning permission in 2008 for mixed use including 3100 residential units consisting of a range of tenures with 20 per cent allocated as affordable housing. The site is of strategic importance, at the heart of the UK's motorway and rail network and placed within the 'Oxford to Cambridge Arc'.

The council are part way through a Compulsory Purchase Order (CPO) for part of the land required to build a bridge across the railway for access purposes. The CPO process is complex and cumbersome. In order to confirm title, compensate the existing owners and extinguish previous interests to prepare the land for planning development, the council need to use powers derived from five different pieces of legislation including the Town and Country Planning Act 1990, The Local Government Act 1972 and The Compulsory Purchase Act 1965. The impact of this added complexity has been a twelve month delay and additional costs of over £100,000. The CPO was issued in May 2012, and is still in progress after a period of negotiation. Confirmation is expected by early 2013.

The development represents a £500 million investment, anticipated to create between 6 and 7 thousand local jobs and 200 construction jobs. Investment in infrastructure totals £80 million and includes a new railway station and a new 1000 space car park. The council started planning the development in 2000, with development anticipated to commence in 2014 and site completion in 2034, depending on market conditions. While it is accepted that the process needs to be conducted carefully and accurately, it would allow quicker development if all the necessary powers were consolidated under one piece of legislation.

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