CLES
Centre for Local Economic Strategies

bulletin

How do we do local economic development post CSR?

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Introduction

Last week's Comprehensive Spending Review[1] appears to leave the funding and strategic cupboard for the function of local economic development looking pretty bare. Gone are the special initiatives and programmes which have characterised the last ten years. Gone are institutional vehicles and quangos such as Regional Development Agencies which have driven activity. Gone are the managerialist approaches to target setting and monitoring processes. Going is a degree of core local authority funding through the 7.1% annual decrease in revenue grant to local government. Also going is some of the welfare and social housing support for the most vulnerable in society.

These cuts present a challenge to the function of local economic development. Regional economic development has been subsumed into a national drive towards economic growth and centrally driven and operated activities around inward investment and business support. Local economic development is set to become more competitive between places with the Regional Growth Fund as the last remaining area based initiative and the Local Enterprise Partnerships as the private sector led vehicles of local economic collaboration. Welfare to work programmes will become increasingly the strategic and delivery responsibility of the private and voluntary and community sectors. The core cuts effecting local economic development are as follows:

- Cuts of 51% to CLG Communities funding;
- Cuts of 27% to CLG local government grants;
- Cuts of 74% to CLG Communities capital funding;
- Cuts of 52% to BIS capital funding.

[1] HM Treasury (2010) *Spending Review 2010*. http://cdn.hm-treasury.gov.uk/sr2010_completereport.pdf

The question for the Centre for Local Economic Strategies (CLES) is what is left for the function of local economic development? The answer is actually quite a lot. The era of fiscal austerity should be viewed as an opportunity for local authority economic development department's to be innovative and take risks in order to shape the local economic destinies of their places. There are a host of existing and emerging levers which local economic development can utilise strategically and in delivery terms to respond.

This bulletin explores how we do local economic development in a cold economic climate through examining a number of levers. In this we explore opportunities for both local authority economic development departments and the voluntary and community sector. These levers, summarised in the table below, are drawn both from new powers advocated by Government and CLES' own policy thinking around the future of local economic development.

Lever Number	**Lever Description**
Lever 1	Maximise the power of procurement
Lever 2	Use existing relationships, partnerships and collaboration
Lever 3	Promote the value of economic development to now un-ringfenced funds
Lever 4	Take the lead on apprenticeships
Lever 5	Utilise new innovative financing mechanisms
Lever 6	Support the voluntary and community sector
Lever 7	Use asset transfer to enable local economic value
Lever 8	Use the Regional Growth Fund as a leverage vehicle
Lever 9	Develop the low carbon economy
Lever 10	Become managing agents for the Work Programme
Lever 11	Match European resources with public and private resources
Lever 12	Retain the traditional values and functions of local economic development

Lever 1: Maximise the power of procurement

As already mentioned, the area based initiative as we know it has gone. This leaves a hole in terms of resources focused upon supporting people into employment, developing and sustaining business, and providing skills and training. There is a way of enabling these types of benefits for local economies other than special initiatives and that is through procurement spend. Historically, local authority procurement departments have been riddled by bureaucracy and the core barrier to community benefit of European Procurement Law, meaning a lack of innovation and creativity. In recent years, as evidenced in recent work by CLES with Manchester City Council, a progressive and sustainable procurement strategy can reap benefits for local economies[2].

By engaging more effectively with suppliers in tendering; in supporting local businesses and organisations to bid for contracts; in adopting employment clauses; and by promoting sustainability principles to the supply chain local authorities can reap local economic, social and environmental benefits. The work with Manchester revealed that the City Council's procurement spend supported some 5225 jobs for Manchester residents, with suppliers committed to tackling issues of worklessness and deprivation in the city.

Procurement is therefore, a key area of opportunity for economic development teams. They need to be working with procurement departments in identifying businesses and localities in need of tendering support; and in supporting suppliers with their recruitment needs through employment brokers. Support for local organisations can reap benefit, again as evidenced in the Manchester research where suppliers re-spent 25p in every £1 received in the Manchester economy and were proactive in supporting Manchester residents into work and training opportunities. Procurement strategy and spend could effectively become the new way of enabling local economic development, but only if local authorities develop knowledge and understanding of who is delivering what locally. Procurement is also increasingly important for the voluntary and community sector, particularly in progressive authorities where social value is considered as part of the tendering process.

Lever 2: Use existing relationships, partnerships and collaborations

Despite positive signals over the last ten years, the success of Local Strategic Partnerships (LSPs) and specialist economic development partnerships have been hit and miss. Whilst some partnerships have been built upon trust, true collaboration and a commitment to the locality; others have been characterised by bickering, personal agendas and a focus upon 'talking' rather than 'doing'. Additionally, in rhetoric terms, LSPs have been founded on the premise of relationships between the public, commercial and social economies.

In an era of financial restraint, it will become even more important that effective relationships are brokered between public, commercial and social sectors if places are going to respond to economic and environmental shocks. Over the course of the last two years CLES has undertaken a number of pieces of research exploring the resilience of place[3]. The research has predominantly found that joint working between commercial and public sectors in particular, can enable innovative and creative projects to take place which contribute to the development of an economy. Relationships are generally less well developed in public-social and commercial-public relations. Emerging Local Enterprise Partnerships (LEPs) will be key to developing these sorts of relationships and fostering local economic change. Voluntary and community sector organisations, through infrastructure bodies also need to engage with LEPs. These partnership structures will effectively become the new LSPs at a cross-authority level but with a focus upon economic growth.

Local economic development has often been undertaken with a focus upon relationships between the public and commercial economy in creating businesses and jobs. Whilst this relationship is important, it will no longer be public finance which will drive private growth. Rather private sector impetus needs

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[2] Centre for Local Economic Strategies (2010) *The Power of Procurement* http://www.cles.org.uk/information/106370/the_power_of_procurement/

[3] For more information about our place resilience work view: http://www.cles.org.uk/cles_listwebpages/100158/106260/cles_place_resilience_pilot_2010/

to be more forthcoming, with support also for the social sector. Relationships, partnership and collaboration between public, commercial and social economies need to form a key element of local economic development practice in the future.

Lever 3: Promote the value of economic development to now un-ringfenced funds

Whilst the 7.1% annual cut in grant to local government is significant, the Comprehensive Spending Review did cut some of the bureaucracy between central government and place by removing the ring-fencing from a host of previously ring-fenced funds. The only grants now paid out by central government to local government which are designated for specific ring-fenced purposes are simplified school grants and a new public health grant. The value of further un-ringfenced funding now making up the formula grant is worth £4billion.

The un-ringfencing of funding is important for local authorities in their place stewardship role. It makes them far more able to align funding to the challenges facing the locality and the priorities in their Corporate and Sustainable Community Strategies. Un-ringfencing is also an opportunity for local economic development departments. There is an opportunity for senior officers and elected members with responsibility for local economic development to lobby for funding to be assigned to priorities around employment, business creation and support, skills, and inward investment. This should be a particularly valuable resource for localities without a historical receipt of special initiative funding but with entrenched local economic issues. Un-ringfenced funding could be used as a mechanism for local authorities continuing to support community facilities through grant-funding. As discussed later on in this bulletin, un-ringfenced funding could also be used to match fund European Funding.

Lever 4: Take the lead on apprenticeships

The Comprehensive Spending Review is built largely on the premise of private sector recovery driving economic growth. Crucial to this will be creating and sustaining employment. The announcement that 75,000 jobs a year will be created through new adult apprenticeships is a positive one and in some ways off sets some of the key messages in the review around welfare reform. The 75,000 apprenticeships, however, need to be allocated wisely, and primarily support those moving away from being claimants of Employment and Support Allowance and Incapacity Benefit and into employment.

To enable apprenticeships to be allocated in a way that supports the most ‘needy’ in society, there does however need to be an honest broker at the local level. Local authority economic development departments have the skills to become these core brokers working with the private sector companies to enable apprenticeships. The relationship between procurement and economic development is again crucial with the opportunity to embed apprenticeships as clauses into contracts, particularly around continuing infrastructure projects. There are a number of key examples where construction companies and housing associations have utilised apprenticeships to support individuals in the neighbourhoods in which they work into employment. Bramall Construction, for example, has a commitment to providing 4 apprenticeships for every £1million they spend upon a project. Local authorities should remember that the onus is not just on them to tackle worklessness in a place but filters into the supply chain.

Lever 5: Utilise new innovative financing mechanisms

One of the shocks of the CSR was the change to the borrowing rates from the Public Works Loans Board (PWLB) for local government. The PWLB has been the major source of borrowing for local authority capital expenditure for many years and a rise of 1% will have a big impact on budgets for potential projects. The Treasury believes that the self-financed capital expenditure the PWLB used to service will decrease by 17% over the next four years which is serious when taking into account the 45% reduction in local government's capital grant.

The only option for local authorities now is to try and take advantage of the localism agenda and consider and explore new ways of financing projects, thinking innovatively about the way they can raise finance at affordable costs. Drawing on local government pension funds has been mentioned, but the CSR did confirm that tax increment financing would be available to local authorities to forward fund major infrastructure projects. Put simply, TIF is a mechanism for using anticipated future increases in tax revenues to finance the current improvements (such as new or improved infrastructure) that are expected to generate those increased revenues. In simple terms, it enables a local authority to trade anticipated future tax income for a present benefit. The Core Cities group have been pushing for Accelerated Development Zones (using a form of tax increment financing) to be introduced as a tool local authorities can utilise to undertake major regeneration schemes. ADZs would be defined physical areas, consisting of either a single or multiple administrative areas linked by a common infrastructure requirement. Within ADZs, local authorities could retain new business rates that are supplementary to the existing revenues for the area, and securitise that income to raise funding for upfront infrastructure investment. Business rate growth would be captured and reinvested for a maximum of, for instance, 20 years or more or until finance raised to invest in upfront enabling infrastructure is repaid.

There are likely to be a set number of pilot areas in the first instance as the ADZ concept does mean that the Treasury will have to forgo business rates within a set area, however even if an area is not chosen to be a pilot there are still other options for funding that should be considered. As mentioned in Lever 11, European funding such as JESSICA is an option but so are mechanisms such as Local Authority bonds. There are no legal constraints on local authorities raising bonds, but it has not been encouraged by governments since the 1980s. However this changed, and an important precedent was set, when the Treasury authorised Transport for London (itself a local authority in legal terms) to issue £600m of bonds as part of its borrowings to improve transport infrastructure. Even though the practice is discouraged, there are examples of local authorities issuing bonds. In April 2005, Birmingham City Council proceeded with a £215 million bond issue to refinance old National Exhibition Centre (NEC) debt and replace it with new City Council bonds. The new bonds are listed on the London Stock Exchange and the deal provides funds to redevelop and refurbish the NEC, one of the UK's leading exhibition and conference venues. There could be huge potential from matching up public sector pension pots encouraging them to invest into bonds for public infrastructure.

Lever 6: Support the voluntary and community sector

Whilst substance still appears thin on the ground, Big Society remains a key message of the Coalition Government. The Comprehensive Spending Review announced £470million of funding for capacity building support for the voluntary and community sector including a new £100million transition fund to support charities in the shorter term. The objective of the review around the voluntary and community sector is that the package of measures and cuts will support the sector in the longer term, rather than immediately.

There is a challenge in this in that voluntary and community sector organisations, particularly those previously reliant on grant funding, need support now to enable their organisations to be sustainable and potentially bid for contract opportunities. Economic development departments can fill some of the gaps in infrastructure for the voluntary and community sector by diverting business support towards the sector.

It is after all the local economy, in both monetary and social and environmental terms, which benefits from the activities of the voluntary and community sector. The sector creates and sustains jobs, provides services missed by the mainstream, and supports the creation of enterprise and community organisations, all core aspects of effective economic development.

Lever 7: Use asset transfer to enable local economic value

Since the Quirk Review, local authorities across the country have transferred previously redundant and under-utilised council facilities to voluntary and community sector ownership through asset transfer. Whilst much research has been undertaken into the theoretical value of asset transfer, little has actually quantified it in economic, social and environmental terms. A recent study undertaken by CLES in North East England used cost-benefit analysis to explore such benefits with the results detailing:

- 89% of organisations reported positive impacts in terms of 'organisational goals, focus and direction';
- 85.3% of organisations reported a positive impact in relation to spending on local suppliers;
- 100% reported impacts in terms of community engagement;
- Direct environmental impacts were reported in terms of renovating derelict buildings.

These benefits are clear and asset transfer is a key potential future role for economic development departments in local government. As local authorities look to make savings and cuts, local authority owned assets will become one area for 'selling-off'. Rather than selling them off straight away, the merits and potential benefits of transfer to the voluntary and community sector should be considered. Not only does this maintain services, it also contributes to the sustainability of voluntary and community sector organisations, and the look and vibrancy of place. There are also con's to asset transfer in that it places risk upon the voluntary and community sector. In times of economic uncertainty, taking risks may be the most effective way of responding to cuts in service finance for the voluntary and community sector.

Lever 8: Use the Regional Growth Fund as a leverage vehicle

As already mentioned, the Regional Growth Fund is effectively the last remaining area based initiative, targeted upon localities which have not necessarily previously reaped the benefits of economic growth. The Comprehensive Spending Review committed a further £500million to the fund in year three of its operation. Whilst primarily targeted at the private sector, the relationships explored in lever 2 between the commercial and public sectors will be required if the fund is to reap maximum benefit for local economies and national economic growth.

Leverage of additional resources and match funding will be crucial to the success of the Regional Growth Fund with local government, and particularly economic development departments, having a role to play. With inward investment functions effectively now centralised, someone needs to sell localities to investors in order to attract wider leverage of resources and support the commercial economy to grow. This is a key potential role for economic development departments. They do however need to ensure that the use of the Regional Growth Fund is reflective of place and the skills set of both the population and the existing business base.

Lever 9: Develop the low carbon economy

Recent research by CLES showed that the transition to a low carbon economy provides local authorities with the potential to create jobs, attract future inward investment, strengthen local supply chains, generate additional income as well as make efficiency savings and tackle social inequalities such as fuel poverty.

While the CSR settlement aimed to prioritise spending in areas where it can have the most impact, it did recognise that low carbon technologies have the potential to contribute to growth as well as to emissions reductions. Over £200 million was released for the development of low carbon technologies, including offshore wind technology and manufacturing at port sites, which will provide some areas with access to a useful pot of money but the big potential for local authorities comes through the introduction of increased incentives for low carbon energy generation through the Renewable Heat Incentive.

This, along with the Feed in Tariffs, means local authorities across the country should be looking to take advantage of these income generating streams; together they have the potential to revolutionise the way electricity and heat is produced by turning town halls and other existing infrastructure into green power stations. Not only will it generate a new income stream but it will help save on utility bills. For example, it is estimated that solar panels fitted to an average sized town hall building could raise £10,000 a year for a local authority, while a large standalone wind turbine could generate electricity worth hundreds of thousands of pounds. This money can then be used to help maintain services and help keep council tax down. The retrofitting that would be needed will also help stimulate the local economy as will the cost savings derived through energy efficiencies.

Lever 10: Become managing agents for the Work Programme

The Work Programme has been sold by Government as an individual welfare to work programme with activities delivered by prime, predominantly private sector, contractors and a host of voluntary and community sector and private sector sub-contractors. This language appears to marginalise local government and the wider public sector. They do however, need to be involved and CLES would argue that local government and economic development departments in particular take on the role of managing agents. With a universal programme individual, personalised and localised approaches to tackling worklessness will inevitably be lost. It is the role of the local authority to ensure this does not happen and ensure that programmes are matched to those most in need of support and to local priorities.

The Work Programme is also of crucial importance to the voluntary and community sector. It is potentially a massive source of income and the Government rhetoric around it suggests that the voluntary and community sector will be used by prime contractors to deliver activities. There is a need the sector to be proactive, in both forming consortia to bid and demonstrating to prime contractors what they can deliver.

Lever 11: Match European resources with public and private resources

Despite cuts in national level resources for economic development activity, there are still millions of pounds available for certain areas of the UK through a myriad of European Programmes, such as European Social Fund and the Joint European Support for Sustainable Investment in City Areas (JESSICA). This is a massive opportunity for localities to bolster finances for economic development activity and continue to progress against regional and local priorities. Match funding is key here, with a requirement to match European funds with other public and private resources.

To enable this to happen and ensure the UK benefits to the maximum from European funds, economic development departments need to engage with universities, further education colleges, businesses, local enterprise partnerships and others to attract the required match funding. They will also need to promote the value of economic development to holders of now un-ringfenced funds. This is therefore a key lever for the sustainability of economic development departments.

Lever 12: Retain the traditional values and functions of local economic development

The traditional foundations of local economic development have been about creating jobs, supporting people into jobs, developing and sustaining business, up skilling, and creating the conditions for economic growth. Just because there is less money around does not mean that these foundations of the function need to change. What does need to change, however, is where these foundations are channelled particularly around job creation. Given the cuts in the public sector, greater onus will be placed upon the commercial economy to create jobs. Indeed this seems to be the core focus of Government. Economic development departments have the values and skills at the local level to support the commercial sector in job creation activities.

Concluding thoughts

It is all too easy to view the 2010 Comprehensive Spending Review with an aura of negativity. The language used by the Chancellor suggested as much with phrases such as: 'step back from the brink'; 'difficult choices and trade-offs'; 'waste'; 'failure'; and 'insanity' used throughout. Indeed there are a number of questions which bring negativity immediately to the fore:

- Why are certain themes and activities viewed as wastage?
- Where has central government accountability gone?
- Why is growth the overarching theme when we are yet to recover from recession?
- What happens to the most vulnerable in society as a result of cuts in welfare and social housing budgets?
- Why should the private sector have a field-day in mopping up public service contracts and delivery?
- Why are some places supported with infrastructure projects and not others?

On first glance as well, and inevitably, the Comprehensive Spending Review is grim news for the function of local economic development. It is undeniable that functions will be diminished and services will be reduced, however CLES would argue that cuts are as much an opportunity for economic development to be creative as a threat.

Bulletin is one of a series of regular policy reports produced by the Centre for Local Economic Strategies (CLES). CLES is a not-for-profit think-doing organisation, consultancy and network of subscribing organisations specialising in regeneration, economic development and local governance. CLES also publishes Local Work, Rapid Research and Briefing on a range of issues. All publications are available as part of CLES membership services. To find out more about membership visit the CLES website or contact CLES to request a membership leaflet.

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