



Centre for Local
Economic Strategies

bulletin

Christmas cheer? Key policy messages from the SNR and PBR

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Introduction

As is usually the case in the lead up to Christmas, the last few weeks have seen a flurry of policy activity from Central Government, particularly with regard to the economic regeneration activities of the Department for Communities and Local Government and the fiscal activities of HM Treasury. Perhaps the two most significant publications have been the Government's long-awaited response to the consultation on the Review of Sub-National Economic Development and Regeneration¹ and the publication of the annual Pre-Budget Report². Both documents, and the policy contained within them, are of key importance to CLES members and those working in economic development, regeneration and local governance.

CLES have been keen followers of, and commentators upon, the development of the Sub-National Review of Economic Development and Regeneration since its inception in July 2007. CLES viewed many of the proposals of the SNR as an important milestone in local government and partners shaping the economic destiny of their places. We were particularly supportive of proposals for a duty upon top-tier authorities to undertake assessments of their economy and for greater delegation of Regional Development Agency funding to local areas.

Similarly, the Pre-Budget Report, which sets out public spending plans and tax decisions for the forthcoming spring Budget for 2009, is of significant interest to CLES in a period of economic downturn. Local Authorities have increasingly sought assurances in the last couple of months regarding the sustainability of their settlements and the extent to which funding will be available for major infrastructure projects. This bulletin seeks to provide commentary and critique upon the content of both these policy publications.

¹ Communities and Local Government and Department for Business, Enterprise and Regulatory Reform (2008) *Prosperous Places: taking forward the review of sub-national economic development and regeneration – the Government's response to public consultation*

² HM Treasury (2008) Pre-Budget Report – facing global challenges: supporting people through difficult times

The Government's response to consultation on the Review of Sub-National Economic Development and Regeneration

On 25th November 2008, the Department for Communities and Local Government and the Department for Business, Enterprise and Regulatory Reform, published their findings and response to the consultation on taking forward the review of sub-national economic development and regeneration. The document provides a summary of the key findings of the consultation, from over 500 responses received, and identifies the proposals that will be taken forward for legislation. The key proposals for taking forward are as follows:

A. Local authority economic assessment duty

The Government's response proposes to legislate for option 1 of the local authority economic assessment duty. This will create a new duty, underpinned by statutory guidance, whereby top-tier local authorities will assess the shape and functioning of their economy. There will also be a duty placed upon top-tier authorities to work closely with district councils in the development and delivery of the assessment, with a corresponding duty upon district councils to cooperate with the top-tier. There will not however, be a duty upon named partners to cooperate in the preparing the assessment. Option 1 of the assessment duty will also apply to London Boroughs.

B. Supporting sub-regions to collaborate on economic development

The Government's response will also legislate for the creation of statutory sub-regional authorities for economic development, to be known as Economic Improvement Boards. The Boards will be designed to improve the overall economic conditions of a sub-region and be voluntary in nature. The Economic Improvement Boards will not have their own performance targets, with further options for sub-regional collaboration legislated for in the creation of Multi Area Agreements with statutory duties.

C. Producing the regional strategy and reforming regional governance structures

As a result of the consultation, the Government's response has refined its plans for producing the Integrated Regional Strategy. Joint responsibility will be given to the Regional Development Agency and the newly formed Local Authority Leaders' Board for the development of the Integrated Regional Strategy. The content of the Integrated Regional Strategy will be expected to be regionally specific but should be contained in a concise and succinct document. The government will however, issue further guidance as to the content of the Integrated Regional Strategy. The process of developing the strategy will be expected to include the involvement of stakeholders and communities. The Regional Development Agency and the Local Authority Leaders' Board will additionally be required to produce an annual monitoring report on the delivery of their Integrated Regional Strategy.

D. Delegation of decision-making by Regional Development Agencies

The Government's response states that no primary legislation is required for the delegation of decision-making by Regional Development Agencies. Instead Investment Planning will enable local authorities and sub-regional bodies to have a determining role in planning and delivering interventions that are most effectively delivered at those geographical levels. Formal approval and accountability will remain with the Regional Development Agency.

Critique of the Government's response to the consultation and the proposed legislation

CLES has eagerly anticipated the publication of this document following our consultation response in July and were pleased to see that many of our thoughts had been considered in the Government's response. We particularly welcome the proposal to legislate for a statutory economic assessment duty, which is underpinned by national guidance. We feel that this will provide a strong evidence base for local areas with regard to local economic development and

will form a basis for discussion about the type of economic development most suited to the individual context of local areas.

CLES also welcomes the duty to involve district councils in the preparation of the economic assessment as we feel this will strengthen the assessment by ensuring that all views and evidence about the condition of a local economy are considered and the true economic diversity of economies reflected. The new Economic Investment Boards are also interesting and will provide an important statutory focus for economic development at the sub regional level, building upon the value of these arrangements in places such as Greater Manchester and the Tees Valley. We are also pleased that the government have decided to go ahead with the single regional strategy and that local authorities, through the Local Authority Leaders' Boards, will have much greater involvement in this process than was previously suggested in the original review. We do however, have concerns about the Government's response, notably around the following seven issues:

Multi-scalar governance

The response describes a range of different scales of economic development delivery without articulating how all these different scales fit together in governance terms. In addition, there is an assumption that the sub regional system of governance proposed will help provide a stronger focus for economic development planning and delivery. Whilst we accept that the sub-regional approach has much to offer, it is not without its limitations, for example, a sub-regional approach often tends to generalise about the way in which local economies function overlooking the fact that individuals and businesses often operate at the local, rather than the sub-regional, level. Secondly, the sub regional process can potentially slow the ability of local areas to respond quickly to challenges as they arise, for example, the current economic downturn.

A new economic reality

The response fails to significantly consider the current economic downturn and the economic and social challenges of recession. When the SNR was first put forward in 2007, the economic position of the UK was entirely different with growth forecast to continue. However, now that the economy is now in downturn, the policy has failed to keep pace with these developments and the current proposals lack direction and any new ideas about how economic development should move forward in the future in response to the challenges currently impacting upon local economies.

A fudge on sustainability

In our original comments, we made it clear that we felt that economic development was a different process to economic growth and that growth should not be the single most important objective of economic strategy. In the Government's response, we feel that the issue of sustainability has been fudged with talk of "sustainable economic development" a term which provides a neat catch all for the difficult issues around economic growth versus environmental sustainability. However, the term itself is contradictory and we feel a much stronger acknowledgement of the implicit contradiction in current policy is required which suggests that we can both continue on a path of traditional economic growth whilst at the same time tackle the challenges of climate change.

Governance and Accountability

The response leaves a number of questions around governance and accountability unanswered and unclear. The Local Authority Leader's Board (previously the Local Leader's Forum) will work jointly with the Regional Development Agency to produce the regional strategy suggesting that the scrutiny function originally held by the Forum will no longer be required. Similarly, the response talks about a host of organisations in delivering delegated funding but does not commit to a duty to involve these organisations in discussions around economic assessment and strategy.

Regional Development Agency planning and middle management capacity

CLES continues to have concerns over the capacity of Regional Development Agencies to develop the regional strategy, and whether there are sufficient skills available at middle manager level to put together detailed guidance on planning, housing and other aspects of the single regional strategy.

Cross Departmental Gaze

The response does not sufficiently explain how different departments at a national, regional and local level will consider the multifaceted considerations within the regional strategy collaboratively. It is important that economic development considerations are considered alongside priorities in health and wellbeing, environment, housing, transport and wider social issues.

Economic Assessment

Although detailed guidance will follow the Government response there is a lack of information and direction about the nature of the proposed economic assessment duty and its governance. This is a further frustration for local authorities that have already been waiting some time to understand what this assessment might mean for their activity. The assessment needs to go beyond data to encompass the wider economic story of place in considering economic process rather than simply raw economic data.

Pre-Budget Report 2008

The Pre-Budget Report (PBR), unveiled by the Chancellor of the Exchequer, Alistair Darling, in November 2008, revealed a relatively radical set of measures to tackle economic downturn and curtail the length and depth of recession over the coming year. The PBR sets out the Government's tax and spending plans for the forthcoming spring Budget for 2009, in the context of its overall approach to social, economic and environmental objectives. This includes spending intentions for public investment and updated forecasts for the economy and projections for public finances.

In its assessment of the economic outlook for the rest of 2008 and 2009, the PBR forecasts that Gross Domestic Product (GDP) will grow by 0.75% in 2008 and recession will continue into the first half of 2009. Also, Consumer Price Index (CPI) inflation is predicted to fall from 4.5% in October to less than 1% in the second half of 2009. In response to these difficult economic circumstances, the proposals within the PBR follow two key themes of national recovery and personal and business assistance, and include:

A. Discretionary fiscal policy to support the national economy during recession and into recovery:

- ❑ temporarily reduce the Value Added Tax (VAT) rate from 17.5% to 15% (the lowest level allowed under EU law) with effect from 1st December 2008 until 31st December 2009;
- ❑ bring forward £3 billion of capital spending from 2010-11 including introducing a green stimulus supporting low carbon growth and jobs;
- ❑ restrict the income tax personal allowance for those with incomes over £100,000 from April 2010, and introduce a new additional higher rate of income tax of 45% for those with incomes above £150,000 from April 2011;
- ❑ increase the employee, employer and self-employed rates of national insurance contributions by 0.5% from April 2011;
- ❑ to offset the effects of the temporary reduction in VAT, increase alcohol and tobacco duties (by 8% and 2% respectively), maintaining these increases after December 2009 to support fiscal consolidation. Following a fall in pump prices of over 20p per litre from summer peaks, a 2p per litre increase in fuel duty from 1st December 2008;
- ❑ introduce an additional £5 billion value for money target for 2010-11 and set assumptions for spending growth from 2011-12 onwards.

B. Immediate actions to help individuals and businesses most affected by the economic downturn:

- ❑ make permanent the £600 increase in the income tax personal allowance announced in May 2008 with a further increase of £130, thus raising the personal income tax allowance from £6,035 to £6,475, and the basic rate tax limit from £34,800 to £37,400 from April 2009;
- ❑ bring forward April's increase in Child Benefit to January, increase of the Child Tax Credit and a payment of £60 to all pensioners equivalent to bringing forward the April increase in the basic state pension;
- ❑ help through mortgage rescue and Support for Mortgage Interest schemes for eligible homeowners in difficulty and a commitment from major mortgage lenders not to initiate repossession action within at least three months of an owner-occupier going into arrears;
- ❑ commit an additional £1.3 billion to continue delivering effective support for the unemployed to find a new job;
- ❑ undertake measures to help Small and Medium-sized Enterprises (SMEs) facing credit constraints, including a new Small Business Finance Scheme, a £1 billion guarantee facility to support bank lending to small exporters, a £50 million fund to convert businesses' debt into equity and a £25 million regional loan transition fund;
- ❑ introduce a new HMRC Business Payment Support Service to allow businesses in temporary financial difficulty to pay their HMRC tax bills on a timetable they can afford;
- ❑ give more generous tax relief for businesses now making losses, and modify a number of planned tax reforms, including vehicle excise duty, air passenger duty, and the deferral of the increase in the small companies' rate of corporation tax.

How will this benefit businesses and local economies?

The proposals within the Pre-Budget Report pledge a total of £7 billion of either direct funding or tax reprieve to small and struggling businesses. This will play a crucial role in supporting the thousands of small businesses and enterprises that play massively important roles as local economic drivers and employers. The raft of deals and monies available for supporting small businesses include:

- ❑ a temporary increase in the threshold for empty property relief; for 2009/10, empty commercial properties with a rateable value below £15,000 will be exempt from business rates;
- ❑ struggling businesses will be able to spread their VAT, corporation tax and NI contribution payments over a longer timetable;
- ❑ the rise in corporation tax for small firms from 21p to 22p that was planned for April 2009, will now be deferred;
- ❑ the tax repayment scheme for previously profitable businesses will be extended so that up to £50,000 of losses can be offset against profits made over last three years (increased from one year);
- ❑ a £4 billion deal has been agreed with the European Investment Bank to provide money to UK banks to pass on to small and medium-sized businesses (including through the Small Firms Loan Guarantee Scheme)

In addition to the tax and financial provisions of the PBR, there are plans to improve employment and skills during the period of downturn, and to improve businesses' access to credit and contracts. This includes:

- ❑ Train to Gain programmes in England will be extended to provide training and support to individuals in pre-redundancy situations, helping them to develop the skills needed to move easily into a new job either within their existing sector or beyond;
- ❑ £1.3 billion has been earmarked to help the unemployed, much of which will be spent on extending Local Employment Partnerships – partnerships between large employers and local job centres to provide employment for hard-to-place groups such as the sick, disabled, lone parents or long term unemployed. The new funding will enable this scheme to be extended to include all unemployed people;

- ❑ Skills Hubs – networks of local partners providing job brokerage services, training and other support – will be established in response to large-scale redundancies;
- ❑ the Rapid Response Service – a service offered by Jobcentre Plus to workers during a large scale redundancy, aiming to get workers into new jobs before they lose their current ones or giving them enhanced Jobcentre Plus options if this was not possible – is to be expanded so that support can also be made available to smaller scale redundancies;
- ❑ through collaboration with Business Link, a new, easily accessible, portal will be established to direct credit-worthy small and medium-sized enterprises, who are experiencing problems accessing credit, through the various schemes;
- ❑ measures will be taken to enhance SMEs' access to government contracts, including a new online portal for all government contracts over £20,000.

Implications of the PBR for regeneration and economic development

Commentators have received the PBR with mixed reviews, some hailing this as just what the economy needs to get back on its feet while others criticising the plans for not going far enough, or indeed creating high levels of debt that will take decades to repay. Interested parties agree however, that this is an aggressive and radical set of budgetary decisions not seen for many years, and wait with eager anticipation to see what the implications for national economic recovery and everyday people's lives will be. CLES' thoughts on what the provisions of the Pre-Budget report means for local economies and economic development include:

A. Maximising local benefits from regeneration projects

We welcome Keynesian plans for large capital spending on infrastructure and other regenerative projects to arrest the decline of the construction and related industries, saving jobs while keeping delivery of regeneration priorities on course. The challenge from these projects will be to maximise the benefits yielded by local economies and communities from this spending; ensuring redundancies stop and high-risk sectors remain buoyant during recession. Re-thinking procurement regulations may be part of this, together with unbundling of large contracts into smaller sub-contracts and actively increasing the capacity of small businesses and social enterprises to successfully tender for contracts.

B. Keeping economic development within environmental limits

CLES welcomes the Government's commitment to support low carbon growth and jobs through its capital spending programme from 2010. We hope this will be preceded by ongoing measures to take advantage of the market potential of a low carbon economy and the growth sectors stemming from this in the future, making the UK a world leader in low carbon skills, technologies and economic practices.

C. VAT reduction versus increased duty on 'luxury' items

We question whether the reduction in VAT by 2.5% will achieve the desired effect of stimulating more spending as it is intended to do so. While this may have some psychological effects, most people will only see a few pence shaved off the price of most of the items they buy in the run up to Christmas (although people purchasing more expensive items such as cars and furniture will no doubt be pleased by the reduction). When combined with the increases on duty for alcohol, tobacco products and petrol, there is doubt over whether people will actually be better off. Is this just a case of giving with one hand and taking back with the other?!

D. Empty properties, empty gestures?

CLES more than welcomes the package of support and considerable funding to be made available to businesses, small and medium sized businesses in particular, as these are important contributors to local economic strength as well as national economic growth. This support will, therefore, be vital for keeping local economies buoyant and maintaining their valuable roles as local employers and suppliers.

One aspect we do question however, is the extent to which the temporary increase in empty property relief will help the situation; only a minority of properties have a rateable value of less than £15,000 and therefore this provision within the PBR may not go far enough to halt the trend of demolition of larger properties that cannot be sold or redeveloped, by their owners in

order to avoid empty property tax. Also, CLES has uncovered examples of large-scale development projects being stopped before completion to avoid payment of empty property tax because suitable buyers or occupiers are unlikely to be found in the current economic climate. The disincentive to finish development during the recession has therefore not been removed by the £15,000 limit of this provision.

E. Arresting worklessness

We welcome the new measures to provide support through skills and training provision and job centre services, for the growing numbers of unemployed and those facing impending redundancy as companies fold or make cutbacks. It is crucial to provide this support to people who have lost their jobs through no fault of their own and are unemployed, perhaps for the first time in their working lives, and just before Christmas. The Government needs to keep growing unemployment high on their agenda, responding to the implications this has on local economies and communities, and not losing sight of this in the wave of national and global fiscal problems. An aggressive and proactive approach to ceasing job losses and getting the newly unemployed back into work will avert the potential creation of a new generation of workless people, increasing the size of the cohort of long-term unemployed.

Conclusion

The Government's response to the consultation on the Review of Sub-National Economic Development and Regeneration and HM Treasury's Pre-Budget Report offer interesting conclusions about the variant roles of different levels of governance in a period of economic downturn. Central Government's role is one of a driver of fiscal reform and a fiscal enabler, providing the means by which consumers and businesses can survive and reinvent themselves through tax relief and how economic regeneration can be delivered through large-scale infrastructure investment and projects. Local Government's role, as the Government's response to the Review of Sub-National Economic Development and Regeneration appears to suggest, is about being an enabler and facilitator of economic strategy through assessing the shape of economies and competing for delegated funding from Regional Development Agencies.

Whilst the mechanisms, which will be legislated for as a result of the Sub-National Review, are innovative and welcome, they need to be more effectively linked to fiscal reform to enable local areas to more effectively shape their local economic destiny. Opportunities such as raising local revenues for economic development delivery activity need to be enhanced to enable localities to respond to the local economic challenges that recession has presented them with. Clearly, economic assessment provides an evidence based local economic picture and identity, yet it must be matched with a fiscal means to respond to local issues and challenges.

The Centre for Local Economic Strategies (CLES) will continue to closely follow the development of the Sub-National Review of Economic Development and Regeneration and its proposals as they become legislation and indeed how the Government continues to respond (in economic development and regeneration terms) to the economic downturn. We are currently undertaking research on local economic strategies and will be holding an event on the economic downturn and the economic assessment duty on 11th February in Manchester. For further information about our research and event, please contact Sarah Longlands, Director of Policy, 0161 236 7036, sarahlonglands@cles.org.uk

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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