

Productivity in the UK:

4 – The Local Dimension

July 2003



HM TREASURY



OFFICE OF THE
DEPUTY PRIME MINISTER



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FOREWORD

This document focuses on the strategic role that local authorities have in the economic development of their localities, the success of their region, and ultimately the prosperity of the UK. In 1997, the Government set out its central economic objective of achieving high and stable levels of growth and employment. To achieve that objective, the Government has put in place a programme of economic reform: securing macroeconomic stability, ensuring employment for all and improving productivity. Our national economy is now doing well with the lowest inflation for 30 years, the lowest interest rates for 40 years and the highest levels of employment in our history.

This has helped revitalise many of our towns and cities and lifted millions out of poverty. But, despite the strength of the economy, there are still significant and persistent differences in economic performance between and within UK regions.

Improving the prosperity of all our communities is the Government's main priority, partly for reasons of equity and social justice, but also because unfulfilled economic potential in every area must be released to meet the overall challenge of increasing the UK's long term growth. If we could raise the productivity of all of the regions just to the national average, everyone in the country would be £1,000 a year better off – and that excludes the additional benefits of reducing social exclusion, crime and health inequalities.

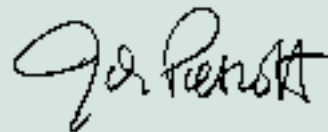
To achieve this ambition, our approach must be long term and comprehensive, harnessing the resources and skills of both central and local government as well as the private, voluntary and community sectors. This requires effective partnership and leadership at regional and local level, with enhanced freedoms and flexibility to ensure local problems are addressed. The increased funding for local government, the rationalisation of local authority plan requirements, the reforms of local government finance, the creation of Enterprise Areas and new powers to establish Business Improvement Districts will further strengthen the capacity to raise rates of business creation and deliver full employment, not just nationally but in every region and every community.

Only through such an approach, which this document outlines, can we hope to create sustainable, thriving and inclusive communities – in both urban and rural areas – that can stand on their own feet and which people want to live in.

Successful local communities and prosperous regions go hand in hand, and local authorities have a lead role to play. The Government will work with them to ensure they have the tools to carry out that role and to develop new approaches to enhance their scope for success and so deliver full employment and rising prosperity for all.



The Chancellor of the Exchequer
Rt Hon Gordon Brown MP



The Deputy Prime Minister
Rt Hon John Prescott MP

THE GOVERNMENT'S APPROACH TO ECONOMIC DEVELOPMENT

INTRODUCTION

1.1 The Government's central economic objective is to achieve high and stable levels of growth and employment. An essential element of that objective is to improve the economic performance of every part of the UK, both for reasons of equity and because unfulfilled economic potential in every nation, region and locality must be released to increase the long-term growth rate in the UK. This opens up a strategic role for local government in economic policy making, which is essential to achieving this goal.

1.2 As this document will show, there are large disparities between the best and worst performing localities. Indeed, intra-regional differences in economic performance are larger than inter-regional differences. It is therefore at the local level that action is necessary to improve economic performance. For this, local authorities have a crucial leadership role to play. To be successful, it is essential for local government to forge close links with business organisations and individual businesses in every area of the country. Local authorities also need to work in partnership with other local agencies and individuals and make full use of the freedoms and policy tools that the Government has developed.

1.3 The Government has put in place a radical programme of both macroeconomic and microeconomic reform since 1997 to improve the economic performance of the UK. A new macroeconomic framework has been established and has led to a period of stability that has provided a foundation for investment and growth. The New Deal and changes to tax and benefit rules have created the conditions for employment opportunity for all and microeconomic reforms to remove market failures have encouraged the investment, enterprise and innovation necessary to improve productivity.

1.4 As well as creating the conditions for the UK as a whole to improve its economic performance, the Government has strengthened the regional tier to provide the catalysts for growth in every region.

1.5 Scotland, Wales and Northern Ireland have all benefited from the creation of devolved administrations. The powers that have been devolved vary between the three nations, but all have significant powers to direct regional and economic development policy in the interests of local people. In England, the creation of the Regional Development Agencies (RDAs) has created strategic drivers of growth in every English region. Building on these enhanced responsibilities for the regions, the Government set out its vision for prosperous and thriving English regions with elected assemblies for those regions where people wish to have them in its May 2002 White Paper, *Your Region, Your Choice*.

1.6 In Spending Review 2002, the Government has strengthened further the regional dimension to its economic development strategy, committing itself to a Public Service Agreement (PSA) target not only to deliver sustainable improvements in every region, but also to reduce the gap in growth rates between the poorest and the richest English regions. This is an ambitious target for the long-term, and the Government is engaging with regional and local stakeholders to develop a comprehensive approach to meeting it.

I.7 As set out in Chapter 2, every region exhibits significant variation at sub-regional and local level. The economic performance of any particular area will be affected by both region-specific and locality-specific factors. It is therefore essential that local actors and institutions, primarily but not only local authorities, recognise the importance of their economic development role and take up the challenge to increase local economic performance and hence the prosperity of everybody in the UK. Equally it is essential that local authorities, and particularly those with the highest concentrations of economic activity, seek to narrow the gap between the poorest parts of their area and the rest.

I.8 In the Local Government Act 2000, the Government gave local authorities a wide-ranging power to promote or improve “the economic well-being of their area”. This document demonstrates the importance of local action to improve economic performance in all regions and sets out the tools available to local authorities in England and Wales and other local actors and institutions to achieve this. To continue to take this agenda forward, the Government is clear that it is essential to continue the dialogue with local government to identify what more can be done to strengthen partnerships and provide the flexibilities and policies that local authorities need to deliver on the agreed shared priority to promote the economic vitality of localities.

A NEW APPROACH TO ECONOMIC POLICY

I.9 A central part of the Government's approach is that it is not possible to run a successful economic policy without decentralisation and devolution to local and regional levels. This makes it imperative that local authorities and other local and regional bodies have a clear role, which they have the capacity and leadership, the flexibility and the policy levers to carry out.

I.10 Since 1997, the Government has strengthened the role and influence of the nations and regions in the UK, particularly in economic development, through creating the Devolved Administrations in Scotland, Wales and Northern Ireland and the RDAs in the nine regions of England. In the joint Treasury and Department of Trade and Industry November 2001 publication *Productivity in the UK: 3 – the regional dimension*, the Government sets out in detail the reasons why it has taken this regional approach to economic policy and the benefits it will bring.

I.11 This new regional approach rests on two principles:

- first, it aims to strengthen the long-term building blocks of growth, innovation, skills and the development of enterprise by exploiting the indigenous strengths in each region and city; and
- second, it is bottom-up not top-down, with national government enabling powerful regional and local initiatives to work by providing the necessary flexibility and resources.

I.12 These principles build on the Government's wider approach to raising productivity.

Macroeconomic stability

I.13 Any attempt to tackle the economic underperformance of the UK's regions and localities can only be based on a foundation of macroeconomic stability. Instability makes it difficult for individuals and firms to plan, save and invest. Evidence shows that the high volatility of output in the UK over the last 30 years has held back long-term economic growth. Therefore, the Government's first priority has been to establish and maintain a more stable framework for macroeconomic policy. Monetary and fiscal policy is now highly transparent, based on clear rules and targets, and underpinned by legislation.

I.14 The Government's macroeconomic framework is built on giving the Bank of England operational independence to meet the Government's symmetrical inflation target, while fiscal policy is underpinned by two strict fiscal rules, which ensure sound public finances over the medium term.

I.15 The macroeconomic policy framework has successfully delivered stability and growth, proving flexible and responsive in the face of global weakness and uncertainty. The economy continues to enjoy the longest period of economic expansion on record, with employment at record levels and unemployment at its lowest for a generation. The monetary policy framework has also ensured that inflation has remained lower and more stable than in the past.

I.16 This macroeconomic stability provides the foundation for improved productivity performance.

Microeconomic reform

I.17 In addition to establishing a stable macroeconomic environment, the Government has reformed policy to provide a much better microeconomic environment for successful firms to flourish and grow. Efficient markets are the best means of ensuring that the economy's resources are allocated efficiently, that firms use the most efficient production techniques available and that they have strong incentives to innovate. Well-functioning markets provide strong incentives, rewarding firms that do well with increased growth and profits, and rewarding workers with wages that reflect their productivity.

I.18 The Government's productivity strategy is built around correcting market failures to strengthen the UK's performance in skills, enterprise, competition, investment and innovation – the five drivers of productivity.¹

Strengthening the regional tier

I.19 Building on the approach to productivity growth outlined above, the Government has addressed the need for a specific focus on regional growth in order to drive up the overall economic performance of the UK. Since establishing the RDAs in 1997, the Government has made a number of significant reforms to ensure they have the flexibility they need to deliver their Regional Economic Strategies effectively.

I.20 The Government has also launched pilots to bring together the strategic work of the RDAs with Business Links and Learning and Skills Councils (LSCs) allowing a more strategic approach to economic development through a more coordinated approach to central issues such as adult skills, training and business support. The RDAs in the North East, East Midlands and West Midlands began implementing business support pilots, including RDA management of Business Link Operators, in April this year, while RDAs in the North East, East and South East began budget pooling and coordination with the local LSCs at the same time. In the North West a joint pilot involving the RDA, LSC and Business Links is underway.

I.21 At the same time, Regional Chambers have been strengthened to increase the accountability of RDAs. Additional resources will help ensure that they can carry out the scrutiny role effectively to make RDAs more credible and effective.

¹ See Productivity in the UK: The evidence and the Government's approach, HMT, 2001.

I.22 Although the policies above constitute a significant step forward, there remains considerably more to do. *Productivity in the UK: 3 – The regional dimension* sets out the disparities that exist between regions in terms of economic performance; and makes clear that these disparities have persisted for generations. It suggests that the persistence of these disparities over such a long timescale is a likely indicator of serious market failures and substantial unrealised economic gains in large parts of the UK economy. Therefore, for reasons both of fairness and of economic efficiency, the Government has developed a high level target shared by ODPM, HMT and the DTI, to set out its long term goals of:

- making sustainable **improvements** in the economic performance of all English regions;
- over the long term, reducing the persistent **gap in growth rates** between the regions; and
- defining measures to **improve performance** and report **progress** against these measures by 2006.

I.23 This is necessarily a long-term target, reflecting the degree of challenge in addressing disparities that have persisted for generations. The Government is currently involved in an extensive process of evidence gathering and engagement with local stakeholders including the RDAs, Core Cities, local authorities and the business community, to identify policy priorities and develop a comprehensive long-term strategy that will not only benefit all regions, but reduce the persistent gap in growth rates between the wealthiest and the poorest regions.

I.24 Alongside this, the Government has also introduced a new target to reduce the gap in productivity between the least well performing quartile of rural areas and the English median by 2006. While many rural areas are prosperous, the economic performance of some areas and sectors continues to lag. DEFRA will work with other departments and agencies to improve rural productivity and the 2002 Spending Review includes increased resources to encourage rural enterprise and business growth and to implement a strategy for sustainable food and farming. Again, the Government will work closely with the RDAs, which have adopted their own aims to reflect this national objective, and other partners.

Productivity growth at the local level

I.25 Everything outlined above is designed to unlock the potential of all England's regions to increase economic growth. However, intra-regional productivity differences are as significant as inter-regional ones in all regions. For example, in the South East, the range is from about 20 per cent below the national average in Brighton and Hove to around 10 per cent above the national average in Portsmouth and Surrey. In the North East, productivity in Sunderland and Tyneside is about 80 per cent of the national average, while in South Teesside it is about the national average.²

I.26 These differences mean not only that all local authorities must contribute towards regional strategies to increase sustainable economic growth, but also that authorities must focus on narrowing the gap between the best and worst performing wards in their locality. The Government's floor targets, the focus on encouraging enterprise and growth in the most deprived wards of the country through the Enterprise Areas announced in the 2002 Pre-Budget Report and the rural productivity target are crucial to success in this area.

² Figures show GDP per worker (average 1996-1998). A fuller discussion of regional and sub-regional differences in productivity is in chapter 2, paragraphs 2.21 to 2.25.

I.27 The local differences in growth and productivity – stemming from disparities in factors such as demography, history and economic and social structure – provide the key reason why the new approach to economic development must be bottom-up, building on the indigenous strengths of individual cities and localities. Local authorities have a crucial role in leading and developing partnerships and networks particularly with business organisations and individual businesses, but also with the public sector and individuals to create meaningful and achievable strategies – under the well-being power and through community strategies – to increase local prosperity. This role in promoting the economic vitality of localities is central to both local and central government's wider aim of creating sustainable, cohesive and thriving communities throughout the country and is recognised as one of the seven shared priorities agreed between them in the last Spending Review.

I.28 In some areas, local authorities have carried out this role for a long time. In Leeds for example there has been strong co-operation and partnership between the public and private sectors for many years, which has allowed *The Leeds Initiative* to succeed in promoting the economic development of Leeds. Equally, Manchester City Council's focus on economic development and their role as community leaders has allowed them to reverse the population decline in the city centre and strengthen the economic and social fabric of the city culminating in the successful hosting of the 2002 Commonwealth Games. Such an approach can also be seen in other developed countries. In France for example high-profile local mayors in cities such as Lille and Lyon have led successful economic regeneration and in Spain, the local partners in Barcelona regenerated the city through the 1992 Olympic Games. In the US, following an increase in federal power in the 1960s and 1970s, states and localities have progressively increased their economic development role over the last 20 years.

I.29 Just as the Government has pursued a policy of devolution and decentralisation at the national and regional level, the Government recognises the need for flexibility at the local level. Local authorities and other institutions, businesses and individuals must be given the freedom to create and tailor policies that best suit the unique features of their area. Only through a devolved approach can the worst-off areas be given the opportunities to bring their performance up to the level of the best in employment, economic activity and enterprise, while at the same time, high-growth areas have the freedom and flexibilities to continue to grow.

CONCLUSION

I.30 This document argues that central government's role is to set the macro and microeconomic climate and to enable others, within a clear framework of accountability, leadership and flexibility at the regional and local level, to encourage growth and productivity. The new focus on improving the economic performance of every part of the UK opens a new strategic role for local government in economic policy making that is crucial to success. Local authorities must, therefore, ensure that local economic development is central to their mission and the policies they implement to increase quality of life in their locality. And local authorities need to forge close links with other institutions, such as the RDAs, LSCs, Business Links and Jobcentre Plus as well as the voluntary sector, business organisations such as the chambers of commerce and individual businesses.

I.31 Local authorities have the tools to pursue economic development yet the performance between them is varied. The Government does not believe that disparities in economic performance are inevitable and so it is essential that all authorities begin to encourage economic growth as the Government works to deliver full employment and rising prosperity for all.³ To help develop this agenda, the Government intends to continue working closely with local authorities to identify the ways in which policy can be improved to provide better flexibilities and better levers for local government to address economic development successfully.

I.32 The rest of this document examines:

- the variations in economic performance at the local level in England, demonstrating that differences within regions are as significant as those between regions;
- the role of local authorities in economic development. There are many relevant people and institutions that are critical to increasing growth. In many areas, however, coordination and accountability may be weak. It is vital that such issues are understood and local authorities should look to play a lead role in improving productivity in their area;
- the Government's policy framework for addressing sub-regional growth. This builds on macroeconomic stability, rising employment and the five drivers of productivity – skills, investment, enterprise, innovation and competition – but also revolves around ensuring that local authorities and other sub-national institutions are able and incentivised to work in partnership to increase economic growth.

³ See also Ed Balls, John Healey MP and Cathy Koester (eds), *Growing the economy: the local dimension*, The Smith Institute, 2003.

INTRODUCTION

2.1 The Government's central economic objective is to achieve high and stable levels of growth and employment. Alongside strong employment growth, productivity growth is an important determinant of long-term economic performance and rising living standards. The UK has historically experienced low rates of productivity growth by international standards, as macroeconomic instability and market failures restricted competition, enterprise and innovation, and discouraged long-term investment in capital and skills.

2.2 *Productivity in the UK: 3 – the regional dimension* set out the economic evidence that has informed the Government's approach to regional economic policy and the institutional framework necessary to deliver it. This evidence clearly showed that improving the economic performance of every country and region of the UK plays a key role in raising overall growth and productivity. It also made clear that this applies to every part of the country, not just those countries and regions that have historically had the highest growth.

2.3 However, while the evidence in that document focused on the substantial differences in economic performance between the UK's countries and regions, it also highlighted the fact that differences within regions can be as significant, and that the economic performance of an area can be attributed to both region-specific and locality-specific effects. This chapter extends this analysis to a local level.

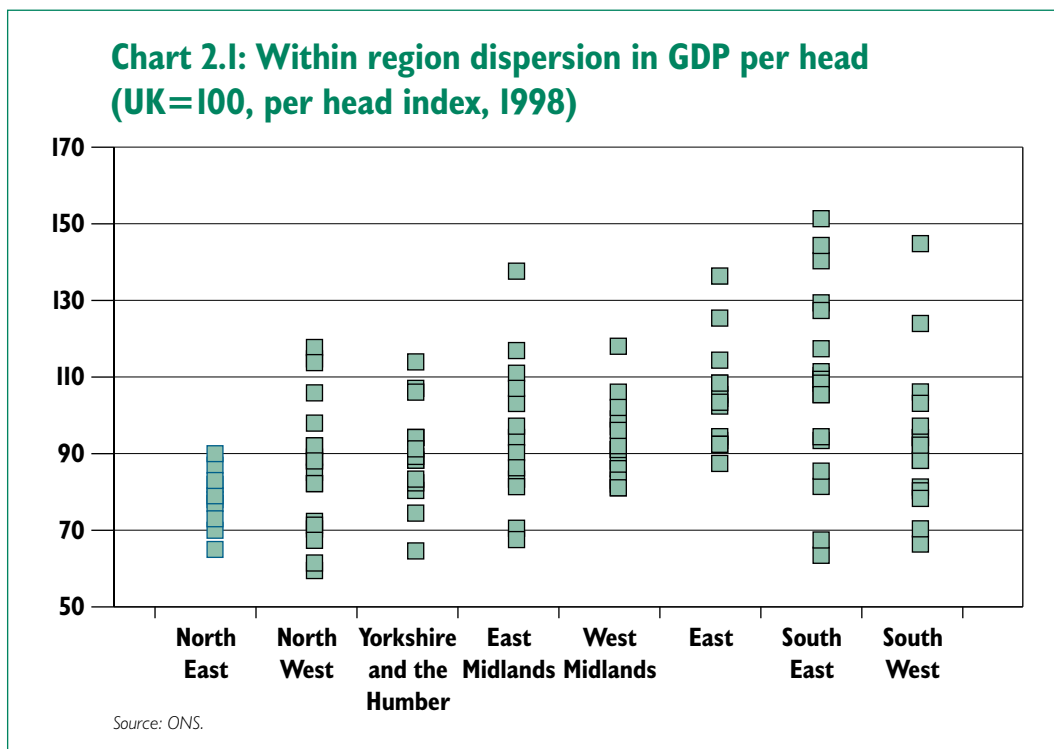
SUB-REGIONAL ECONOMIC PERFORMANCE

2.4 GDP per capita (output per head) is the broadest indicator of the economic performance of a local area, region or country.¹ There exist marked differences in GDP per capita across the UK, with levels in London nearly twice as high as those in the North East. And these differences are even more striking at a sub-regional level: in the South East, for example, GDP per capita in Milton Keynes is twice that in East Sussex.

2.5 It should be noted that comparisons of economic performance between areas become less precise as the areas under examination become geographically smaller. In particular, while such figures may provide a useful indication of the economic capacity and industrial structure of a particular region, they do not necessarily provide a good indicator of living standards: among other things, people often do not live in the local area in which they work, especially around large cities such as London, Manchester and Bristol. And of course, as data is aggregated up it will inevitably show smaller disparities; differences between individuals will again be greater than differences in the local areas those individuals live in.

2.6 However, chart 2.1 gives an illustration of the dispersion of GDP per head within regions, showing that the variation is much more stark in some regions than in others although large differences in wealth exist within all regions. Interestingly, regions with levels of GDP per head above the UK average experience, in general, higher levels of absolute sub-regional dispersion.

¹ The term GDP is measured at current prices and is equivalent to GVA plus taxes (less subsidies) on products.



Income and living standards

2.7 Because of the data problems outlined above, it may be preferable to concentrate on other indicators when looking at living standards at a local level – for example, comparisons of household income. These data are more reliable, and give a better indication of the economic welfare of individuals and families who live in the area. Once more, the divergence in sub-regional household incomes within a region is greater the higher that region's overall level of average disposable household income. So, for example, better performing regions such as London and the South East show a relatively high spread of incomes between sub-regions. Again, however, there are large differences in incomes within all of the UK's regions.

2.8 Although the differences suggested by these figures do not fully take account of differences in prices and the cost of living between regions, they would be likely to persist even if such adjustments were made. More pertinently, at a local level these differences in prices are likely to be less, implying that these large disparities in incomes within regions exist in real as well as nominal terms.

2.9 Data on earnings support this view, although disparities in real hourly earnings are lower than those in nominal earnings. It is likely that this reflects the fact that nominal earnings growth has failed to keep pace with increases in the cost of living, especially housing, in better off areas.²

EXPLAINING THE DIFFERENCES

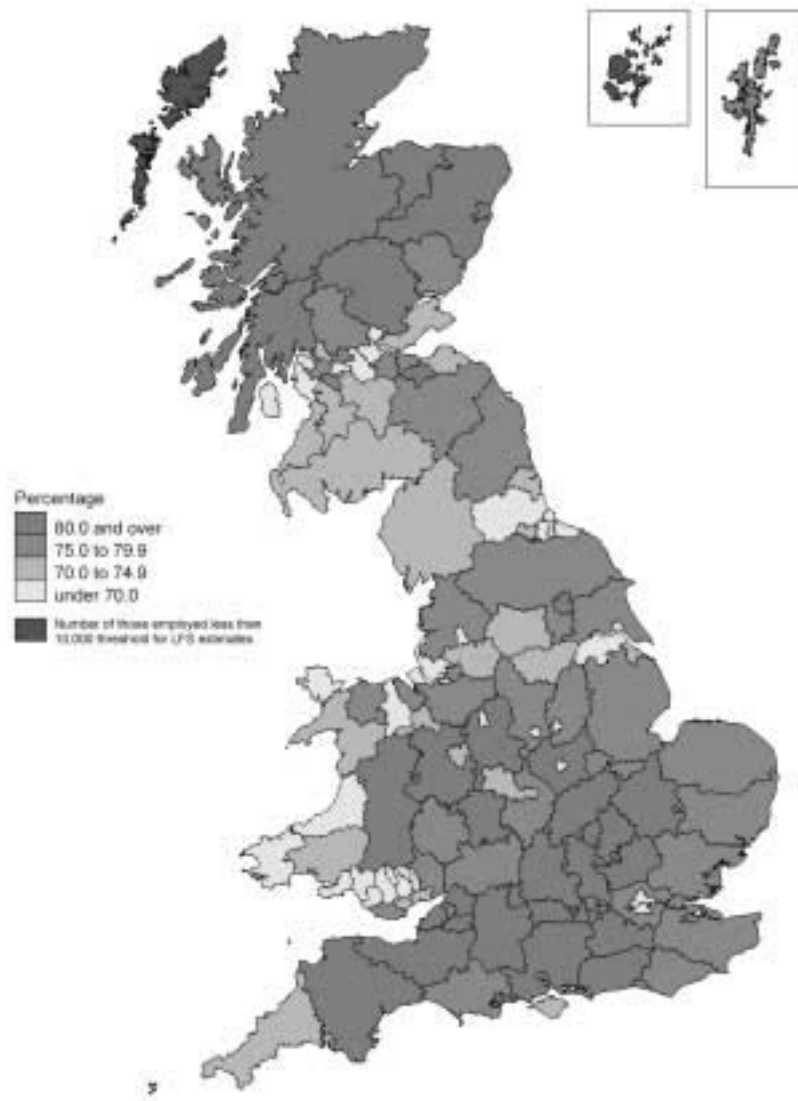
2.10 Regardless of the precise reliability of the data, it is clear that there are large differences in the economic performance of regions and local areas in the UK. The two key determinants of the economic growth and living standards are employment and productivity. In order to understand why disparities in incomes, wealth and living standards persist at a sub-regional level, it is necessary to explore how these determinants vary between local areas.

²The household income data refer to disposable household income and are therefore adjusted to take account of factors such as housing costs.

Employment

2.11 Differences in employment rates between regions remain, despite falling since the late 1980s. And regional employment rate rankings have been persistent, with the North East, London and Wales consistently having the lowest employment rates, while the South East and South West have the highest. But the picture at a regional level to some extent masks the more diverse labour market outcomes at a sub-regional level – see figure 2.1. So while employment rates in the South West are, on average, higher than those in Wales this is by no means true for all sub-regions: for example, the employment rate in Powys was 81.3 per cent in summer 2002 while that in Kerrier was just 71 per cent.

Figure 2.1: Employment rates (working age) for counties and larger unitary authorities, Summer 2002



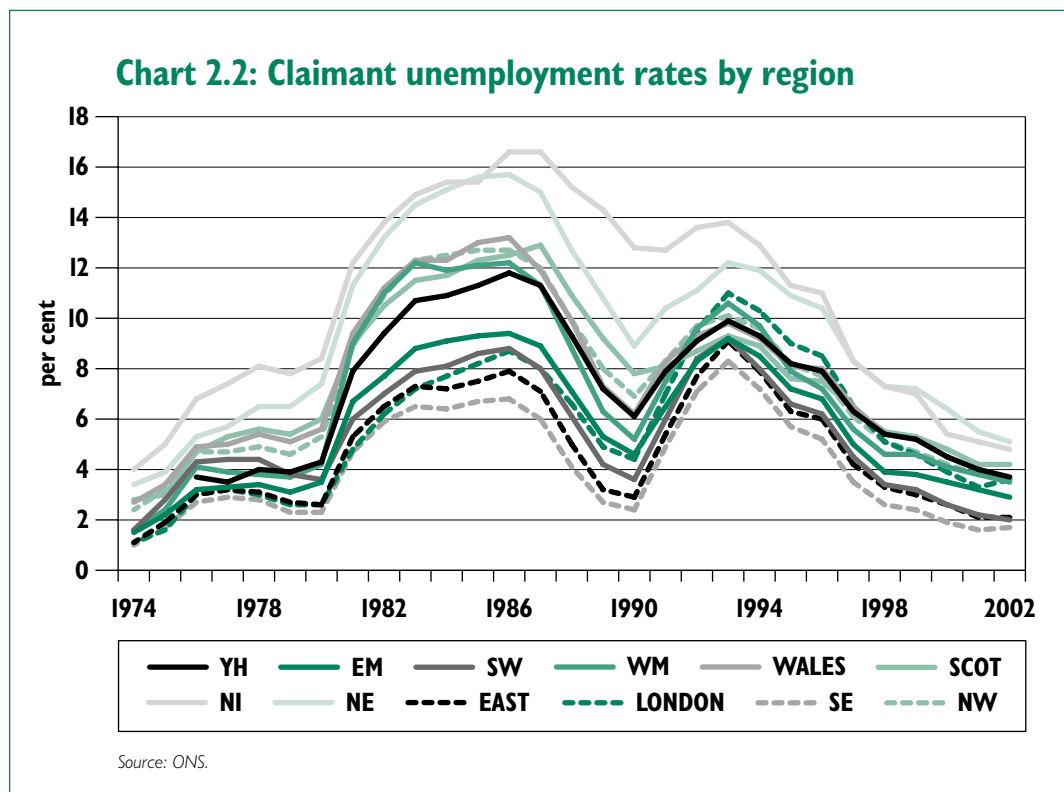
Source: ONS, Labour Force Survey, Quarterly Supplement, October 2002. Data are not seasonally adjusted.

2.12 Although levels of intra-regional employment rate disparities are less varied than intra-regional differences in household income and earnings they are still clearly significant and larger than those between regions. Analysis also suggests that over the decade to 2002 average levels of intra-regional employment disparities remained remarkably similar across regions.

Unemployment

2.13 In contrast, as total claimant count unemployment has fallen by two thirds since 1993, with significant falls in every region of the UK, absolute disparities in regional claimant count rates (measured as the highest unemployment rate minus the lowest) are significantly below the levels seen in the 1980s. Furthermore, these differences have fallen further since 1995 – see chart 2.2 showing how the regional dispersion of unemployment rates has changed over time.³

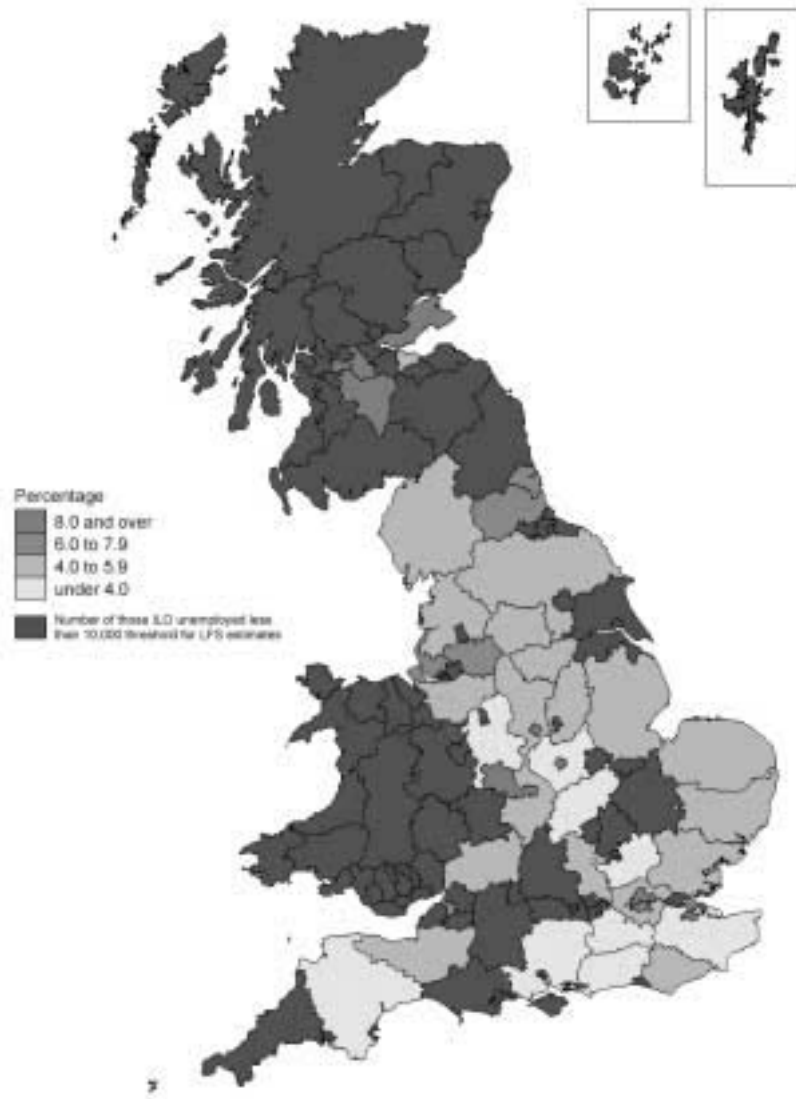
2.14 Chart 2.2 also shows that relative disparities appear to move with the economic cycle, peaking in economic downturns, although this pattern has become less apparent over the 1990s as regional unemployment rates continued to fall.



2.15 Nevertheless, as with employment rates, local variations in unemployment rates remain large and significant. Indeed, within region disparities are larger than those between regions and appear to have increased moderately over the last decade. Figure 2.2 gives a snapshot of current ILO unemployment rates for some local authority areas. While there are more areas of relatively high unemployment (8 per cent and over) in some regions than in others, pockets of high unemployment still exist in all regions.

³ Claimant unemployment rates have been used in this analysis because they are available over a longer time period than ILO unemployment rates.

Figure 2.2: ILO unemployment rates (all 16+) for counties and larger unitary authorities, Summer 2002



Source: ONS, Labour Force Survey, Quarterly Supplement, October 2002. Data are not seasonally adjusted.

Inactivity

2.16 In addition to unemployment rates, the proportion of a local area's population who are economically inactive will help to determine that area's level of employment and growth. While unemployment rates have fallen over the past 20 years, economic inactivity rates have remained fairly stable, although these aggregate figures mask changes in the composition of the inactive population and a large increase in people of working age claiming inactive benefits.⁴

⁴ HM Treasury, The changing welfare state: employment opportunity for all (November 2001).

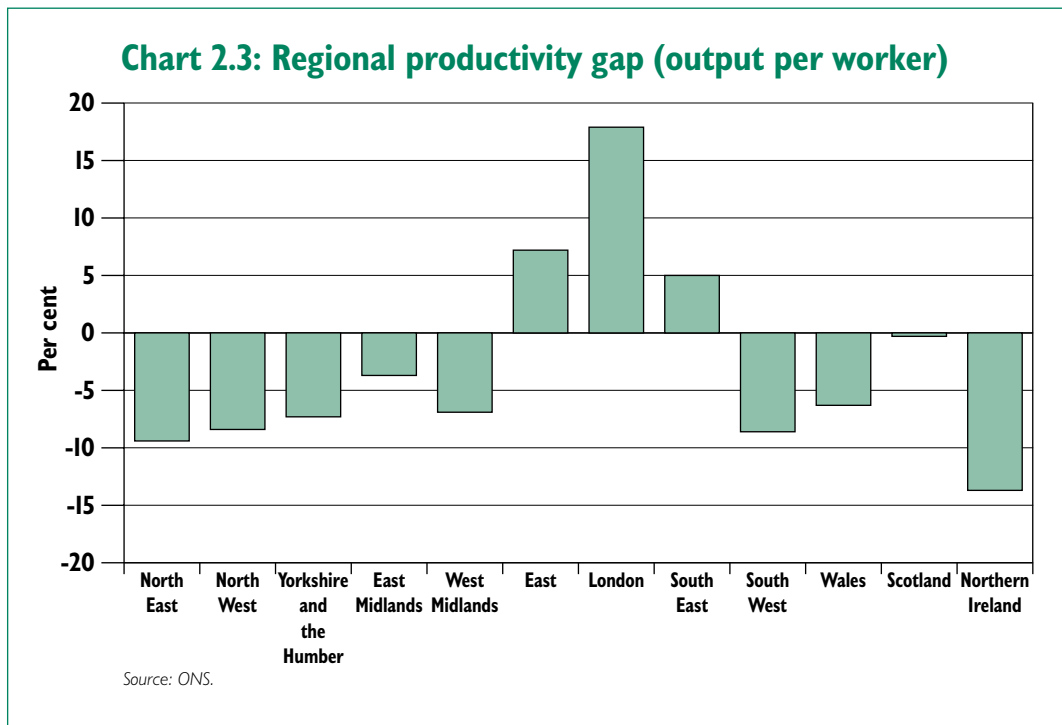
2.17 Some areas of the country have also seen inactivity rates rise to very high levels, with 27 of the total 408 British local authority districts having working age inactivity rates in excess of 30 per cent.⁵ The majority of these areas are in major conurbations such as Merseyside and East London, but others are in areas that were in the past dominated by mining or heavy industry, such as parts of the North East or South Wales, where structural unemployment rose markedly in the 1980s.

2.18 This evidence suggests that differences in labour market outcomes in terms of employment, unemployment and inactivity are significantly larger within than between regions. Given the local nature of many labour markets, this implies that policies delivered at a sub-regional level are likely to have a key role in driving labour market improvements.

Productivity

2.19 The second main determinant of growth and therefore living standards is productivity – how effectively the economy uses the resources it has available.

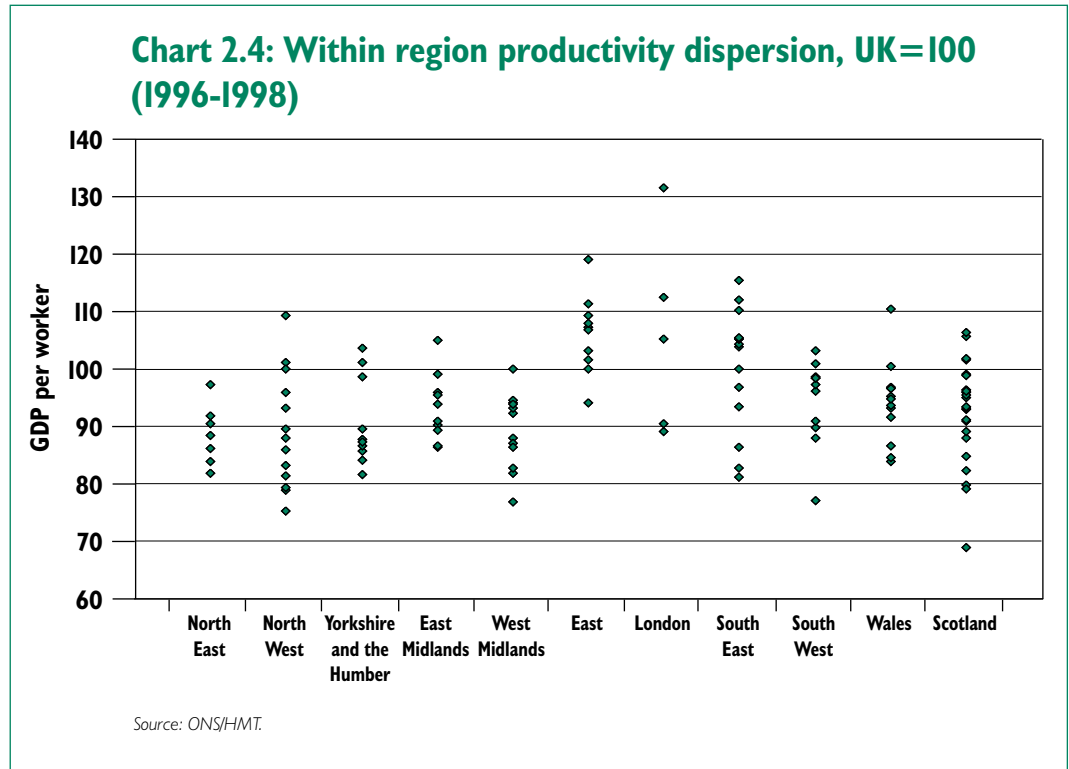
2.20 There are large and significant differences in productivity, measured by output per worker, between regions – see chart 2.3. A comparison of output per hour between regions gives similar results. London clearly has the highest output per worker with the East and South East trailing by over 10 per cent and all other regions by 15 to 25 per cent.



2.21 Large productivity differentials also exist at a sub-regional level in England. Although these data should be treated with some care, chart 2.4 clearly exhibits a wide dispersion in the level of productivity even within regions.

⁵ Source: ONS, Labour Force Survey, data for January–March 2003.

2.22 Estimates of rural productivity also suggest that rural areas are less productive than urban centres, with the remote areas in particular lagging substantially behind urban areas. Analysis of rural productivity is being led by DEFRA as part of its work towards the rural productivity target, but factors such as remoteness, sparsity, small markets and commuting patterns will be part of the explanation for the productivity differences found within regions.



2.23 These differences in productivity can be attributed to a number of factors that can be grouped into five key drivers of productivity:

- skills;
- investment;
- enterprise;
- competition; and
- innovation.

2.24 Each of these drivers, and their contribution to variations in productivity, growth and living standards at a sub-regional level, is analysed below.

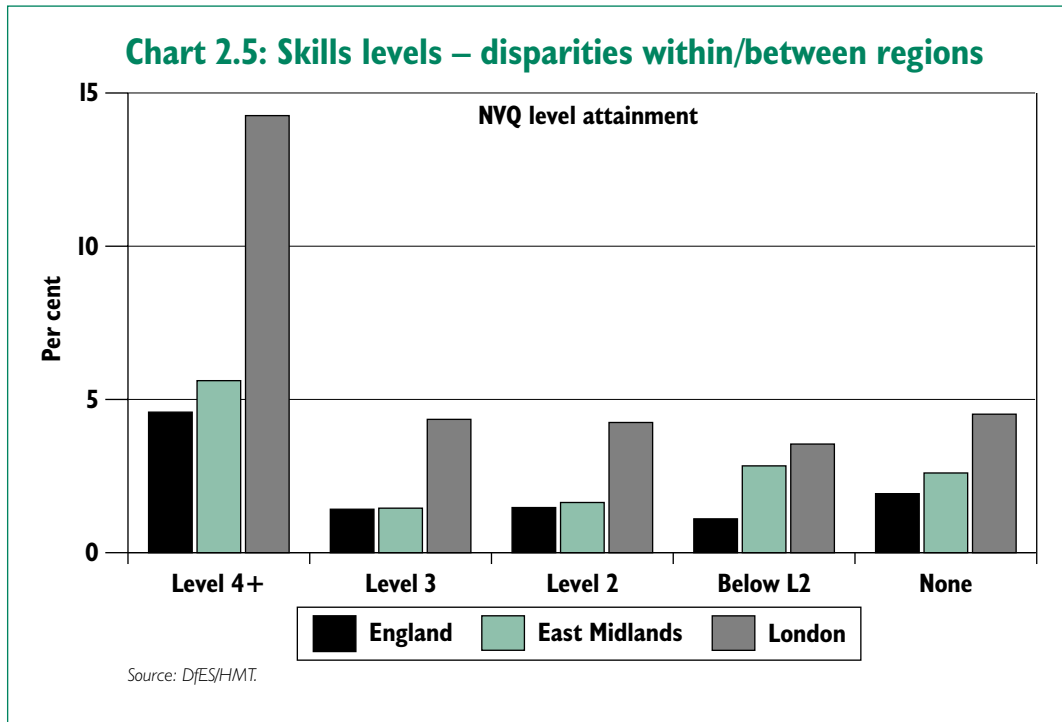
Skills

2.25 Recent models of economic growth, which have tried to explain differences in economic performance, concluded that skills are an essential component.⁶ Higher skills levels have a positive impact on the economy as they give the workforce greater adaptability, allowing them to respond to changing environments and technology. In an increasingly globalised world, where UK firms are moving up the value chain, the demand for a more highly skilled workforce has accelerated over time and is likely to continue.

⁶ Romer (1996) notes that when cross country growth comparisons are made, the inclusion of human capital as well as physical capital is essential if the model is to fully replicate the different growth rates.

2.26 In addition to the general effect on the economy, individuals benefit from higher educational attainment through a higher chance of being included in the labour market and through better job prospects. Illustrating this, Campbell *et al* (1999) found a 50 per cent reduction in unemployment rates for young people for each level of NVQ attained.

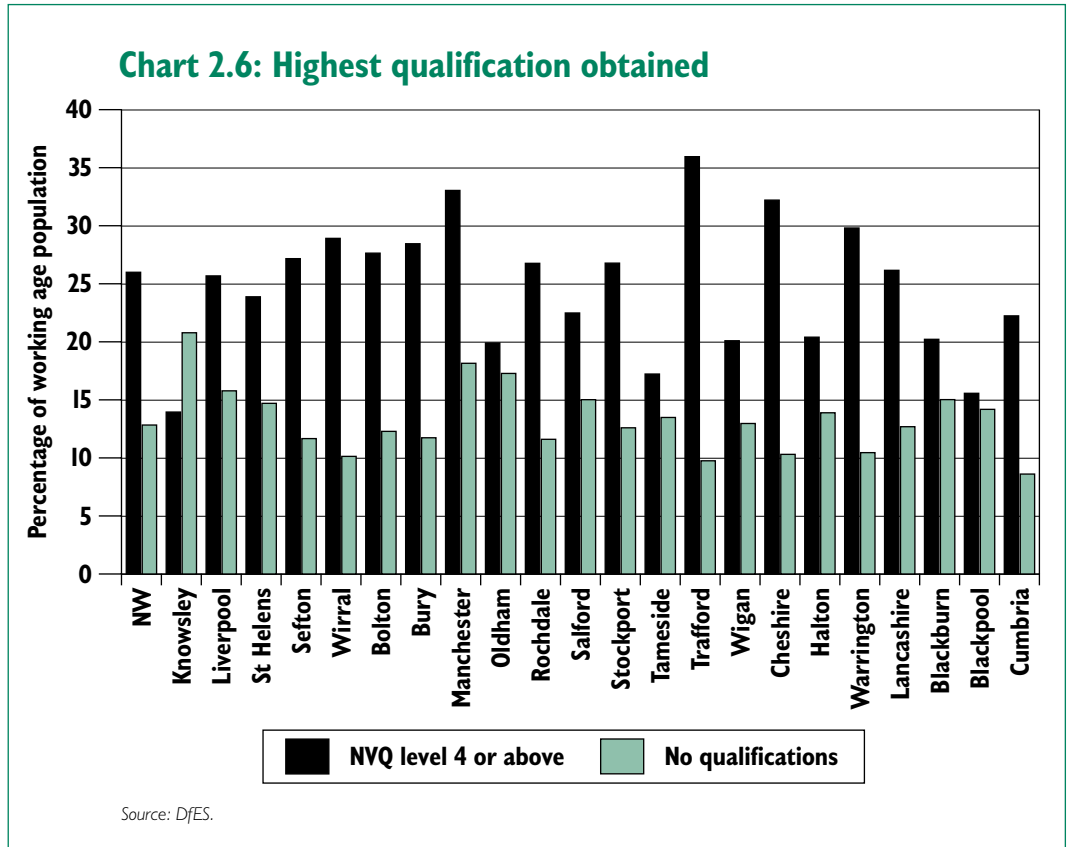
2.27 Skill levels differ substantially across the UK. At a regional level these disparities are large. For example, looking at the stock of skills in the workforce in London shows that 38 per cent of the working age population have attained NVQ level 4 (equivalent to degree level) compared with 23 per cent in the East Midlands and North East.



2.28 Although these are large variations in nearly all cases and across all skill types, the disparities increase at the sub regional level.⁷ This is shown in chart 2.5 above,⁸ which shows that at each skill level the disparities within the East Midlands region are greater than the disparities between regions.

⁷ Using a standard deviation analysis, over 75% of the local authorities skill levels deviated from the regional mean by more than the region deviated from the national average.

⁸ The chart plots the standard deviation in the percentage of people at each skill level across England next to the standard deviation within the East Midlands, for the latter the deviation was calculated between the local authority levels and the regional mean.

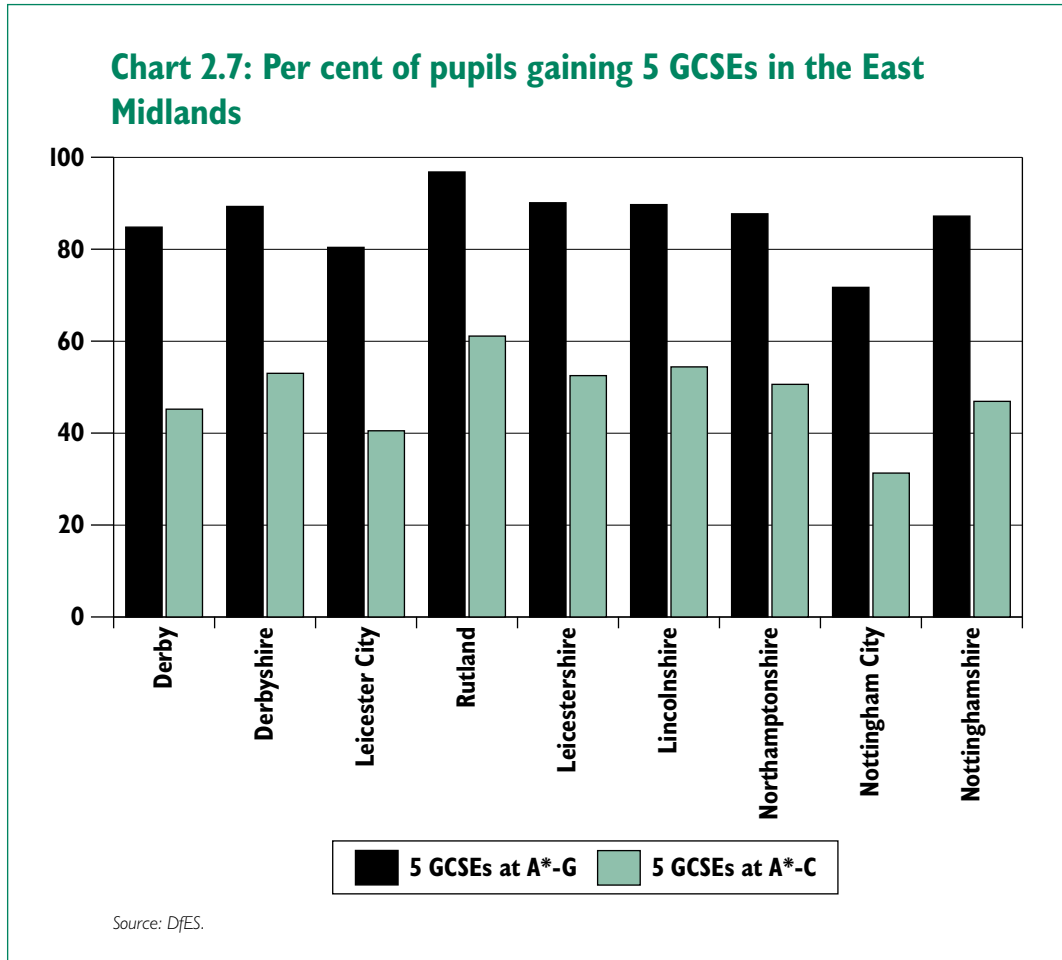


2.29 Within regions, these disparities are not uniformly felt across the local authorities, as illustrated in chart 2.6 above. At the regional level the average percentage of the working age population in the North West with an NVQ level 4+ is 26 per cent, while the percentage of those with no qualifications is 13 per cent. However, examining local authority data clearly highlights the substantial variation in skill levels within the region. For example, the percentage of the working age population with the highest skills ranges from 14 per cent in Knowsley to 36 per cent in Trafford and similarly the percentage with no qualifications ranges from 9 per cent in Cumbria to 21 per cent in Knowsley.

2.30 These figures make it clear that average regional skills levels can mask wide disparities at the local level, as well as different structures in the skills base of a region and sub-region. Apart from equity reasons, these skill level inequalities are important because of their effect on the local economy. Various studies have linked the qualifications of the workforce to educational attainment at school,⁹ finding that localities with poor GCSE performance tend to have poorly qualified local workforces, while the opposite is true for areas which perform well at GCSEs.¹⁰

⁹ The Skills Task force found a relationship between GCSEs and workforce qualifications with a correlation coefficient of 0.6 and significant at the 1% level.

¹⁰ This relationship is not upheld in Scotland or Northern Ireland. Rather their education system produces the reverse relationship.

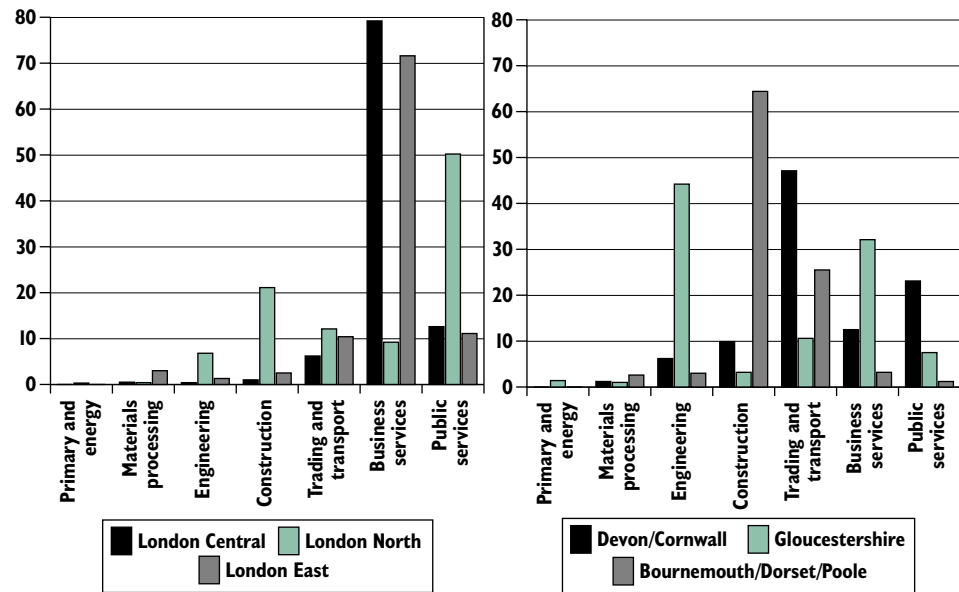


2.31 When analysing the flow of skills into the workforce large disparities between local areas are evident. Looking at school attainment, chart 2.7 clearly shows the disparities that exist within the East Midlands.¹¹ There is over a 20 per cent difference between the highest and lowest percentage of 16 year olds achieving 5 GCSEs at set grades. Over time these differences in educational achievement are likely to feed through to affect the workforce and local and regional economic performance, particularly for lower skilled groups that are less geographically mobile.

2.32 Significant sub-regional variations therefore exist in both the current stock of workforce skills and the flow into the labour market leading to disparities in labour supply that must be addressed if all localities are to improve economic growth. But it is also important to consider the demand for labour across the country. As set out in chart 2.8 below, regions and sub-regions differ greatly in their industrial structure and therefore the employment opportunities that employers will offer. As such any skills policy must also address employers' demands both now and in the future.

¹¹ Several studies have linked the qualifications of the workforce to educational attainment at school, finding that in England localities with poor GCSE performance tend to have poorly qualified local workforces, while the opposite is true for areas that perform well at GCSEs. The Skills Task force found a relationship between GCSEs and workforce qualifications with a correlation coefficient of 0.6 and significant at the 1 per cent level. This close link indicates that to fully address sub-regional differences in skills and therefore economic performance, disparities in school achievements must be addressed.

Chart 2.8: Percentage of skill shortage vacancies by industrial sector



Source: DfES

2.33 A recent publication commissioned by the Learning and Skills Council (LSC) found marked local variations in the incidence of hard to fill and skill shortage vacancies.¹² Around 30 per cent of London's GDP is accounted for by business services and, unsurprisingly perhaps, the majority of vacancies in Central and East London are also in this sector. However these vacancies are very localised as shown by the contrast with skilled vacancies in London North. Here over half the vacancies are within public services and over 20 per cent in construction, while business services ranks fourth.

2.34 Outside London different industrial structures and clusters again produce differing skill demands and shortages. For example, manufacturing and construction are dominant sectors in the South West economy and localised skilled vacancies reflect this. Around Bournemouth over 60 per cent of skilled vacancies are in construction, while in Devon and Cornwall almost 50 per cent are in trading and transport and in Gloucestershire over 40 per cent are in engineering.

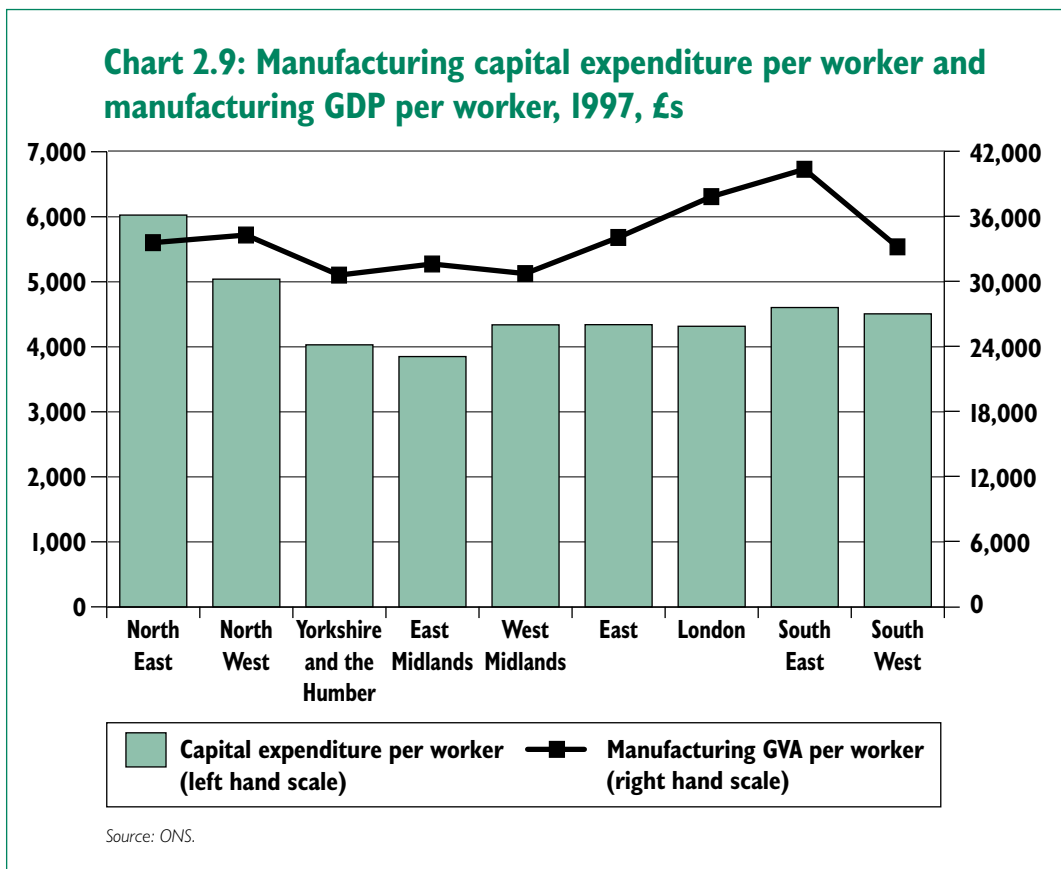
2.35 There are clear differences in both the supply of and the demand for labour at the local level, suggesting that to achieve the Government's aim of increasing economic growth it is crucial for local institutions to understand the dynamics of their labour market and to work closely together with businesses to improve skill levels and address mismatches between the supply of and demand for labour.

¹² LLSC, 'Exploring local areas, skills and unemployment', 2003.

Investment

2.36 At a national level, much of the UK's productivity gap with France and Germany is due to differences in physical capital (plants and machinery).¹³

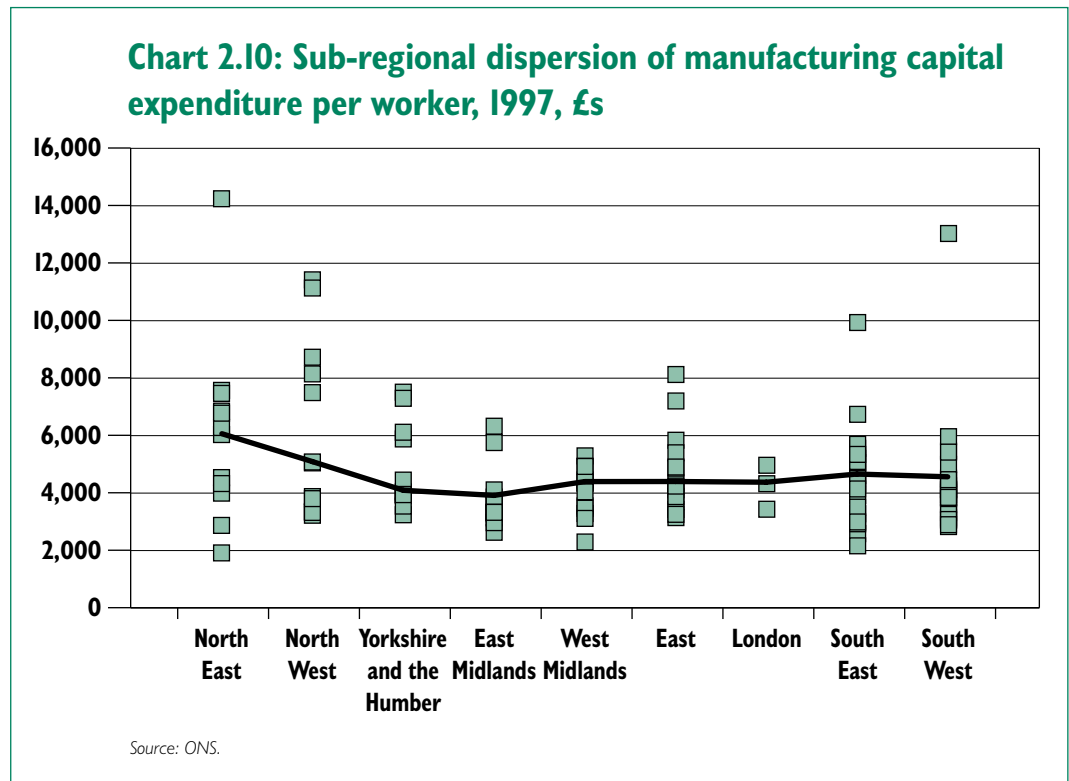
2.37 But capital accumulation can only explain a small amount of the variation in economic growth across regions.¹⁴ Data at a regional level show that there is not a strong correlation between the best performing regions and those where capital expenditure is the highest – see chart 2.9. However, to a certain extent, levels of capital expenditure in manufacturing (as presented in the chart) may just reflect the industrial composition of different regions: the North East, for example, has relatively high levels of capital expenditure in manufacturing per worker but the manufacturing sector also accounts for a relatively high proportion of its industry.



2.38 In general, the spread of capital expenditure between sub-regions varies between regions. However, it is likely that some of the regional averages, and therefore the large spreads of productivity, are skewed by the presence of one sub-region where capital expenditure is especially high (see chart 2.10). In turn this may reflect, at least in some instances, the presence of one or two firms that invest heavily in physical capital.

¹³ See O'Mahony and de Boer (2002).

¹⁴ Ciccone and Hall (1996).



2.39 Therefore it is unclear whether raising investment in physical capital alone will have a substantial impact on economic growth and productivity at a local level.

2.40 Although the links between infrastructure, in particular transport infrastructure, and economic growth are not straight forward, it does appear that transport infrastructure can have an important role when it is demand driven, in response to economic growth. There are a number of ways in which improved transport systems can potentially boost economic growth.¹⁵

2.41 The quality of the transport system is likely to be especially important in local areas, and more so in areas that are congested and face bottlenecks. In such cases, investment in improving roads and rail can help firms to be more productive through, for example, improving competition and assisting the transfer of technologies. There can also be labour market impacts, with an improved transport system helping to both increase the size of effective labour markets, and to improve labour market mobility.

Enterprise

2.42 Enterprise is the third key driver of productivity growth. Research carried out on cities in the US, for example, found that higher levels of entrepreneurial activity are, with a time lag, strongly positively related with subsequent higher growth rates.¹⁶

2.43 As well as being a key driver of productivity growth, successful enterprises form part of the bedrock of local communities, contributing to economic prosperity and social cohesion. They therefore have a key role to play in delivering sustainable regeneration and higher living standards in the UK's disadvantaged communities.

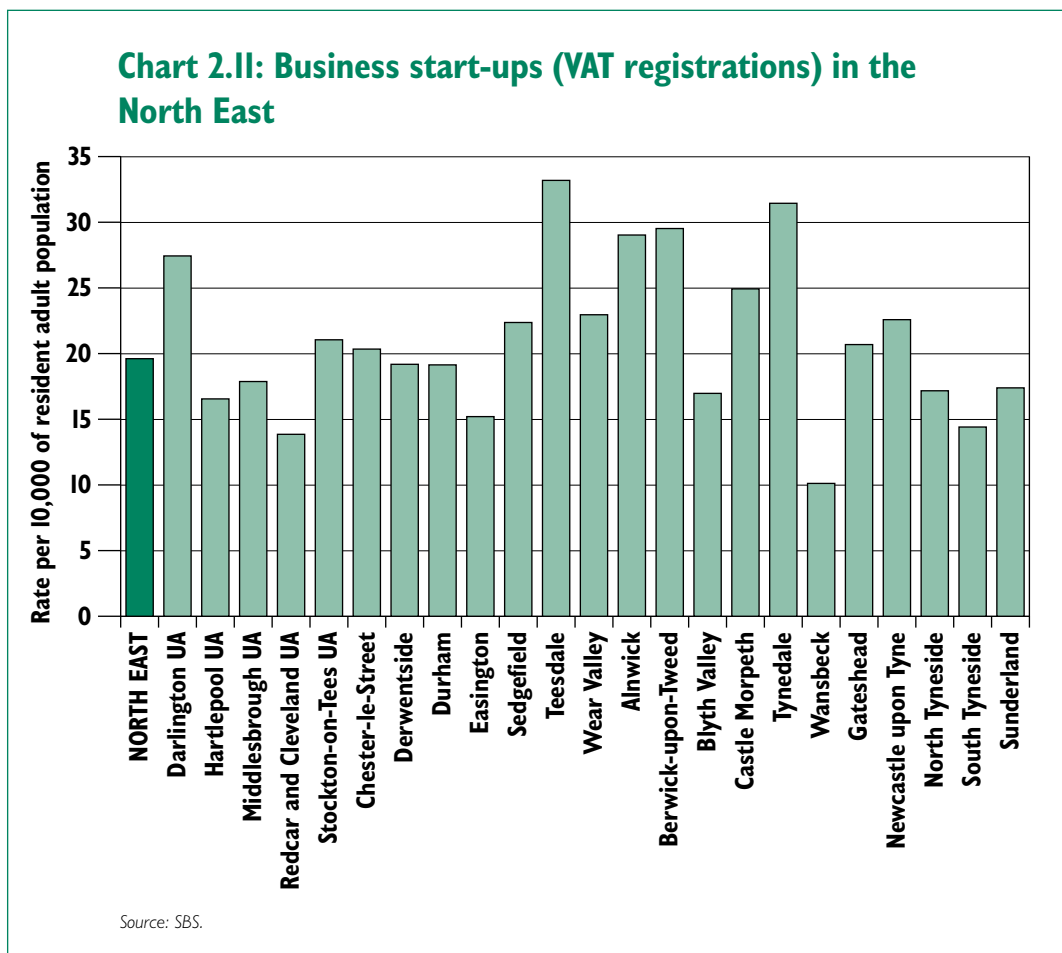
¹⁵ HMT Regional Productivity paper (2001).

¹⁶ See Zoltan and Armington, 'Endogenous growth and entrepreneurial activity in cities', University of Baltimore, US Bureau of the Census, 2003.

2.44 As with skill levels, entrepreneurial activity is extremely varied across the country. At the regional level, there is a wide variation in both business start up rates and business density, with VAT registration rates in regions such as the North East being much lower than the UK average.

2.45 Significant disparities are also apparent at sub-regional and local levels. Across the North East as a whole, for example, the business start-up rate is 19 VAT registrations per 10,000 of the resident adult population (chart 2.11). However, this masks a wide variation, with Teesdale having a start-up rate of 33 – over three times that of Wansbeck, at 10 per 10,000 of the resident adult population. Even in regions such as the South East where there are relatively high business start-up rates, there still exist localities where start-up rates are low. In Gosport, for example the number of VAT registrations per 10,000 of the adult population is a little over a quarter of that in Tunbridge Wells.

2.46 Although these figures only give an indication of rates of enterprise in different local areas (they do not include most businesses with a turnover of less than £56,000 that are not required to register for VAT for example), it is clear that such differences persist across all regions of the UK.



2.47 Analysis further shows that high levels of local deprivation appear to be associated with low business formation rates particularly in the most deprived regions of the UK as shown in the appendix on Enterprise Areas (see page 47).¹⁷

Competition

2.48 Competition policy is largely determined nationally or supra-nationally and, at this level, work by Nickell (1996) and Disney, Haskel and Heden (2000) finds that there is a positive relationship between competition and productivity growth.

2.49 However, while the competitive framework is set at a national level, differing levels of competitive pressures in a particular region or sub-region can have an impact on that area's economic prosperity and productivity. Firms in poorer and more remote regions may face less competition, and hence reduced incentives to cut costs and innovate. Equally lower competitive intensity can make it less likely that business start-ups occur, affecting enterprise levels.

2.50 Recent work by Haskel and Martin (2002), which examines the spread of productivity between plants in the UK, also suggests that higher competition is associated with a lower productivity spread between plants, i.e. the difference in productivity performance between the best and worst performers is lower the higher the level of competition.¹⁸

2.51 This analysis finds little evidence that the spread of productivity between different firms differs greatly between regions. However, other evidence such as differences in business start-up rates between regions suggests that barriers to entry and therefore competition do vary.

2.52 Many of the benefits of competition on productivity, efficiency and hence on economic growth originate from changes in the behaviour of firms in local areas. Competition can enhance the information about the market that is available, meaning that owners of firms are better able to assess the performance of their own managers. This is a form of 'yardstick competition' but this only holds when firms operate in similar environments. Hence this effect is more likely to bite at a local level, where the performance and innovative activity of other firms is very visible.¹⁹ Transport links may also affect the level of competition that firms face: poorer transport links may limit the extent to which some firms are open to competition from outside their immediate vicinity.

¹⁷ A recent Bank of England study (2000), *Finance for Small Businesses in Deprived Communities*, Bank of England, 2000, concluded that "the negative relationship between deprivation and entrepreneurial activity appears to be clear-cut in the case of the 50 most deprived local authorities".

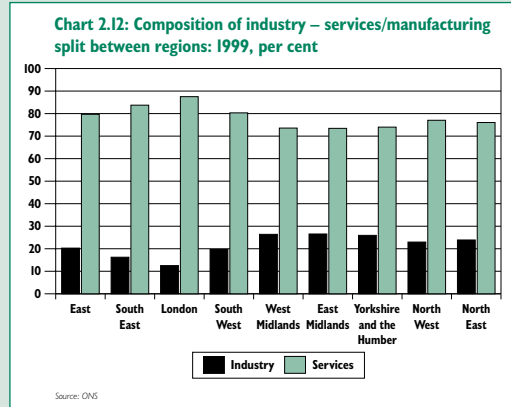
¹⁸ Haskel, J. and Martin, R., 'The UK manufacturing productivity spread', 2002.

¹⁹ Davies, S. and Majumdar, A., 'The development of targets for consumer savings arising from competition policy', Chapter 4, OFT research paper No. 4, 2002.

Box 2.1: Industrial location and clusters

UK regions vary in their industrial composition with the southern regions more specialised in service sector activities, whilst northern regions rely more heavily on manufacturing.

At a sub-regional level differences in the pattern of industrial location are even more stark. Local areas are often characterised by clusters of firms in the same, or similar industries.



These clusters and the industrial composition more generally have implications for the future growth patterns of local areas. Contrary to what one might expect, it is not only high-tech firms that tend to cluster – research shows that more established industries such as ceramics are even more likely to be located near to other firms in the industry.¹

Work commissioned by the Department for Trade and Industry (DTI) highlights the importance of clusters within a region.² But it is not just the existence of a cluster and

industrial agglomeration that will determine the performance of the local economy – rather, that depends on a range of factors such as:

- the cluster's stage of development;
- the 'depth' (the mix and range of industries) within a cluster; and
- the cluster's employment dynamics (whether employment growth in that industry is increasing, decreasing or stable).

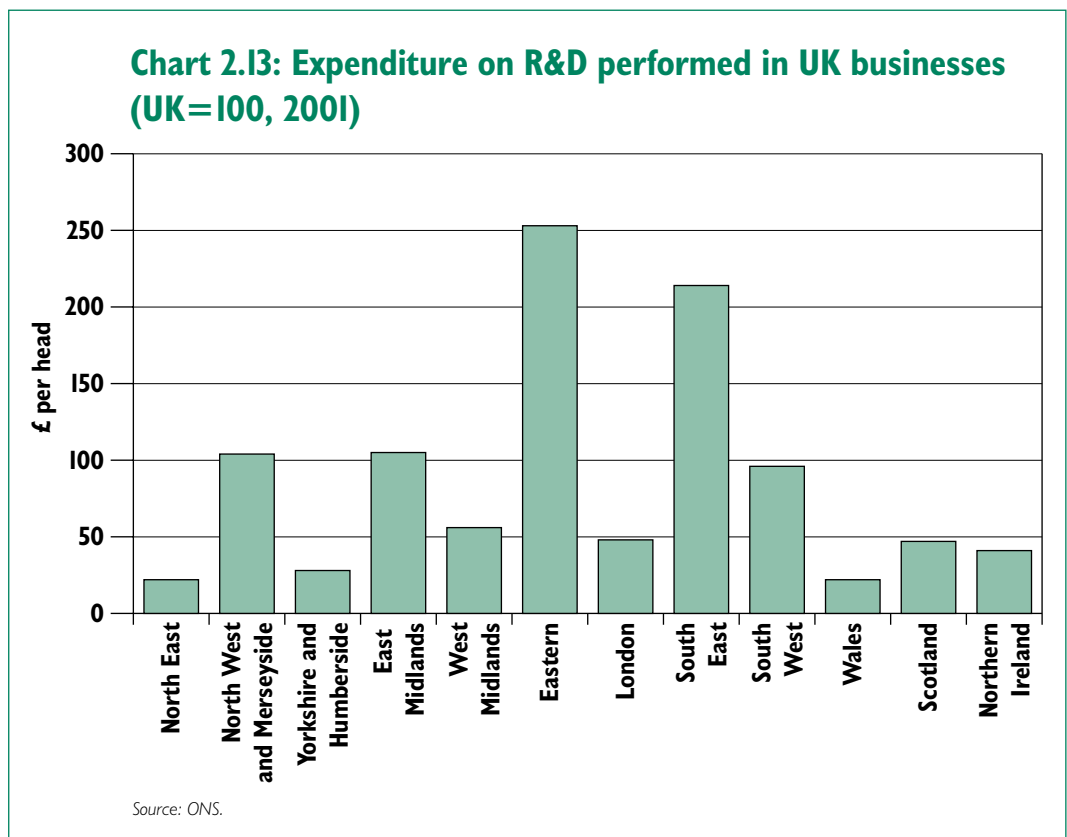
Clusters can lead to higher growth in three ways: first, they raise productivity by allowing access to specialised inputs and employees, by enhancing access to information, institutions and public goods and by facilitating complementarities; second, they increase firms capacity for innovation by diffusing technological knowledge and innovations more rapidly; and third clusters stimulate higher rates of new business formation, as employees become entrepreneurs in spin-off ventures.

The vast differences in the types, size and age of industry both within and between regions suggest that, in order to close the gap between more and less developed regions and to help deprived areas become more affluent, development policies should focus on providing the conditions in which all localities can take advantage of new technology, opportunities and technological change. This reinforces the Government's strategy of focusing policies on such factors as skills and competition which uniformly affect the environment within which firms operate across the UK's regions and sub-regions.

2.53 Much of this analysis can be made clear in the context of high-growth areas or ‘clusters’ – see box 2.1 above.²⁰ Research suggests that the existence of similar firms in the local vicinity can encourage other firms to innovate in order to compete. Spillover effects are also thought to be important, especially through encouraging the spread of knowledge through the local workforce.

Innovation

2.54 Innovation – the invention and application of new technologies, products and production processes – is the fifth key driver of productivity growth. The majority of the UK’s productivity gap with the US can be accounted for by differences in the level of innovation.²¹ At a more localised level, studies have shown that under-performing regions and localities have particular problems in absorbing new technologies.²² This is likely to be a key explanation for differences in the innovative performance of regions – see chart 2.13, which shows that there are large variations in the amount that firms in different regions of the UK invest in Research and Development (R&D).



²⁰ Porter, M., and Ketels, C., ‘UK competitiveness: moving to the next stage’, DTI economics paper No. 3, 2003.

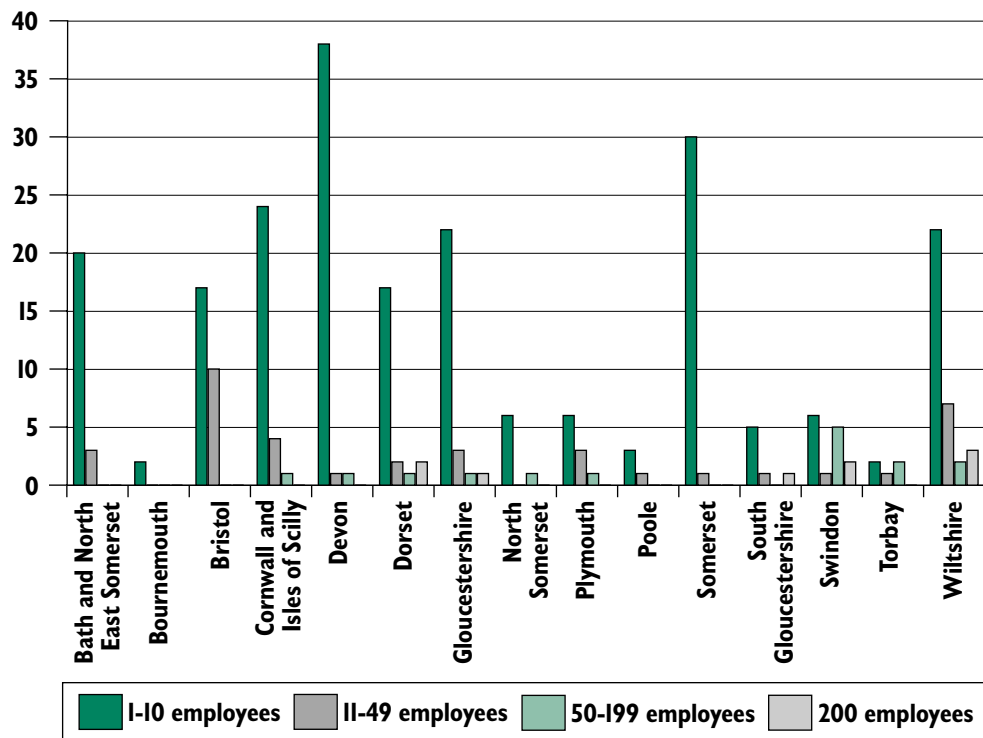
²¹ See O’Mahony and De Boer (2001). Innovation defined here as TFP – note that this definition may include other factors such as measurement error.

²² See HM Treasury (2001).

2.55 Although comparable figures are not available at a sub-regional level, it is possible to get an idea of the innovative capacity of a local area by looking at the number of R&D firms. Chart 2.14 shows that the number and size of these firms vary widely within a region. However, it is important to treat these figures with some caution: firms that are engaged in innovative activity may not be included in these figures and there may also be problems with the classification of firms who have plants in more than one region but whose R&D activity is centred in just one area. In addition, looking at R&D alone says little about the extent to which this research is successfully diffused and incorporated into firms' production processes.

2.56 While R&D spending is an input into the innovation process, patents are an output. There are a number of reasons why patents, looked at in isolation, may not be a good indicator of innovation.²³ Nevertheless, data suggest that there are large differences in the number of UK patents applied for in different cities across the UK and that these differences are larger within regions. This provides further evidence that levels of innovation differ widely between local areas.

Chart 2.14: Number of R&D firms in the South West by sub-region, 2001



Source: ONS/ABI

2.57 Once again, the ability of firms to adopt innovative products and processes depends on the other drivers of productivity, especially skills and investment. This highlights the importance of improving the skills base in all localities to help enable firms to take advantage of new innovations.

²³ Problems with these data as an indicator of innovation include the facts that: they refer specifically to technological as opposed to more general definitions of innovative behaviour; they use the patent applicant's address as the location of innovative activity, which may not always tally with where the innovation actually took place; they do not include patents that UK firms apply for in other countries.

CONCLUSION

2.58 Alongside strong employment growth, productivity growth is an important determinant of long-term economic performance and rising living standards. This is true for all regions and local areas of the UK. The evidence presented in this chapter clearly shows that large differences in the key determinants of growth exist within regions and that in most cases these differences are as significant as those between regions.

2.59 This means that at the local level, local authorities have a vital role to play in encouraging economic growth and bringing up the economic performance of the worst areas to the level of the best. This is desirable in itself to increase the prosperity of localities, but is also a key element of local authorities' wider role to create thriving, inclusive communities. To do this, it is clearly important for local authorities – working with business and other partners – to develop a clear understanding of their local economy and create a clear, strategic agenda based on that evidence.

2.60 The following chapter looks in more detail at the role local authorities can play in increasing economic growth and how this objective fits with the need for local authorities to be community leaders. Chapter 4 then explains the policy framework the Government has set out to allow local authorities to encourage economic development and regeneration.

INTRODUCTION

3.1 To deliver full employment and rising prosperity for all, building on the stability created by the new macroeconomic framework, the Government has instituted microeconomic reforms to correct market failure and improve the environment for growth in areas of skills, investment, enterprise, innovation and competition – the five drivers of productivity.

3.2 Following on from the analysis in *Productivity in the UK: 3 – The regional dimension* and the previous chapter, a central part of the Government's approach is the new regional economic policy that recognises that for every area of the UK to maximise its economic potential, regions need to be able to create bottom up approaches to building on their own indigenous strengths. The RDAs are vital to the success of this regional approach and since their creation in 1997 have been concerned primarily with economic development.

3.3 But it is at the local level, through local authorities prioritising economic development as one of their central objectives towards creating sustainable, thriving and cohesive communities, that changes leading to increasing prosperity in every area will be delivered. The economic development role of local authorities has already been enhanced under the well-being power from the Local Government Act 2000, but the Government is clear that there is scope for further flexibilities and stronger partnerships to give local authorities the freedoms to really make a difference.

THE ROLE OF REGIONAL INSTITUTIONS

3.4 Nine RDAs were set up in 1999, with statutory purposes to encourage economic development and regeneration; promote business efficiency, investment and competitiveness; promote employment and enhance the development of skills relevant to employment; and contribute to sustainable development. To these ends, each of the RDAs drew up a Regional Economic Strategy, which set out how each RDA will deliver on its statutory purposes in each region over a ten year period. Recognising the importance of a bottom-up rather than top-down approach to economic development in the regions, the last Spending Review delivered substantial new resources and significant new responsibilities to the RDAs. The RDAs now have a Single Pot, which will rise to £2 billion by 2005–06, and enhanced roles in relation to transport, tourism, housing and planning, and, in selected regions, skills and business support.

3.5 These enhanced resources, responsibilities and autonomy allow RDAs, as strategic leaders, to coordinate regional policy better, outlining strengths and weaknesses and guiding action at the sub-regional and local level so that each region can maximise its economic potential. For the strategy to be implemented and to succeed, sub-regional partnerships and local authorities are pivotal in delivering the RDAs objectives. Hence, the role of local authorities is critical to the success of the Government's regional economic goals.

3.6 Building on these enhanced responsibilities for the regions, the Government set out its vision for prosperous and thriving English regions with elected assemblies for those regions where people wish to have them in its May 2002 White Paper, *Your Region, Your Choice*. This represented another significant milestone in the Government's programme of decentralising power within the UK. The proposals detailed in the White Paper aim to bring decision-making closer to the people and to make government more efficient, more effective and more accountable.

3.7 Following an extensive soundings exercise, which invited views, information and evidence on the level of interest in each region in holding a referendum about whether to establish an elected regional assembly, the Deputy Prime Minister announced on 16 June 2003 that the North East, North West, and Yorkshire and the Humber would be the first to proceed toward referendums. In the event of a ‘yes’ vote, elected assemblies will have powers to make a difference in key areas such as jobs, planning, housing, transport, culture and environment. They will receive a block grant to give them freedom to allocate spending according to regional priorities. The Boundary Committee for England will review local government boundaries and recommend two or more options for unitary local government in two-tier areas of regions which proceed towards a referendum. Voters in two-tier areas will vote on their preferred option for unitary local government (at the same time as their vote on whether to establish an elected assembly).

THE ROLE OF LOCAL AUTHORITIES

3.8 Chapter 2 has shown the large disparities between local areas in terms of both inputs and outputs of economic development. These disparities mean it is essential that economic development policy is implemented at the local level. Evidence supports this in principle as places are very different and it is only possible to create effective policies and partnerships with considerable local knowledge. History, culture and local outlook for example all play a role in explaining what the challenges are for a local economy and what the capacity is to address them.

3.9 To encourage more local authorities to see economic development as a crucial part of their mission as community leaders, central and local government agreed on the need to “promote the economic vitality of localities” as one of the seven shared priorities from the 2002 Spending Review. Local authorities can and must have a central role in shaping regional economic strategies and in leading and developing partnerships to take forward these agreed RDA strategies. However, their role goes much wider and is crucially concerned with economic development as an important part of improving the well-being of their area.

3.10 Looking at local authorities that place economic development at the centre of their mission, it is possible to see what can be achieved. For example, economic development is at the core of Blackburn with Darwen’s local strategy. This focus has allowed the council to develop innovative approaches such as providing incubator space for small firms in the borough allowing new businesses access to meeting and conference space and business support for free. Further, the digital development unit there, again funded by the Council, provides support in how best to use technology to around 200 businesses a year. The outcome of these initiatives is that the number of business start-ups is rising by about 50 a year within the area.

3.11 Manchester’s approach, driving economic development through strong leadership by the City Council and a partnership approach with coordinated transport planning and housing strategies, has seen the city centre successfully regenerated and a reversal of the long-term migration away from the city centre. Similar success can be seen in many areas, including Bexley, where the focus on economic growth has seen 180 acres of land developed and occupied in recent years, creating and retaining 3,000 jobs, and Eastleigh, where 1,000 new jobs and 50 new businesses have been created alongside £5 million new investment.

3.12 Though local authorities have a crucial, and often central, role in delivering economic development and improved prosperity in their area, it is impossible for them to achieve success on their own.

3.13 Working closely with business groups and individual businesses is particularly important. It is crucial that the public and private sectors engage constructively around shared objectives to improve local economic performance. This requires both local authorities and businesses to understand each other's approach and needs and to work flexibly to meet their aims. In some areas, the public and private sectors have developed close partnerships. One example is the Kirklees Business Partnership, which provides a valuable link between the Council and the private sector, allowing business to contribute more fully to the local economy and community. The Partnership also supports businesses through programmes including a hotline to make it easier for businesses to understand and comply with regulations.

3.14 As well as business, however, local government needs to work closely with a wide range of organisations and individuals to successfully encourage economic development. For example, to influence the approach to skills and training in a particular area, local authorities have a crucial role to play given their influence over schools policies and as major local employers, but organisations including the RDA, the local LSC, FE colleges, the university, private sector training providers, unions and employers will all be important partners.

3.15 A local economic development strategy is not, therefore, just about a local authority allocating its own funding, but is a much wider community leadership role. It is important to recognise that the amount of money spent by RDAs and local authorities on economic development specifically is small in comparison to total spending in a local area of services that will impact on economic vitality, such as schools and local learning and skills councils. This further emphasises the need for local authorities to work in partnership in delivering positive economic outcomes and is the rationale behind the community strategies. Where these are effective they will bring local partners together around shared objectives and begin to bend mainstream funding towards local priorities. As the Chancellor has made clear, issues like public space, the design quality of public procurement in urban areas and social exclusion – all areas where the local authority has a clear, but not an exclusive role – are vital to creating economically and socially successful localities.¹ Work has shown that addressing issues such as social exclusion, community safety and design quality have a positive impact on economic growth and prosperity requiring local authorities to work with both the public and business interests in achieving their vision.

3.16 Creating effective local strategies and building the partnerships necessary to deliver this ambitious vision is a complex task and requires local authorities to have a significant corporate capacity to deliver. To encourage more authorities to play effective roles in economic development as part of their strategy for improving well-being the Government is providing a framework by:

- giving local authorities greater freedoms and flexibilities to allow them to create innovative approaches that tailor policies and programmes to their own local needs, while also recognising that with increased freedom comes greater accountability and a need to develop partnerships; and
- providing mechanisms that further encourage a partnership approach to economic development.

3.17 The rest of this chapter looks in more detail at how the Government is creating that environment so that more local authorities take an effective approach to economic development as part of their community strategy. Chapter 4 then looks at the policy framework in place that provides the incentives and tools for local authorities to drive up productivity and economic growth at the local level.

¹ See the Chancellor's speech to the Urban Summit, 1 November 2002. Available at www.hm-treasury.gov.uk.

Increasing freedoms for local authorities and strengthening accountability

3.18 The Government believes that devolving decision making from the centre to regional and local levels is critical to success in improving service delivery. This is clear in economic development, where RDAs have been created in every region of England with an explicit objective to promote increased productivity and regionally balanced growth. However, the Government also believes that with increased freedoms must come greater accountability.

3.19 In the Local Government Act 2000, local authorities were also given a wide-sweeping power to promote the economic development of their area. This grants local authorities considerable freedom to meet the goals for their area that they agree as part of the local community strategy.

3.20 The Government has also provided more explicit mechanisms that allow local authorities to focus more flexibly on local priorities. The 2000 Spending Review launched local Public Service Agreements (LPSAs) that allow the 150 top tier local authorities to negotiate a suite of twelve targets with the centre, many of which can focus explicitly on local issues. This has encouraged a focus on employment and economic development more generally in many localities. For example:

- Leeds City Council has set a target to get over 5,000 people from the most deprived wards of the city into employment over the next three years;
- Portsmouth City Council is aiming to increase both the number of lone parents getting jobs and the number of post-16 young people accessing further education or job related training when they leave school;
- Kent County Council is aiming to reduce dependency and increase employment and fulfilment for people living in the most deprived parts of East Kent by closing the gap in many areas including education levels and retail rental values; and
- Sheffield City Council is working with business and public sector partners to accelerate by two years two major land assembly projects crucial to their local regeneration objectives.

3.21 As the reward money available to local councils that achieve their LPSA targets is for meeting stretching goals, the Government is working with authorities to negotiate freedoms that will help them succeed. These freedoms are additional to the general flexibilities that have already been announced for local authorities² to help them deliver more effective and efficient local services that meet their local needs, which include:

- a reduction in ring fencing to under 10 per cent of total Government grant by 2005–06 for all local authorities and a removal of all revenue ring fencing (except for grants to schools) for authorities rated ‘excellent’ in the Comprehensive Performance Assessment (CPA);
- removal of all capital ring fencing for authorities rated ‘good’ or ‘excellent’ in the CPA and a commitment to provide up to two-thirds of capital resources for all authorities through the single pot by 2005-06;
- a 75 per cent reduction in the number of plans required by central government for all authorities and a removal of all service plan requirements for ‘excellent’ authorities except for the Best Value Performance Plan and the Community Strategy;

² See the ODPM paper from November 2002 available at <http://www.local-regions.odpm.gov.uk/freeflex/pdf/ann-paper.pdf>.

- targeted or lighter touch inspection for all authorities and a three year inspection 'holiday' for authorities rated 'excellent'; and
- new powers that allow all local authorities to charge for discretionary services.

3.22 This is a substantial package of reforms that will allow local authorities to focus more energy on improving services and delivering their community strategy for increasing the quality of life in their locality. Crucially this includes their economic development role that must be at the heart of plans to increase local prosperity.

3.23 Despite these considerable steps forward, however, the Government recognises that there is scope for further reforms to increase the freedoms local authorities have in delivering local priorities. That is why the twenty-two councils rated 'excellent' in the Comprehensive Performance Assessment (CPA) are taking part in the Innovation Forum with the Government to identify where greater freedoms can be given to authorities to improve the efficiency with which they can deliver their local objectives and support central government in meeting its aims. The Innovation Forum met for the first time in May and will continue work in areas, including education, that are central to economic growth and productivity. Equally, work will go forward in the Forum on issues such as community safety that are critical to creating cohesive communities and which it has been shown also have an impact on economic growth through making the locality more attractive to businesses and other investors. The Government also wants to explore with local government the possibility of looking at what flexibilities and policies can be adapted to allow local authorities to have a greater impact encouraging economic development as a central part of creating sustainable communities.

3.24 Alongside the Innovation Forum, the Government continues to consult with the Local Government Association (LGA) and local authorities on wider freedoms and flexibilities. In particular, the December 2001 Local Government White Paper *Strong local leadership – quality public services* announced the Balance of Funding Review.

3.25 Local authorities fund expenditure on services through a combination of council tax receipts and government grants (including redistributed business rates). Currently, the average council funds 25 per cent of its services from money raised locally. However, the balance of funding varies hugely between local authorities. Some councils raise about half their revenue through the council tax. At the other end of the spectrum the figure is below 15 per cent.

3.26 It may be the case that the current balance of funding reduces local autonomy, the flexibility to meet local priorities and accountability and hence contributes to voter apathy. In response to these concerns the Government has established a high-level working group, chaired by Nick Raynsford MP, the Minister for Local Government, to consider in detail issues arising from the current balance of funding and options for change. The group met for the first time on 28 April 2003.

3.27 Furthermore, the Government will also be seeking reform of EU regional policy after 2006, so that it is modern, locally led and substantially devolved. In order that every region is able to achieve its full economic potential, it will be essential that local partners are given the freedom and flexibility to address the different needs and priorities of their communities. The Treasury, DTI and ODPM have been consulting on proposals aimed at producing that flexibility through an 'EU Framework for devolved regional policy', which would allow decisions to be taken as close as possible to local people, while supporting common European objectives. Local authorities and local partnerships have played an active part in that consultation, and their input has been strongly welcomed.

3.28 These freedoms and flexibilities help to provide an environment in which local authorities can act under the well-being power to improve local prosperity. However, they must also be seen against the need for improved accountability.

3.29 The recent White Paper also announced that the Government would introduce the CPA as the cornerstone of the Government's performance framework for local government. This was developed and the initial outcomes announced last year, providing the Government, the public and councils themselves with a clear assessment of both the capacity and performance of all upper-tier councils. The CPA for district councils is now being developed as well.

3.30 Although the CPA in its current form already takes some account of the ability a council has to identify and focus on local priorities and of their effectiveness in working with partners to achieve their goals through the measures of corporate capacity, the Government recognises that this aspect of it could be improved. The Government is therefore working closely with the Audit Commission and other partners on how the CPA might be improved for 2005–06. The goal is to tie the CPA in more closely with the aims of the Community Strategy to assess more explicitly the influence and impact of local authorities on their particular localities. This goes beyond institutional boundaries and will need to understand the leadership, leverage and coordination councils provide to achieve the wider improvement agenda, crucially including economic development.

3.31 As the CPA develops, therefore, there will be increasing emphasis on the importance of councils demonstrating strong leadership and creating effective partnerships to deliver improving local outcomes including economic growth.

3.32 The Government is keen to ensure that economic growth contributes to our quality of life, rather than degrading it. To help achieve this aim the former DETR published in May 1999 *A better quality of life: a strategy for sustainable development in the UK*. Sustainable development means that the benefits of increased prosperity are widely spread and contribute to social progress, with less pollution and less waste of natural resources.

3.33 Reliable indicators are central to monitoring and reporting of progress towards sustainable development. The Audit Commission has produced and piloted a set of local quality of life performance indicators to assist local authorities in monitoring progress towards sustainable development in their areas. These indicators are voluntary and cover the broad areas of economic, social and environmental well-being. They are designed to help local authorities and their partners in Local Strategic Partnerships to monitor their community strategies and are intended to complement Best Value Performance Indicators.³

Encouraging local partnerships

3.34 Even with the greater freedoms and improved accountability outlined above, individual local authorities will need to work closely with a wide range of partners to address the complicated, intertwined issues that are necessary to improve productivity at the local level. Different services and programmes need to join up to have an impact on local growth and productivity, requiring agencies in the public sector to work together and to work with the private sector and the public towards shared aims.

³ See www.audit-commission.gov.uk/index.asp for more information.

3.35 In some areas, close, effective partnerships have existed between the public and private sector for many years. The Blackburn with Darwen Partnership, for example, was established in 1988. It actively involves over 250 companies as well as many voluntary and community groups and runs a series of projects to encourage economic growth in the area. For instance, it supports small, growing businesses, provides links between employers and the community and links all the schools in the borough to private companies. The Partnership also works closely with the Council in working to attract new resources to the area, create networks between the public, private and voluntary sectors and ensuring that the private and public sectors work closely on regeneration projects.

3.36 In rural areas, the partnership approach, including businesses, is just as important to success. Caradon District Council in Cornwall has developed town-based partnerships involving the local Chamber of Commerce and the Tourism Association as well as public sector organisations and citizens. The work of the partnerships has led to a fundamental change of the Council's provision of infrastructure and services and, over the decade to 2002, the demand for business premises increased dramatically by over 350 per cent. In Lancashire, the County Council has led a partnership initiative since 1999, now called Lancashire Rural Futures, that has advised nearly 500 businesses and created over 70 jobs around the farming communities in the Forest of Bowland.

3.37 Similar partnerships can be seen in many other areas and are crucial to successfully encouraging economic development. However, a clear understanding of the importance of partnerships with business and others is crucial for all local authorities as delivering better economic performance requires business, local government and other agencies to work in collaboration to improve local prosperity and create stronger, more cohesive communities.

3.38 The challenge is, therefore, for all local authorities to learn from best practice, drawing for example on forthcoming work by the Local Government Association and the Improvement and Development Agency analysing the Beacon Councils scheme, and to make themselves key drivers of local economic performance.⁴ This demands strong leadership from all local authorities in all the country's communities and cities to build strong partnerships and to make the best, most innovative use of the powers and responsibilities they have, for example under the well-being power.

3.39 To encourage local authorities to lead partnerships focused on addressing local priorities, the Government is committed to developing the local PSA process when the next generation of agreements start to be negotiated next year. The first round of agreements were successful in bringing together local partners so they could focus their efforts on a small number of targets where innovation and better partnership working could deliver results, in areas including economic development. The Government wants to build on these successes and ensure local PSAs reflect the real needs of the local area, strengthening links with the Community Strategy and the outcome of the CPA. This will identify the key improvement priorities which all local partners can agree to take forward. The Government will then aim support these goals by ensuring that its interaction with the area reflects these agreed priorities.

3.40 The importance of strong partnerships is also highlighted in *Cities, Regions and Competitiveness*, the recent report by the Core Cities – a group of cities that involves Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield. The report emphasises the importance of strong partnerships to ensure future improvement in economic performance and social cohesion both across wider regions and within cities to address localised pockets of worklessness and deprivation.

⁴A forthcoming LGA/IDeA publication, *Supporting Local Businesses: Learning Lessons from the Beacons*, will focus precisely on this issue. It will analyse the performance of the five Beacon Councils for Fostering Business Growth – Bexley, Blackburn with Darwen, Eastleigh, Knowsley and Rotherham.

3.41 The radically new approach to the regeneration of deprived neighbourhoods, which emerged from the 2000 Spending Review, also recognised the inadequacy of relying on pepper-potted, single-issue, top-down and stop-start initiatives to address the deep-seated and interlinked challenges of market and Government failure in those places. Instead, the Government's new approach emphasises:

- that local regeneration is a shared priority for all the main government programmes and interventions. Government departments are responsible for delivering PSA floor targets which set minimum standards for public services in all areas, or drive the reduction of disparities between poorly performing areas and the rest;
- the need to match Government spending in poor areas with the scale of the challenges for public intervention there. To complement the reorientation of main Government programmes towards poor neighbourhoods, the 88 local authorities with the greatest concentrations of deprivation will by 2005–06 be receiving a total of £525 million of additional central Government money from the Neighbourhood Renewal Fund;
- effective local leadership. Local action to turn deprived neighbourhoods round is being led by Local Strategic Partnerships, bringing together local authorities, other public services, the community, business and the voluntary sector to ensure local delivery matches the needs and circumstances of localities.

3.42 The Government also recognises the need to reduce bureaucracy around the administration of the Neighbourhood Renewal Fund, both at a national and local level. At a national level, the Neighbourhood Renewal Unit are considering how to simplify the annual Statement of Use that local authorities are required to provide on how they have spent and are planning to spend NRF. At a local level, the Local Government Association are working with the Neighbourhood Renewal Unit to see what scope there is for developing a capacity building programme around neighbourhood renewal that would include learning from best practice in administering NRF on the ground.

3.43 From the start, the Government has recognised that like anywhere else, it is essential to get the economies of deprived neighbourhoods working well. Along with liveability, local economies are therefore at the heart of the neighbourhood renewal strategy. The set of floor targets includes increased employment rates in the local authority areas where they are lowest, and generating more sustainable enterprise in the 20 per cent most disadvantaged local authority wards. Other targets address issues critical for economic success, including educational achievement, the reduction of crime and reducing health inequalities.

Table 3.1: Some key national deprivation-related 'floor targets' 2002

Economy	<p>Make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measure by 2006 (PSA2).</p> <p>Help to build an enterprise society in which small firms of all kinds thrive and achieve their potential, with (i) an increase in the number of people considering going into business, (ii) an improvement in the overall productivity on small firms, and (iii) more enterprise in disadvantaged communities (PSA7).</p> <p>In the three years to 2006, taking account of the economic cycle, increase the employment rates of disadvantaged areas and groups – lone parents, ethnic minorities, people aged 50 and over, those with the lowest qualifications, and the 30 local authority districts with the poorest labour market position, and significantly reduce the difference between their employment rates and the overall rate (PSA4)</p>
Education	To increase the proportion of those aged 16 who get qualifications equivalent to 5 GCSE grades at A* to C by 2% per year on average and in all schools at least 20% of pupils achieve this standard by 2004 and 25% by 2006
Crime	<p>Reduce crime and the fear of crime; improve performance overall, including by reducing the gap between the highest Crime and Reduction Partnership area and the best comparable areas; and reduce:</p> <ul style="list-style-type: none"> • Vehicle crime by 30% from 1998–99 to 2004; • Domestic burglary by 25% from 1998–99 to 2005; • Robbery in the ten Street Crime Initiative areas by 14% from 1999–2000 to 2005. <p>(PSA1)</p>
Health	Starting with local authorities, by 2010 to reduce by at least 10% the gap between the fifth of areas with the lowest life expectancy at birth and the population as a whole (PSA11).

3.44 To support the local involvement of business in neighbourhood renewal, the Government has funded a pilot programme of Business Brokers to encourage the involvement of local businesses in the work of LSPs. They operate in 10 LSPs and are supported by a central Partnership Academy, based at Business in the Community. This Partnership Academy also offers advice to any local strategic partnership seeking to improve its engagement of the business sector.

3.45 The Government has therefore established a strong framework for policy, funding, and local action so that local authorities and their partners can improve the economies of poor neighbourhoods both as part of a wider strategy for those neighbourhoods, and within their approach to the economic development of their area as a whole. There are good examples of local action which rise to this challenge. Croydon for example co-locates responsibility for the leadership of economic development and neighbourhood renewal organisationally across the authority and the New Deal for Communities partnership leading the regeneration of the Greets Green neighbourhood of Sandwell is chaired by a major local employer.

3.46 Finally, in seven locations in four English regions (St Helens, Nottingham, Plymouth and London), local authorities are playing a central role in developing coordinated strategies to tackle issues of under-investment and low levels of economic activity in inner city areas. These City Growth Strategies, based on the work of the US-based Initiative for a Competitive Inner City, bring together the public, private and voluntary and community sectors to link economic development and regeneration, and develop locally driven action plans for business development and growth.

CONCLUSION

3.47 This chapter has outlined the central role that local authorities need to play to improve economic growth and prosperity in their locality. This role is the central part of their mission delivering their community strategy. The Government has made significant reforms recently to improve the environment in which local authorities operate, providing increased freedoms and flexibilities, sharpening accountability and encouraging more partnership working at the local level.

3.48 Chapter 4 demonstrates how the Government has provided the policy tools for local government to have an impact on local economic growth and productivity.

INTRODUCTION

4.1 To overcome the disparities in economic growth and prospects analysed in chapter 2, local authorities have a key leadership and coordinating role, bringing together all the local partners around the shared aims of community strategies. As well as creating more freedoms for local authorities to pursue these goals, the Government has also created incentives for local authorities to pursue economic growth and made policy reforms to allow local authorities to influence productivity growth at the local level. This is coupled with action to promote business activity and employment in the poorest neighbourhoods a central part of its enterprise and neighbourhood renewal strategies.

INCENTIVISING ECONOMIC GROWTH AT THE LOCAL LEVEL

4.2 Since the nationalisation of the business rate in 1990, local authorities have not received any of the benefits of increasing economic activity in their areas. Instead, all the proceeds of higher tax yields have been paid back to the centre to be redistributed. This lack of extra revenue for local authorities from additional business growth in their area blunts the financial incentive for authorities to strive to create additional business growth.

4.3 At a local level there is, therefore, currently a mismatch between the costs of economic development and the benefits that accrue from it. Economic development poses direct costs on local authorities in terms of greater congestion on local transport and impact on the local environment. Potentially it also poses costs on local authority services, most obviously housing, education and community safety. In contrast, the benefits of economic growth typically accrue either to individuals, through more and better employment, or, in tax terms, to central government, through corporation tax, income tax and business rates (although authorities will benefit indirectly from the general rising prosperity of an area).

4.4 To tackle this the Government is proposing to allow local authorities to keep some of the business rate receipts associated with economic growth. This will lessen this mismatch by creating positive financial incentives for local authorities and the wider local community to work with business and other key local stakeholders to maximise local economic activity.

4.5 The Government intends for the growth incentives scheme to give all local authorities a direct financial incentive to work in partnership with business and other local stakeholders to increase local economic growth. Furthermore, the policy will give all successful local authorities additional revenues to spend on local priorities as there is no compensating reduction in spending totals set in the 2002 Spending Review and revenues will not be ring-fenced in any way.

4.6 To ensure that the scheme operates in a way consistent with other priorities and policies, the Government is clear that the scheme will also:

- be suitably applied to all authorities to ensure that it does not create stronger incentives in high growth areas than in low growth areas and that local authorities benefit because of their relative future performance rather than their relative circumstances;
- provide a fair distribution of benefits so that a local authority does not receive benefits from the scheme that are out of proportion with its size. The benefits from the scheme to a local authority should also be commensurate with the impact of the scheme in terms of increasing economic growth; and
- be as intelligible and transparent as possible consistent with the above objectives.

4.7 The Government proposes to introduce the scheme from April 2005, following the next business rate revaluation. A consultation document considering a range of ways of operating the scheme has been launched alongside this document and comments are requested by 31 October.

CREATING ENTERPRISE AND GROWTH

4.8 The Government's strategy for increasing growth is based around goals to create full employment in all regions of the country and to increase productivity by focusing on the five key drivers – skills, enterprise, investment, competition and innovation. In all these areas, the Government has undertaken reforms to address market failures. Many of the changes have given local authorities more opportunities to influence productivity at the local level and the rest of this chapter looks at the tools that local authorities have to improve productivity performance under the five drivers and to increase employment in their areas.

Enterprise and innovation

4.9 Enterprise is central to the Government's approach to economic policy and to rebuilding local communities. Small and medium sized enterprises (SMEs) form a major part of the economy and have a particular role to play in a dynamic economy by contributing to a process of 'productive churn', by providing a competitive spur to other businesses, and through their own innovative activities, as set out in the joint Treasury and Department of Trade and Industry document *Enterprise Britain: a modern approach to meeting the enterprise challenge*, published alongside the 2002 Pre-Budget Report.

4.10 In addition, SMEs form part of the bedrock of local communities, contributing to both economic prosperity and social cohesion. SMEs provide the mechanism by which millions enter employment, realise their own potential, access the goods and services they need and play an active role in their local communities. Thriving small businesses provide greater diversity and so increase the resilience of local communities to economic downturns.

4.11 For the majority of small firms, the local level is where their experience of government is shaped. Local authorities enforce regulations and also help to coordinate and deliver specific business support services. Local authorities therefore have an important role to play, working with the Inland Revenue, Customs and Excise, and Business Links, as well as other local bodies, to ensure that businesses are aware of and able to access business support and advice which is relevant to their needs. They can also contribute to building a positive environment for enterprise by working with RDAs on the development and implementation of the Regional Economic Strategy, and through the operation of the planning system.

4.12 The evidence presented in Chapter 2 shows that levels of enterprise are lower in the most disadvantaged areas of the country than they are elsewhere. Recognising that boosting levels of enterprise will create both economic and wider social benefits for these communities, the Government is seeking to support enterprise and tackle a range of market failures in these areas. To this end, it has designated the most disadvantaged areas in the UK as Enterprise Areas and is implementing a number of policies to support and promote enterprise in these areas. Further details about the Enterprise Areas are given in the appendix to this document (see page 47), but the Government has developed a toolkit of policies for use by local authorities in these areas that includes:

- removing stamp duty from property transactions below £150,000 and from all non-residential property transactions, as stated in Budget 2003, to reduce the cost to business of locating and investing in disadvantaged areas and to support the regeneration of brownfield sites;

- giving planning authorities powers to create Business Planning Zones, in which there will be no requirement to apply for planning permission where pre-determined criteria are met;
- setting aside resources from the £350 million Planning Delivery Grant to assist authorities delivering planning for Enterprise Areas and encouraging local authorities to use Local Development Orders in Enterprise Areas;
- increasing the amount of finance available to businesses in disadvantaged areas through the Community Investment Tax Relief – which offers £25 in tax relief over 5 years for every £100 of private investment in Community Development Finance Institutions (CDFIs). Twenty CDFIs have now been accredited and enabled to raise around £88 million of new capital from private sector investors; and
- investing in the £40 million Bridges Community Development Venture Fund to provide investment for small businesses with growth potential in disadvantaged communities. The Fund invests in businesses in disadvantaged areas that create local jobs, provide services to the local community or stimulate a local supply chain. The Government is currently considering the scope for investing in a second community development venture capital fund.

4.13 Local authorities and Local Strategic Partnerships have a significant role to play in using the opportunities presented by these measures to support and strengthen their own strategies for economic development and local regeneration, and in boosting the awareness and uptake of relevant measures by local businesses.

4.14 Individuals and businesses in disadvantaged areas, from groups with lower levels of involvement in enterprise, such as women and ethnic minorities, and social enterprises can also benefit from targeted business support and outreach services, which recognise the specific needs they may have and the barriers they can face. Local authorities, working with Business Links, can build on the experience of the projects supported by the Phoenix Fund, which has helped to fund over 150 different business support projects and community development finance initiatives across the country, all targeted at individuals and communities facing particular disadvantage.

4.15 Supporting enterprise in disadvantaged areas is a vital part of the Government's wider neighbourhood renewal objectives. As such, it is the Government's intention to develop the policy approach being taken in Enterprise Areas as evaluation, research and the experiences of local organisations provide further evidence on the scale of market failures and the effectiveness of policy.

Investment

4.16 Investment in physical capital is crucial to support a flexible and productive economy. The Government is taking steps to reverse the past trend of under-investment in both the capital stock of firms and public infrastructure, providing greater stability through macroeconomic reforms, addressing problems in the property market and taking forward investment plans in transport infrastructure.

4.17 For local government, capital spending in the UK is forecast to rise from £5.3 billion in 1998-99 to £12.5 billion in 2005-06. In addition to this, the Government will support local authority PFI investment rising to £2.7 billion in 2005-06.

4.18 The Government is determined that its programme of planning reform should promote a positive approach to local economic development. As the Planning Green Paper set out, and as many in the planning profession recognise, planning has come to be seen as an obstacle to local communities being able to deliver their own vision rather than a positive tool. The Government's agenda for reform is based around three strands: improving the local development plan, helping local authorities deliver their obligations to provide a more efficient development control service, and cutting down and clarifying the guidance which central government issues.

4.19 The Planning Bill now before Parliament is a major element of the reforms. The new Local Development Frameworks (LDFs), which ODPM is introducing, will be a more flexible way of planning for development in local communities. Existing plans are too long, not strategic enough and often out of date. Some local authorities have no plan at all. The new LDFs, which the Government sees as a way of the local communities expressing its strategy spatially, will comprise a succinct core strategy document, supplemented by a range of action plans which can address issues of particular concern locally – for example, the need to regenerate particular deprived areas or to promote new types of economic activity. The Government has set itself the target of getting LDFs in place everywhere by March 2007.

4.20 Delivering local economic development will also mean a more responsive service for users of the planning system locally. The Government will put an extra £170 million into local authorities by 2005–06 to reward improvements in their development control service, where many authorities currently fail to provide reasonably prompt responses to applications for development. £50 million has already been allocated this year. And the Government will use Best Value intervention powers to bring change where local authorities do not improve fast enough.

4.21 Finally, this Government recognises that central government needs to prescribe less detailed policy at the national level. Local communities are quite capable of making sensible decisions on their economic development needs and write policies on this into their plans as a matter of course. Central government can help by focusing in Planning Policy Guidance on things that really matter to us, cutting out duplication, clarifying what is policy as opposed to guidance, and simplifying the language. The Government is doing that now. Particularly important will be the new Planning Policy Statement 4 on planning for economic development, which the Government expects to issue in draft for consultation later this year. This PPS will also set out policies for Business Planning Zones, where no planning permission will be required for development meeting pre-defined criteria.

4.22 Provisions allowing Business Improvement Districts in the Local Government Act currently before Parliament will also help to pave the way for a new type of regeneration initiative to revitalise town centres. This approach has been extremely successful in the US, allowing substantial investment to be made to improve the local business environment. New powers will enable local authorities to address some of the worst private landlords whose negligent behaviour can be a catalyst in dragging down a neighbourhood and tipping it into a cycle of economic and social decline.

4.23 Housing markets also tend to operate at a local or sub-regional level and where possible decisions on relative priorities and investment allocations are best taken at these levels. Accordingly, following the Communities Plan announced by the Deputy Prime Minister, the Regional Assemblies (Preparation) Bill will allow for devolution of responsibility for housing to regions that opt for Elected Regional Assemblies. Ahead of this, however, the Government has already taken steps to ensure that housing policies can be better integrated with planning and economic strategies at a regional level, to ensure sustainable communities. The Deputy Prime Minister earlier this year established Regional Housing Boards in each region that will provide advice to Ministers on strategic housing investment priorities for their region.

4.24 The Regional Housing Strategies they produce will be used to produce better directed allocations of resources for improving the housing stock and supporting new housing development to local authorities and other agencies, that better reflect local needs. Commitments will be given initially for two years and subsequently for the three year spending review periods, providing greater certainty to local authorities.

4.25 The Government is also improving the ability of local authorities to intervene effectively in their local housing markets. The Housing Bill includes proposals to license Houses in Multiple Occupation (HMOs) and to allow local authorities to license private landlords where negligent behaviour is dragging down neighbourhoods. The Government is also simplifying the rules that govern how local authorities can assist home owners and tenants to improve their homes, or to free up social housing by assisting tenants into home ownership.

4.26 As well as investment in the housing and the business environment, transport infrastructure has a role to play in increasing economic development in the local area and is fundamental for access to work and key services. Local authorities have a pivotal role to play in tackling urban congestion – maintaining their road networks, and providing their citizens with accessible and integrated public transport solutions. To these ends, the Ten Year Plan committed £24 billion of central funding alongside £9 billion of private investment and £27 billion of local revenues.

4.27 For the first time, local authorities have also been given indicative funding for 5 years on the basis of Local Transport Plans, instead of an annual bidding round. This has encouraged local authorities to take a longer-term view of transport investment. The next round of 5-year Local Transport Plans is due in 2005, and the Government is reviewing the LTP process with a view to learning lessons from the first round.

4.28 The Government is currently conducting a review of bus subsidies as part of the review and roll forward of the Ten Year Plan for Transport, with the aim of ensuring that the public funding can deliver the best possible local bus services. The plan also aims to improve overall delivery of transport objectives at the local level.

4.29 Further into the future local authorities need to take a strategic and coordinated view of how regional and local land-use planning and spatial strategies integrate with their transport plans. A major review by the Office of the Deputy Prime Minister and the Department for Transport is underway looking at how these strategies can be improved.

Competition

4.30 The Government has taken significant steps to ensure that the UK competition regime ranks among the best in the world. The implementation of the Enterprise Act, which came into force last month, further strengthens the competition regime by giving full independence to the UK competition authorities, creating a new proactive role for the Office of Fair Trading (OFT), and allowing criminal sanctions to be imposed on those engaging in hard core cartels. Although local authorities do not have a formal role in competition, their actions can impact on local competitive environment.

4.31 One key area where local authorities can have an impact on local competition is through procurement policy. It is important, for example, that the approach that local authorities take to procurement encourages local and small businesses. The Government is working through the Procurement Forum, established following the recent review of local government procurement, *Delivering better services to citizens*, to identify best practice and ensure that all local authorities can learn from it. This will form a part of the national strategy on procurement that is being developed for publication later this year.

4.32 Local authorities, in the exercise of their regulatory functions such as planning, trading standards and environmental health, can also support competition objectives firstly by providing a level playing field for businesses, secondly by providing advice and support to new entrants to local markets and thirdly by helping consumers understand and exercise their rights.

4.33 The Government has already acted to increase transparency, for example by requiring planning obligations agreed between local authorities and developers to be entered on local planning registers. Pre-application discussions with businesses are routinely provided by local planning authorities to help negotiate positive outcomes. The Government will set up a Planning Advisory Service which will, among other things, advise local authorities on how they can improve their interface with potential market entrants in their area, particularly small businesses for whom regulatory hurdles can prove particularly daunting.

4.34 Local planning authorities can also facilitate market entry by actively encouraging certain land uses – for example, encouraging competition in town centres among competing retailers by making sure that growth can be accommodated. The Government's policy on town centres already cites competition as an objective.¹ Planners also have a key role in promoting economic development, at the plan stage, when making individual decisions on planning applications and when purchasing and selling land themselves, so that the community's economic vision for the area is proactively articulated in land-use decisions. The Government is currently revising its planning policy guidance on industrial and commercial development and small firms,² and in its new policy, on planning for economic development, will highlight the role of competition in delivering economic development and (in good practice guidance) the ways in which local authorities can use their land-use planning function to deliver this. In legislation currently before Parliament, the Government is also providing local authorities with a range of other tools, such as Local Development Orders and Business Planning Zones, by which local authorities can respond in land-use terms to the economic needs of their areas.

4.35 To help consumers, the Department for Trade and Industry will be reviewing, jointly with stakeholders, the objectives of the consumer regime and how these are delivered through the existing framework.

Skills

4.36 Skills are central to improving economic growth. It is important to increase the flow of skills into local economies to improve the stock of skills available to firms and to ensure that business can find the human capital necessary in the locality. Local authorities have a central role to play in this area given their role in schools funding and policy and the importance of their work with RDAs and other partners. For example, local authorities can be instrumental in driving up standards in schools, reducing truancy and ensuring that the schools and pupils that need it most have access to adequate resources. This role is crucial to the long term prosperity not only of localities, but also regions and the country as a whole.

¹ See Planning Policy Guidance note 6 on Town Centres and Retail Development. Available at www.planning.odpm.gov.uk/ppg/index.htm.

² Current policy is in Planning Policy Guidance note 4 on Industrial and Commercial Development in small firms. Available at www.planning.odpm.gov.uk/ppg/index.htm.

4.37 It is also important that people of working age have the skills needed by local industry. This requires working with the private sector as well as training institutions and the LSC. It is essential that local authorities understand the needs of business in their area and can work to ensure that workers have the right skills. Local authorities are closely involved with the work of local LSCs and are represented on the board of nearly all local LSCs. As well as this, local authorities were key partners in the forums charged with drawing up Frameworks for Regional Employment and Skills Actions (FRESAs). Each FRESA is an action plan, which identifies and then develops the skills needed for the regional economy and it is crucial that local authorities continue to play a key role in the implementation and delivery of these strategies. The Local Government Association was also represented on the inter-agency working group that drew up the template for the FRESAs.

4.38 As well as addressing these issues, local authorities can play a valuable role in cross-cutting issues that will influence the qualifications that young people in their area achieve.

4.39 Evidence suggests that cultural and social constraints inhibit enterprise activity in the UK. The Government shares the conclusion of Sir Howard Davies' review of enterprise and education that efforts to build a deeper and wider entrepreneurial culture must begin in schools, and is now introducing a series of measures to achieve this, including:

- the implementation of the Review's recommendation that all school pupils should receive five days of enterprise experience during their school career. Pilots to investigate how best to provide pupils with this benefit will begin in September 2003 and cover around 250 secondary schools, including a number of schools in Enterprise Areas. Rigorous evaluation of these pilots will inform the national roll-out from 2005–06;
- £16 million over two years to fund Enterprise Advisers to work alongside headteachers in around 1,000 secondary schools in deprived areas to encourage enterprise practice among teachers and pupils. These advisers will be funded from existing Learning and Skills Council resources and accessed through the network of Education Business Links Consortia; and
- the establishment of a new £1 million Enterprise Promotion Fund, to support private and voluntary sector creativity in promoting enterprise awareness across schools, business and the wider non-business community. The Fund will offer resources to projects meeting specific enterprise objectives and demonstrating significant private sector support.

Increasing employment

4.40 To deliver full employment throughout the country, local and regional economies must be equipped to adjust and respond to change. While the national New Deal programmes have successfully led to increases in overall employment, local concentrations of unemployment persist. Local staff are often best placed to identify the needs of local labour markets, and to adapt programmes to provide local solutions to employment problems in specific areas. Flexibility in regional and local employment policies can therefore help to ensure that people move back into employment quickly and are able to change jobs in response to changing local conditions, advancing the Government's goal to reduce the persistent gap in growth rates between different regions and localities.

4.41 Budget 2003 has taken further steps to enhance flexibility in local employment policies. From April 2004, Jobcentre Plus districts will be given greater flexibility and discretion to increase their effectiveness in moving people quickly into work:

- a new discretionary fund will give District Managers enhanced flexibility to direct resources, including to address specific barriers to work affecting the local community;
- advisers will have greater discretion over which clients qualify for early entry to the New Deal;
- districts will be able to adopt a more flexible approach to the length and design of the options within the New Deal for young people, with the minimum length of options reduced from 26 weeks to 13 weeks;
- Jobcentre Plus will develop a partnership strategy to work more closely with private recruitment agencies; and
- with immediate effect, managers in the most successful districts will receive greater rewards, while those who fail to deliver a high standard of service will be replaced.

4.42 Local authorities are also often the largest local employer. By developing employment and training policies themselves, local authorities can also act to create improved local conditions.

CONCLUSION

4.43 The analysis above has shown that the Government is pursuing a policy agenda that provides many of the tools that local authorities need to carry out their crucial role encouraging economic development and growth at the local level. This is a vital part of the Government's overall aim to increase productivity as part of its goal of achieving rising prosperity for all.

4.44 The Government is clear, however, that there is considerable scope to develop new and improved policies and approaches to further enhance local authorities' economic development role. To identify and develop any possibilities the Government will continue and deepen its dialogue with the LGA and local authorities on how best to equip local government with the freedom and flexibilities they need.

4.45 Further, this economic development role is only part of local government's wider activities to create sustainable and cohesive communities. Increasing prosperity is central to that project, but so are actions to address social exclusion and community safety for example. Only by pursuing economic growth alongside such agendas can local authorities really fulfil their role as community leaders creating places where everybody can have opportunities for a better quality of life.

5.1 This paper has set out the crucial role that local authorities play in encouraging economic growth in their areas. Their role is a central part of the Government's approach, which explicitly recognises that it is not possible to run economic policy without devolving responsibility to local and regional levels.

5.2 The Government is introducing better incentives and more effective policy instruments for local authorities to encourage economic growth and productivity at the local level. Through policies such as the new local growth incentives – that allow local authorities to retain business rates from new economic activity – Enterprise Areas, modernising planning, Business Improvement Districts and encouraging enterprise education throughout Britain's schools, local authorities are being given the tools to stimulate growth.

5.3 The Government's commitment to decentralisation and devolution to the local level is also being supported through local PSA targets, the Comprehensive Performance Assessment (CPA) and the wider freedoms and flexibilities agenda reducing ring-fencing and planning requirements among other things.

5.4 In all these areas there is clearly more to do to give local authorities a stronger role, more independent from central government, to meet the needs of their localities. The second round of local PSAs, the refresh of the CPA for 2005–06 and the new approaches being developed in the Innovation Forum will all add to this. However, increased freedoms come with the need for stronger accountability and local authorities need to work with business and other partners to have economic development at the centre of their strategies to create sustainable communities.

5.5 To meet the Government's aim for full employment and higher productivity in every region and locality in the UK, the Government is clear that local authorities may need other policy levers that are not yet in place. The Government believes it is necessary to continue the dialogue between the centre and local authorities to identify those areas where reform will allow a greater focus on local economic growth and on how partnerships can be improved to help ensure progress is made towards the Government's central economic goals. This focus on local and regional economic growth will be a major theme of the autumn's Pre-Budget Report.

5.6 Furthermore, economic progress and local prosperity is crucial to realising sustainable, thriving and cohesive communities throughout the country. There is nothing inevitable about local disparities in economic growth and it is necessary to work to bring the worst areas up to the level of the best allowing increased productivity and growth at the local, regional and national level. Only by working together, building on local government's role and ensuring authorities have the tools to succeed can we together deliver full employment and rising prosperity for all.

APPENDIX: ENTERPRISE AREAS: INCREASING ECONOMIC ACTIVITY IN OUR MOST DISADVANTAGED COMMUNITIES

A.1 “Our comprehensive solution to ... poverty and unemployment has to involve raising levels of economic activity – more businesses ... rather than more benefit offices” – The Chancellor of the Exchequer, November 2002.

A.2 Increasing levels of enterprise and economic activity goes hand in hand with tackling poverty, unemployment and social exclusion. The Enterprise Areas announced in Pre-Budget Report 2002 reflect the Government’s broadly-based approach to tackling disadvantage by addressing the barriers to enterprise, economic activity and opportunity for all, and drawing together the range of policy tools available to local and regional organisations to tackle the problems their communities face.

A.3 This appendix sets out why this agenda is important to the work of local authorities, Local Strategic Partnerships, Regional Development Agencies, and other local and regional bodies, and shows where they can contribute to boosting the contribution of economic activity to the sustainable regeneration of deprived communities, as well as describing some of the policy tools at their disposal.

THE GOVERNMENT’S APPROACH TO ENTERPRISE POLICY AND NEIGHBOURHOOD RENEWAL

A.4 There is a substantial gap in levels of entrepreneurship between high performing areas of the UK and the most disadvantaged. This contributes significantly to the ‘enterprise gap’ between the UK and other industrial economies – particularly the US – and hence the long-standing underperformance of the UK on productivity.

A.5 To ensure that the potential economic and social benefits of enterprise are exploited as fully as possible, it is vital that the opportunity to participate in entrepreneurial activity should be open to anybody with the talent, potential and drive to do so, and that the right conditions should be in place for individuals to start and grow a successful business.

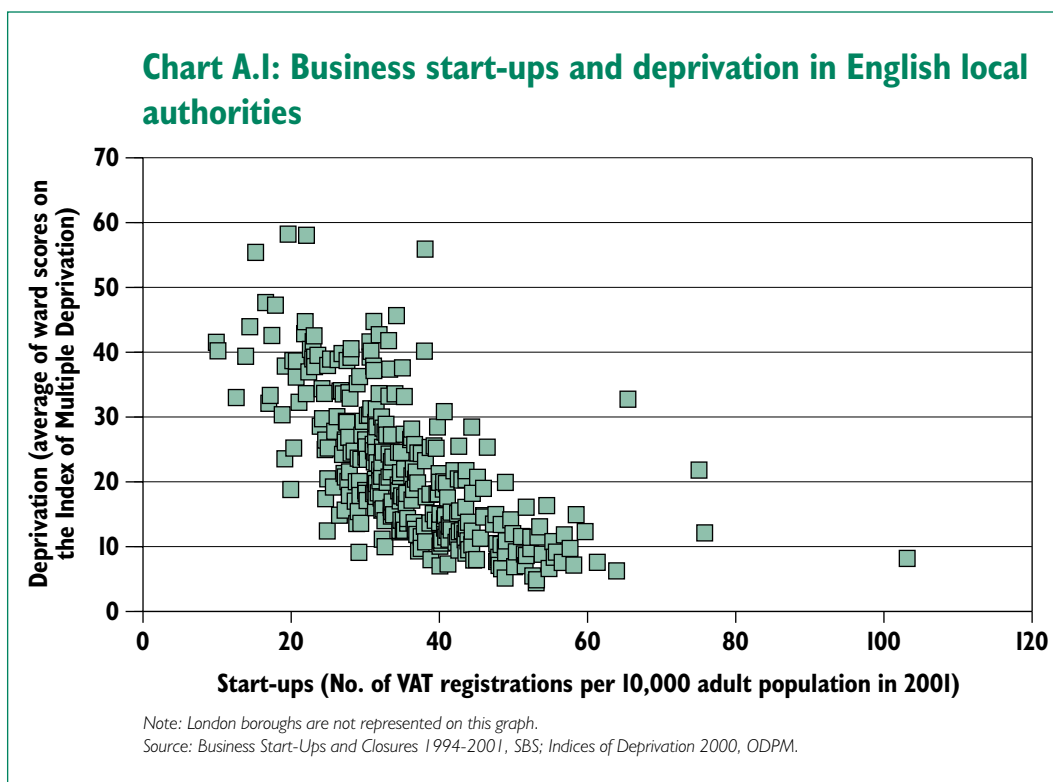
A.6 The Government’s approach to meeting the enterprise challenge recognises the crucial role of market forces, for example in driving the productivity-enhancing process of business ‘churn’, by which market share is transferred through market forces from lower-productivity firms to their more productive counterparts, in driving innovation in products and services, and in providing greater competition and consumer choice. These are the ways in which enterprise contributes to productivity growth.¹

A.7 The Government’s policy also recognises the limitations of market-driven processes: left to themselves, markets cannot always be relied upon to deliver outcomes that ensure opportunity for all, and there is a role for government to intervene where this is the case.

A.8 No disadvantaged neighbourhood will ever be turned round if shortages of jobs, local services and enterprise are not addressed, and it is in these communities that the benefits of enterprise will have the greatest social impact. Chart A.1 shows that levels of business activity are generally lower in more disadvantaged areas.

¹ The role of enterprise in productivity growth is considered in HM Treasury: Enterprise Britain: a modern approach to meeting the enterprise challenge, November 2002.

A.9 The economic challenge is therefore to rebuild livelihoods and restore robust local markets. Sustainable neighbourhood renewal will not happen without enterprise development, but on the other hand, enterprise development will be of only marginal relevance unless it is part of a wider neighbourhood renewal strategy designed to tackle the range of problems that disadvantaged areas face. Local and regional government and other public sector bodies have a key role to play in achieving this and this paper sets out some of the policy measures available, and illustrates the ways in which these organisations can take this agenda forward.



A.10 The importance of raising levels of enterprise and economic activity in disadvantaged areas as part of neighbourhood renewal is recognised in the high level Public Service Agreement targets agreed to by departments in the 2002 Spending Review, and also reflected in the targets set for the Regional Development Agencies.

A.11 The most relevant PSA targets are:

- the joint target for the DTI, ODPM and HM Treasury to “Make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006”;
- the DTI’s target to “Help to build an enterprise society in which small firms of all kinds thrive and achieve their potential, with (i) an increase in the number of people considering going into business, (ii) an improvement in the overall productivity of small firms, and (iii) more enterprise in disadvantaged communities”; and
- the ODPM target to “Promote better policy integration nationally, regionally and locally; in particular to work with departments to help them meet their PSA floor targets for neighbourhood renewal and social inclusion”.

A.12 Enterprise and economic activity are central to the Government's actions to tackle poverty, unemployment and social exclusion. The Enterprise Areas announced in Pre-Budget Report 2002 address the barriers to enterprise, economic activity and opportunity for all, and draw together the range of policy tools available to local and regional organisations to tackle the problems their communities face.

ENTERPRISE AREAS: DEFINITION AND POLICY SUMMARY

A.13 The Enterprise Areas are the 1997 most deprived areas of the UK. In England, Wales and Northern Ireland the areas are defined at ward level using the relevant indices of deprivation. In Scotland the areas are defined using postcode sectors.

A.14 In England and Scotland the areas selected are the most deprived 15 per cent of wards/areas, in Wales and Northern Ireland they are the most deprived 42 per cent of wards to reflect higher levels of deprivation in these countries.² In England, 73 per cent of them lie within the 88 local authorities which receive support from the Neighbourhood Renewal Fund and in which the most deprived neighbourhoods are concentrated.

A.15 Lists of the areas are available from the Inland Revenue's stamp duty website, at www.inlandrevenue.gov.uk/soldisadvantaged.htm. The website also includes a postcode search tool, at www.inlandrevenue.gov.uk/so/pcode_search.htm, which allows you to find out whether a postcode is within an Enterprise Area.

A.16 Local authorities and Local Strategic Partnerships have a significant role to play in using the opportunities presented by these measures to support and strengthen their own strategies for economic development and local regeneration, and in boosting the awareness and uptake of relevant measures by local businesses. The way in which Regional Development Agencies, local authorities and other regional and local partners take up and deploy these measures can and should vary to reflect varying local circumstances.

A.17 For example, take-up of business support and external finance can vary significantly between cultural and social groups for a variety of reasons. In some areas it may be most appropriate to tackle these issues through introducing a targeted business support programme, designed to overcome an unwillingness to approach mainstream sources of advice or finance, drawing on the lessons of the Phoenix Development Fund, whilst in others it might require the establishment of a community development finance institution, able to provide tailored finance packages to those who find it difficult to access bank finance. In other areas the use of planning flexibilities to reduce barriers to the start-up or expansion of local businesses may be of greater importance.

A.18 Supporting enterprise in disadvantaged areas is a vital part of the Government's wider neighbourhood renewal objectives. As such, it is the Government's intention to develop the policy approach being taken in Enterprise Areas as evaluation, research and the experiences of local authorities provide further evidence on the scale of market failures and the effectiveness of policy.

A.19 Table A.1 below shows how current interventions tackle the market failures and barriers to enterprise that can be most severe in Enterprise Areas, but the Government would value further evidence from local and regional partners on the further steps that could be taken to tackle the problems highlighted. As announced in Budget 2003, the Government is currently considering how enhanced capital allowances for particular types of expenditure in the Enterprise Areas might be used to tackle specific market failures (and the state aids aspects of any such measures), and looking at the scope for introducing further measures to expand the community development venture capital sector.

² The Enterprise Areas were selected using the Index of Multiple Deprivation 2000 (England); the Welsh Index of Multiple Deprivation 2000; the Scottish Area Deprivation Index 1998; and the Northern Ireland Measures of Deprivation 2001.

Table A.1: Current interventions in Enterprise Areas

Barriers and market failures in Enterprise Areas	Policy measure(s) targeted at this barrier/failure (Further details of each measure are given later in this paper)
Greater difficulties in accessing finance	Community Investment Tax Relief Bridges Community Development Venture Fund Support for Community Development Finance Institutions
Property market failures, and low levels of private sector investment	Stamp duty exemption Business Planning Zones Package of measures to help local authorities improve the planning system Contaminated land tax credit Other urban regeneration fiscal measures Tax incentive to encourage business donations towards the running costs of Urban Regeneration Companies
Lack of suitable business premises	Higher feasibility grants from the Business Incubation Fund in the 20% most disadvantaged areas of England
Need for targeted business support and advice, and enterprise outreach to raise skills and awareness of opportunities, and to tackle cultural barriers	Business Links have targets on the take-up of business support in disadvantaged areas Projects funded by the Phoenix Development Fund Support from Inland Revenue and HM Customs and Excise Dedicated section in the <i>No-Nonsense Guide to Government rules and regulations for setting up your business</i> Enterprise Advisers for schools

THE ROLE OF LOCAL AND REGIONAL ORGANISATIONS

A.20 Many organisations have a role to play in promoting and supporting enterprise in disadvantaged areas. In particular the institutions highlighted below need to work with the business community and with each other to create the best environment for enterprise in their communities, and they all have a role to play in changing cultural and social attitudes in order to build a more enterprising society in the UK.

A.21 Local Strategic Partnerships should:

- Recognise the importance of enterprise and economic activity to the sustainable regeneration of disadvantaged areas and make this a core theme of Local Neighbourhood Renewal Strategies
- Ensure that businesses can contribute to the development of Local Neighbourhood Renewal Strategies
- Ensure that all public sector agencies and the voluntary sector support and address business needs, for example through skills development

- Work with partners to address any gaps in support for businesses in disadvantaged areas

A.22 Local authorities should:

- Use local partnerships and relationships to ensure that other groups and agencies support enterprise as an aspect of neighbourhood renewal
- Ensure that the planning system has a particular focus on supporting business activity in disadvantaged areas
- Work with the Small Business Service (SBS), Business Links and other business support providers to ensure that they provide appropriate support to disadvantaged communities
- Increase awareness amongst businesses of all kinds of the support available for those in disadvantaged areas, and communicate this as a coherent package, with effective referrals between organisations
- Work with partners to address any gaps in support for businesses in disadvantaged areas

A.23 Regional Development Agencies and Government Offices for the Regions should:

- Work with local authorities and sub-regional partnerships to support increased enterprise and economic activity in disadvantaged areas
- Ensure enterprise is recognised as an important part of neighbourhood renewal in the development of regional and sub-regional strategies
- Work with SBS, Business Links and other business support providers to ensure that they provide appropriate support to disadvantaged communities
- Increase awareness amongst businesses of all kinds of the support available for those in disadvantaged areas, and communicate this as a coherent package, with effective referrals between organisations
- Work with partners to address any gaps in support for businesses in disadvantaged areas
- Ensure that businesses are engaged in Local Strategic Partnerships and that measures to stimulate enterprise and tackle social exclusion and neighbourhood renewal are developed and delivered in a coherent manner

A.24 Business Links operators should:

- Increase awareness amongst businesses of all kinds of the support available to those in disadvantaged areas, and communicate this as a coherent package with effective referrals between organisations
- Work with local authorities, Local Strategic Partnerships, Regional Development Agencies and other local and regional partners to deliver business support services that are accessible to and meet the needs of disadvantaged communities
- Work with partners to address any gaps in support for businesses in disadvantaged areas

Figure A.I: The Enterprise Areas¹

¹ For full details of the Enterprise Areas, refer to the lists available on the Inland Revenue website, at www.inlandrevenue.gov.uk/so/disadvantaged.htm

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POLICY MEASURES IN AND RELEVANT TO THE ENTERPRISE AREAS

A.25 This section summarises the key measures targeted on specific barriers and market failures which are available in the Enterprise Areas. These form the core package of policy tools that local and regional organisations can use to develop tailored packages for their Enterprise Areas. The Government recognises that substantial activity is already underway to tackle issues at local and regional level and encourages stakeholders to develop and build on this.

Access to finance

A.26 A Community Investment Tax Relief, to improve access to finance for small business and social enterprises by opening up new markets for commercial lending through Community Development Finance Institutions (CDFIs).

Figure A.2: Overlap between the Enterprise Areas and the 88 Neighbourhood Renewal Fund areas¹



¹ For details of the Neighbourhood Renewal Fund areas, refer to the Neighbourhood Renewal Unit website, at www.neighbourhood.gov.uk/nrfund.asp

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A.27 CDFIs provide finance to businesses excluded from mainstream finance, operating mainly in disadvantaged areas. The credit provides tax relief worth 25 per cent of capital over 5 years to individuals and corporations who invest in or lend to a qualifying CDFI. Details of accredited CDFIs are available on the SBS website.

Contact: Small Business Service Community Finance Team – 0114 259 7422, www.sbs.gov.uk/finance/citr.php

A.28 **The Bridges Community Development Venture Fund**, a £40 million fund made up of investment from Government and the private sector, to provide venture capital funding to firms in the 25 per cent most disadvantaged areas of England that can demonstrate meaningful interaction with the local economy.

Contact: Bridges Community Ventures – 020 7262 5566, www.bridgesventures.com

A.29 **Support to Community Development Finance Institutions** through the Phoenix Fund. Further details are provided in paragraph A.35

Property market failures and investment

A.30 An exemption from stamp duty for all property transactions up to £150,000 and non-residential transactions regardless of value, to stimulate active local property markets.

Contact: Inland Revenue stamp duty helpline – 0845 6030135, or any Inland Revenue Stamp Office – further details at www.inlandrevenue.gov.uk/so

A.31 The Government is implementing a package of planning measures to help local authorities speed up and simplify the planning process in Enterprise Areas in England, including:

- legislation for Business Planning Zones, which will give local authorities the power to designate zones in which there is no requirement to apply for planning permission where predetermined criteria are met;
- setting aside resources from the Planning Delivery Grant to assist authorities delivering planning for Enterprise Areas, from 2004–05;
- encouraging local authorities to use Local Development Orders in Enterprise Areas, and subject to forthcoming legislation, granting automatic planning permission for types of development specified in such Orders; and
- working with local authorities to ensure Enterprise Areas are effectively planned for in local plans.

Contact: Your local Government Office, www.odpm.gov.uk/go/index.htm

A.32 Fiscal measures to support urban regeneration, available in all areas of the UK:

- a 150 per cent accelerated payable tax credit for the costs of cleaning up contaminated land;
- 100 per cent first-year capital allowances for creating flats over shops and other commercial premises for letting; and
- targeted VAT reductions to encourage the renovation of existing residential properties and their conversion into multiple dwellings

Contact: Your local Inland Revenue office, www.inlandrevenue.gov.uk, HM Customs and Excise National Advice Service – 0845 010 9000, www.hmce.gov.uk/business/index.htm

A.33 A tax incentive to encourage business donations toward the running costs of Urban Regeneration Companies (URCs), including those operating in Enterprise Areas. The tax incentive allows businesses to deduct expenditure on contributions, whether in cash or in kind, towards the running costs of URCs when computing their taxable profits.

Contact: Your local Inland Revenue office, www.inlandrevenue.gov.uk

Business premises

A.34 New grants from the Business Incubation Fund will shortly be available to cover the costs of feasibility studies for incubators in England, with higher levels of funding in the 20% most disadvantaged areas. Grants of up to £30,000, to cover 70% of the cost of a study, will be available in disadvantaged areas. In other areas, grants of up to £20,000 will be offered to cover 50% of the cost of a study.

Contact: Small Business Service Incubation Team – 020 7215 8320

Business support, outreach and enterprise culture

A.35 The Phoenix Fund, which is designed to encourage enterprise in disadvantaged areas and communities. It consists of two main parts; a Development Fund, which promotes innovative ways of supporting enterprise in deprived areas, and support to Community Development Finance Institutions (through a Challenge Fund to help resource CDFIs, and a loan guarantee scheme to encourage commercial and charitable lending to them).

Contact: Development Fund – Small Business Service Social Inclusion Team – 0114 259 7458, Support to CDFIs – Small Business Service Community Finance Team – 0114 259 7422, www.sbs.gov.uk/phoenix

A.36 Enhanced support from the Inland Revenue and HM Customs and Excise in Enterprise Areas through their Business Support Teams, EmployerTalk events and Business Advice Open Days.

Contact: Inland Revenue Helpline for the Newly Self Employed – 08459 154515, Inland Revenue Helpline for New Employers – 0845 6070143, www.inlandrevenue.gov.uk/bst, HM Customs and Excise National Advice Service – 0845 010 9000, www.hmce.gov.uk/business/index.htm

A.37 A dedicated section in the *No-Nonsense Guide to Government rules and regulations for setting up your business* provides details of help available in the Enterprise Areas.

Contact: Business Link – 0946 600 9 006, www.businesslink.org

A.38 Funding to provide Enterprise Advisers for schools in disadvantaged areas of England, particularly the Enterprise Areas, to work alongside headteachers in around 1,000 secondary schools to encourage enterprise practice among teachers and pupils.

Contact: Your local Education Business Links Consortium – details available at www.dfes.gov.uk/ebnet/home/contacts.cfm

FURTHER RESOURCES AND READING

A.39 The following list gives a selection of key documents that consider issues related to stimulating enterprise and economic activity in disadvantaged areas, and the Government's enterprise policy:

- *Business-led regeneration of deprived areas: a review of the evidence base*, Office of the Deputy Prime Minister, 2002;
- *Changing Practices: A good practice guide for businesses locating in deprived areas*, Office of the Deputy Prime Minister, 2003;
- *Entrepreneurship and Local Economic Development: Programme and Policy Recommendations*, Organisation for Economic Co-operation and Development, 2003;
- *Enterprise and Social Exclusion* [the report of Policy Action Team 3], HM Treasury, 1999;
- *Enterprise Britain: a modern approach to meeting the enterprise challenge*, HM Treasury, 2002;

- *Enterprising Communities: Wealth Beyond Welfare*, Social Investment Task Force, 2000;
- *Small Business and Government – The Way Forward*, Small Business Service, 2002.

A.40 The Government is also developing a comprehensive on-line guide to what works in neighbourhood renewal, renewal.net. It includes how to guides, case studies, project summaries and much more, and can be accessed at www.renewal.net.

A.41 Research and statistics on small business and enterprise can be found on the Small Business Service website at www.sbs.gov.uk.

Comments and feedback

A.42 The SBS will be taking forward the development of policy on Enterprise Areas, and would value comments from local and regional organisations on the existing package for Enterprise Areas, the further steps that could be taken to tackle the problems highlighted and their experience of developing tailored packages at the local and regional level. For comments or further information please contact the SBS Social Inclusion Unit on 0114 279 4336 or 0114 279 4460 or by e-mail at roy.saxby@sbs.gov.uk or maria.kenyon@sbs.gov.uk.

A.43 Further copies of this paper, along with contact details for further information, are available on the Enterprise Areas section of the SBS website at www.sbs.gov.uk/entareas.



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