

1

The Case for Change and a New Approach

The Government today outlines a new approach to local growth, shifting power away from central government to local communities, citizens and independent providers. This means recognising that where drivers of growth are local, decisions should be made locally.

The Government will therefore:

- shift power to local communities and business, enabling places to tailor their approach to local circumstances;
- promote efficient and dynamic markets, in particular in the supply of land, and provide real and significant incentives for places that go for growth; and
- support investment in places and people to tackle the barriers to growth.

The subsequent chapters of this white paper provide detail on next steps and proposals for radical reform in each of these areas.

1.1 The Government's economic ambition is to create a fairer and more balanced economy – one that is not so dependent on a narrow range of economic sectors, is driven by private sector growth and has new business opportunities that are more evenly balanced across the country and between industries. The Government is therefore determined that all parts of the country benefit from sustainable economic growth.

1.2 This White Paper sets out how the Government will put businesses and local communities in charge of their own futures, give greater incentives for local growth and change the way central government supports and maintains growth. We will connect people to jobs, help them get the skills they need and equip local areas with the tools they need to create and shape dynamic and entrepreneurial local economies.

1.3 The Government recognises that it cannot create private sector growth, but it can create the conditions that enable UK businesses to be successful. We have good reason to be confident that the private sector can lead the recovery. When general government employment fell by more than 0.5 million after the 1990s recession, following a period of transition, private sector employment added almost 1.5 million jobs in four years. From the end of the 1990s recession to the last quarter of 1999, whole economy employment rose by 1.5 million; this was entirely driven by a 2.2 million increase in private sector employment. However, between the first quarter of 2000 and the start of the recession, more than a fifth of all job creations came from the public sector.¹

¹ General government employment covers employment in central government and local authorities. It is published by the Office for National Statistics (ONS). Market sector employment covers all workers who are not employed in general government. It is calculated as the residual between whole economy employment and general government employment. General government employment started to fall at the start of 1992 and at the start of 1997 it was around 0.6 million lower. Market sector employment reached its trough in the last quarter of 1992 and was more than 1.4 million higher at the start of 1997. Between the last quarter of 1991 and the last quarter of 1999, private sector employment rose by 2.2 million, while public sector employment fell by 0.7 million. Between the first quarter of 2000 and the first quarter of 2008, private sector employment rose by 1.7 million and public sector employment rose by 0.5 million.

1.4 However, over the last decade the UK's economy became unbalanced and too reliant on public spending, unsustainable levels of debt and on one sector of the economy. Too many parts of the country became over-dependent on the public sector. For economic growth to be sustainable in the medium term, it must be based on private sector investment and enterprise.

1.5 In his speech to the Confederation of British Industry on 25 October, the Prime Minister set out how the Government's role in promoting growth is to provide a framework that creates the conditions for sustainable growth, and which promotes a new economic dynamism by exploiting the UK's strengths and helping new companies and innovations to flourish. The Spending Review set out the Government's framework for creating the conditions for private sector growth:

- creating **macroeconomic stability**, so that interest rates stay low and businesses have the certainty they need to plan ahead;
- helping **markets work more effectively**, to encourage innovation and the efficient allocation of resources;
- ensuring that it is **efficient and focused in its own activities**, prioritising high-value spending and reducing tax and regulatory burdens; and
- ensuring that **everyone in the UK has access to opportunities** that enable them to fulfil their potential.

1.6 The June Budget established a clear direction for the focus of Government, with measures to support business and restore the UK's competitiveness, including a phased reduction in the main rate of corporation tax. The Spending Review set out how the Government will reduce the deficit, a necessary precondition for sustained growth across the country. It also describes how the tough decisions the Government has taken to prioritise public spending will support a private sector-led recovery and sustainable growth, including protection for research, schools, transport infrastructure, and a Regional Growth Fund.

1.7 Government is also committed to growth that is environmentally sustainable and inter-generationally fair. Indeed efficient and sustainable use of the environment now can stimulate growth through innovation, resource efficiency and new markets, whilst reducing future risks to the economy. The commitment to being the greenest government ever and government for the long term will require 'greening' the whole economy.

1.8 We should not expect the process of rebalancing to be easy. Business has been hit hard by the recession and employment has fallen. Another key part of the Government's approach is an agenda of structural reform to address the reasons for the UK's relatively low productivity. Reforms to the banking, planning and skills systems will help address long standing structural barriers to growth, while welfare reform will play a key role in getting more people into work.

1.9 Government will ensure business has an environment that enables it to compete and invest and provide economically important infrastructure and services that support our country's comparative advantage. We will:

- tackle barriers and bottlenecks that inhibit growth, including: reforming the planning system; encouraging a healthy competition regime; ensuring that our tax and regulatory frameworks are stable and designed to facilitate and encourage investment; engaging internationally to promote stability and ensure that UK businesses can thrive in international markets; increasing our skills base so that more people have intermediate and higher-level skills; and

- invest where it makes sense to do so, for example, in the high quality transport links that are essential to underpinning a successful economy, and enable innovation where places have a comparative advantage or where the market will not step in.

1.10 The previous approach to sub-national economic development was based on a centrally driven target which sought to narrow the growth rates between different regions. Not only did this approach lead to policies which worked against the market, it was also based on regions, an artificial representation of functional economies; for example, labour markets largely do not exist at a regional level, except in London. This therefore missed the opportunities that come from local economic development activity focused on functional economical areas. It also largely ignored the knowledge and expertise of the private sector, local authorities and their local communities. The lack of local accountability for economic development functions also meant that local partners did not feel empowered to lead action to improve economic growth.

1.11 A further feature of earlier approaches was the belief that planning could both determine where growth should happen and stimulate that growth. This approach failed as it went against the grain of markets. Regional and other strategies stifled natural and healthy competition between places and inhibited growth as a consequence.

A New Approach to Local Growth

1.12 Our approach recognises that places have specific geographic, historic, environmental and economic circumstances that help to determine the prospects for growth and the most suitable approach to support the private sector and residents' opportunities.

1.13 The characteristics of a particular place will influence its resilience to reductions in public sector spending and its future private sector growth prospects. Although relevant, it is too simple to consider dependency on public sector employment in isolation; other factors are likely to be just as important in influencing how a local economy rebalances and grows.

1.14 Policy should therefore recognise that the situation will be different for each place and is likely to be particularly affected by factors such as the inherent skills mix or entrepreneurial tradition of the population; business confidence; quality of infrastructure provision; and proximity to trading markets. There has in recent years been a strong focus on the role that agglomeration effects – the concentration of people and businesses within a defined area – can have on economic performance.

1.15 Many economists believe that agglomeration has been key in supporting growth in London, enabling it to play an increasingly prominent role on the world stage. This is being supported, for example through investment in high value transport projects and strategic approaches to planning, led by the Mayor. Such agglomeration effects may also help drive further growth in other areas, including cities and places with particular specialisms.

1.16 This does not equate to a simple 'bigger is better' approach. The evidence shows that many small towns and cities have grown faster than some large towns and cities, demonstrating significant growth in private sector jobs. There can often be a mutually beneficial economic relationship between larger cities and surrounding urban areas, which the Government wishes to support, for example in the eight core city-regions outside London: Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield. Government is supporting cities and towns to grow and create jobs through a range of measures, including:

- strengthening leadership through setting up mayors in the 12 largest English cities;
- introducing Tax Increment Finance powers; and
- prioritising transport investment, and reforming the planning regime to help tackle barriers to growth.

1.17 This does not mean that every place will grow at the same rate or that everywhere will, or will want to, become an economic powerhouse. Long term economic trends make differences in economic performance inevitable and these can and do change over time. Our focus should be on giving local areas – councils, communities and businesses – the right tools, incentives, freedoms and responsibility to make their own choices. It is also important that we recognise the characteristics of the rural economy and its contribution to national growth. Nationally-led economic development policy and implementation should be able to demonstrate fair consideration and treatment of all areas.

1.18 This strategy follows the clear direction set for public service reform by the Spending Review; shifting power away from central government to local communities, citizens and independent providers –the Big Society. The Big Society means recognising that where the drivers of growth are local, decisions should be made locally. The Government will devolve real power to communities, giving them a greater say in shaping the shape and future of their economies. The Big Society means widening the diversity of players in local economies, making it easier for the voluntary and community sector to compete in markets. The Government will allow social enterprises to bid to the Regional Growth Fund.

1.19 In recognition of these differences between different places and the need for greater local leadership and accountability for economic growth our new approach to the role of central government in local growth focuses on three key themes that are closely linked to key drivers for growth:

- **Shifting power to local communities and businesses** – every place is unique and has potential to progress. Localities themselves are best placed to understand the drivers and barriers to local growth and prosperity, and as such localities should lead their own development to release their economic potential. Local authorities, working with local businesses and others can help create the right conditions for investment and innovation. Critically, our new approach will enable places to tailor their approach to their circumstances and recognises that places can usefully compete with one another, harnessing self-interest and ambition to grow, increase prosperity and collectively increase the size of the national economy.
- **Promoting efficient and dynamic markets and increasing confidence to invest** – create the right conditions for growth and prosperity and allowing markets to work. Government will ensure a consistent and efficient investment framework for markets to operate within. The right planning framework is a key component to this, and plans to reform the system in order to increase investment and places' comparative advantage are set out in this paper. Alongside this Government will provide incentives to ensure that local communities benefit from development.
- **Focused investment** – tackling barriers to growth that the market will not address itself. The Government will support investment that will have a long term impact on growth. In some cases this means areas with long term growth challenges undergoing transition to better reflect local demand. National and local government policies should work with and promote the market, not seek to create artificial and unsustainable growth. Places that are currently successful may prioritise activity to maximise further growth by removing barriers, such as infrastructure constraints. For other areas the priorities might include ensuring that the conditions for growth exist, attracting new investment and ensuring that local people have the appropriate skills and incentives to participate.

People in Places – the Role of the Labour Market

1.20 Underlying our new approach is a strong belief that the role of the individual matters as much, if not more, than the role of place. Government and individuals themselves must improve the options available to them and in so doing enable everyone to contribute to, as well as benefit from, the opportunities arising from economic growth. We are asking local partnerships, led by business, to develop a strategy for growth that uses and grows local talent, meets the needs of local people, and helps to contribute to national economic growth.

1.21 The UK has a dynamic, skilled and flexible labour market but the previous model of growth was unbalanced, with too many people trapped out of work and unable to contribute to or share in the country's prosperity. Getting more people working is not only good for growth – it helps more people share in the proceeds of growth. Action Government is taking includes:

- **ensuring that society rewards work;** removing the barriers to job creation and improving the incentives for individuals through welfare and employment law reform; reducing taxation for the lowest paid; a temporary reduction in employer National Insurance Contributions for qualifying new businesses in selected countries and regions²;
- **a new Work Programme;** giving greater flexibility and incentives to private and voluntary sector organisations to work with partners to help people back to work;
- **connecting people to jobs;** reforming social housing and maintaining investment in local transport; and
- **reform of the Further Education and skills system;** we will shortly be publishing a new skills strategy setting out how we will deliver vocational training driven by the choices of learners and employers, rather than by central planning and control.

UK-wide Growth

1.22 The majority of the proposals in this document will apply to England only, as most of the policies discussed are devolved to the Scottish Executive, Welsh Assembly Government, and Northern Ireland Executive. For example the Welsh Assembly Government published their own strategy *Economic Renewal: A New Direction* in July 2010. The Government is looking forward to co-operating with the Devolved Administrations to promote growth.

What will success look like?

1.23 The Government's overarching economic policy will be judged on whether it delivers strong, sustainable and balanced growth of income and employment over the long-term. More specifically, the changes set out below are focused on: promoting growth that is broad-based industrially and geographically; creating a business environment that competes with the best internationally; and ensuring everyone has access, including future generations, to the opportunities that growth brings.

1.24 We believe that these changes will not only help produce a growing economy, but also heighten civic pride, with businesses and communities increasingly enabled to help themselves grow.

² The measure will apply in Scotland, Northern Ireland and Wales, and the following English regions: the North West, North East, Yorkshire and Humber, West Midlands, East Midlands and South West.