The Local Economy

Purpose:

The purpose of this paper is to:

1. Understand the local economy as it stands currently and its future prospects;
2. Consider how the Council may be able to influence the local economy for the better.
3. Consider the impact of the local economy on the Council and how influencing the local economy for the better will also impact on the Council.

National Context

The British economy in the past couple of years has experienced the worst recession in living memory. The consequences of this have been profound not least in respect of the emergence of a very large deficit in public expenditure and income; and a significant restriction on the availability of credit to businesses and of mortgages to householders. Several sectors of the economy have been notably affected e.g. construction and house building has plummeted. Unemployment has risen.

The response of the Coalition Government following the election last year has been to implement a policy that seeks to re balance the economy away from the public sector by reducing the public sector deficit and toward the private sector by creating the conditions that will help businesses and get the economy growing. This was initially reflected in the June 2010 budget and in the Comprehensive Spending Review (CSR) in October 2010.

It also published a White Paper in October 2010 – **Local growth: realising every place's potential**. This outlined a new approach to local growth shifting power away from central government to local communities, citizens and independent providers, recognising that where drivers of growth are local, decisions should be made locally. In the White Paper the Government therefore proposed that it would:

- Shift power to local communities and businesses, enabling places to tailor their approach to local communities;

- 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.

A summary of the White Paper is attached as Annexe 1 to this paper. However, of note for this Council, are the following proposals:

- Abolition of the Regional Spatial Strategies (declared earlier in July in fact) along with the abolition of Regional Development Agencies;
- Establishing Local Economic Partnerships at a sub regional level;
- Establishing a Regional Growth Fund of £1.4 billion over 3 years;
- Reforms to the planning system and proposals to allow for 100% charging of planning fees;
- Setting up the New Homes Bonus Scheme;
- Pledging to examine in more detail the case for Local Authorities funding schemes via Tax Increment Financing (TIF);
- Undertaking a resource review of funding for Local Authorities including the potential return of business rate setting to Local Authorities;
- Ending the National HRA subsidy system.

2010 saw the national economy experience some Gross Domestic Product (GDP) growth but the last quarter saw that turn to a negative level potentially suggesting a double dip. Inflation is now running at 4% and there are increasing demands to increase interest rates. The impact of the increase in VAT and the likely increase in public sector redundancies is yet to be felt. Alongside this has been an increase in exports especially from the manufacturing sector which has helped the economy. At this stage the prospects for the national economy can be said to be uncertain, although the Office for Budget Responsibility (OBR) is forecasting a growth rate of circa 2% for the period ahead.

Local Context

At the Sub Regional Level, the Coventry and Warwickshire Local Enterprise Partnership (CWLEP) has been established. It is a private/public sector partnership led by the private sector. It has agreed a vision:

‘To make our area (Coventry and Warwickshire) a World Class economy in which to do business; a place to lead a great life; excel at learning; visit and return to - all supported by exceptional private, public and voluntary services.’

A number of sub groups are being established to look at various issues. A 90 day action plan is being prepared and a longer term strategy for the area is to be developed. A quick survey of the top 100 companies in the sub region indicates that the top 5 concerns/priorities that would help reduce the barriers to growth are as follows:

1. Skills;
2. New Jobs;
3. Enterprise and Entrepreneurship;
4. =Access to Finance; Planning and Transport; Housing Supply; Low Carbon and Innovation; Local Procurement;
5. Exports and International Links.

A number of bids have been made to the Regional Growth Fund. A summary of them is attached at Annexe 2. No other details have as yet been made public, although officers are aware of proposals which involve Friars Gate redevelopment in Coventry with a north south rail improvements as well as proposals by large well know companies. If these alone are successful, several thousands of jobs are likely to result.

Coventry City Council and Warwickshire County Council have also prepared in accordance with current legislation a Strategic Economic Assessment (SEA) of the sub region. This is attached at Annexe 3. It will be used to help develop the Sub Regional Strategy for CWLEP. 5 key issues are identified as explaining why overall the economic performance of the sub region is less than it ought to be. They are as follows:

- A lack of growing businesses particularly in those areas that have seen the strongest new business start ups; a potential under representation of “high” growth businesses which have been shown to drive employment and productivity growth;
- Not sufficient exploitation of its innovation assets by increasing the diffusion and enhancing spill over effects of innovative activity across the sub region;
- Weak agglomeration effect of Coventry and wider city region. Potential negative clustering as a result of historic path dependencies in the city and northern parts of the sub region;
- Relatively poor transport connectivity along the north-south corridor;

- Lack of higher level skills in the northern part of sub region;
- Higher value knowledge intensive industries have not grown at the same rate as in the national economy.

Of course it is not a uniform picture and what emerges is that the southern part of the sub region performs much better than Coventry and the area to the north. In particular what is shown is a stronger performance of the economy in Warwick District. GVA per head is in the top 20% in the whole country, being driven by a significant degree of in commuting and by a high activity rate.

The SEA also shows in the Resilience Index that Warwick as the most adaptable and least vulnerable of the local economies, putting it on a par with the areas to the south in Oxfordshire and Gloucestershire.

Projections and Forecasts also see the area continuing to grow strongly. Population projections see the area's population rising by 24.7% over the period 2008 to 2033 and using the Cambridge econometric model, it sees population rising by 26.6% over the period 2006 to 2031. Economic growth is forecast for Warwick and Stratford to be 20% over the period to 2031, though largely after 2020. The District is also show to have the highest levels of growth in higher level occupations in the sub region. The SEA also identifies as an issue that the southern part of the sub region may be affected by limitations on housing and employment growth; by an ageing population (this is Stratford rather than Warwick which is forecast to have a relatively young population by contrast nationally); and by congestion.

House prices in the District have significantly outstripped earnings. In 2000/01 the ratio between lower quartile house process and average earnings just over 4 to 1; in 2009 it had risen to over 8 to 1. This has created a very significant affordability issue for residents and would be residents.

Officers have also collected other data on what is happening at the local economic level. Partly this illustrates the impact on council services but it is also a reflection of known changes:

- The amount of employment in the district grew by almost 10,000 from the period 2000/01 to 2008/09;
- Likewise the number of businesses grew from just over 6,000 to almost 7,500 over the same period;

- Business rate valuations rose from £123 million to over £145 million, although a major re-evaluation occurred driving most of this change;
- The number of council tax banded properties grew from just over 53,000 in 2000/01 to almost 60,000 in 2010/11;
- Population grew from 124,000 to 140,000 and has continued to increase despite the recession.

In more immediate times the following is important:

- Town centre footfall is up in all 3 major town centres in 10/11 compared to 09/10; Kenilworth 1.7%; Warwick 7% and Leamington 9%. This compares well to the national situation where footfall figures are continuing to fall;
- Several major investments have been made or declared:
  - Trilogy have purchased the Ford Foundry site and have proposals submitted food store and HQ offices;
  - LaSalle have signed a long term lease for the Stoneleigh site;
  - The lease for Coventry Airport has been re-assigned and the company is developing plans for its development;
  - A number of food store companies are searching for sites in the District;
  - Wilson Bowden have maintained their interest in the Chandos Street scheme when many similar schemes elsewhere in the country have been shelved;
  - A major engineering company is proposing to re locate 260 staff here (April 2011);
  - Prodrive have announced the creation of 30 new jobs at their site at Honiley;
  - Warwick University has continued with its expansion plans;
  - The Council has signed up its first tenant for the Arches in Court Street, Leamington.

However, the area has yet to feel the impact of a downsizing of the public sector which with HQs of the Police, the County Council and the PCT within it, the District may be peculiarly affected.

Impact of the Local Economy on the Council

District Councils are more vulnerable to changes in the economic landscape than County Councils or Unitary Councils. This is because as organisations more of their overall income is provided by fees and charges. Services like car parks, leisure centres and planning/building control generate income but this declines as the economy declines and vice versa. However, some other services such as dealing with homelessness and housing benefit claims increase as the economy declines and vice versa. Annexe 4 illustrates a number of tables and charts illustrating how some volumes of activity the Council undertakes have been affected over the past decade. In summary:

- Population has continued to increase;
- Number of properties added to the tax base increased roughly by over 1% a year until recently but is now picking up again;
- Housing planning permissions fell significantly from 2007 onwards and completions from 2008;
- The number of people on the Council waiting list rose up to 6,000 before falling more recently to over 3,000;
- The number of searches fell from over 5,000 in 2001/02 to just over 1,000 in 09/10;
- Visits and income per head of population to our leisure centres has fallen over the decade despite higher fees and a larger population;
- Net income for car parking is not much more now than it was in 2000/01 despite higher fees and a larger population;

The consequence is that in the present set of circumstances, the recession and the proposals to reduce the public sector deficit are a double "whammy". The Government takes away money from the Council at the same time as the general economy does too.

The Council has reviewed its fees and charges and whilst it has made every effort to increase them in line with what the market can bear, it concluded in October 2010 that to continue to increase them relentlessly was to start to incur losses as volume would be lost. The Council concluded that it needed to look at how it could increase in effect sale volumes and to do that it needed to look at what it could do to influence the local economy as that was the factor affecting volumes.

How the Council can influence the local economy for the better and how doing so will impact on the Council

Clearly the District Council cannot by itself over turn the worst recession in living memory. A number of the tools and indeed the decision making will reside at a national and international level and rightly so. However, it is clear that the Coalition Government expects more decision making at a local level about the level and pattern of growth, though there can be no disagreement that it wants to see the national economy to grow overall.

The District Council however, can influence the local economy in a number of ways:

- Policy setting
- Project implementation
- Practices of its services
- Procurement and asset usage

Policy setting

This is probably the most significant area for the Council to influence the local economy. It has a number of tools in this respect:

- The Sustainable Community Strategy
- The Core Strategy – known now as the Local Plan;
- Economic Strategy
- Other policy strategies – housing, sustainability, culture, community safety, health and well being.

The Sustainable Community Strategy

The purpose of the Sustainable Community Strategy (SCS) is to set out the overall vision – "To make Warwick District a great place to live, work and visit, where we aspire to build sustainable, safer, stronger and healthier communities" and identify the key priorities for the area.

There are four priority areas in the SCS of which Jobs, Skills and the Economy is one. So it is clear that the Council acknowledges the economy as one of its priorities. The details of this part of the SCS are attached at Annexe 5.

The Local Plan

The purpose of the Local Plan is to set out the spatial dimension of the SCS. It should set out the level and general location of development to be accommodated over the period to 2026. The Local Plan is to embark on a consultation with the local community on just such issues. 3 Scenarios are envisaged: low growth; medium growth and high growth. In summary terms of volumes of development this can be translated into 250 homes being completed a year; 500 and 800 respectively; and alongside this amounts of land to be released for employment purposes.

This is probably the most significant tool that the Council has to influence the local economy. Drawn too tightly and the local economy will suffer, too lightly and it might tear away, overheat and damage many things of value to the local community. Annexe 4 is of value here because it shows over the past decade that the District has experienced all 3 scenarios, albeit for short spaces of time.

However, it is of significance to the Council as well as to the community and businesses. The level of economic activity will translate into service demands and fees and charges. So drawn too tightly and the Council will continue to experience the depression in its income levels, too much and the demands for services might overwhelm the ability pay for them. For example, the average income from a planning application over the past decade has varied from £335 to £477. Over all of that time income has barely meet half of the costs of the service. It is presently regulated by the Government. However, if it is set by Local Authorities as proposed to cover full costs then the average income per application might be £1,000. If mapped against each of the 3 scenarios being consulted upon it generates income levels of £250,000; £500,000 and £800,000 per annum just for new housing proposals. Income for all applications in 2009/10 was £719,000.

In addition, the New Homes Bonus Scheme (NHBS) is to be introduced for 2011/12 for completions in the year previously. This will generate for the Council a sum of over £2 million over a 6 year period to then be repeated every year. For each of the scenarios this could mean £350,000 a year; £700,000 and £1,120,000 respectively and by year 6 if levels continued thereafter the sums would be £2,100,000; 4,200,000; and £6,720,000 per year respectively. These sums do not take account of the additional sums awarded for the completion of affordable housing and return to occupation of long term empty properties nor of the 20% that will go to the County Council.

The purpose of this scheme is to reward or incentivise communities and councils in respect of housing development, not to simply prop up existing revenue based services. This is not to say whatsoever that a proposal should be permitted simply in order to gain the NHBS monies. More it is a policy incentive. It is though a potential, substantial level of funding which in the future is likely to be top sliced from the Revenue Support Grant to Local Authorities, so there is a stick element as well for Councils. It would give this Council a potential considerable sum to re invest in a way that could help local communities and the local economy. For example, here are a few schemes on the Council's or local community's books that could be funded by this scheme:

- Community Centre at South West Warwick - £400,000;

- Community/Sport Facility at Whitnash - £1 million;
- Relocated Theatre at Kenilworth - £1.25 million;
- New Theatre in Spencer Yard - £2 million;
- Mere, Kenilworth - £12 million;
- Rural cycle way and bridge from Radford Semele to Draycote Water - £1 million.

Or it could also fund issues district wide (determined and shaped by the local community forums), or indeed both:

- Affordable housing
- Renewable energy for home owners
- Improved playgrounds and open spaces
- Youth facilities
- Road and community safety improvements
- Jobs training
- Business incentives
- Environmental improvements

A mechanism for forward funding some of these will be needed but to make a judgment of the likely sums of money available in advance of determining the level of growth would be prejudicial. However, a co-ordinated programme of such works will not only deliver on many policy fronts but will amount to significant investments in the local economy if nothing else in the construction sector.

Growth also requires appropriate infrastructure. Traditionally, this has been negotiated on a site by site basis via Section 106 agreement. However, the Localism Bill proposes to retain but amend the new methodology of a Community Infrastructure Levy (CIL). In brief this is a tariff by volume of development across the whole District to help pay for things such as roads, schools, open spaces, and so on. A version of this approach has been undertaken in Milton Keynes and a sum of £20,000 a house was levied. As an example, only, this would generate infrastructure funding of £75 million; £130 million and £240 million over 15 years for each of the scenarios respectively. This of course does not include the other sums to be levied on other forms of development nor the site specific S106 agreements still necessary of provision for affordable housing. This level of investment could be used to drive the local economy and resolve many local barriers to economic recovery to quality of life issues.

In addition, the Government has promised to look at Tax Increment Financing (TIF) as a mechanism for funding new infrastructure. In essence this would allow Local Authorities to borrow against the anticipated growth in business rates income arising because of infrastructure investment. Related to this would have to be the retention to some degree of business rates collected in the District. At present, the Council collects £60 million but gets back from the national pool only circa £10 million. The rateable value of business property in the District has grown significantly over the past 10 years and depending on the level of growth allowed could continue to do so. A 1% increase would support borrowing of several million under prudential borrowing rules.

The Government is about to commence a review of local Government Financing and the District Councils Network have set out a position of seeking for District Councils to be entirely self financed from business rates and council tax and to receive no grant from Central Government. This does not seem likely to include setting business rates but rather keeping what is generated in the area. This would have a profound effect on the ability of the Council to set its own course and in doing so would have to make sure that the business community thrived in order to maintain a healthy income from business rates.

All of this points to a need to have an investment strategy which will bring all of these financial tools together in support of the local Plan but also an economic strategy. Because there are cross-over's with other policy areas it is likely that the Investment Strategy would also support the other key priority policy areas of the Sustainable Community Strategy e.g. housing, community safety, health and well being, sustainability. For example, the item on the agenda to deliver more affordable housing is also a significant economic measure not just because of the training and apprenticeship opportunities but because in total it represents an investment of over £37 million in construction work that will generate new business and new jobs. If the Council can co-ordinate such multi opportunities across all policy fields then it stands to make significant gains for the local community on many fronts not least the local economy.

<u>Project implementation</u>

Following on from the policy tools are a series of projects that if implemented will contribute to the local economy. These include:

- Chandos Street shopping scheme
- Spencer Yard Scheme

- Waterside
- Wilton House Redevelopment and Kenilworth Public Service Centre
- Stoneleigh*
- Warwick Town Centre
- Crown Way
- Kenilworth Railway Station*
- Prodrive scheme at Honiley*
- Coventry Airport*
- Tournament Fields, Warwick*
- Ford Foundry*

All have the opportunity to attract new businesses and jobs. Those marked with a star are not led by this Council. Those led by the Council also have the capability to affect the Council in a material financial way. Those starred may do depending on the opportunities offered by the Government as described under the pervious section.

Practices of its services

The Council undertakes a wide range of services that can and do have an impact on the local economy. Many are regulatory but some are promotional in nature and others are more incidental. The promotional activities are largely carried out by the Economic Development and Regeneration team within Development Services. For example the Enterprise Section delivers the following:

Althorpe Enterprise Hub

- Business Incubation Centre designed to attract new or early stage High Technology and Creative Industries businesses now at approximately 60 % occupancy with financial breakeven for this project expected in 2011/12
- Workstations and Offices – 2 person to 4 person
- Fully Furnished, Broadband included, High Quality telephone system, Reception support.
- Start up Business support is provided by Coventry & Warwickshire Chamber of Commerce under their Business Link Contract and other providers such as Princes Trust, Women’s Business Development Agency.
- Our Community Enterprise Officer based at Brunswick Enterprise and Employment Zone also supports businesses using the Centre as and when required.
- Since the Centre opened in September 2009 20 new businesses have been created and 40 jobs created

Court Street Arches

- A Regeneration project funded by WDC and AWM
- 8 Units – 4 single arches and 4 doubles, 900 sq.ft up to 2000 sq.ft.
- Grown-on space for Creative Industries – e.g. Film and video, software, music, performing arts, computer & video games etc
- Available on 3 year+ leases from 30th April
- First tenant Codex Digital Ltd moved into Arch 5 a double unit on 13th January 2011. They a build hardware and software solutions for the film and video industry. Customers include the BBC.
- Negotiations are nearing completion to let two further units to a photographic business and a furniture design and retail company.

Brunswick Enterprise and Employment Zone

- Community Enterprise Centre situated within Brunswick Healthy Living Centre (BHLC)
- Run by full time Community Enterprise Officer (CEO) with post funded to July 2011.
- Enterprise support and advice provided for new small businesses with focus on women, Social Enterprise and unemployed. Since April 2009 over 160 people have been helped by the CEO and our delivery partners such as Business Link and of this number 2/3rds were unemployed or in receipt of benefits.

Employment Support

- The management at BHLC and the WDC Enterprise Team recognised in 2009 that there was a real need to support unemployed people into work.
- As a result the Brunswick Employment Club was established in July 2010 in response to lack of support by Job Centre Plus for people unemployed for less than 6 months. Project ends June 2011.
- Very well received with 71 people having been assisted so far of which 16 have been found jobs.
- At the same time links with Job Centre Plus (JCP) have been strengthened so that there are a steady stream of referrals to the CEO at Brunswick Enterprise and Employment Zone.
- In addition a trial is being carried out with JCP locating advisers in Warwickshire Direct offices in Kenilworth and Warwick. Since August last year 82 people have been seen with roughly ½ seeking benefits advice and the remainder training or job search help

Graduate Employment

- Linked to the WDC AWM contracts we have done two research projects to steer our aspirations to encourage a greater take up of graduates by our local businesses.
- The first result of this work is our 'Meet the Universities' event to be held on 15th February at Court Street Creative Arches. Both Coventry University and The University of Warwick will be fielding teams from their Careers Departments and Business Schools to inform over 30 local businesses about student/graduate placements, internships and graduate recruitment.

The Council also supports tourism through support for the Warwick and Leamington Visitor Information Centres and has 3 Town Centre managers working with partners to promote usage and investment in the 3 main town centres. The Council also works with sub regional partners to attract investors into the District.

As listed previously there are significant business opportunities which the Council needs to consider how it can better ensure that local citizens can benefit either in turns of jobs or of new business.

In respect of its regulatory activities, there is a need to ensure a business friendly environment if there is to be an economic recovery but at the same time this has to balanced to protect the various interests of the local community.

The Council's services which are incidental can be used better to help maximise the multiplier effect for the local economy. A prime example are its cultural activities which attract many people to the area who spend money and in doing so there is an opportunity to help make sure more of that is spent locally for the benefit of local people and businesses.

<u>Procurement and asset usage</u>

The Council is a significant employer (circa 600) and purchaser of goods and services. Whilst needing to make sure the Council secures best value it can also seek to assist the local economy by aiding those who may wish to tender for its goods and services. The Council has a procurement strategy and this provides an opportunity to aid local delivery of goods and services whilst also helping to achieve best value.

The Council is also the owner of a significant number of land assets. The Council has begun a process of reviewing these assets and they represent an opportunity to achieve a better return for the Council financially but also to achieve its various policy goals not least of which is to provide development opportunities to help stimulate the local economy. Some of the Council led projects listed above represent examples but a fuller review of the Council's land and buildings would add to that list.

Conclusion

The economy generally is facing a testing time but the local economy is in reasonable shape although it too faces issues. The changes in the local economy have affected the Council financially and in service terms. The Coalition Government's proposals offer some new tools that the Council should seek to use to maximise the opportunities the District holds to aid economic recovery. Key to that is, the Local Plan and the growth levels it may provide for over the next 15 years. However, even that needs the support of a consistent economic strategy and, an investment strategy to make the most of the new financial tools. By doing so, the Council is also likely to re boost those of its income sources that have declined owing to the more recent economic decline.