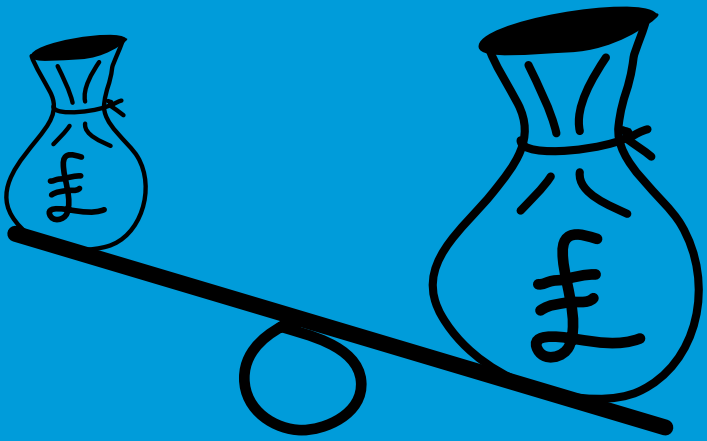
Centre for Local Economic Strategies



Big productive society: Making deprived areas strong again

CLES and Furness Enterprise

About CLES

The Centre for Local Economic Strategies (CLES) is the leading membership based organisation in the UK dedicated to economic development, regeneration and local governance. Founded in 1986, CLES undertakes a range of activities including independent research, events and training, publications and consultancy. CLES also manages the monthly New Start online magazine through its new CLES Online service which provides comprehensive analysis and commentary on current policy and good practice. In all of CLES' work, the challenge of delivering local economic development alongside progressive environmental and social benefits is a common theme. For more information visit www.cles.org.uk.

Centre for Local Economic Strategies
Express Networks, 1 George Leigh Street, Manchester M4 5DL
tel: 0161 236 7036 fax: 0161 236 1891
info@cles.org.uk www.cles.org.uk

CLES is a registered charity no. 1089503.
Company limited by guarantee no. 4242937 vat no. 451 4033 86.
CLES Consulting is the training arm of CLES European Research
Company limited by guarantee no. 2467769 vat no. 519 493 812

Furness Enterprise Ltd
Waterside House, Waterside Business Park, Bridge Approach,
Barrow-in-Furness, Cumbria LA14 2HE
tel: +44 (0)1229 820611 fax: +44 (0)1229 827226
info@furnessenterprise.co.uk
Registration number: 2622441

© December 2010

ISBN: 1870053710

Designed and produced by frogsdesign printed on100% recycled paper

Big productive society: Making deprived areas strong again

CLES and Furness Enterprise

December 2010

Contents

1. Introduction **7**
1.1 Background to Assisted Area policy and GBI 8
1.2 New government, new approaches 9

2. The Assisted Area question **12**
2.1 Exposing the myths about Assisted Areas 12
2.1.1 The Assisted Area funding programme simply props up failing places and would be better spent elsewhere 12
2.1.2 Assisted Area funding has not been effective in boosting struggling economies 13
2.1.3 Assisted Areas will have to be funded indefinitely 13
2.2 The way forward for Assisted Areas 14

3. Current direction of policy and implications **17**
3.1 Targeting public resources to support individual businesses 18
3.2 Rebalancing the economy 21
3.3 Creating sustainable growth 22
3.4 Developing a skilled workforce 23
3.5 Big Society 24

4. Conclusions and proposed area based policy **26**
4.1 Key conclusions: Creating sustainable economies and communities 26
4.2 What can effective area based policy for the future look like? 27

Tables
Table 1: Public sector and manufacturing employment 15
Table 2: Job density 16

Executive Summary

The Big Society is about connecting up society in new, different ways; this offers an opportunity to question the current structure of local economies and the future development of place. To make some of the more deprived areas productive again, we need to connect up the various components of these places in new ways. For us a big, new, productive society for our deprived places is dependent upon a range of approaches, policies and ways of working, which we outline in this paper.

The economy is currently unbalanced both geographically and between sectors, with an over reliance on financial and professional services based in the South East. Clearly, this needs to be addressed and this paper states the case for locally tailored, Assisted Area policy being an important tool in achieving this.

As localism has moved up the agenda, enterprise policy has moved in the opposite direction. Approaches that offer individual, tailored interventions, such as Grants for Business Investment (GBI), are to be cancelled as the Government considers a new slim lined business support portfolio.

The evidence presented in this paper shows that Assisted Area policy delivers the objectives of the new government, as well as making economic and social sense. Highly focused and targeted assistance can help create new jobs and 'quick wins' for both government and local communities, and help build the Big Society through increasing social capital.

Continuing Assisted Area funding, together with other targeted interventions will also tackle entrenched problems and ongoing market failures in struggling places, developing their ability to be self-sustaining.

Sustainable economic growth in Assisted Areas, and the social benefits this brings, is unlikely to occur if unassisted by public resource. If specific support is not available, it is unreasonable to expect anything but decline, particularly in areas impacted by public sector cuts. Such resource must be more than that provided by the Regional Growth Fund, which on its own will not solve the issues of areas with weak local economies.

The myths about Assisted Areas

The Assisted Area funding programme props up failing places and would be better spent elsewhere

Evidence suggests otherwise. Incentives such as GBI have proven to be important for increasing levels of business investment in the UK and in creating and safeguarding jobs across the country – a cost effective solution to

creating significant levels of private sector jobs, and there are numerous examples of the return on public investment of funding.

Assisted Area funding has not been effective in boosting struggling economies

The impact of Assisted Area status and funding should be judged relative to what would have been the case if the support had not been provided. Area assistance has had a positive impact and helped areas move forward, creating jobs and investment to a value that far exceeds the level of support given.

Assisted Areas will have to be funded indefinitely

There is no suggestion that places with Assisted Area status will always have a need for specific funding, for example GBI. The current Assisted Area funding regime can be central to the Government's aim in spatially rebalancing the economy. Area assistance should help places become self-reliant, with the support carefully withdrawn as this becomes evident; however the Government must ensure that Assisted Areas are supported as they continue to enhance their economic vitality.

Considerations in the design of economic policy

There are a number of considerations which the Government needs to address in the design and delivery of its emerging economic development policies.

Targeting public resources

Evidence suggests that the most effective use of resources would be to target individual businesses to create the highest return on public investment. Assisted Area funding has provided incentives for individual businesses to invest and helped areas which are not economic growth nodes to markedly increase their resilience, providing considerable value for money.

Rebalancing the economy

If local support is not available to Assisted Areas then decline will be at a heavy cost, particularly in terms of public resources. It will also mean that we are further than ever from a sustainable and balanced economy. Rebalancing the economy also requires increasing manufacturing activity; the Government should harness the legacy in manufacturing that is within many areas with Assisted Area status.

Creating sustainable growth

There is a need for places lacking a strong private sector to diversify and build a solid footing in other industries, particularly in the post-recession environment. Targeted assistance and funding through GBI could help

break into new markets and ensure that Assisted Areas are more resilient in the face of future economic shocks through developing and strengthening a range of sectors. Such policy will trigger transformation from state dependency to self-sufficiency.

Developing a skilled workforce
Both upgrading local skills and addressing the jobs gap must be addressed together. To be efficient and cost effective, training opportunities need to be tied into local job opportunities where possible. Simultaneously targeting the jobs and skills gaps in Assisted Areas is crucial for their economic future, helping to attract further investment and helping such places become self-reliant.

Big Society
Assisted Area policy will be important in helping the Government achieve its objectives of Big Society. The Government states that it must help build up the Big Society, and support for Assisted Areas is exactly the help that such places need before they can create an activist civil society and enhance social capital – if the support is not available then the ability for communities to become the focus of Big Society activism is eroded as they are left to decline.

What might a future area based policy look like?

The key elements of a targeted area policy in the future could include:

- **retention of GBI** – retention of GBI will provide sustainable job creation in qualifying areas and open doors to new and emerging markets through increased levels of business investment and expanding horizons in terms of demand;
- **acknowledging the jobs gap and acting on it** – ensure active engagement and support to help stimulate private sector job creation. This would be through both grant aid to attract investment and providing a stimulus for organic growth and new starts;
- **addressing skills issues to complement actions in tackling the jobs gap** – this will ensure that we are not wasting existing (and latent) talent and helping raise aspirations of young people to gain higher level vocational qualifications which are linked to local job creation programmes. A key element of this policy ambition is to ensure that jobs being created through new business investment are able to be taken up by the local population;

- **further diversification of the economy and increasing capacity for the business base to innovate** – continuing to provide support mechanisms for the development of a broad and diverse local business base, an environment conducive to innovation, ensuring opportunities for all local people;
- **a locally led approach** – All of this would be done with a firm understanding of the local context, and using delivery bodies relevant to the nature of the support, which would help focus resources appropriately. This will ensure efficiency and value for money through highly focused policy being targeted on specific industries, firms and individuals.

1. Introduction

'This is my first major speech as Prime Minister and I am going to address the first priority of this government – transforming our economy.'[1]

The national economy has become unbalanced, and over reliance on the financial services sector left us painfully exposed in the recent global downturn. The economy needs to better balanced, both geographically and between sectors. The aim of this paper is to make the case for continuation of Assisted Area funding and for other locally tailored interventions in business and the economy, which are important contributory elements in achieving this. Such policy can help the Government in its aims of ensuring continued recovery, sustainable growth and the creation of a balanced, robust economy. Clearly, public resources will need to be used sparingly and astutely. The actions taken in these early stages of recovery will leave a long lasting impression, not only on the size of the deficit, but on the shape and strength of all of our places.

The Government's ambitions are:

'For a balanced, sustainable and low carbon economy where all businesses and individuals can take advantage of the opportunities presented.'[2]

The Prime Minister in his first speech stated that:

'We will actively help new businesses start, attract enterprise to our shores, light the fires of entrepreneurialism in every corner of our country… We will provide modern support for enterprise to grow, doing everything within our power to give businesses the tools they need… We will help to rebalance our economy, ensuring that success and prosperity are spread more evenly across regions and industries.'[3]

And in a recent speech to the CBI[4], he said that:

'Together we can create the conditions in which business can thrive… We will use all available policy levers to create the right framework for enterprise and business investment.'

1. David Cameron, 2010
2. Department for Business Innovation and Skills (July 2010) A Strategy for Sustainable Growth *http://interactive.bis.gov.uk/comment/growth/files/2010/07/8782-BIS-Sustainable-Growth_WEB.pdf*
3. Prime Minister's Office (2010) *http://www.number10.gov.uk/news/latest-news/2010/05/pm-delivers-speech-on-the-economy-51147*
4. ePolitix.com (2010) *http://www.epolitix.com/latestnews/article-detail/newsarticle/prime-minister-cbi-speech-in-full/*

Despite limited resources, this Government has an opportunity to reverse the deep seated problems and ongoing market failures experienced in Assisted Areas. In doing so, the returns from increased and sustainable economic activity can be realised, reducing dependency on the state, and opening the way for a thriving Big Society. For this, we need spatially sensitive policy to finally make a virtue out of the fact that one size will not fit all. A big, new, productive society for our deprived places is dependent upon a range of approaches, policies and ways of working, which we outline in this paper.

This paper is in reference to UK national Assisted Areas and policy instruments specifically available to them. It is important to note that particular Assisted Area schemes that this paper refers to, such as Grants for Business Investment (GBI), have their legal basis in EU state aid rules, but are those which fall within UK Government policy and are funded by the Exchequer. This should not be confused with EU Structural Funds which are a separate entity and can be provided anywhere across the UK, not just in those places with designated Assisted Area status.

1.1 Background to Assisted Area policy

State aid granted to promote the economic development of certain disadvantaged areas within the EU is considered by the European Commission to be compatible with the common market. This kind of aid is known as national regional aid, and generally consists of aid for investment granted to large companies targeted on specific regions, in order to redress regional disparities or increased investment to small and medium sized companies in those regions over and above what is allowed in other areas. These specific regions are known as Assisted Areas.

GBI is one national business support scheme; its objective is to assist the development of the most disadvantaged regions in England by supporting sustainable investment and job creation. It promotes the expansion, rationalisation, modernisation and diversification of economic activities of businesses of all sizes located in the Assisted Areas, in particular by encouraging firms to set up new establishments there. GBI can also be used to address some of the market failures that limit the development of SMEs. Specifically, GBI may be used to offset the difficulty that SMEs have in obtaining capital, given the risk averse nature of certain financial markets and the limited collateral that small businesses may be able to offer. GBI support may only be granted in regions eligible for regional aid, as set out in the regional Assisted Areas aid map for the period 2007–2013. Successive governments have regarded GBI as a good way of generating

and safeguarding private sector jobs at a competitive cost, and of making a locality's economy more competitive and consequently reducing the welfare bill.

The recent Local Growth White Paper[5] announced that:

> *'RDA provided GBI will cease with the closure of the (Regional Development) Agencies. BIS will, however, consider large scale cases on an exceptional basis (over £2m). This decision reflects both the need to address the budget deficit and the shift in focus from nationally led to locally driven policies to deliver economic growth.'*

The Government now plans to simplify the funded offer for business support, re-launching the streamlined Solutions for Business Support portfolio. This suggests that the weaker economies of England will receive considerably less in economic assistance than they did previously, therefore any investments to improve these places will need to be highly targeted to ensure that resources are distributed efficiently. However, the Local Growth White Paper has stated that, as part of a policy for future focused investment, there are areas where it makes sense for central government intervention to tackle market failure, which includes supporting areas facing long term growth challenges managing their transition to whatever is appropriate to them.

1.2 New government, new approaches

The Local Growth White Paper outlined the Government's case for change towards a new approach to local growth which recognises that where drivers of growth are local, decisions should be made locally – the Government will:

- shift power to local communities and business;
- promote efficient dynamic markets through supply of land and provide incentives for places that go for growth;
- support investment in both places and people to tackle barriers to growth.

5. Department for Business, Innovation and Skills (October 2010) Local growth White Paper: realising every place's potential
http://www.bis.gov.uk/news/topstories/2010/Oct/local-growth

Much of the theory for the White Paper is outlined in an economics paper, 'Understanding Local Growth', which sets out a rationale for current policy decision making and outlines why differences between places exist[6].

In terms of overall business support, central to the Government's approach is making investments through the provision of a stable economic and regulatory framework which maximises value for money and provides significant economic gain. At the local level, Local Enterprise Partnerships (LEPs) will be expected to provide specific business support to local businesses, developing strategies and taking action on a range of issues, and the Government will share work which has already been carried out with business on the Solutions for Business Portfolio. As a result of this shift, there will be an emphasis on businesses to provide the support for other enterprises as the Government takes a more 'hands off' approach to schemes which help individual businesses. This approach raises questions around how areas which do not have LEPs are to develop infrastructure and mechanisms for localised business support measures.

The Local Growth White Paper outlines success as:

> ***'Delivering balanced growth over the long term… promoting growth that is broad based industrially and geographically.'***

The new Regional Growth Funds (RGF), consisting of £580 million capital and £840 million resource funding, and operating from April 2011 to April 2014, are viewed by the Government as the key tool in achieving this, and are designed to:

- stimulate enterprise by providing support for projects and programmes with significant potential for economic growth, and create additional sustainable private sector employment;
- support those areas and communities that are currently dependent on the public sector, and make the transition to sustainable private sector led growth and prosperity.

Priority will be given to those bids that can bring significant private sector funds and ensure sustainable employment growth. The proposals must show a clear overarching investment strategy for a specific locality and demonstrate the additionality of the programme, in terms of significant private sector growth and/or leverage, and creating sustainable private sector jobs. They must comply at the minimum threshold of £1 million and it is expected that RGF investments are match funded by other sources of

6. Department for Business, Innovation and Skills (2010) BIS Economics Paper No.7: Understanding Local Growth *http://www.bis.gov.uk/assets/biscore/economics-and-statistics/docs/u/10-1226-understanding-local-growth.pdf*

investment. The bids must also demonstrate, where possible, how they can contribute to green economic growth.

Proposals must reflect aspirations for helping places dependent on public sector employment make the transition to private sector led growth and prosperity[7]; however the bidding is a competitive and centralised process which is open to all areas of the UK, rather than those areas with specific economic weaknesses. As such, it cannot be considered an effective replacement to focused Assisted Areas policy funding regimes such as GBI.

Similarly, the messages outlined in the recent *'Backing Small Business'* [8] and *'Financing Business Growth'* [9] papers, whilst welcome, will not provide focus for the specific needs of businesses in Assisted Areas. The documents state that the Government is committed to deliberately re-orientating activity towards the needs of small and medium sized enterprises; however to successfully achieve this, a spatial policy is required which responds to how different businesses are affected by local conditions. Also, despite being progressive, announcements such as the Business Growth Fund, extension of the Enterprise Finance Guarantee and Community Development Finance Institutions, are not enough to fill the gap for long term sustainable growth in the absence of major job creation and safeguarding initiatives.

In summary, the Local Growth White Paper states that policy should recognise that conditions will be different for each place, and that the Government will support investment that will have a long term impact on growth, including in areas with long term growth challenges, and helping ensure that the conditions for growth exist, attracting new investment and ensuring that local people have the appropriate skills to participate. To fully achieve this, it will take more than relatively limited RGF investments, which due to the bidding process will not necessarily help all areas anyway.

7. Department for Business, Innovation and Skills (October 2010): Local Growth White Paper ibid
8. Department for Business, Innovation and Skills (November 2010) *http://www.bis.gov.uk/backing-small-business*
9. HM Treasury and Department for Business, Innovation and Skills (November 2010) *http://www.bis.gov.uk/assets/biscore/corporate/docs/f/10-1242-financing-business-growth-response.pdf*

2. The Assisted Area question

2.1 Exposing the myths about Assisted Areas

There are a number of charges that could be levelled at Assisted Area status and the funding that has been provided during the time in which the Assisted Area programme has been running. This section aims to dispel these charges and forms an argument as to why the support that is provided to Assisted Areas has been important and made a viable difference to places.

2.1.1 The Assisted Area funding programme simply props up failing places and would be better spent elsewhere

The evidence suggests otherwise. GBI has proven to be important for increasing levels of business investment in the UK and in creating and safeguarding jobs across the country – a cost effective solution to creating significant levels of private sector jobs. In short, the absence of Assisted Area funding would have a negative impact upon UK businesses.

There are numerous examples of the effectiveness of Assisted Area funding, as outlined below, which illustrate the opportunity for significant return on public investment:[10] [11]

- in North West England, over a two year period between 2007 and 2009, £21.8 million of grants helped lever in £184 million of investment which created and safeguarded 3,274 jobs;
- at a more local level, using the example of Furness and West Cumbria in North West England between 2000 and 2006, Regional Selective Assistance (RSA) and Selective Finance for Investment (SFI) created or safeguarded 2,717 jobs in 37 businesses at a cost of £10.04 million whilst levering in £85.4 million of private sector investment;
- in Yorkshire and the Humber between 2007/08 and 2009/10, £31.03 million of grant aid resulted in £414.39 million of investment and 5,526 jobs created or protected in the private sector;
- during 2009/10, a total of 46 GBI applications located in Tier 2 Assisted Areas were received for Yorkshire and the Humber. A total of 37 GBI offers were accepted to the value of £14.6 million. These projects were associated with £237.5 million of capital investment and were forecast to create 799 jobs and safeguard 1,036 jobs;

10. Industrial Development Act 1982; Annual Reports for 2007-08 HC 2008-09 HC 668, 2009-10 HC 348
11. Furness Enterprise Ltd (2010) Evidence to the House of Commons Business, Innovation and Skills Committee Inquiry into Government Assistance to Industry

- recently, Scottish job creation has been boosted by £15 million of RSA grants being awarded to 32 businesses between August and October 2010, creating a potential 1,500 jobs and safeguarding around 470 jobs.[12] In 2010, total RSA grants awarded in Scotland have amounted to almost £38 million with an estimated 4,500 jobs to be created, strengthening the recovery. Importantly, there are no plans in either Scotland or Northern Ireland to cancel these business grants.

2.1.2 Assisted Area funding has not been effective in boosting struggling economies

This claim is often made relative to the gap between prosperous and deprived areas. It is clear that many Assisted Areas had and continue to have entrenched socio-economic issues. However, this does not mean that Assisted Area funding has been a failure, or even that it has been an inefficient use of public resources. The impact of Assisted Area status and funding should be judged relative to what would have been the case if the support had not been provided. Assisted Areas have used funding to safeguard jobs through supporting investment, as well as to create new opportunities – creating jobs and investment to a value that far exceeds the level of support given. Overall, the areas are better off and as a result the whole economy is strengthened. This conclusion is supported by research from DTI (BIS' predecessor):[13]

> *'Our overall conclusion is that the (Assisted Area) schemes are delivering benefits to the UK economy through net additional employment, higher value added and a set of wider benefits that demonstrate linkage into other priorities such as regeneration, skill enhancement, supplier networks and broader environmental agenda.'*

Therefore the importance and impact of these funding streams for the wider redevelopment of Assisted Areas cannot be underestimated; both for the areas themselves and for the wider economy.

2.1.3 Assisted Areas will have to be funded indefinitely

There is no suggestion that places with Assisted Area status will always have a need for GBI and other funding. In fact, the geographical coverage of Assisted Areas has already contracted significantly; currently around 23% of the UK has Assisted Area status compared with previous levels of over 40%. The current Assisted Area funding regime can be central to the

12. Scottish Enterprise (2010) *http://www.scottish-enterprise.com/*
13. Department for Business, Innovation and Skills (2001) Research Project on DTI Industrial Support Policies: an analysis of current DTI industry support patterns (which BIS refers to in its 26 August 2010 'Measurement of Drivers of Business Success and Failure')

Government's aim in spatially rebalancing the economy and will allow, in the long run, Assisted Areas to develop into self-sustaining economies that can be competitive within the UK market. Sustainable job growth, existing businesses reinvesting in their localities, development of strong local supply chains, and being able to broaden access to different markets are all tangible outcomes of an assisted funding regime that can ultimately add value to the wider UK economy. Area assistance should help places become self-reliant with the support carefully withdrawn as this becomes evident; however the Government must ensure that Assisted Areas are supported as they continue to enhance their economic vitality.

2.2 The way forward for Assisted Areas

There are some key questions that policymakers must consider when addressing the issues Assisted Areas face:

- what do we do with areas that need public sector investment?;
- what is the future for places that require public sector investment to maintain their economic development?;
- what are the correct mechanisms for future support in areas with deep seated problems and ongoing market failure?

This paper goes on to suggest a number of actionable and practical policy recommendations for the Government, both in terms of existing Assisted Area funding and wider targeted assistance.

A primary policy aim from the Coalition Government is to raise the competitiveness of the UK economy, but too many places are constrained by a range of inter-related factors. Assisted Areas in particular face a number of challenges to growth. In an era of public spending cuts, weaker economies will suffer disproportionately because of the common characteristics that many of them share:[14]

- smaller private sectors that will not be able to rebalance the loss of public sector jobs;
- private sectors which have not been crowded out by the public sector over the past decade – there is already an available supply of labour, skills and land to expand with;
- dependence on particular types of public sector employment or a private sector dependent on public sector contracts;
- high proportions of welfare dependents;

14. The Work Foundation (2010) The geography of recovery – and the implications for the Coalition

- the added challenge of influencing parent companies to reinvest in the locality.

The combination of lost employment and lack of private sector growth means it will be difficult for weaker local economies to recover from deep spending cuts.[15] The jobs gap will grow further in already deprived areas, at much higher levels than in other areas of the country which are managing to recover from the recession due to higher levels of job growth from the private sector. Related to this, job density (highlighted in Table 2) will continue to decrease. Therefore policy that treats jobs as freely available for people wherever they choose to live, without appropriate targeted funded support, leads to poor economic steerage.[16]

A high level of manufacturing employment is also a feature of many Assisted Areas and has in the past been viewed by some commentators as a structural weakness. However, this does not have to be a self-fulfilling prophecy, as a high concentration of manufacturing can be a source of strength for private sector jobs, provided there is retention of Assisted Area policy to encourage new investment. This is particularly prevalent at a time when the Government is seeking to rebalance the industrial structure of the economy. David Cameron highlighted the importance of this when he stated that rebalancing the economy will entail:

> ***'Supporting growing industries – aerospace… high value manufacturing… hi-tech engineering, low carbon technology.'*** [17]

Table 1: Public sector and manufacturing employment[18]

Area	Public sector employment as a percentage of the total	Manufacturing employment as a percentage of the total
Barrow-in-Furness	28.5%	23.2%
Barnsley	33.0%	16.4%
Kingston-upon-Hull	30.8%	17.1%
North East Lincolnshire	29.2%	14.2%
Great Britain	27.0%	10.2%

15. Nef (2010) Filling the jobs gap: why enterprise based regeneration is not working
16. Centre for Cities (June 2010) Private Sector Cities: A new geography of opportunity *http://www.centreforcities.org/privatesectorcities*
17. Prime Minister's Office (2010) ibid
18. Source: ONS, Annual Business Inquiry, 2008

Table 2: Job density (the number of jobs available divided by the working age population)[19]

Area	Job density
Barrow-in-Furness	0.70
Barnsley	0.55
Kingston-upon-Hull	0.72
North East Lincolnshire	0.77
Liverpool	0.84
Leeds	0.87
Manchester	1.01

There is an urgent need for the Coalition Government to explore the range of options to link more of the UK to economic opportunity, and start to develop the next generation of policies targeted at deprived communities.[20] The stark choice is to provide weaker local economies with the bespoke and locally sensitive support they need, or accept that they will decline. Decline will mean increased economic costs from the rise in benefit claimants and loss of productivity, as well as increased social costs resulting from entrenched deprivation. The other option is to deal with decline by relocating people to more prosperous areas, which itself comes at a high price, in addition to putting an added strain onto other labour markets. Most markedly in policy terms, it will create a paradox in re-widening spatial inequalities whilst the Government is attempting to spatially rebalance the economy. In a new era when economically successful places have to 'run twice as fast just to stand still' economically disadvantaged places, such as Assisted Areas, cannot be expected to survive without the proper support they need.

19. Source: ONS, Job Density (2008)
20. IPPR North (2009) The impact of the recession on Northern City Regions

3. Current direction of policy and implications

There have been a number of policy documents published over recent months which outline the Government's ambitions and priorities with regards its wider approach to economic development. We understand these to be:

- **Turning the economy around, begining with cutting the deficit.**[21]
- **Delivering strong, sustainable, balanced growth in both income and employment over the long term, both industrially and geographically, and ensuring that all people have access to economic opportunity.**[22]
- **Shifting power away from central government to local communities and businesses as part of the drive for a Big Society, whereby the Government will devolve real power to communities, giving them greater say… in the future of their economies.**[23]
- **The £1.4 billion in the RGF should be targeted where bids can elicit significant private sector funds and ensure sustainable employment growth.**[24]
- **Ensure that innovation is at the heart of future growth in the new economic era.**[25]
- **Reversing the trend of the country becoming increasingly hostile to enterprise**[26] **and over-reliant on public support.**
- **Intervening at Government level to support businesses in general rather than individual businesses.**[27]

21. Prime Minister's Office (2010) ibid
22. Department for Business, Innovation and Skills (October 2010) Local growth White Paper ibid
23. ibid
24. ibid
25. ibid
26. Prime Minister's Office (2010) ibid
27. Department for Business Innovation and Skills (July 2010) A Strategy for Sustainable Growth ibid

- **Ensuring that LEPs play a very important role in supporting business and enterprise, and taking action on a range of related issues**[28]
- **Building an internationally competitive skills base**[29] **as a vital component in future economic growth – part of an approach that recognises that the individual matters as much as place. This is further set out in the skills for sustainable growth strategy document.**[30]
- **A shift in policy which demands a relentless focus upon small and medium sized businesses.'**[31]

Assisted Area policy instruments and other targeted approaches would positively contribute to the fulfilment of several of these aims. The Government believes those with direct knowledge of business and the area are best placed to deliver on these aims and to end the situation whereby:

'Prosperity has been confined to some areas at the expense of others.'[32]

Assisted Area policy empowers places to maximise the efficient use of public resources through precise locally tailored solutions and approaches. In doing so they are able to strengthen their economic performance, increase their capacity for innovation, and lessen the communities' dependence on the state which is of benefit to the UK as a whole.

Below are some key considerations on delivering this through area assistance.

3.1 Targeting public resources to support individual businesses

It is planned that many functions of local business support are to be left to LEPs – indeed the Local Growth White Paper states that LEPs will, better than government, be able to support local enterprise and business activity. However without the proper tools for LEPs, especially in Assisted Areas, the impacts of tailored business support will be limited. Additionally there

28. Department for Business, Innovation and Skills (October 2010) Local growth White Paper ibid
29. Department for Business Innovation and Skills (July 2010) A Strategy for Sustainable Growth ibid
30. Department for Business Innovation and Skills (November 2010) Skills for Sustainable Growth
31. Department for Business, Innovation and Skills (November 2010) *http://www.bis.gov.uk/backing-small-business*
32. Prime Minister's Office (July 2010) ibid

are further uncertainties as to how places that do not have LEPs can effectively attract business investment.

A recent report from PricewaterhouseCoopers[33] suggests that both LEPs and RGFs may not have the resources, fiscal powers and capacity to mitigate the impact of the cuts and promote growth locally, particularly in places that are struggling economically. It states that:

> *'This raises important issues which merit further investigation, such as whether more consideration should be given to the effectiveness of fiscal incentives to attract and retain new business investment in those areas particularly hard hit.'*

Therefore Government must play a major facilitating role in helping local areas and businesses in struggling places. Policy suggests that its direct intervention will be in the main around strengthening the wider business environment (e.g. regulation, infrastructure, skills, trade conditions etc), with the view that policy coherence is hard to achieve when decisions are taken at different spatial levels[34]. Government's overarching policy must go further and should provide the specific tools and resources which will help LEPs and/or other local delivery organisations support individual businesses. Sir Ian Wrigglesworth for example, Deputy Chairman of the RGF, recently stated that:

> *'There is a need to be focused a lot more on individual businesses, developments and new businesses.'* [35]

Wider evidence does suggest that the most effective use of resources would actually be to target individual companies, rather than primarily offering more general support aimed at creating a good environment and infrastructure for enterprise. Research commissioned by the Department for Trade and Industry[36] (now Business, Innovation and Skills) about industry support programmes concluded that:

---

33. PricewaterhouseCoopers (2010) Sectoral and regional impact of the fiscal squeeze: an economic analysis of the impact of spending cuts and tax rises *http://www.ukmediacentre.pwc.com/imagelibrary/downloadMedia.ashx?MediaDetailsID=1802*
34. Department for Business, Innovation and Skills (2010) BIS Economics Paper No.7: Understanding Local Growth http://www.bis.gov.uk/assets/biscore/economics-and-statistics/docs/u/10-1226-understanding-local-growth.pdf
35. Yorkshire Post (September 2010) Economic Revival Hopes Flounder on Funding: *http://www.yorkshirepost.co.uk/news/Economic-revival-hopes-flounder-on.6541391.jp*
36. Department for Business, Innovation and Skills (2001) Research Project on DTI Industrial Support Policies: an analysis of current DTI industry support patterns (which BIS refers to in its 26 August 2010 'Measurement of Drivers of Business Success and Failure')

'Policy needs to relate to the specific needs of the firm if it is to be most effective.'

Likewise the Manchester Independent Economic Review (MIER) found that the greatest impacts were when individuals are targeted, rather than an area, and when measures were closely tailored to context.[37] Evidence from Ekosgen[38] illustrates that several areas in North West England which are not major economic nodes have increased their levels of economic resilience considerably over the last decade, and that highly targeted assistance has provided value for money. These economies have also markedly increased their levels of economic resilience. The Department for Trade and Industry research around Assisted Area grants also concluded that:

'There is a high level of additionality associated with the scheme… investment makes an appreciable difference to the businesses concerned… the grant acted to increase the size of the investment and to emphasise the growth element of the business decision.'

Places with existing strengths in the private sector are more likely to generate self-sustaining activity in the absence of policy which provides specific support mechanisms for individual businesses and concentrates more on general business support. But this is not an ideal approach for all, and crucially it is most likely to fall short in areas that have been failed too often before.

Such places with a prosperous private sector (e.g. city regions) already have an advantage in terms of the effects of business agglomerations, and a high level non-bespoke approach to supporting the conditions for business will only increase this advantage. Agglomerations are formed from a concentration of skills and businesses in one place; this concentration attracts further skilled people and new business, with supporting industries growing up around existing enterprise making that area the obvious choice for related firms. Such growth is self-sustaining once an agglomeration has arisen because there becomes a long term reason to remain or locate there.[39] The concentration of private sector activity in these areas also makes it more likely that they will be able to leverage private sector funding for upgrades to infrastructure and so forth, even in the absence of public spending.

37. Manchester Independent Economic Review (2009) Sustainable Communities Report: *http://www.manchester-review.org.uk/projects/view/?id=723*
38. Ekosgen (2008) North West Index of Economic Resilience *http://www.ekosgen.co.uk/expertise/documents/ekosgenNWresilience.pdf*
39. Centre for Cities (June 2010) ibid

Of course there is acute deprivation within city regions; however there is greater potential for job creation through taking advantage of spill over effects resulting from the scale of economic activity. In places with weaker economies this is not always the case, thus the ability of the private sector to overcome economic difficulty is negated. It is therefore a question of achieving the right balance when it comes to geographical considerations of crucial support provision. Withdrawing Assisted Area support initiatives and ignoring the implications of the changing geography of opportunity across the UK will lead to poorly designed policies that restrict economic and individual business development and limit people's opportunities.[40]

3.2 Rebalancing the economy

The need to bring in further investment through Assisted Area funding is paramount to spatially rebalancing the economy. In many places with weak economies there is a low jobs density (shown in Table 2) despite reasonable skill levels, and wage costs at or below the national average. Related to this, as the new economics foundation (nef)[41] recently highlighted, there was a significant jobs gap for many places before the recession hit. It is not reasonable to expect private sector rebalancing and growth in these places without focused Assisted Area funding; business was not limited by access to labour before, and now it faces the added problems of suppressed demand and tougher access to finance.

In many places, cuts to the public sector will actually harm the private sector. There are a number of induced and indirect impacts to be considered[42] arising from the public sector procuring goods or services from private firms, and public sector workers spending wages in the local economy; in some areas of the UK this effect is strong enough to leave the private sector dependent on the public. If the public sector is then cut and business is not assisted appropriately in finding new sources of demand, both public and private unemployment will follow. Far from rebalancing the local economy, it would be weakened in a number of ways. Nef cautions:

> ***'If large numbers of public sector jobs are lost in these areas, there is a very real danger that local economies will be drained of income and left unable to sustain existing enterprise, let alone new businesses.'***

IMF and ILO state that the effects in the labour market would be long lasting:

40. Centre for Cities (June 2010) ibid
41. Nef (2010) ibid
42. The Work Foundation (2010) ibid

'The scars of this distress in labour markets could last for a very long time – in the case of young workers unable to get their first job, a lifetime.'[43]

Further, the Memorandum submitted by the Department for Business, Innovation and Skills on the new LEPs, recognised the need for spatially focused policy:[44]

'For places that do not have the underlying conditions for growth, achieving growth will be more difficult and may involve dealing with complex conditions which prevent businesses from growing and locating in a place. Evidence suggests that the primary focus should be on dealing with the individual characteristics of people and businesses.'

It is therefore an indisputable fact that there are places which remain remote from key growth nodes (labour market linkages between weak economies and major growth locations in the North West, for example, are particularly limited).

A recent report from Regeneris and JMP[45] states that in such places the focus must continue to be on promoting local economic development, ensuring that delivery vehicles can to a much greater extent meet the employment needs of all residents, and consequently achieve greater levels of social justice. The Department for Work and Pensions is particularly concerned that those who are unemployed in places where organic private sector growth has been relatively weak are not left to become long term unemployed.[46] In considering some of the economic costs, research for the Prince's Trust found that:

'Youth unemployment costs UK tax payers £20 million per week in Jobseeker's Allowance, but this is dwarfed by the productivity loss to the economy of over £70 million per week.' [47]

43. IMF and ILO (2010) The Challenges of Growth, Employment and Social Cohesion: *http://www.ilo.org/global/About_the_ILO/Media_and_public_information/Press_releases/lang--en/WCMS_144399/index.htm*
44. Memorandum submitted by the Department for Business, Innovation and Skills on the New Local Enterprise Partnerships 20 August 2010
45. JMP and Regeneris Consulting (2010) Regional Accessibility and Regeneration in the North West
46. Department for Business, Innovation and Skills (October 2010) Local Growth White Paper ibid
47. Princes Trust (2007) The Cost of Exclusion: counting the cost of youth disadvantage in the UK

3.3 Creating sustainable growth

It is important for economic growth during the recovery and after to be sustainable, and to create a stable economic platform for the UK. However, as acknowledged by Vince Cable:

> *'It is unwise just to assume that this will happen without clear public leadership, and unlikely to occur if unassisted by public resource.'* [48]

With the right targeted support, sustainable growth may be achieved in Assisted Areas.

There is an obvious need for places which lack a vibrant private sector to diversify, and build an appearance of competency in other industries. It should not be assumed that growth in the post-recovery period will be driven by the same industries as before. This opens up the possibility for areas to build a solid private sector in new growth areas. However, it is important to note that we do not advocate funnelling future funding via a process of picking sector 'winners'. In Assisted Areas opportunities have come from a wide range of markets, and developing a varied sectoral base is critical for these places to succeed in developing sustainable growth.

Diversification would serve to make places more resilient in the face of future economic shocks by ending the reliance on one sector, on one industry, or in some cases dependence on a single employer. Together with other targeted approaches, Assisted Area funding vehicles can, in the long term, help transform areas from state dependency to self-sufficiency through creating the conditions for a diversified industrial base, and importantly have the potential to trigger localised agglomeration effects.

3.4 Developing a skilled workforce

The Government is right to recognise the importance of skills to recovery which is responsive to what learners and employers want; skilled workers are generally more able to deal with change. A recent paper from the Work Foundation states that:

> *'Highly educated populations tend to be more resilient to economic change and may be more innovative.'* [49]

The geographical unevenness of this resilience will only add to the imbalance of the UK economy, as the places that were already struggling fall further behind. Developing a better skilled workforce in weaker economies

48. Department for Business Innovation and Skills (July 2010) A Strategy for Sustainable Growth ibid
49. The Work Foundation (July 2010) ibid

could not only aid their recovery but help provide some insulation against the worst effects of future economic stress. The Government's Local Growth White Paper and Skills for Sustainable Growth strategy document both appreciate that for skills to lead to jobs, they must target the needs and priorities of potential employers.

However, focusing on addressing skills gaps alone will have no effect if there are no jobs to move into. Jobs and skills must be built together, and to be efficient and cost effective, training opportunities must be tied into local job creation programmes where possible. Additionally, it must be recognised that providing all areas with *'the best opportunity to flourish'* [50] will for some places mean an initial focus on sustaining the existing activity and preventing a rise in unemployment by providing training to keep skills up to date. Ultimately, this approach is cost effective; the entire country pays a high price when there is persistent or rising unemployment. Without assistance the tremendous financial and social costs of deprivation will either undermine the progress made in other areas, or we must pay to disperse entire communities to more prosperous areas of the UK which cannot realistically be expected to house and employ large influxes of migrants.

3.5 Big Society

Building the Big Society was the flagship policy of the 2010 Conservative manifesto and underpins the Conservative-Liberal Democrat Coalition Agreement. It aims to reduce Whitehall's influence and empower local people and communities. In contrast to needs based approaches to community development, in which outside organisations and initiatives identify the needs, problems and solutions for deprived communities, community empowerment seeks to raise the communities' capacity to work together and take action on the social issues that affect them.

It has been argued in this piece that support is needed in Assisted Areas to maintain employment, increase productivity and prevent social and economic decline. The success in this endeavour is integral to the capacity of these areas to grow their Big Society. David Cameron launched the Big Society project with a speech that clearly stated that:

> ***'We shouldn't be naïve enough to think that if the Government rolls back and does less, then miraculously society will spring up and do more. The***

50. Department for Business Innovation and Skills (July 2010) A Strategy for Sustainable Growth ibid

truth is that we need a government that actually helps to build up the Big Society.' [51]

Assisted Area support and funding is exactly the help that some places need for there to be any possibility of a flourishing, activist, civil society that builds social capital. Without area assistance, the combination of persistent job gaps and public sector cuts makes rising unemployment almost a certainty.

Unemployment increases exactly the sort of challenges that a Big Society hopes to address, such as low social capital, anti social behaviour and crime. Simultaneously, it also reduces the resources that the area has to tackle these issues. Unemployment means less wealth in the local economy which means less capital available to start up the community groups and social enterprises that could become the focus for Big Society activism. On an individual level, unemployment is linked to lower self-esteem, lack of confidence, and higher rates of depression which restricts the individual's capacity to act and innovate. An area with high unemployment suffers a huge blow to its population's ability to engage with the Big Society, and in particular to provide the kind of innovative solutions to problems that are needed for it to flourish. The Prince's Trust describes this as the *'psychological scar'* [52] of unemployment, and that damage persists even after a person re-enters employment. It will be important that when supporting the growth of the Big Society, the Government does not lose sight of those who are at risk of being left behind due to systemic inequalities.

51. David Cameron (19 July 2010) Big Society Speech *http://www.voltairenet.org/article166381.html*
52. Princes Trust (2007) ibid

4. Conclusions and proposed area based policy

4.1 Key conclusions: Creating sustainable economies and communities

This paper has stated the case as to why policy needs to be sympathetic to the unique issues that Assisted Areas face. The Government faces a difficult policy balancing act, particularly in a new era of less resource, in further strengthening national core areas of growth – located primarily in the larger cities – and supporting the growth of more economically remote places. This is a hard balance to strike but it has been addressed relatively successfully in other countries such as Finland and Norway.[53][54] Through highly focused and targeted support, places can diversify their business base and become more innovative, opening up to a number of markets. The returns in building social capital through such an approach are considerable. In England, to effectively achieve this, support for localities will need to be considerably greater and more spatially focused than that provided from the RGFs, in the case of Assisted Areas this should be through retention of funding policy.

This paper does not argue that all places can be centres of economic growth – it is simply about getting the balance right. Assisted Area funding is a cost effective way to create new jobs, to deliver 'quick wins' for both Government and local communities, and is part of the wider approach to building a Big Society.

By providing Assisted Areas with the appropriate tools to improve their economic (and consequently social) fortunes, the Government will be helping to increase their ability to compete. A competitive market place provides the foundations for further innovation and therefore driving up productivity, whilst also ensuring a spatially nuanced economic policy which the Coalition is keen to promote. Providing consistency of approach and reasonable equity in terms of resources to such places will make a more resilient economy and society.

The Prime Minister, in his speech to the CBI in October 2010, stated that the UK needs to be using all available policy levers to create the right

53. Davies, S (2010) Innovative Sectors in Peripheral Rural Areas, University of Strathclyde, Glasgow
54. Davies, S (2010) The context for innovation in peripheral regions, University of Strathclyde, Glasgow

framework for business and enterprise investment, and a robust Assisted Area policy is important in achieving this. It is important that Assisted Area grants such as GBI and others are maintained, and that support for these continues even if the mechanisms providing the infrastructure are changed. We refer back to the BIS/DTI research, highlighted earlier in the paper, which illustrates both the notable economic and social benefits of such assistance.

Finally, the Local Growth White Paper, in its 'case for change' section, notes that 2.2 million private sector jobs were created after the last recession and that it can again lead the recovery - however this was at a time where Assisted Area policy was particularly influential in encouraging private sector jobs in areas with weak economies. We question the assertion that the private sector can deliver the necessary jobs if an important element in helping these economies develop, such as GBI, is removed. Before the Government abandons such a crucial job creation and safeguarding policy, which based on robust evidence and respected research has helped to generate private sector investment and jobs in localities with weak economies, they should at least pause for thought and proper discussion.

4.2 What can effective area based policy for the future look like?

This paper has made the argument as to why Assisted Area policy, together with wider targeted economic development activity, should be key to Government policy ambitions – both in terms of addressing market failure but also taking advantage of opportunities and strengths that localities can offer to the economy. The key elements of a targeted area policy in the new economic and institutional landscape should include:

- **retention of GBI** – despite the proposals outlined in the Local Growth White Paper to cancel this scheme, the evidence suggests that its preservation would help the Government achieve its economic and social objectives; Government needs to give effect to Assisted Area status by continuing financial incentives to companies to invest;
- **acknowledge the jobs gap and act on it** – ensure that individuals in these places are given the support required in terms of benefits and training, and that commitment is given to private sector development to reduce the gap. Working intensively with and helping key employers in the local business base towards entering new markets, developing new products, creating spinouts etc; provide a

stimulus for organic growth and new starts based on existing local strengths.

- **addressing skills issues to complement actions in tackling the jobs gap** – this will ensure that we are not wasting existing (and latent) talent; this will also help raise aspirations of young people to gain higher level vocational qualifications which, where possible, are linked to local job creation programmes. In some places, limited job opportunities may mean there are hidden pools of skilled labour because people may choose to leave the labour market or work in a lower skilled job rather than leave the area or become unemployed.[55] Future policy would ensure that skills mismatches are minimised and local people are able to access training and education opportunities at all levels, with clear access routes to further and higher education. Without a sufficient local skills base, business investment can be limited, despite incentives such as grants;
- **further diversification of the economy and increasing capacity to innovate** – continuing to provide support mechanisms for the development of a broad and diverse local business base, ensuring opportunities for all local people, both through GBI and other funding streams, and other targeted support measures. Policy would help as far as possible to reconfigure the local value chain and connect to research and development activity both locally and globally – this will ensure that innovative potential is tapped into and increase levels of competiveness. Innovation is critical to the Government's future ambitions for economic growth, and creating these conditions conducive to innovation will help achieve these. Such policy can set the conditions for stimulating demand and such places can become areas, not just of need, but also of opportunity;
- **a locally led approach** – all of this would be done with a firm understanding of the local context, and using appropriate delivery bodies relevant to the nature of the support, which would help focus resources appropriately (e.g. LEPs). This will reflect that different areas have varying needs, bringing together business and civic leaders, and local further and higher education establishments to set the strategy and take the decisions for their area to prosper.[56] There would be a stipulation for LEPs to use specific elements of their budget (RGF and other funding streams) to help weaker

55. Davies, S (2010) The context for innovation in peripheral regions, University of Strathclyde, Glasgow
56. Department for Business, Innovation and Skills (October 2010) Local Growth White Paper ibid

economies which will complement Assisted Area funding activity. Such an approach will be important in both rebalancing the economy and in ensuring that Assisted Areas do not become a drag on wider economic growth and productivity. For places without LEPs, the Government would have to work closely with local partners to provide alternative local delivery approaches.

What matters is a clear, common understanding of the way in which the local economy works where distinct roles for the different partnerships are clearly agreed, but with enough shared membership and communication to ensure coherence and effective delivery. This nuanced, locally led approach in Assisted Areas will ensure efficiency and value for money through highly focused policy (both GBI and other targeted policy measures) being targeted on specific industries, firms and individuals within a locality to reduce deadweight, and help the Government meet its objectives around Big Society.

Centre for Local Economic Strategies
Express Networks • 1 George Leigh Street
Manchester M4 5DL

tel 0161 236 7036 fax 0161 236 1891
info@cles.org.uk www.cles.org.uk

ensuring positive local change