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In late 2011 we asked local authority economic development officers whether they had the tools they needed to support local economic growth and what challenges remained. We had 71 respondents to the survey (with 49 complete responses to all the questions) and are extremely grateful to those who took the time to answer our questions. The insights generated underpinned the entire project.

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Any mistakes or omissions are of course our own.

Joe Manning and **Daria Kuznetsova**
April 2012

Summary

"Our businesses need the space to grow," said Prime Minister David Cameron at last year's Conservative Party Conference before detailing the economic policies that would underpin "a localist plan from a localist party." Six months have passed and significant economic growth is yet to materialise.

In the absence of a clear national strategy for growth, local government is increasingly taking on a renewed responsibility for prosperity. As one of our interviewees put it, councils are "the last man standing" in this debate. The abolition of the Regional Development Agencies (RDAs), in particular, has driven councils across the country to take on more ambitious approaches to infrastructure investment. Councils faced with stalled development projects are now thinking creatively about how to unlock capital.

It is a truism, backed by OECD research, that innovation, skills and infrastructure underpin economic growth.[1] While innovation is notoriously difficult to pin down, local government has significant control over the latter two and by using these levers smartly councils can create the conditions that will allow enterprise to take root and to flourish.

The contention of this report is that a new generation of local economic activism is emerging, with a multidimensional response to infrastructure and skills at its heart. Councils are uniquely placed to take on this role. Even after the cuts, they will still spend over £6.8 billion annually through capital grants, while their prudential borrowing powers and ability to attract AAA credit ratings arguably give them more room than central government to innovate financially.

The Government has created a new policy framework for economic growth – including Local Enterprise Partnerships (LEPs), business rate retention and various pots of infrastructure money. But this framework remains incomplete: funding is spread too thinly; and governance structures are fragmented. Local authorities recognise this. In a survey of over 50 councils

1 Garcilazo, E., OECD Workshop *"Improving Productivity in Lagging Regions"* (2010)

carried out for this report respondents rated the new framework at just 4.6 out of 10, where a score of 10 indicated they were very confident that they now had the power to drive jobs and growth. Some of the solutions lie in new national policy, but there is plenty local government can do without waiting for ministers.

We therefore argue for a new approach to growth where councils increasingly collaborate, pooling sovereignty and borrowing power to make strategic investments in infrastructure and skills. Drawing on early examples of collaboration in places like Greater Manchester and Northamptonshire, we show how working together in cities and shires can unlock growth.

The current skills system has structural flaws in linking skills provision to demand. Businesses often fail to articulate their needs and providers report a lack of labour market intelligence. Skills supply is learner-led and often providers and schools do not have sufficient incentives to encourage learners to take on courses that directly link to job opportunities.

A nationally-driven approach to workforce development fails to recognise the needs of local labour markets, which are shaped by local firms' recruitment areas, workers' job search areas and travel to-work times. The result is frequently a mismatch between supply and demand – Greater Manchester, for instance, suffers from an over-supply of motor mechanics and hairdressers, but an under-supply of certain kinds of chef, medical secretaries and teachers.[2] A place-based element to skills policy is essential, allowing local businesses, councils and skills providers to develop shared priorities for their areas.

We recommend the development of a new approach from the Department for Education (DfE) in which 5 per cent of an area's post-16 funding would be routed through its LEP and spent according to the local economic strategy. The government could offer to devolve more money on a match funded basis: if a council - or more likely a LEP - can raise a sum equivalent to 1 per cent of the local skills budget, ministers should match that sum. The money would be returned to skills providers on the condition that they meet agreed local economic goals.

2 New Economy, Greater Manchester Skills Priorities Statement 2010-11 (2011)

The quality of the nation's infrastructure does not compare well internationally. Although the current infrastructure shortfall has been greatly heightened by cuts to public sector spending and a lack of financial liquidity, England has long suffered from under-investment. The competing priorities of national and local government have undermined local economic growth; and a historic lack of investment has been compounded by a grant funding regime in which capital is spread too thinly.

Our analysis suggests that councils can deliver much higher levels of infrastructure investment when they pool their capital funding and borrowing capacity. Local government should consider the creation of a new wave of revolving investment funds that would seek commercial returns on land, infrastructure, public assets and equity stakes in local business. Ministers should provide incentives for this practice such as extending their City Deal to LEPs outside the core cities that pool business rate or Community Infrastructure Levy (CIL) monies.

The practice of local economic development was forged during the deep recession of the early 1980s. With the right mix of ambition and policy changes, the early 2010s could be a similar moment for innovation.

Alongside our analysis we make a series of recommendations for how central and local government can support investments in skills and infrastructure for local economic growth. For ease of reading these are summarised here:

1. **Recommendation:** The Cabinet Office should work across Whitehall departments to support the development of 'LEP Deals'. These could be contingent on local authorities pooling business rates across their functional economic area.
2. **Recommendation:** The DfE should devolve 5 per cent of Post-16 funding to be conditional around fulfilling the economic priorities of the local area. Further money could be devolved on a match funded basis.
3. **Recommendation:** LEPs should provide local authorities with support to pool money and assets to create significant capital for 'Revolving Investment Funds' to invest in land, infrastructure, public assets or equity stakes in local businesses.

4. **Recommendation:** LEPs should provide targeted support for SMEs to shape appropriate skills development through seed funding Group Training Associations.

5. **Recommendation:** Local government should use its own procurement practices to encourage workforce development, for example through supporting apprenticeships and social enterprise involvement in training.

6. **Recommendation:** Learner records should be linked up with National Insurance records, and schools encouraged to collect and publish data on the employment outcomes of leavers. A better understanding of returns on skills investments would help channel external funding into the skills system, for example through human capital bonds.

7. **Recommendation:** Local government should consider using planning policy to encourage businesses to conduct skills reviews for both new hard infrastructure and the potential business supply chain.

8. **Recommendation:** The Department for Communities and Local Government and HM Treasury should allow local authorities to delay Tax Increment Financing repayments until business rate uplift from new developments kick in.

1 *Local growth and the policy landscape*

Local growth in England

Local government is the 'last man standing' in economic development. There are challenges to overcome - not least significant regional imbalances. Businesses are also likely to locate in growth hot spots. Understanding the needs of specific sectors and economic geographies will be crucial to local growth.

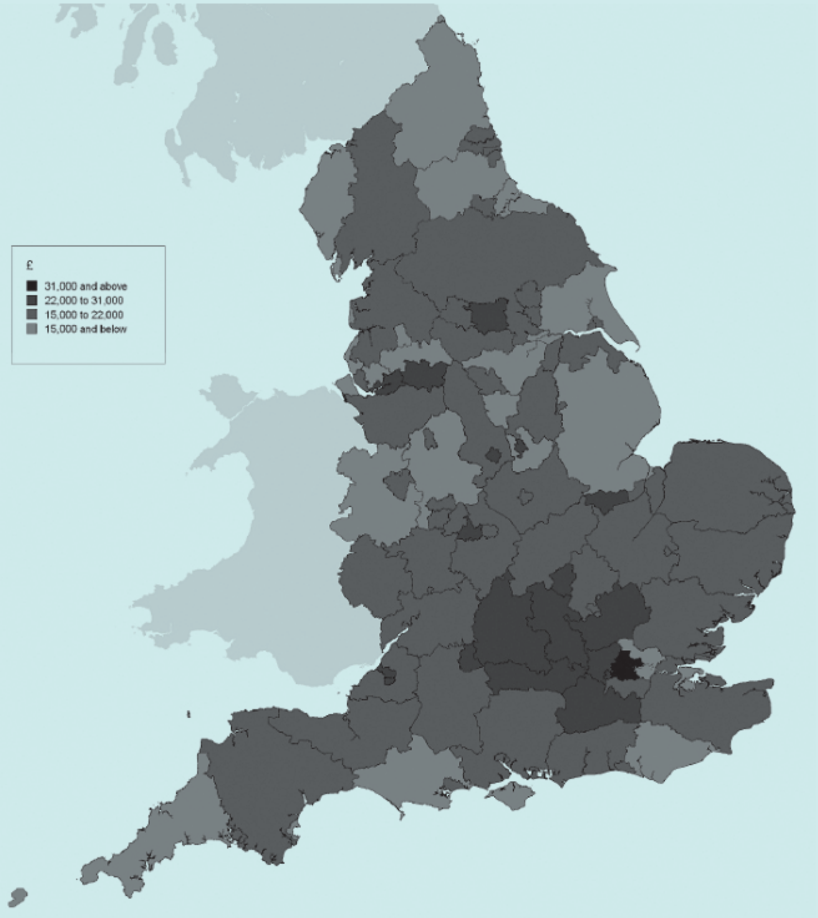
Local government faces very significant challenges in addressing England's deep regional disparities in growth. It is critical councils are able to reduce these imbalances between regions, sectors and industries because it seems likely that currently underperforming parts of the country will contribute a large chunk of future growth. While the government has provided a range of new policies to help councils drive growth, local authorities themselves do not feel they have the tools for the job.

The impact of the financial crisis and the resulting recession are well-documented: years of low growth, rising unemployment with the young hit especially hard, squeezed incomes for much of the population and low levels of private investment as businesses rebuild their balance sheets.

Just as importantly for local government, the recession appears to be exacerbating deep economic disparities between different parts of the country. Although "the story of a prosperous South and a declining North is over simplistic" and "the balance of England's sub-national growth is neither simple nor straightforward," it is also true that local authorities will be starting from significantly different positions[3] (figure 1).

3 BIS, Economics Paper No.7 (2010)

Figure 1 Gross Value Added per head in English localities



Data from BIS, Economics Paper no. 7, English NUTS3 areas, 2007

Less economically successful parts of the country might hold the key to driving growth, because they have more potential for rapid development. A handful of big cities generate nearly a third of total growth in OECD countries, but much of the rest comes from mid-sized cities. In England, 'intermediate regions' – with a mix of urban and rural - accounted for more than half of our national growth between 1995 and 2007.[4] The areas surrounding Manchester, Leeds and Bristol, also have high levels of economic performance - and what they often need most is internal and international connectivity. This description would equally apply to areas like Tyne and Wear and much of the East of England.

Investment in skills and infrastructure is crucial to business confidence

Hard infrastructure investment has a significant impact on business confidence and investment. Eighty per cent of firms report that the quality of energy and transport infrastructure effect their decisions, although among engineering and technology firms, the state of digital networks is a more important consideration. Seventy four per cent of firms cite broadband quality as a significant determinant in their investment planning.[5] Workforce skills topped the list of priorities for LEPs attempting to create the right environment for business and growth, and in another survey adult and workforce skills were mentioned as LEP's priorities more than 80 per cent of the time.[6] The top factors that influence the location decisions of international companies are access to markets, quality of staff, telecommunications and transport connectivity.[7]

Businesses are likely to locate in a number of growth hot spots. Agglomeration theory suggests that firms locate in close proximity because deep labour markets allow them greater choice and flexibility. Businesses can then adjust rapidly to new opportunities and challenges as they arise. There are also benefits from knowledge spillovers, either between businesses within a common industry or across the boundaries of different industries. Local government should work with the grain of these agglomerations: "The model of the local economy driven by local government is wrong; the local economy is driven by the market." [8]

4 OECD, Promoting Growth in All Regions (2012)
5 CBI, Making the Right Connections CBI/KPMG Infrastructure Survey (2011)
6 SQW, Local Enterprise Partnerships: A new era begins? (2010)
7 Cushman & Wakefield, European Cities Monitor '10 (2010)
8 Participant at Infrastructure Roundtable, February 2012

In a knowledge-driven economy, agglomeration will be increasingly important, particularly for service industries: in-person delivery of services continues to matter, from haircuts to financial consultancy.[9] The internet is able to substitute for phone and mail, but not in-person interactions.

Understanding the functional economic area of agglomerations that stretch beyond administrative boundaries will be crucial as local authorities invest for local economic growth.[10]

Silverstone Circuits: Local government supporting local business

Local authorities are well placed to understand the specific needs of their localities and to act quickly and flexibly to support key sectors. Northamptonshire County Council's (NCC) loan to Silverstone Circuits demonstrates this. The nation's automotive industry is currently enjoying resurgence, due to its capabilities in advanced technology, in premium vehicles and motor sports, a seedbed for innovation in the automotive industry. NCC provided funding to support the British Grandprix at Silverstone. NCC provided the investment needed by Silverstone with a £10 million secured loan and a £1.5 million revenue contribution to the Silverstone Masterplan to create a High Performance Technology business innovation ecosystem. The Silverstone technology park is estimated to create 2,400 jobs, and help protect the 22,000 high performance technology jobs in the county through the 17 year deal on the F1 grand prix.[11]

Central government's drive to 'rebalance' the economy away from its dependence on financial services and the South East has led to a renewed focus on manufacturing and other potentially high growth sectors such as digital media and low carbon industries. Analysis of the sectors prioritised in

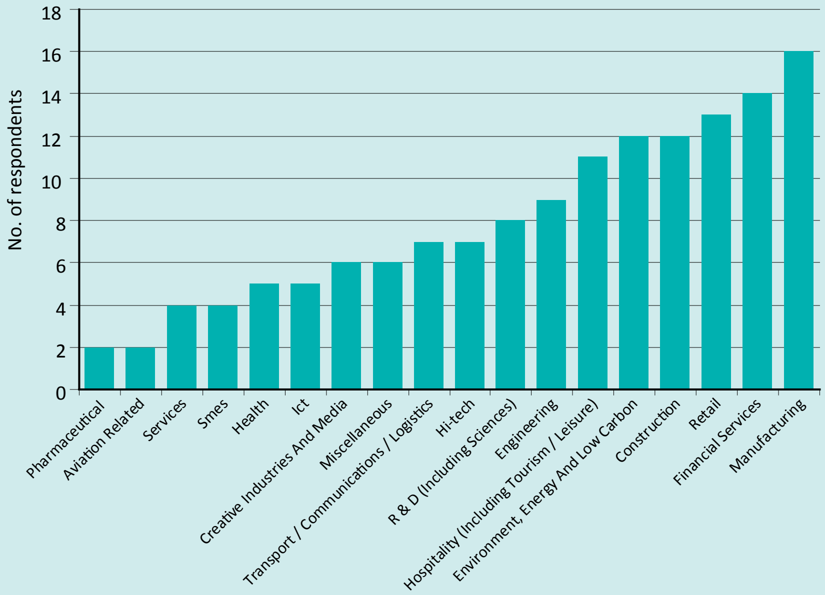
9 Kolko, J., "Urbanization, Agglomeration, and Co-Agglomeration of Services Industries." In Agglomeration Economics, Edward Glaeser, ed. (2010.)

10 Cheshire, P. C. and Magrini, S.I,. European urban growth: throwing some economic light into the black box, paper presented at Spatial Econometrics Workshop (2005)

11 See, http://www.buckinghamtoday.co.uk/news/circuit-pushes-forward-with-masterplan-1-2693798

the 21 EZs paints a similar picture, with the majority focused on advanced manufacturing, particularly aerospace, automotive and pharmaceuticals. This is also reflected in the expectations of local authorities (see Figure 2 below).

Figure 2 Breadth of sectors that councils' expect to grow over the next five years



Data from NLGN survey conducted in October, 2011. We had 71 respondents to the survey with 49 complete responses to all questions.

'Rebalancing' should not come at the expense of supporting the sectors in which the country already has competitive advantages. So while many of the priorities for EZs are fairly generic, it is reassuring that some have more diverse and place sensitive sectoral profiles: Rotherwas Business Park in Herefordshire with its focus on the food processing industry; Manchester Airport, which hopes to become home to the regional HQs of large European businesses; and the Tees Valley that will focus on petrochemicals. Different places have inherent and historic factors that help to support distinct patterns of business growth. Locality matters.

It is also essential that investments allow existing businesses to compete internationally by accessing new market opportunities. There is increasing demand for products and services from emerging growth markets, such as Brazil, Russia, India and China. As one interviewee told us "Its export led growth that's creating employment."[12]

Hard infrastructure for exports

Companies that export are responsible for 60 per cent of national productivity growth.[13] However over two fifths of firms are dissatisfied with links to emerging markets.[14] Hard infrastructure is crucial in providing these links, direct daily flights with emerging markets increases trade by as much as 20 times. The lack of direct flights to certain emerging markets may be already costing the economy as much as £1.2 billion per annum.[15]

The new policy agenda

Central government has introduced a range of new spatial and fiscal initiatives that are designed to incentivise local authorities to engage strategically with businesses. In order for governance to work effectively policies must address market failures at the correct spatial level and take into account functional economic areas. Local government will have to work collaboratively in order to drive this agenda.

12 Interviewee

13 Harris, R and Cher Li, Q., Firm Level Empirical Study of the Contribution of Exporting to UK Productivity Growth (2007)

14 CBI, Making the right connections

15 Frontier Economics, Connecting for growth: the role of Britain's hub airport in economic recovery (2011)

Over the years, local economic development has been dominated by centrally-driven programmes, often termed Area Based Initiatives. These have included the Urban Programme, EZs, Urban Development Corporations, Single Regeneration Budget and RDAs. This changing cast list of regeneration initiatives reflects a shifting emphasis on people and place, spatial scales and sectors. Although there have been successes, none have consistently succeeded in securing sustainable local economic growth. The policy context has again shifted, partly in response to the financial crisis and partly due to the decentralisation agenda of the Coalition government.

Following the abolition of the RDAs, the Government has introduced a range of new policies to encourage local economic growth – ranging from LEPs to business rate retention and the regional growth fund to community infrastructure levy. While councils are enthusiastic about parts of this new framework for growth, they lack confidence in the package as a whole. In our survey we asked councils whether the new policies gave them the power to drive growth: they gave the policies 4.6 out of 10.

Local government has to implement these policies with significantly constrained finances. Chief Economic Development Officers Society figures from 25 upper-tier councils, show spend on economic development and regeneration has fallen dramatically over recent years, with a 30 per cent hit to revenue, 50 per cent to capital and 30 per cent to staffing.[16] These constraints have prompted a greater entrepreneurialism on the part of many authorities, reflected in the frank realisation that "there are risks of doing this in the current climate, but the risk of not acting is even greater."[17]

LEPs have been established in the belief that they will provide more effective stewardship of local economic growth than the RDAs and Multi Area Agreements. LEPs do not have statutory powers, but they are able to bid for EZs and money from central government, such as the Regional Growth Fund. They also lack the resources to match their predecessors - the total spend of the RDAs between 2006 - 10 was £9 billion whilst over a four year period the LEPs can access money totalling £4.1 billion - but they will be able to build on the proceeds of growth within the EZs.[18]

16 CEDOS, Recession & Post Recession – Taking Forward Economic Development and Regeneration (2010)

17 Participant at Local Growth Roundtable, January 2012

18 See, http://www.bis.gov.uk/policies/economic-development/englands-regional-development-agencies/rda-finance-and-governance

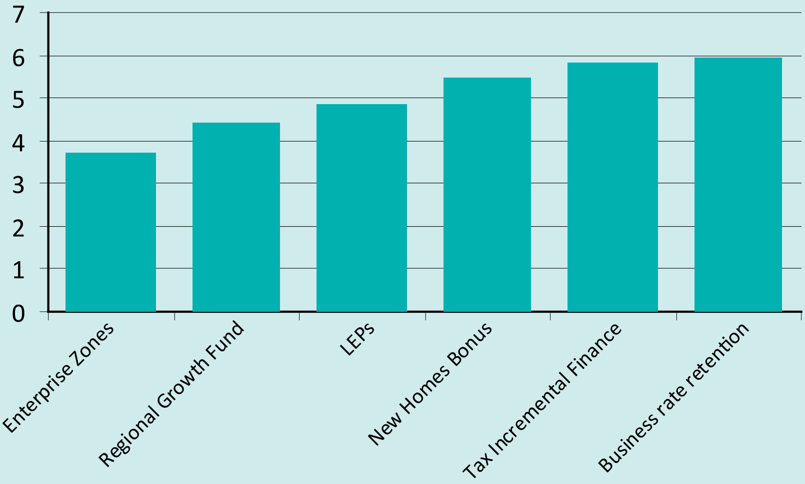
LEPs can neither procure goods and services nor manage programmes and will have to rely on local government as 'accountable bodies.' In certain areas we were told that: "LEPs are invisible at present with no apparent resources."[19] Yet, in other areas, alongside providing administrative support to drive LEPs, local authorities are providing significant funding. Northamptonshire County Council has granted £1.7 million per annum to its LEP with another £1 million of programme specific funding.[20] LEPs clearly have variable capacity in their ability to drive forward measures for economic growth. In addition to fiscal and administrative support local government also has the democratic accountability that LEPs lack.

The most significant role for LEPs is to provide strategic oversight for economic growth that stretches beyond administrative boundaries: "They may not have the resources of the RDAs, but the geography of LEPs is probably closer to the functional economic geographies of communities."[21] They also provide a forum to gain business insight on decisions regarding the development of skills and infrastructure and to work together on a project-specific basis.

Local authorities have also been incentivised to develop a closer relationship with business through the proposed reforms to business rates. Set for implementation in 2013 the reforms would see councils receive a direct financial benefit from local business growth by keeping a yet undefined proportion of locally generated business rates.[22] Our survey suggests that local authorities are enthusiastic about the potential to retain a share of the rate, but this is likely to depend on whether the retained rates offer a significant incentive for growth. There is undoubtedly a growing appetite for a genuinely bottom-up and entrepreneurial approach.

19 Survey respondent
20 Nothamptonshire County Council, Briefing January 2012
21 Survey respondent
22 DCLG, Local Government Resource Review (2011)

Figure 3 The extent to which local authorities felt the government's policies would help them drive growth and jobs.



Data from NLGN survey. Rateable value where 1 was not at all confident and 10 was very confident

However, the proposed reforms to business rates are not uncritically welcomed by local government and are something of a mixed blessing. Not least, the Special Interest Group of Municipal Authorities (SIGOMA), which represents 45 mainly northern city authorities, has warned that the scheme will result in polarisation between affluent and less well-off authorities.[23] The scheme has also been designed to allow district councils to retain a larger proportion of business rates whilst assigning county councils to be top up authorities. This may lead to local competition that will hinder the governance of functional economic areas; an outcome that will undermine strategic investment.[24]

23 See, http://www.ft.com/cms/s/0/45c2000a-2a63-11e1-9bdb-00144feabdc0.html#axzz1qsMecfvd
24 Tiebout, C. An Economic Theory of Fiscal Decentralization / In: NBER, Public Finances, Needs, Sources and Utilization (1961).

To mitigate these problems councils could consider pooling business rate uplift. This would help to guard against the financial risk of a major business leaving an area, to stop neighbouring districts competing over the location of a new retail outlet or business park, and to build up reserves to invest in important sub-regional infrastructures. The importance of this mitigation can be demonstrated by analysing the business rate fluctuations of a given region, such as that covered by the North East LEP. The graph below shows business rate growth over a five-year period.[25]

Figure 4 Business rate yield, North East LEP 2005 -10

Data from Local Government Finance Bill 2010 – 12 Research Paper 12

Despite the potential advantages, our survey results and subsequent interviews found that local authorities were reluctant to pool business rates under the proposed system. Government chose not to create a direct incentive to encourage pooling, but we think that there could be benefits to an incentive that encourages collaboration for scale and impact.[26] As one survey respondent put it the, "answer [to local economic growth] doesn't lie with a single policy decision; efforts should be made to pool funding resources effectively."[27]

25 Local Government Finance Bill 2010 – 12 Research Paper 12
26 See Kuznetsova, D., The Devil in the Detail: Designing the Right Incentives for Local Economic Growth (NLGN, 2011)
27 Survey Respondent

Beyond a monetary incentive, further power could be put on the table to incentivise pooling. The City Deals provide an example of this. The Deals are designed to give new freedoms to invest in growth and further power over skills and infrastructure development. In return for greater freedom cities will be required to 'demonstrate strong, accountable leadership, clear goals, and the ability to boost private sector growth.' [28]

The City Deals were initially only available to the core cities. In January 2012 it was announced that they would be extended and other local authorities would be invited to agree 'a bespoke deal with Government to unlock their potential.'[29] Local authorities willing to pool resources would be well placed to demonstrate the clear goals that Whitehall is looking for.

Recommendation: *The Cabinet Office should work across Whitehall departments to support the development of 'LEP Deals'. These could be contingent on local authorities pooling business rates across their functional economic area.*

There is not one route to economic growth. Policy interventions should be tailored to meet local circumstance taking into account functional economic areas and the requirements of specific sectors. For some areas infrastructure may be the most important investment whilst in others it will be skills. At the same time, it is imperative that new ideas are encouraged to flow from localities to the centre and between localities. This will allow local authorities to maximise the tools they have to be activists for local economic growth.

28 Cabinet Office, Unlocking Growth in Cities (2011)

29 The Core Cities are Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham, and Sheffield. See, Local Government Lawyer, 'City Deals to be extended to smaller cities,' January 2012

2 *Skills for business growth and future jobs*

Billions of pounds are spent annually on skills - by both the public and private sector. However the current skills system is not delivering the right outcomes.

Employers tend to under invest in workforce development and at the same time find it difficult to navigate the complex public skills system.[30] Public funding is allocated on a per-qualification basis with qualifications determined centrally by 25 Sector Skills Councils (SSCs). The providers within this system do not have sufficient incentives to link provision to the skills needs of local economies,[31] even where these needs are known: businesses are often unable to articulate their needs and there is consequently a lack of labour market intelligence that can inform the shape of provision. Just as importantly, there is little reason for the current system to develop the skills needed to seed future growth sectors, as opposed to providing what the market needs right now.

Local government is well placed to better link current and future supply and demand, and to respond to the particular needs of their unique economic geographies. Through the LEP they can link with employers, to provide a coherent picture of current skills needs and future demand, and with schools and training providers, they can help link forecast demand to a learners' career pathways from school to training to employment and beyond. The opportunity is twofold: to improve individual career prospects, both for those already in work and for those currently outside the labour market; and to promote economic growth through increasing productivity today and paving the way for new business and new jobs in the future.

Falling behind in productivity and employment

The skills system in the England is failing to meet the needs of the market. This is undermining economic growth. Skills gaps risk being exacerbated by the recession and structural unemployment problems.

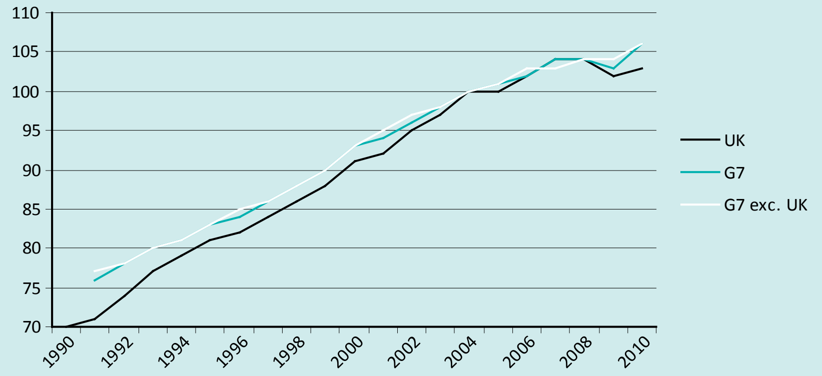
30 UKCES (2010) The Value of Skills: An evidence review; Bert C (2011) 'A Shared Responsibility for Skills' in *Adults Learning*, v22 n5 p8-10; Raj P and Besley S (2010) 'Encouraging Employers to Pay Their Fair Share' in *Adults Learning*, v22 n4 p12-13

31 Wolf, A., *The Wolf Review of Vocational Education* (2011)

The skills system in England is failing the economy and increasing the productivity gap with other Western countries. Structural problems have led to long term unemployment and a cohort of disillusioned youth who do not see a connection between training and job prospects. This is a major policy challenge, as one interviewee said: "If you could solve the skills problem in this country, you would be a very rich man."[32]

In 2010, productivity growth was lower for the UK than for any other G7 country, GDP per worker fell in comparison to all other G7 countries and the productivity gap between the US and the UK was the widest since 1994.[33]

Figure 5 GDP per hour worked - constant PPP



Own elaboration with data from: ONS

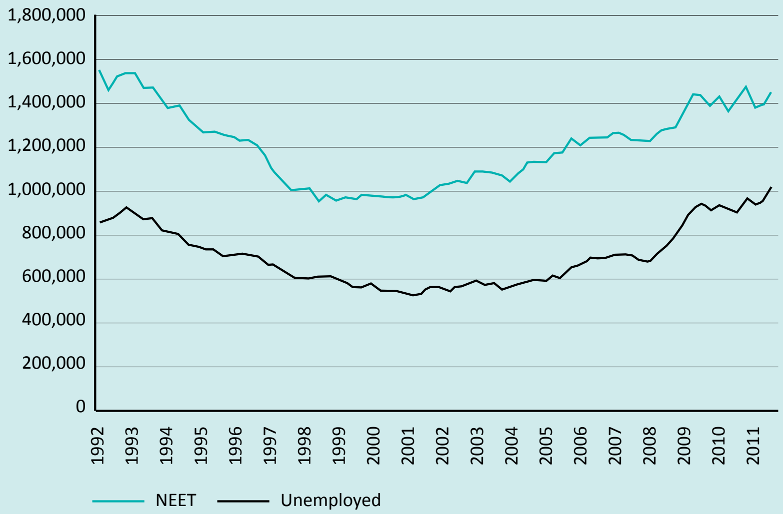
Employment and productivity lags are, at least in part, related to the fact that the workforce lacks some of the skills that employers demand. The National Employer Skills Survey found that 19 per cent of employers were experiencing skills gaps (up from 15 per cent in 2005).[34] Another survey found that 57 per cent of senior executives lack confidence in their abilities to access high skilled employees in the future.[35] Skills gaps limit businesses' ability to operate to the full extent of their economic capacity.

32 Survey Respondent
33 ONS. (September 2011). *International Comparisons of Productivity (ICP) - First Estimates for 2010*
34 UKCES, *National Employer Skills Survey for England (NESS)* (2009)
35_McKinsey Global Institute, *From austerity to prosperity: Seven priorities for the long term* (2010)

Employers reported that the skills that are more difficult to obtain are technical, practical or job-specific skills. The second most common gap was in service sectors skills with businesses reporting management, customer service and leadership skills difficult to obtain.

The skills gaps leading to productivity loss are likely to worsen if people currently out of the labour market are not equipped to begin and progress up the career ladder. The number of young unemployed reached one million in November 2011, the highest number since the early 1990s; 16 per cent of people between the ages of 16 and 25 are not in employment, training or education (NEET).[36] Even before the recession approximately 7-9 per cent of all young people were headed for long-term worklessness from the age of 16.[37] The OECD estimates that the productivity loss to the economy as a result of youth unemployment is £10 million a day.[38]

Figure 6 16-24s NEET and unemployed



Source: Aveco. *Youth Unemployment: The Crisis We Cannot Afford* (2012)

36 DfE,. *NEET Statistics Quarterly Brief - Quarter 2 2011* (2011)
37 ACEVO, *The crisis we cannot afford* (2012)
38 OECD Employment Outlook – How does the UNITED KINGDOM compare? (2011)

A number of local authorities report a lack of aspiration in learners. Similarly employers have found a lack of motivation and a poor work ethic amongst young employees.[39] In response some LEPs such as Coventry and Warwickshire have made it a priority to raise ambition and aspiration in disadvantaged areas. Part of the problem appears to be that disadvantaged groups have become disillusioned with a schooling system which they perceive to have failed them, meaning that a new approach to training and education is needed if local economies are to prosper in the future.[40]

Systemic problems

The UK's productivity lag, skills gaps and high levels of unemployment are the results of a systemic problem. Skills provision is learner-led and the market driven system has resulted in a mismatch between supply and demand at a local level. Nationally-driven programmes ignore the specific needs of localities. Businesses do not always understand their own skills needs and find the current system difficult to navigate.

The current vocational system is centrally funded, through the Education Funding Agency (EFA) in DfE and by the Skills Funding Agency (SFA) in BIS; the EFA covers both 16-19 year old learners and 16-25 year old learners with learning difficulties or disabilities, and the SFA covers adult learners. Qualifications are mainly determined by the SSCs which are state-sponsored, employer led organisations covering specific economic sectors.

The system hinges on learner choice, which can result in misinformed career decisions. Insufficient information about career opportunities and pathways often results in a lack of connection between student demand and future job opportunities.[41] The closure of Connexions and insufficient resources in schools to provide careers advice has further exacerbated an already rocky career guidance landscape: a recent City and Guilds report found that college students "have arrived on their programmes more by serendipity than by making well-informed choices."[42]

39 Interviewee

40 City & Guilds Centre for Skills Development *Practical matters:what young people think about vocational education in the UK* (2011)

41 Needs further evidence - Interviewee

42 City & Guilds Centre for Skills Development *Practical matters:what young people think about vocational education in the UK* (2011)

Schools are overwhelmingly incentivised to focus on GCSEs and rarely promote apprenticeships or vocational courses. Post 16, they tend to encourage students to stay on to sixth form: the "least popular option is for young people to leave school at 16 and get apprenticeships as schools will lose out financially."[43]

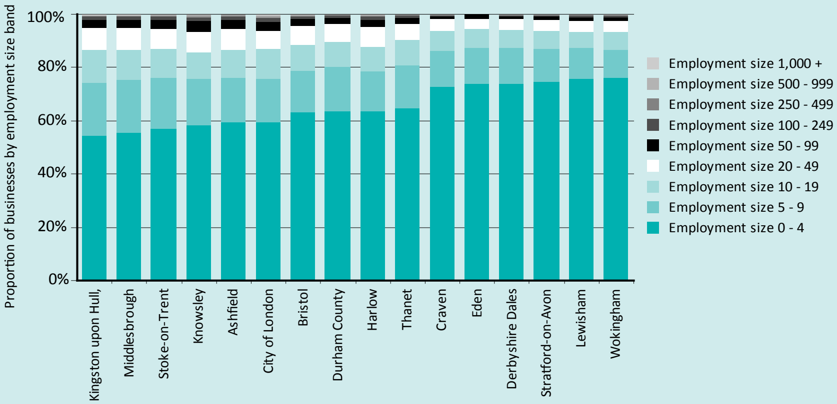
The SSCs are intended to respond to employer demand but a number of problems have been identified with the current model. The 25 sectors represented are often widely drawn and don't match the rapidly changing employer landscape. Businesses have reported that there is a communication gap between national and regional skills partnerships and a lack of mechanisms for employers to hold SSCs to account. Furthermore, SMEs require a flexible and responsive approach to skills that SSCs are unable to provide due to their 'big picture' outlook that ignores on-the-ground reality. Many businesses have never even heard of SSCs, for example ninety seven per cent of retailers did not know that SSCs related to their businesses and for the construction industry the figure was 90 per cent.[44]

As a result, there is virtually no strategic place-based labour market information in the current system. A local government official told us "few agencies have access either to sufficiently detailed data, or to the analytical capacity and resources to make forecasts about future sectoral growth and specific skills needs."[45]

Whilst local authorities are responsible for securing as well as encouraging education and training for 16-19 year olds and a number of other groups, they have little role in shaping provision in response to the needs of the local economy.[46] The business composition of local areas greatly varies and requires a tailored approach to skills provision (see figure 7). However, as a result of the sector driven national system local social and economic factors, including the current and future skills needs of employers in an area, tend to be overlooked.

43 City and Guilds, The voice of employers in vocational qualifications: the role of Sector Bodies (2010)
44 Jaffa, M., FSB research into sector skills councils (2009)
45 Interviewee
46 those aged 16-25 with learning difficulties and/or disability and those aged 10-18 and in juvenile secure accommodation.

Figure 7 Snapshot of variation in local authority business size composition



Data from ONS, UK business: Activity, size and location 2011

Rural areas face particular challenges in creating a functional skills system and require a tailored approach. Rural employers are more likely than their urban counterparts to have difficulties filling vacant posts. In 2009 25 per cent of all rural vacancies remained unfilled due to a lack of applications from suitably-skilled candidates.[47] Weak education systems, a lack of both vocational and higher education providers and "lack of outside enrichment" reduces the number of employers and the demand for skills creating a vicious cycle of low skill, low value economic activity in rural areas.[48]

47 South West Observatory (2009)Barriers to Training and Skills Development in Rural Areas
48 Hildreth (2006) *Roles and Economic Potential of English Medium-Sized Cities: A Discussion Paper*

Improving rural connectivity for skills in Northumberland

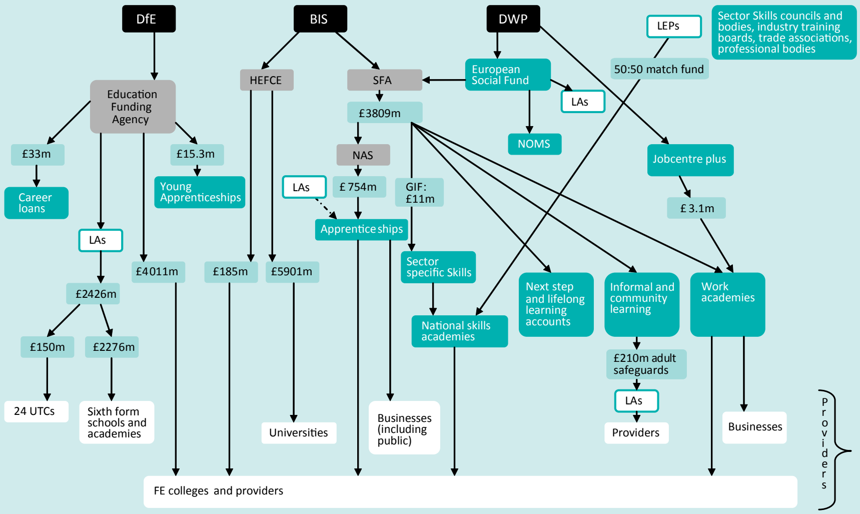
Northumberland has taken a pro-active approach to improve the "connectivity" within its area as well as to/from the county to promote economic growth. The use of superfast broadband and increasing mobile phone coverage has opened up educational opportunities, provided a platform for new business creation, increase competitiveness and strengthened the links between cities and nearby rural areas. Whilst recognising its position as a rural part of the country, it has embarked on a strategy on using assets more creatively and enabling new business creation through a Northumberland offer to both visitors and investors. The integration of the skills and growth strategy is seen as essential for rural areas to thrive in the current climate.

Businesses tend to make expansion or start up decisions based on local skills profiles. A number of national employers told us: "we choose where we expand new operations based on where we can get the skills."[49] Employers expect to provide training for specialist skills, but not for basic job readiness.[50] They are particularly unlikely to invest in the training of low-skilled staff.[51] This is especially true for SMEs who do not have the capacity to provide large scale generalist training programmes.[52]

As businesses often do not make internal investments in workforce development, they need to navigate the publicly-funded system. Their ability to do this is constrained by the complexity of funding streams and responsibilities of various actors.[53] This prevents providers, employers and individuals from effectively investing in skills improvements.[54] It creates local duplication which increases the burden on scarce resources.

49 Interview with private sector employer
50 Interviewee
51 Froy et al (2009) *Designing Local Skills strategies*
52 Interviewee
53 Interviewee
54 Hope, N. *License to skill* (NLGN, 2008)

Figure 8 Skills funding bodies and allocations 2011-12



Data from NLGN skills and economic growth (2011)

Understanding skills needs for future jobs

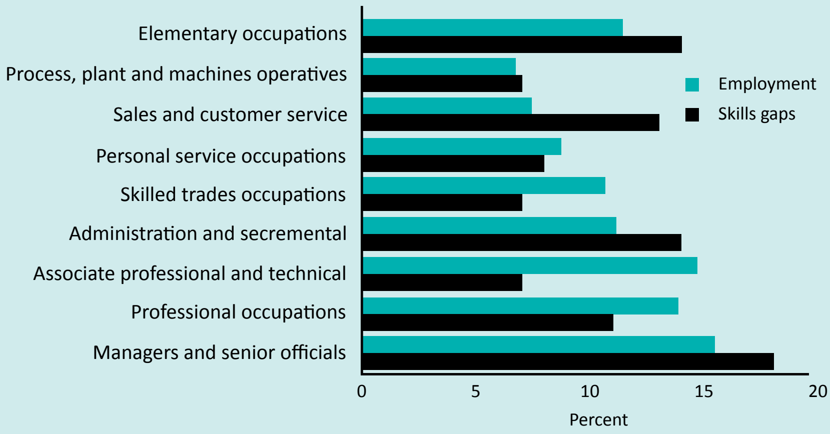
Local government is well placed to take a proactive role in aligning employer needs, skills provision and learner demand. Councils should work with employers to generate information about skills needs. This will be complemented by an understanding of the future growth sectors that will drive local economic recovery.

Local authorities have a vital role to play in helping businesses articulate their current skills needs and to understand where growth is going to come from to plan for future skills needs. This would be a basic entry point for local authorities where local knowledge and information would complement general labour market statistics on employment gaps, local business needs and an overarching view of future activity in the functional economic area.

Although employers are best placed to know the skills they need, they sometimes lack the capacity to conduct extensive skills diagnostics analyses.[55] A number of representative organisations cite a lack of knowledge about the types of skills needed by their members.[56] "Businesses don't know what they want" has been repeated by numerous interviewees.

There is a particular need for support with recruiting young people, where recruitment procedures are different to those typically used for other age groups. The Future Jobs Fund initiative showed that employers often need support and guidance in overcoming the barriers to recruiting young and unemployed[57] as they're not currently equipped to do so. One of the barriers to successful youth recruitment is a secondary gap in management skills. This gap has been well documented and could be a key barrier to business expansion.[58]

Figure 9 Shares of skills gaps and employment by education, England 2009



Data from NES 2009; LFS/IER

55 Payne, J., and Keep, E., One Step Forward, Two Steps Back? Skills Policy in England under the Coalition Government (2011), Gurdjian, P and Triebel, O, Identifying Employee Skills Gaps, (McKinsey Quaterly, 2009)
56 Interviewee
57 Centre for Economic and Social Inclusion, *Future Jobs Fund* (2011)
58 McKinsey Global Institute (2010) From austerity to prosperity: Seven priorities for the long term

In addition to enabling employers to identify skills needs and recruit young people, there is a role for local authorities and LEPs in providing a strategic overview of the skills landscape. Private sector 'demand-led' models need to exist in conjunction with public sector involvement as employers often respond to shorter term skills gaps without seeing how a local economy will grow and the broader regional, national and global trends.[59]

LEPs, with both local authority representatives to provide information on future economic opportunities and business representatives to inform current demand are best placed to provide a place-based strategy for a national system.

Existing tools to provide data on skills needs[60]

- Labour market observatories
- Annual skills development catalogues (listing skills in demand and training available to meet these demands)
- Analysis of job advertisements
- skills surveys of the unemployed
- Surveys as to the level of skills present in the local workforce
- Sectoral analysis as to the level of concentration of skills in particular sectors
- Skills forecasting (projecting future cluster development on the basis of current systems and strengths)

Directing local skills supply

Local authorities have a number of levers with which they can influence local skills supply. There is already scope to link Government employability programmes to local plans and schools and further education providers should be incentivised to promote employability and the local growth agenda.

59 OECD(2009) Designing local skills strategies
60 Ibid

Local government is also well placed to directly influence provision. There are already a number of instances where local authorities, providers and employers are working together to develop the training facilities in order to respond to future demand. However there is often a lack of tangible incentives for providers to take into account a locality's economic strategy or the skills that new sectors might need in years to come. "It's not difficult to engage providers, but they need a financial incentive. At the moment the demand driven system is not providing an incentive for providers to engage with stakeholders and focus on skills that produce future jobs."[61]

Ministers have already signalled that they are interested in giving local government more control over the skills agenda. The government's recent update on its Open Public Services white paper promised a consultation about decentralising commissioning power in this area.[62] We do not seek to suggest that councils should control the whole skills budget, but there is a clear case for a more place-based approach.

Building on Lord Heseltine's recommendations in the Liverpool Plan, we therefore recommend a system in which 5 per cent of an area's skills spending would be routed through its LEP and spent according to the local economic strategy.[63] The government could offer to devolve more money on a match funded basis – for instance, if a LEP could raise an extra 1 per cent of the local skills budget, DfE would increase that LEP's share of skills spending to 6 per cent. This would encourage councils and local business people to invest extra resource into the skills system.

Recommendation: *The DfE should devolve 5 per cent of Post-16 funding to be conditional around fulfilling the economic priorities of the local area. Further money could be devolved on a match-funded basis.*

There are opportunities for supporting learners with a school system that is more responsive to the economic growth agenda. First, it is important that job readiness and employability become key criteria for a schools success. Local authorities should use the levers available to them to encourage

61 Interview

62 Cabinet Office (2012) *Open Public Services 2012*

63 The RT Hon the Lord Heseltine CH and Sir Terry Leahy, *Rebalancing Britain : Policy or Slogan? Liverpool City Region - Building on its Strengths: An independent report* (2011)

schools to engage with businesses and providers to ensure future workplace readiness is included in teaching.

Second, the current information on career pathways available to students and to their families is disjointed and ineffective.[64] As the Wolf report highlighted there is too great a focus on GCSEs and not sufficient attention paid to vocational training. Greater vocational guidance is required, to match information available for academic progression. As one report put it: "If the route to university is a well signposted motorway, the route into work for these 16-to-18-year-olds is more like an unmarked field of landmines." [65]

As ongoing learning, through access to higher education, is often used as a benchmark for the success of a student's school experience, schools don't have an explicit incentive to focus on employment outcomes. With the expansion of free schools and academies, there is a window of opportunity to promote employability within the school curriculum. As one interviewee told us: "Education for education's sake should not be contested but there is a possibility to integrate further 'employability skills' into the curriculum." [66]

Recommendation: *Local areas should encourage schools to collect and publish data on employment outcomes of school leavers 3-5 years after leaving school.*

Supporting business engagement

There is an increasing emphasis on employer involvement in skills provision from central Government. Local authorities should build on this agenda and help employers work together to establish new training associations and more flexible qualifications.

Although apprenticeships are not new, the Government has sought to expand and reshape them. The aim is to have, by 2013, an apprenticeship place available to every young person; to expand the number of adult apprenticeships and to increase higher level apprenticeships.[67]

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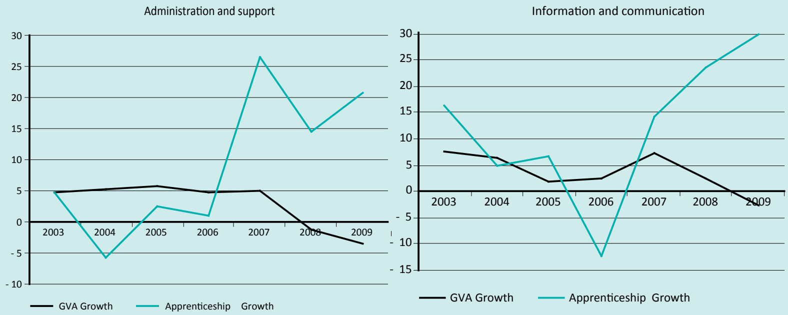
64 Interview
65 City and Guilds, Centre for Skills Development, *Practical matters* (2011)
66 Interview
67 House of Commons Library (2012) *Apprenticeships policy*

The number of apprenticeships starts almost doubled over the last year, however there are still challenges in increasing uptake and many local areas report a potential detachment of the apprenticeships agenda from the growth agenda. The creation of apprenticeships in low growth sectors has the potential to lead to further skills gaps and unemployment. As figure 10 demonstrate, there is a often a disconnect between growth in apprenticeship starts and GVA growth meaning that apprenticeship numbers are growing at an increasing rate in sectors that are in decline.

Figure 10 On year growth in apprenticeships starts and growth in GVA by sector

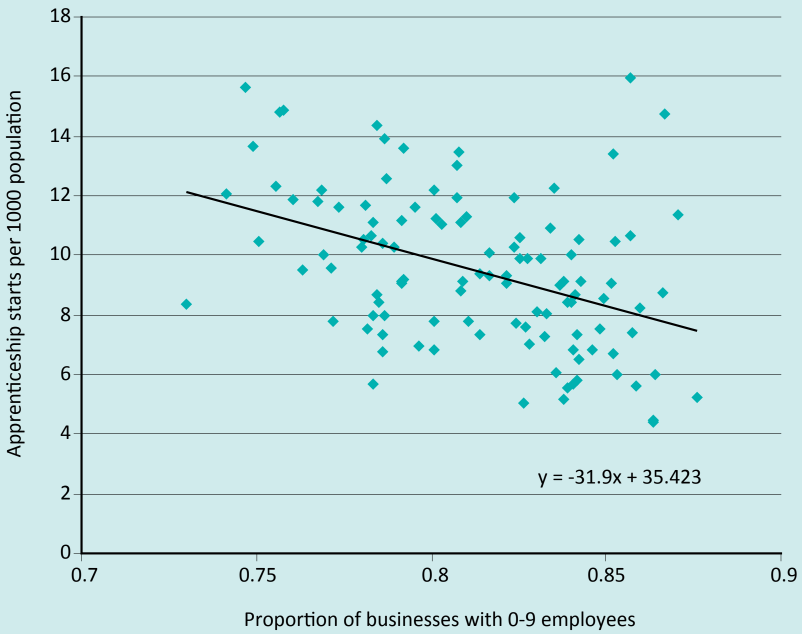


Data from BIS, Statistical First Release, 2011 and ONS, Economic and Labour Market Review, GVA 2010

The Government has allocated £250 million over the next two years to allow employers to work within their supply chains and business clusters, together with employees, colleges and training providers, to create the supply of skills they need. Local authorities have a critical role here to work with businesses to support them in diagnosing skills needs as well as directly providing workforce training to support business growth.

Business-led delivery is crucial to making sure skills supply matches current skills demand. Although it is quite common for larger organisations to engage in workforce training, there are potential market failures when it comes to smaller employers. Local authority areas with a higher proportion of smaller businesses have fewer apprenticeship starts than those with a lower proportion of small businesses (See figure 11).

Figure 11 Relationship between apprenticeship starts and business composition by local authority.



Local authorities can help smaller employers come together to provide training through facilitating of Group Training Associations (GTA) or shared apprenticeship schemes.

GTAs are a new model for business-led skills development. They are not–for-profit organisations providing support on accessing and managing training to a group of employers. The most common GTAs focus on apprenticeships in engineering, construction and manufacturing. Their main roles are providing NVQ assessments, advising on workforce development, analysing training needs, providing health and safety training and guidance and management training.

The GTAs have already received recognition for high quality training provision. Of the 34 GTAs with inspection results published by OFSTED, fewer than 3 per cent were marked as 'unsatisfactory' which is well below the national average for work-based providers.[68] Importantly, GTAs provide a coherent industry voice for groups of smaller employers. Even if GTAs do not have the resources to offer direct training, a unified voice can help to facilitate FE engagement and course responsiveness. Similarly, shared apprenticeship schemes help overcome some of the barriers small businesses face to evolvement in skills provision.

Recommendation: *LEPs should provide targeted support for SMEs to shape appropriate skills development through seed funding Group Training Associations.*

Case study

Coventry Shared Apprenticeship Scheme

The Coventry Shared Apprenticeship Scheme is working with businesses to improve employment opportunities and drive growth. The Coventry and Warwickshire Construction Employment Unit underpinned the shared apprenticeship scheme. The partnerships made through the Unit were a catalyst for establishing the scheme. A steering group helped to identify some of the barriers to businesses engaging in apprenticeships. Some of the barriers identified were the need to commit to a three year programme given the current economic environment and the bureaucracy involved in taking on the apprentice. BAM Construction formally employed all the apprentices with smaller companies responsible for providing work placements.

Encouraging further investment

Local government should use all available levers to encourage workforce development and economic growth. These include its own procurement as well as fostering innovations that could unlock additional investment in skills.

Additional investment in skills could be unlocked if we had better information on the employment destination of learners and the impact their training has on their

68 North East Chamber of Commerce, *GTA Factsheet* (2011)

lifelong employment prospects. A Unique Learner Number (ULN) is a 10-digit reference number which is used alongside and to access the Personal Learning Record of anyone over the age of 14 involved in UK education or training.[69]

The lack of connection between learner records and the employment market makes it impossible to calculate returns on skills investment. The information provided by traceable learner records would allow for further policy experimentation, for example with human capital bonds, a model that originated in the United States. This could overcome the tendency to measure short term outcomes, through unemployment figures, rather than the long term benefits to an individual and economic growth.

Recommendation: *Learner records should be linked up with National Insurance records. A better understanding of returns on skills investments would help channel external funding into the skills system, for example through human capital bonds.*

Human Capital Bonds in Minnesota

Human capital bonds are a form of early intervention, primarily through the skills system, currently being piloted in the US. Minnesota has established a £6.25 million programme for hard to reach individuals or groups, ex-convicts for example, to access the kind of funding normally reserved for private work scheme providers. Human capital bonds are issued by the state on the condition that organizations wishing to provide employment services can demonstrate impact on wider public service outcomes. This means tracking the money saved from investments. These savings can be tracked by an individual's social security number. In Minnesota if a group of ex-convicts decided to use a bond to invest in their own life skills or education and successfully reduced re-offending rates the state would honour back the bond because it represented money saved through non-intervention.

69 See, Learning Records Service http://www.learningrecordsservice.org.uk/products/uln/

A version of human capital bonds could be piloted to explore the potential for external investments in skills. The returns to such investments would include: reductions in welfare payments, less strain on public services and uplift in tax revenue from increased business productivity, calculated from salary increases accessed through National Insurance numbers.

Local government, along with other public agencies, spends billions of pounds on goods and services each year and thereby holds considerable sway over businesses.

There has been significant progress in the use of procurement to promote training and apprenticeships, with many local authorities using or intending to use procurement to increase take-up of training and apprenticeships, via all relevant contracts. But there is scope to be more ambitious. Northamptonshire County Council has made it compulsory to employ one apprentice for every £2 million of contract value. This has to be for the full term of an apprenticeship, regarde

Recommendation: *Local government should use its own procurement practices to encourage workforce development, for example through supporting apprenticeships and social enterprise involvement in training.*

Skills for business growth in Kent: A case study

A key component of Kent's leadership role on local growth is their successful approach to improving skills within the county and tackling youth unemployment. The Skills for Business Growth task force found that too many people out of work lack the skills that employers are looking for, while the working population is often under-qualified to fill current vacancies or future jobs that are expected to be created through the area's future development.[70] As a result the County Council is trying to create a skills offer that matches business needs complemented by accurate local intelligence

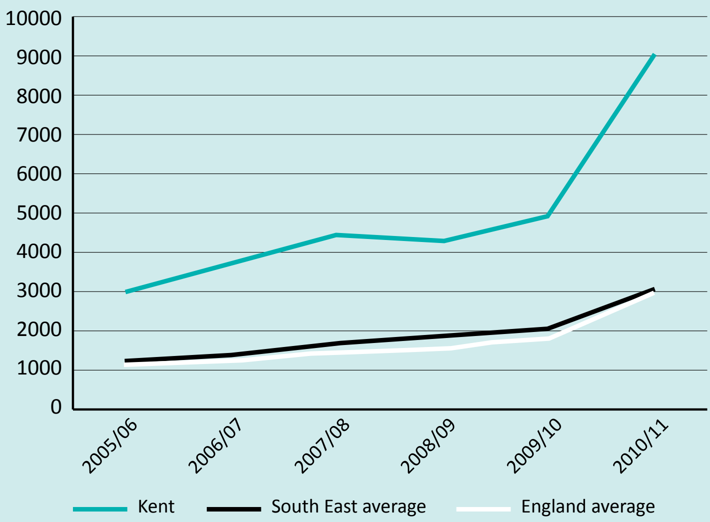
As part of the Skills for Sustainable Growth strategy the Council is intent on linking up vocational qualifications to create local skills for local jobs. By

70 Kent Economic Board, *Draft Action Plan: Skills for business growth* (2011) focusing on apprenticeships and engaging in dialogue with employers, the council is facilitating the creation of a workforce which will enable businesses to set up, expand or move to Kent.

Promoting apprenticeships

The Kent Apprenticeships Programme has already documented savings[71] and resulted in a greater increase in apprenticeship starts than both the South East and England average. This success has been built on a number of critical interventions.

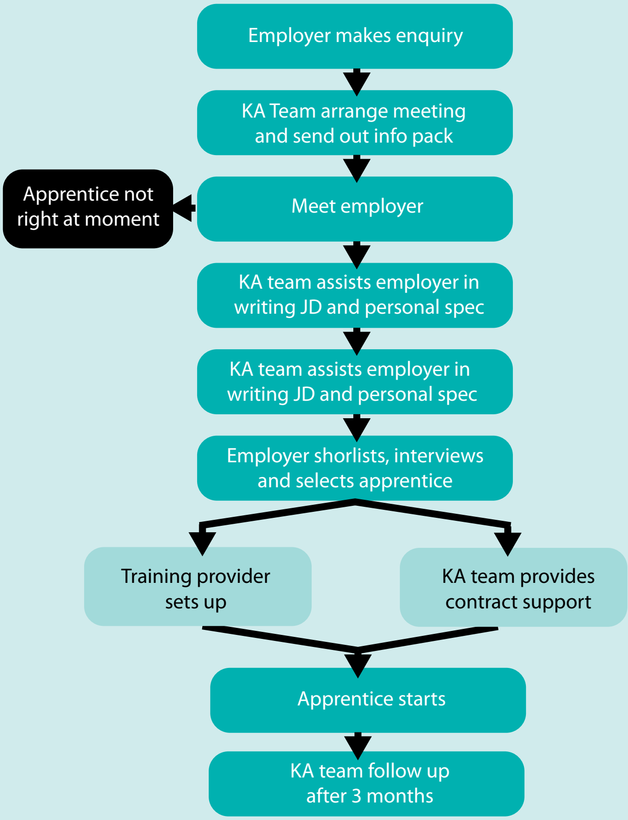
Figure 12 Apprenticeship programme starts from 2005 to 2010



SMEs are often reluctant to take on apprentices, and Kent is home to more than 49,000 businesses that employ fewer than 100 people. The National Apprenticeship Service only provides direct support to larger businesses, so Kent has taken on the role of supporting SMEs to take on apprentices. The diagram below shows the process through which the council guides employers to increase understanding of the apprenticeship programme and to ease the bureaucratic burden involved.

71 From the Vulnerable Learners Pilot

Figure 13 Kent 'one stop shop' for SMEs



The council also made the most of two existing levers to deliver its apprenticeships strategy: employment and spending. The County Council led by example through its own apprenticeship programme. It now has 80 apprentices employed and plans to deliver 350 more in the next 4 years. The aim is for 75 per cent of all suitable vacancies that are openly recruited to be filled by apprentices. By promoting apprenticeships in the public sector, Kent is able to understand first hand some of the challenges in taking on apprentices and tailor its apprenticeship support accordingly.

Kent is also using its procurement practices to encourage the growth of apprenticeships in the county. All contracts with a value of over £1 million require that the provider create one apprenticeship opportunity for every £1 million spent on labour. Where individual contracts are below £1 million but the aggregate spend to a single employer across the council is higher, Kent actively promotes apprenticeships to these suppliers.

Skills investment for growth is a crucial part of the platform for future economic success, but it is not the whole story. In Kent the County Council is aligning its plans for growth with the urgent need to reduce youth unemployment: 18-24 year olds account for 28.6 per cent of all unemployment and long term unemployment figures are on the rise. Kent has allocated £2 million to subsidise apprenticeships for employers, targeted at reducing youth unemployment. The programme will put half the money through Work Programme providers and half through Job Centre Plus. The scheme was launched on April 1st, 2012 and will create an estimated 1,000 apprenticeships.

Understanding employers demands

In addition to its work on apprenticeships, Kent County Council is promoting sector conversations to understand better the skills needs of growing sectors and to encourage businesses to be more involved in training. The council has focused on six key sectors: low carbon; creative and media; food production; health and social care; manufacturing; and construction.

Kent is also taking a pro-active role in gathering and sharing strategic information on skills needs and provision. The Kent Economic Board has conducted a skills survey of businesses, better to understand business perceptions of supply and current gaps and a website (skillschoices4u.co.uk) to provide detailed information on economic opportunities within the area.

Kent County Council has also facilitated the setup of industry-led centres for training, such as the Swale Skill Centre which is a vocational centre delivering training in engineering and sustainable technologies to over 14s. The courses are all taught by industry experts to ensure there is a direct link with employer needs. By investing £2.7 million in creating the centre, the County has helped ensure availability of skills for future growth opportunities in renewable technologies, not least in preparing the ground for substantial inward investment in wind energy.

3 *Hard infrastructure for a connected recovery*

The UK has extensive infrastructure networks. These are some of the largest and most intensely used in Europe. The quality of the UK's infrastructure does not compare well internationally.[72] This undermines current business development and discourages firms from locating in the country. Although the current infrastructure shortfall has been greatly heightened by cuts to public sector spending and lack of financial liquidity the UK has long suffered from under-investment.

The competing priorities of national and local government have undermined local economic growth; and a historic lack of investment has been compounded by a grant funding regime in which capital is spread too thinly.

Strategic collaboration is required to invest for economic growth – between Whitehall departments and local government, and across local authority boundaries. To this end, a reformed planning system allows local government to lead on development.

Local government also has a range of tools available to finance capital projects; these include Tax Incremental Financing, the Community Infrastructure Levy and Local Asset Backed Vehicles. On their own they will not be sufficient to generate significant economic growth. Councils will have to be entrepreneurial if they are to fully realise the benefits of infrastructure by recycling and reinvesting money.

Current and future demand

The UK suffers from underinvestment in infrastructure and the cost of infrastructure is currently too high. There is a funding gap that must be overcome if the UK is to develop 21st century infrastructure. There are significant local variations in the scale of this funding shortfall.

Successful development will be dependent on reform that builds on existing assets. Much of the demand placed on infrastructure will be to overcome constraints and pinch-points, such as traffic and airport congestion, through

72 The quality of the UK's infrastructure is ranked 28th globally by the World Economic Forum. World Economic Forum, Global Competitiveness Report, 2010.

systematic upgrades, rather than the building of entirely new systems. The UK does require certain new networks. Just as railway tracks laid out the future of the 19th century and electricity grids the future of the 20th century; it is becoming increasingly apparent that broadband represents the core infrastructure of the 21st century.

The low level of expenditure on infrastructure reflects a tendency in the UK to 'patch up' assets. Net public investment as a proportion of GDP declined from approximately 8 per cent in the 1970s to less than 1.5 per cent in the late 1990s and is still recovering.[73]

UK infrastructure is also comparatively expensive. The costs are mainly generated in the early project formulation and pre-construction phases. As discussed later, reforms to the planning system have been designed to reslease stalled public and private sector investments.[74]

Even though construction output in the UK is at a historic high there is a gap in infrastructure funding. Government estimates that over £250 billion of investment in infrastructure is still required over the next five years. This is a significant increase on the £113 billion invested in the period from 2005-10 and will require additional investment of £20 billion per annum over the coming decade.[75] Others estimate that infrastructure requirements could exceed £500 billion.[76] New money will have to be found.

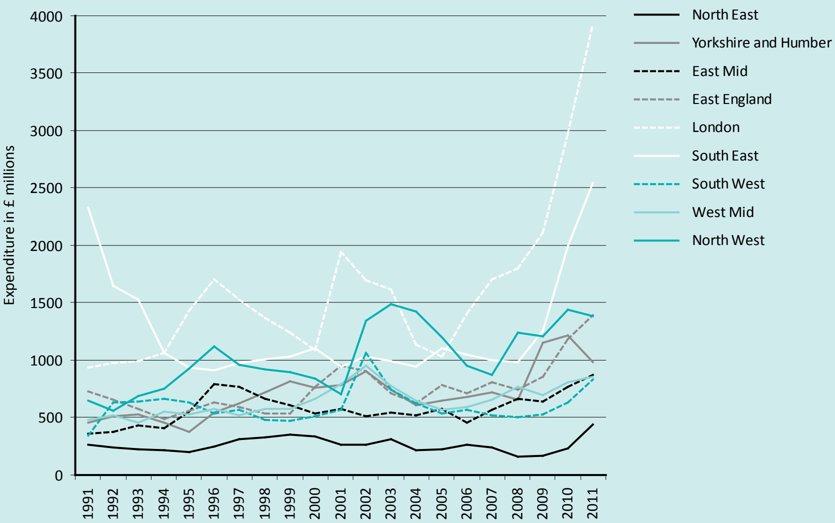
Figure 14 Estimated UK Infrastructure Requirements[77]

Energy	Water	Transport	Communications
Offshore wind Smart meters Green Deal Power stations Grid	CAPEX programme	Airport capacity High Speed 2 Other HS projects Network Rail	Broadband 4G Other projects

73 BCC, Tackling the Infrastructure Puzzle (2011)
74 Infrastructure UK, Infrastructure Cost Review (2010)
75 HM Treasury, National Infrastructure Plan 2011 (2011)
76 Helm, D., et al, Delivering a 21st Century Infrastructure for Britain (2010)
77 Helm, D., Presentation at the Infrastructure, Investment and Financing Summit, QEII Conference Centre, London (Feb, 2012)

Unlike skills investment hard infrastructure is inherently place-based. Having exceeded its previous peak during the building of the Channel Tunnel construction industry output is predominantly driven by projects in the South East, such as Crossrail, Thameslink and the M25 widening.[78] The Government's Infrastructure Plan detailed eighteen major transport projects that have already started in London and the South East as part of successive infrastructure spending plans, compared to four in the three northern regions combined.

Figure 15 Construction industry infrastructure output by region 1991-2011



Data from ONS Construction statistics 2011. This data measures construction industry output only and does not include infrastructure installation or maintenance

78 Construction Skills Network, Blueprint for Skills report (2011)

The benefits of investment

Infrastructure investments for economic growth should meet the current and future needs of local business. Infrastructure can encourage firms to locate in a given locality whilst connecting firms to world markets. Local government can also make use of new hard infrastructure to redesign its service offering using community budget and invest-to-save approaches.

Infrastructure investment creates both direct and indirect jobs. To take broadband as an example, it has been estimated that an additional £5 billion investment in broadband networks would create or retain an estimated 280,500 jobs for a year.[79]

Recent research has attempted to disaggregate this data further suggesting that for any given location - from a rural area to a city - superfast broadband could create between £143 million and £19.8 billion in additional GVA. This equates to an annual increase of between 0.3 per cent and 0.5 per cent.[80]

World-class infrastructure can attract firms to invest in the UK; it can also connect UK firms to global supply chains and encourage exports. This not only supports firm-level growth, it is good for the wider economy as UK companies which export are responsible for 60 per cent of national productivity growth.[81]

On the other hand, heavily congested transport and communications networks will have a negative impact on the country's economic competitiveness, as multinational businesses will look abroad for more reliable networks to distribute goods and services and SMEs will be cut out of the supply chain. Worryingly, two fifths of businesses are dissatisfied with links to emerging markets – more than double the proportion expressing dissatisfaction with EU links.[82]

79 LSE and ITIF, The UK's Digital Road to Recovery (2009)
80 Regeneris Consulting, Social Study 2012: The Economic Impact of BT in the UK (2012)
81 Harris and Cher, productivity growth
82 CBI, Making the Right Connections

South East airport capacity

The government forecasts that the number of air passengers using UK airports will rise from 211 million passengers per annum (mppa) in 2010 to 335 mppa in 2030 and 470mppa in 2050.[83] These forecasts suggest that, without new runways, the 3 largest London airports will be at capacity in 2030. There are currently 3 proposals for the location of a new hub airport all of which are in the Thames Estuary. As a recent publication from the South East LEP noted, "All 3 proposals pose significant environmental and logistical problems and do not have the support of local government."[84] With the recent expansion at London Southend airport and the successful Regional Growth Fund bid which will link London Manston airport to high speed rail access, the South East LEP is keen to explore options for making better and more efficient use of existing airport capacity.

The value of the web economy in G20 countries is estimated to double by 2016 to £2.7 trillion and the majority of web users will live in emerging markets.[85] If the UK wants to do business in these markets then superfast broadband will be essential. In 2009 the internet contributed an estimated £100 billion or 7.2 per cent GDP to the UK economy, exporting £2.80 for every £1 imported.[86] That is why District Councils such as South Oxfordshire and the Vale of White Horse are investing in superfast broadband in this instance to attract firms to the Science Vale EZ.[87]

Local authorities should also take advantages of broadband infrastructure for their own operations. To capture new opportunities, councils will need to use information systems intelligently by linking the requirements of hard digital infrastructure with other local challenges to create smart sustainable growth. New technologies and management strategies will be needed to better control traffic flows through road, rail, electricity and water systems. This will mean treating hard infrastructures as a single integrated network.

83 HMT, Infrastructure Plan 2011
84 SELEP, South East LEP Airport Study (2012)
85 Boston Consulting Group, The Connected World (2012)
86 Boston Consulting Group, The Connected Kingdom (2010)
87 See, http://www.broadbandchoice.co.uk/news/praise-for-oxfordshire-enterprise-zone-broadband-initiative-800772059/

Sectors like health and social care and education are at the early stages of digital transformation and as they transform, productivity will continue to grow. Community budgets, whereby a broad range of partners pool resources to achieve common outcomes, provide a means by which councils can join up delivery to save money that can be reinvested for economic growth. The internet has allowed people to live and work in very different ways – from accessing health information to booking holidays – and the digital era provides an opportunity to both redesign and 'reinvent' government.

Partnerships for development

Government has a key role to play in the development of infrastructure but finance is increasingly provided through the private sector. Partnership working between central and local government is essential but tensions exist between investment strategies, this is apparent in the roll out of superfast broadband. Clear prioritisation and local innovation will be required to overcome this.

The creation and development of infrastructure assets usually involves the state, as provider, subsidiser or regulator. Infrastructure has public good characteristics and competitive markets alone would not provide it as they would be unable to capture the profits. Infrastructure presents particular challenges for public policy; it tends to be large in scale, to be systemic and complex, and to be long-lived. For example, 40 per cent of London's water mains are over 100 years old, and 12 per cent are more than 150 years old.[88] Significant coordination and management at both the national and local levels is required.

Total capital grant spending for local authorities is set to decrease from £11.1 billion in 2010-11 to £6.8 billion in 2014-15 in real terms.[89] There are also substantial pressures mounting on the revenue side making it harder for councils to undertake additional borrowing for investment purposes. The Budget 2012 announced that Government will introduce a 20 basis points (bps) discount on loans from the Public Works Loans Board in 2012-13 but local government will still have to innovate in order to pursue new capital projects.[90]

88 See, http://www.thameswater.co.uk/cps/rde/xchg/corp/hs.xsl/10092.htm
89 NLGN, Capital Futures (2011)
90 HMT, Budget 2012 (2012)

Public Private Partnerships (PPPs) have become a key method for financial innovation, as a compromise between the benefits and drawbacks of complete privatization or absolute state responsibility. By 2009 there were approximately 800 PPP schemes in the UK, with a capital value something of the order of £64 billion.[91] However, despite rapid growth, PPP projects still accounted for only 10 – 15 per cent of local authority capital investment over the last five years.[92]

The global credit crisis had a profound impact on the PPP market. Illiquidity, initially within the banking sector and subsequently the bond markets, has been compounded by the contraction in risk appetite amongst investors. The Government is currently reviewing the private finance model and will look to address how it can be made cheaper, access a wider range of private sector financing sources, particularly pension funds, and strike a better balance of risk between the private and the public sectors.[93]

The PPP model has been applied to the roll-out of broadband to those, predominantly rural, areas that the market has yet to reach. In 2009, Digital Britain set out Labour's policy ambition to deliver broadband to everyone in the UK by 2012 and Broadband Delivery UK (BDUK) has built on this agenda. BDUK provides a public subsidy of £530 million and local authorities can apply for a capital grant through submitting a Local Broadband Plan. This has been funded by £230 million from an under-spend of the digital switchover fund and £300 million contributed from the BBC license fee from 2013/14. When submitting a bid local authorities must guarantee to match-fund the BDUK money with the intention that the private sector will make up the other half of required funds.

BDUK has continued to emphasise that investment is dependent on the needs and demands of the region or locality. This has been particularly time consuming, as there is not a 'one size fits all' delivery model, but local working has allowed local authorities to prioritise investment for underserved areas or areas of potential business growth. A third of the 47 projects are now ready, however there are 32 projects that have not had their Local Broadband Plans approved.[94] The trade-off between investments

91 House of Lords Economic Affairs Committee, Private Finance Projects and off-balance sheet debt (2010)
92 Ibid
93 HMT, Government plans to reform PFI system (2011)
94 http://www.dcms.gov.uk/news/media_releases/8816.aspx

for economic growth and for equity within regions is illustrative of the complexity of funding public infrastructure.

Concerns were raised during our research that BDUK will be overtaken by market developments, such as the 4G spectrum, if government continues to recreate a centrally planned market through fixed procurement framework. A number of local authority representatives also voiced the opinion that the current funding allocation was insufficient to provide rural broadband: "No-one's got enough money from BDUK – if it's so important for government why are they not prioritising it."[95] Government's decision to invest £100 million in super-connected cities and to make available £50 million for super-fast broadband in smaller cities demonstrates that BDUK's funding allocation is insufficient to meet the Government's growth objectives.

Superfast Cornwall: European funding for infrastructure

Superfast Cornwall is the European Union's largest single investment in superfast broadband infrastructure. The European Regional Development Fund is investing up to £53.5 million through the Convergence programme to help transform the economic competitiveness of Cornwall and the Isles of Scilly with BT investing up to £78.5 million. 10,000 businesses have been connected with 4,500 jobs created / safeguarded and an estimated £102 million impact on GDP. [102] Other European funds are available that specifically target broadband, for example the Connecting Europe Facility has allocated almost £7.8 billion to support investment in broadband networks and pan-European digital services. [103]

Strategic collaboration

Local government's ability to prioritise infrastructure investment is limited by the funding priorities of Whitehall departments and national agencies,

95 Participant at Infrastructure Roundtable 2012
96 See, http://www.superfastcornwall.org/success-stories.html
97 See, http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1200&format=HTML&aged=0&language=EN&guiLanguage=en

as demonstrated by transport policy. Government is looking to reform the system in order to take more account of local interests. This will be most effective if local authorities strategically collaborate in order to drive investment for economic growth.

Local authorities currently spend around £2.6 billion on behalf of the Department for Transport (DfT) and central government must approve all transport schemes over £5 million.[98] As one interviewee put it, "How can we define local priorities, when in transport, for example, we only have levers over roads? We need more influence over the whole transport network."[99]

Councils can only influence local roads, with the Highways Agency (HA) responsible for managing, maintaining and improving England's strategic road network - 6,500 miles of motorway and trunk roads. The strategic road network accounts for over 50 per cent of all heavy goods vehicle travel in the country and remains the only major item of economic infrastructure in England still run by the civil service, with annual budgets allocated by the DfT. If local government is able to overcome this barrier significant savings could be realised.

A number of survey respondents commented that the DfT is using metrics that don not account for local economic growth. Adding that "the bureaucratic bidding process" and lack of "buy-in to priorities" from the Highways Agency was hindering growth.[100] For example, the New Approach to Appraisal for transport projects focuses on a measure of 'transport user benefit' rather than a wider focus on investment for firm-level productivity and local economic growth.[101]

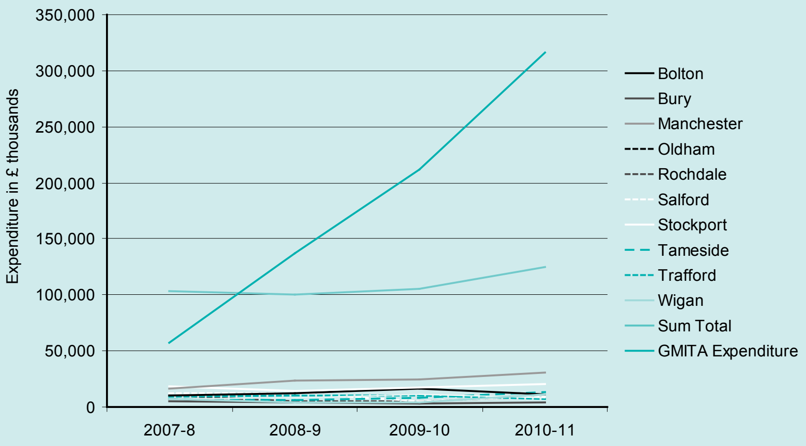
To address this situation the government has proposed a new system whereby from 2015 local transport bodies will be able to decide for themselves how to spend their money on priorities best suited to their local needs. In a recent review, it was suggested that the road network manager should work more closely with local authorities and LEPs, to develop a new generation of route-based strategies.[102] These would take into account local interests,

98 DfT, Devolving local major transport schemes (2012)
99 Interviewee
100 Survey respondents
101 For more on regional investment decisions see IPPR North, On the Wrong Track (2011)
102 Cook, A., A fresh start for the strategic road network (DfT, 2011)

potentially alongside new, localised mechanisms for financing and delivering improvements on the strategic network.

If this local transport model is to work effectively then investments should be made on a robust assessment of the predicted project impact on GVA as well as the value for money delivered. The ten Greater Manchester authorities recently agreed a £1.5 billion investment fund for major transport infrastructure based on a Single Assessment Framework that built on such evidence. This gave the councils the confidence to allocate substantial funding – alongside prudential borrowing and central grants – to a new integrated programme that includes substantial extensions to the Metrolink. Figure 16 shows how integrated transport investments have begun to significantly outstrip the sum total of previous highways and transport expenditure in Greater Manchester.

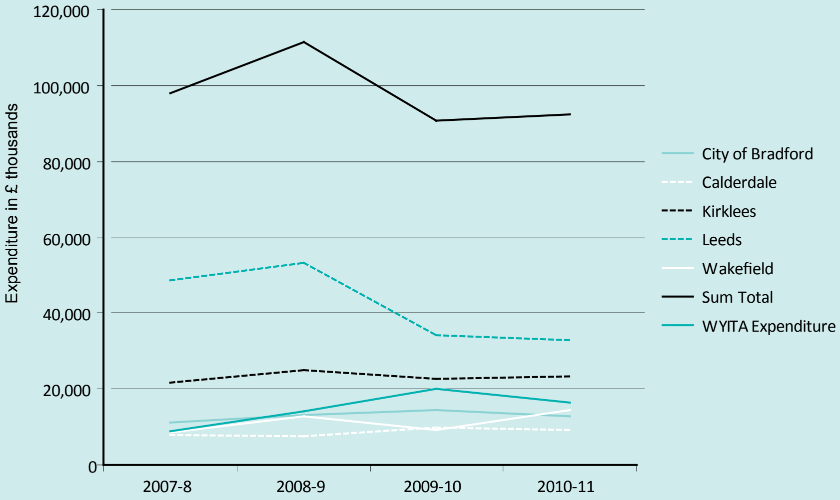
Figure 16 Greater Manchester: Highways and Transport Total Expenditure 2007-11



Data from DCLG, Local authority revenue expenditure and financing England: 2007 – 11 outturn – individual local authority data

In West Yorkshire during the same period we can see that integrated transport investment is much lower. In fact it is dwarfed by the expenditure made by Leeds City Council.

Figure 17 West Yorkshire: Highways and Transport Total Expenditure 2007 – 11



Data from DCLG, Local authority revenue expenditure and financing England: 2007 – 11 outturn – individual local authority data

Strategic collaboration between the centre and localities can lead to significant infrastructure development and future economic growth. Greater Manchester's recognition of its functional economic area allowed it to make the capital investments required for future economic growth and to overcome the 'jam-spreading' of infrastructure investment encouraged by grant funding.

Plans for growth

Planning policy gives local government a key lever in 'place-shaping.' The National Planning Policy Framework (NPPF) has simplified planning guidance and put decision making closer to the development level. The government has designed a range of incentives to allow local authorities and communities to realise the gains from new development and pursue economic growth. These will be insufficient unless regarded as part of a larger suite of policies for economic growth.

New roads and railways cut through towns and countryside, airports add noise and pollution, and energy generation and transmission - from pylons, to wind farms, to nuclear power stations - usually impacts upon the landscape. Therefore, as one interviewee put it, "planning is central to how politicians see what each local authority does and they jealously guard that and the ability to influence development in their area."[103]

Conflicts over planning within a functional economic area are a major constraint to economic growth. The NPPF has been designed to remove supply-side constraints, by simplifying planning policy guidance, devolving decision making, with a 'plan-led system' to put control closer to the development level, and instituting a 'presumption in favour of sustainable development.'[104]

The 'plan-led system' requires all local authorities to produce up to date Local Plans - the "keystone" of the system - alongside Neighbourhood Plans that will provide community-led guidance.[105] The NPPF also places a 'duty to co-operate' on councils. This duty is in line with the collaboration and strategic oversight that LEPs and pooling of capital funds or business rates can facilitate. However, as with these other measures, there is still potential for local conflict. As one survey respondent succinctly put it "our biggest problem is persuading our adjoining local authorities to genuinely co-operate in facilitating the growth of the town."

If local authorities are to develop responsive plans to deliver economic growth then co-operation will be essential - not just between councils but within councils, where a much closer working relationship should emerge between the regeneration, development and planning teams.[106]

103 Survey respondent

104 DCLG, National Planning Policy Framework (2012)

105 See, http://www.telegraph.co.uk/earth/hands-off-our-land/9169253/Planning-reforms-Greg-Clark-promises-new-framework-will-make-lives-better-tomorrow.htmlGreg Clark,

106 For more on this see Parker, S., Future Councils: Life after the spending cuts (NLGN, 2011)

Shard-Southwark Vocational Programme

The Shard-Southwark Vocational Programme has been allocated £5 million to ensure that local residents will directly benefit from the job opportunities in the tallest building in the UK. The objective is to provide training and employment opportunities during the construction of the building; to provide bespoke training courses to match the job opportunities in the completed building; and to create an ongoing outreach programme.[107]

Recommendation: *Local government should consider using planning policy to encourage businesses to conduct skills assessments for both new hard infrastructure and the potential needs of new businesses.*

The Government has insisted that local authorities find 'enough' land for development whilst giving incentives to local communities to support wider economic interests. The New Homes Bonus (NHB) has been introduced to match any council tax income from new build houses for a period of six years. It is estimated that almost £1 billion will be allocated. Survey respondents were broadly ambivalent about this measure and were concerned that the incentive would be too small to have any major effect on development.[108] The "scope of the NHB will be limited in many areas." Council's in the South West were more supportive of the measure than those in the South East.[109] The Community Infrastructure Levy (CIL), introduced originally in the Planning Act 2008, represents another means for councils to realise gains from granting planning permission. This is discussed in more detail in the next section.

Investing for local growth

Local government can use a range of tools to finance capital projects; these include Tax Increment Financing (TIF), CIL and Local Asset Backed Vehicles (LABVs). They allow local authorities the freedom to drive growth, but will only work on specific projects in specific places.

107 See, http://www.southwark.gov.uk/info/200189/frameworks_strategies_and_programmes_of_work/1959/shard_southwark_vocational_programme/1
108 NLGN, Local Economic Growth Survey (2011)
109 Survey Respondent

TIF allows local authorities to borrow capital against a future uplift in business rates due to a new development; this will be ring-fenced to pay for the initial investment. It is based on the premise that the provision of new infrastructure in an area will stimulate 'additional' commercial activity and increase property values.

It has been used extensively in the USA and is also being piloted in Scotland. It can be used for road improvements, superfast broadband or the development of new city centre sites. A number of councils are keen to press ahead with TIF. For example, in Leeds a 400 ha brown field site in the Aire Valley requires an additional £250 million in infrastructure investment in order to unlock an estimated extra £900 million in business rates over 30 years.

Survey respondents were enthusiastic about TIF but more detailed interviews injected a note of caution: "TIF is high risk, long term and small scale."[110] To this end, previous NLGN research stated a clear preference for a TIF model of borrowing against growth in a defined area. This would ring-fence TIF areas meaning they are exempt from revaluations or resets of business rates.[111]

Survey respondents also identified the potential of a funding gap between the period of initial investment for redevelopment and the point at which business rate payments commence. This could affect council's ability to pay back the initial loan used to fund the capital investment. For example, in Edinburgh this gap is expected to be £1.34 million per year for the first three years.

Recommendation: *The Department for Communities and Local Government and HM Treasury should consider allowing local authorities to delay Tax Increment Financing repayments until business rate uplift from new developments kick in.*

CIL represents a means for councils to gain from the uplift in land value attributed to developments. The intention is that developers pay a tariff to provide 'meaningful' compensation to residents. This can be used to provide the new infrastructure required to support economic growth. For example, with Crossrail the Mayor of London introduced a London-wide levy on new business development on the grounds that Crossrail infrastructure would

110 Interviewee
111 Capital Futures (NLGN, 2011)

benefit all London residents, with benefits in the boroughs ranging from £15 million to £115 million.[112] In the rest of the country the rate of CIL is to be set by charging authorities, which in two-tier areas means the district councils. It is predicted to provide £6 billion worth of funding for new infrastructure over the next decade.

Strategic infrastructure in Newark and Sherwood

Newark and Sherwood District Council intends to use CIL to improve the local highway network and to provide a new school for a growing population. CIL money will match public funding for highway projects, which cannot be attributed to the development of one site, and will make a £25 million contribution to a new secondary school in Newark.[113]

Unlike Section 106, the spending of CIL is not restricted to specific sites, nor is it time limited. Instead, the accumulated funds can be utilised much more flexibly subject to them being spent on infrastructure. S106 obligations have traditionally been more directly related to the site itself and the immediate impacts of the development on the local area. CIL allows greater flexibility and it is possible to pool funds with other charging authorities to support the delivery of 'sub-regional infrastructure.' This has important implications for local infrastructure funds.

LABVs are joint ventures into which the council assigns key property and land assets that the private sector is able to borrow against. Risk is shared through a limited liability partnership and can help avoid the lengthy procurement periods and start-up costs of previous PPP models. Similar mechanisms had previously been used by the RDAs. The debt and equity raised provides project finance for regeneration work, usually in town centres such as the £450 million 25 year urban regeneration partnership between Croydon Borough Council and the developer John Laing. LABVs offer a chance to leverage council assets without having to dispose of them. New models are also emerging that are oriented around more strategic partnering principles – capital investment is delivered but this is just part of the partnering arrangement.[114]

112 http://www.london.gov.uk/publication/mayoral-community-infrastructure-levy
113 Newark and Sherwood District Council, Regulation 123 List of Projects to be Funded by CIL (2011)
114 Capital Futures

The new financing tools are dependent upon current and future land values and unlocking pent up demand. Concerns were raised during our research that, although theoretically sound, they do not provide enough incentive for local collaboration and have limited application beyond urban areas.[115] Where land values are high and markets are relatively strong, regeneration funding mechanisms are most likely to work. Therefore, these policies may fail to generate economic growth across the country and will not generate sufficient growth if used incoherently rather than as part of a strategic portfolio of infrastructure investment instruments.

Realising a return on investment

Local authorities should co-ordinate the tools for local economic growth and consider opportunities to pool capital, assets and receipts in 'Revolving Investments Funds'. These funds will be designed to make loans rather than grants in order to recycle money for future investment.

The Growing Places Fund (GPF) was established in 2011, allocating LEPs a portion of capital funding from a £500 million pot to allow them to deliver their economic strategies. Quick progress has been made on unlocking development; for example, the Lancashire Enterprise Partnership has allocated £7 million of its £13 million from the GPF for schemes that it estimates could deliver 3,000 new jobs as part of a £190 million public/private investment package.[116]

In the 2012 Budget it was confirmed that a further £270 million would be allocated through the GPF.[117] As GPF money is not ring-fenced it can be used to capitalise revolving funds that are able to generate new economic activity. These Revolving Investment Funds (RIF) provide access to a flexible source of capital that can be used to finance projects. Importantly this finance is provided as a loan, not a grant or subsidy. They will not provide quick fix solutions - "The GPF will take at least 2 years before it becomes a revolving fund" - but has the potential to provide a vehicle for local investment that allows more entrepreneurship and experimentation than grant funding

115 Participants at Local Growth roundtable
116 See, http://www.lancashirelep.co.uk/news/index.asp?articles=68271
117 Budget 2012

models.[118] There is on-the-ground experience to draw on in establishing RIFs, for example the Evergreen North West Fund, London Green Fund and Cambridgeshire Horizon's rolling fund. But the model is very new and will require ongoing evaluation to ensure that ventures are supported that realise the best returns.

London Green Fund

The London Green Fund is a £100 million fund set up to invest in schemes that will cut London's carbon emissions. Launched in October 2009, it is made up of £50 million from the London European Regional Development Fund, £32 million from the London Development Agency and £18 million from the London Waste and Recycling Board. It is managed by the European Investment Bank.

Investments can release value through the sale of land to a third party for development, through proceeds from a new development itself, through business growth and tax uplift, through public sector savings or through interest repayments. Greater Manchester has agreed a City Deal that goes even further and gives it the opportunity to 'earn back' up to £30 million a year of tax for the growth it creates from infrastructure investments through its RIF.[119] This could include both corporate and income tax and demonstrates that the Government is willing to consider potential funding opportunities that go far beyond the current plans for business rate retention.

Across the Atlantic, New York's Clean Water and Drinking Water State Revolving Fund makes both short-term and long-term investments in a variety of asset classes, to allow for capital growth and increased lending capacity. Chicago, meanwhile, recently launched a new Infrastructure Trust and intends to work with investors to finance an effort to reduce energy consumption in participating City assets by 20 per cent.[120] The savings made will be recycled back into the fund. The initiative will commence with a

118 Participant at Infrastructure Roundtable
119 GMCA, Greater Manchester City Deal (2012)
120 See, http://www.cityofchicago.org/content/city/en/depts/mayor/press_room/press_releases/2012/march_2012/

£126 million investment in the hope that it provides an attractive option for private investors looking for low-risk investments.[121]

RIFs could also invest beyond infrastructure by taking equity stakes in local businesses and sharing in their success. This would be a next step beyond the example provided by Northamptonshire County Council's Silverstone loan. The Maryland Venture Fund has recently raised £53 million to invest in local companies.[122] Previously the fund had returned £38 million to the state on the £16 million it had invested.[123] Local authorities could pursue this equity investment model to develop sectors that provide growth opportunities. This could further galvanise growth in EZs, for example the petrochemicals industry in Tees Valley, or build on vocational centres, such as Kent's focus on renewable technologies.

In terms of operation, councils would commit capital or land assets into the RIF, which would be managed externally. It could also be a vehicle for the alignment of debt financing from other mechanisms and funds, including TIF, CIL, LABV, devolved major projects money and European funding. They would also provide a vehicle for the single capital pot that was proposed in the City Deals. If Government were to agree the single capital pot it would provide a further incentive to encourage pooling of business rates and funding streams. In two-tier areas funding could be committed on a project basis through a 'pay-to-play' deal. A caveat to this approach is that since "finance models revolve around individual projects, it makes judging and mapping the length of return on the investment challenging."[124]

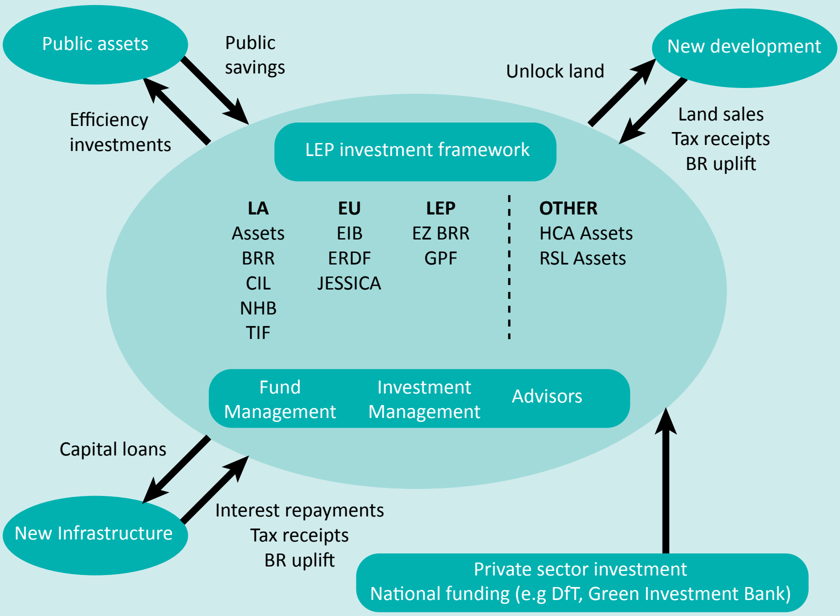
121 Ibid

122 See, http://www.washingtonpost.com/local/md-governor-announces-84m-raised-for-venture-capital-fund/2012/03/15/gIQAheUkES_story.html

123 See, http://www.baltimoresun.com/news/opinion/oped/bs-ed-cities-revenue-20120221,0,7080267.story

124 Participant at Infrastructure Roundtable

Figure 18 Revolving Investment Fund



If the RIF model is to work to maximum effect councils will have to make investments across a functional economic area and support agglomerations that stretch beyond administrative boundaries. It should also be regarded as complementary to the other levers that local authorities have at their disposal, such as planning and transport policy and be market oriented.

Match funding could come from prudential borrowing or private sector investors such as banks (including the European Investment Bank or Green Investment Bank, once it's online), limited companies, social enterprises, cooperatives and individual investors. To this end well established RIFs could consider issuing institutional bonds, with retail bonds a potentially attractive option for local investment.[125] Funds could also explore how they can access the new Pension Infrastructure Platform that was announced in the budget and will make its first wave of £2 billion investment by early 2013.

125 For more on the potential for developing local government bonds see Sturge, J., Retail Therapy: Local capital finance and the retail bond market (NLGN, 2012)

The European Investment Bank

The EIB is owned by the 27 member states of the European Union. The bank makes large direct loans to projects that improve infrastructure, clean energy, health or education. The EIB does not seek to maximize profits as a result; borrowers pay low interest rates, close to the EIB's cost of raising the money.

The European Union is keen on the revolving fund model. The European Regional Development Fund has around £1.5 billion available to applicants until 2013. Some of this has been committed, but there are significant funds still available. Changes to EU Structural Funds from 2014 also represent an opportunity for cities - large and mid-size - to strategically engage with the European agenda in a way that they were unable to under the RDAs. For example, the Joint European Support for Sustainable Investment in City Areas Initiative (JESSICA) allows authorities to use some of their European Structural Funds allocations to invest in revolving funds, and has been used by London and the North West, with a new fund coming online in Sheffield.

Recommendation: *LEPs should provide local authorities with support to pool money and assets to create significant capital for Revolving Investment Funds to invest in land, infrastructure, public assets or equity stakes in local businesses.*

4 *Conclusion*

Local authorities must take on the role of economic activists, tailoring plans for economic growth. In part this is because they are the 'last man standing'. As we were told on more than one occasion during our research: "If council's don't support local business who else will?" But it is more than simply a role of last resort. Economies grow in places and those places have specific needs and specific potential.

These dynamic places will underpin both local and national growth. Local government has significant control over skills and infrastructure and must use its levers intelligently to create the conditions for business to flourish. Taken together, these key factors can provide a multidimensional policy response for driving economic growth.

Yet, the current economic climate has placed significant strain on council budgets and there are limitations to what local authorities can achieve by themselves. Collaborative approaches - including Whitehall, LEPs, businesses and neighbouring authorities - are required. It is vital that innovation is encouraged to flow from localities to the centre and between localities. This will allow councils to maximise the tools they have at their disposal.

Our research has suggested how local authorities could use the new tools they have and how the Government could move forward its localism agenda through the strategic devolution of further powers. Local government needs to look beyond access to capital or the next grant funding regime. By making best use of their assets, insight and ingenuity, councils have the potential to create a virtuous circle whereby the proceeds of growth – in human and physical capital – can be recycled to support local and national prosperity.

Appendix 1 *Methodology*

A high-level advisory group, including representatives at the heart of the growth debate, offered strategic insight on the research and recommendations.

A desk-based literature review to summarise the latest theoretical thinking and policies for local economic growth.

We surveyed local authority economic development officers asking whether they had the tools they needed to support local economic growth and what challenges remained. We had 71 respondents to the survey with 49 complete responses to all the questions. The insights generated underpinned the entire project.

Engagement with key stakeholders including senior council officers and politicians, skills and infrastructure providers, Whitehall officials and the business community in three roundtable seminars and in-depth interviews.

Two research 'deep-dives', involving literature reviews and in-depth interviews; for skills the focus was Kent County Council and for infrastructure the focus was the roll out of high speed broadband.

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BT is playing a leading role in making the Public Services Network (PSN) a reality. The PSN is a key foundation for the Government's ICT strategy and BT is committed to helping central government, defence, health, blue light and local government customers prepare for PSN and the transformational benefits it will enable.

For more information, please visit **www.bt.com**

Kent County Council

Kent recognises that growth is not simply about growing populations and economic growth – vital though this is – it is also about transformation in education and skills, a cultural renaissance in the county and an efficient system that supports the economy, residents and the growth agenda.

In *Delivering Bold Steps* (July 2011) Paul Carter, Leader of the Council, identified three steps to help the Kent economy to grow**:** "Our role must be to support and facilitate new growth in the Kent economy and deliver against the key priorities set out in *Unlocking Kent's Potential*, our regeneration framework for Kent. We will focus on building strong relationships with key business sectors in the Kent economy, improving skills, delivering new housing and new infrastructure whilst ensuring we meet the challenge of a changing climate."

The achievement of these *bold steps* – shaping education and skills provision around the needs of the Kent economy, building a strong relationship with key business sectors across Kent and responding to key regeneration challenges working with partners – will be supported by NLGN's research and evaluation.

For more information, please visit **www.kent.gov.uk**

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