Recovery position

1 December 2011 | **Ross Ingham**
3 comments
Tags: Autumn Statement | Central government | George Osborne | Infrastructure | infrastructure plan | Local government | Regeneration.

The Chancellor's promise of a £25bn infrastructure fund has added to the range of initiatives now available to aid urban regeneration. Our economic future relies on these being successfully deployed

Among the raft of measures and forecasts that made up this week's very gloomy Autumn Statement, the Chancellor made a number of positive announcements that can help the UK's towns and cities. Compared to 18 months ago, the toolbox for economic regeneration is starting to look like a genuinely useful aid to support growth – and from the look of the GDP forecasts, we will need all the tools we can lay our hands on.

The scale of budgets and breadth of opportunities may not be the same and they probably will not be for some time to come. However, local agencies are steadily being re-equipped to help us grow our own way out of the very difficult environment we find ourselves in.

The stream of policy announcements, growth downgrades and new fiscal measures since the coalition came to power has been confusing and any glimmers of light have been thoroughly over-shadowed by economic gloom. Now it is clear that the sunlit uplands are some way off, it is useful to take a step back, pause and review some of the tools that are at the disposal of the public sector to support and influence growth:

Infrastructure Investment:

In order to stimulate a weak construction sector and improve the ability of places to survive and grow, the Chancellor announced in his statement a new £25bn infrastructure fund made up of public sector capital and private pension funding. This presents the opportunity to revive dozens of vital local projects that at the start of the political cycle were either axed or severely at risk, and it is unfortunate that these projects stalled for nearly two years. However, the single biggest infrastructure issue in a global economy, airport capacity/hub-status, remains cloudy and clarity is now needed on how this will be addressed.

Local Enterprise Partnerships, Enterprise Zones and the Growing Places Fund

As with any new agency, particularly one that combines the public and private sector, it has taken time for LEPs to bed-in, but they are now beginning to establish credible agendas and strategies for growth. Throughout their initial life, LEPs were often criticised as an empty riposte to the abolition of the Regional Development Agencies, and seen as powerless, fund-less committees.

Where they have been awarded, LEPs are able to deliver targeted local economic stimulus through the re-born Enterprise Zones, which offer substantial business rate discounts and simplified planning regimes. When added to the recent creation of the £500m Growing Places Fund and the intelligent objective of establishing sustainable investment funds that unlock growth, the signs now are that LEPs can and will contribute as serious agents of economic development.

Regional Growth Funding

Through two bidding rounds, the Regional Growth Fund has now allocated £1.4bn of investment and the Autumn Statement promised a further £1bn. The first round of funding was almost entirely directed towards the private sector and the second round included a meaningful number of public agencies. The balance between public and private recipients for round-three funding and the speed with which awards translate into draw-down and investment will be interesting to monitor.

New Homes Bonus

One of the earliest tools to be introduced by the coalition government, and possibly the simplest to apply, the New Homes Bonus rewards local authorities for delivering new housing. However, this tool is undermined by the frozen house-building industry, which remains hampered by a lack of affordable working capital, weak demand and the relentlessly glacial process of change to a still muddled planning system.

Re-localisation of business rates

The Department for Communities and Local Government's current base proposals will create a direct link between the economic performance of an area and additional revenue that can be accrued by a council and re-invested into local projects and service delivery. In addition, should the derivative Tax Increment Finance approach be adopted, relevant agencies will be able to debt fund infrastructure improvements to unlock growth. This is a truly exciting opportunity to generate place competitiveness and entrepreneurialism, but only if local authorities are allowed to retain a meaningful proportion of any business rate uplift.

There is also a considerable raft of policy and guidance that seeks to promote economic growth in one way or another. For example, the concept of best value is being reconsidered to remove barriers to entry to local SMEs, public service delivery is being opened up to NGOs and the private sector, powers are shifting to the local level to free-up resource and empower communities, landowning agencies are being urged to use land and property to leverage change, funding is being channelled into apprenticeships and skills and funding is being made available to improve broadband.

So within the gloom and alongside the forecast anaemic economic growth, it is important to note that tools are available to support local economies and compared to the period immediately after the general election when the toolbox was well and truly emptied, there are mechanisms to be positive about. The key to the future will be ensuring that they are effectively delivered and complemented as the difficult times seem set to continue.

Ross Ingham is the director of Urban Delivery*, a regeneration consultancy*

3 comments on Recovery position

Edward Harkins *says:*

Ross I cannot, with respectc agree with what seem to be the communal cheer-leading that is going on just now to the effect that 'Infrastructure will save us all'. Infrastructure spend has not been related by the chancellor – so far as I can ascertain – to regeneration. Indeed, here in Scotland the regeneration budget along with the affordable housing budget has been cut for funds to redeploy to infrastructure. By its nature, infrastructure is large-scale and top-down driven. Going by the utterances of (unelected) Lord Sasson to the construction industry last July, local community interests will not fare well against such infrastructure projects in the 'reformed' planning regime.
Who will truly benefit from increased expenditure on grandiose, long-term, large-scale infrastructure – perhaps the self-same corporate interests that already have done well enough out of PFI, PPP etc?
The name of the game now has to be to somehow get what regeneration we can out of infrastructure activity – to that extent I think Ross that you and I would agree. But I see this as more of a 'consolation' prize or 'very much second best' – rather than as some great opportunity for regeneration.
As for the economic case for regeneration, I have posted elsewhere here:
[Despite Japan's huge ramping up of infratructure investment] is not the reality that Japan has suffered a policy-defeating, 'stagflation' since the early 90s? It has an economy that, in the widest context, has been moving sideways sustained in that directionless wandering only by the high upfront investment in infrastructure. The UK now faces a re-run of the same stasis – what happens the moment that there is any attempt to step back from the current policy of quantitative (financial) easement? That is the Japanese decades-long paradox that the UK may be entering into.

The jury is still out on the greatest experiment in history with infrastructure for recovery. That was Roosevelt's New Deal. The weight of economic history evidence is that the New Deal did not bring about recovery; a recovery that only came about with the advent of WW2.

The Conservative Coalition were as wrong with Plan A deficit cutting as Margaret Thatcher's Government was wrong about monetarism. IMO they are about to compound that error with a following one of one mighty gamble of infrastructure.

2 December 2011 at 2:35 pm

Ross Ingham *says:*

Edward, many thanks for the comments, gratefully appreciated. I think I agree re: infrastructure esp trying to use it as a lever for regeneration activity poss through Chris White's broader def of 'Best Value'…? and perhaps some of the other tools can be more targeted. Thanks and regards.

2 December 2011 at 8:48 pm

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graham_chapman *says:*

This is ever so naive. The impact of the business rates devolution will be, over time, to reduce the budgets of most authorities outside the London area. Along with the cuts, this will force authorities into contracting back into their core services, Children's and Adults, at the expense of economic development. Capital investment will also virtually disappear and, because of the tightness of budgets, few authorities will risk TIF unless there are end users signed up and/or someone else will take the risk at a time when the private sector is risk averse. Moreover, these same budget constraints are unlikely to mean that the the new homes bonus will be used for new homes. More likely, much of it will be absorbed into mainstream funding to pay for things like the rising child protection costs.
As for LEPs, they have little funding, no administration to make anything happen as the author accepts They also have no direct access to the sort of capital required to get enterprise zones off the ground. If Enterprise Zones do succeed it will be local authorities and not the LEPs which will make them happen.

Finally we are now so awash with complex initiatives not only does no-one quite understand what the implications are, with the downsizing of staff, there aren't enough people in Whitehall or local government to implement them.

Sorry to be so negative but if the panglossian optimism of the writer is accepted at face value it will only serve simply to distract people away from providing real solutions.

4 December 2011 at 8:34 pm