

Written evidence submitted by the Society of Local Authority Chief Executives and Senior Managers (Solace) in response to the Business, Innovation and Skills Select Committee's Inquiry on the Productivity Plan

September 2015

BACKGROUND

Solace is the representative body for over 1200 Chief Executives and senior strategic managers working in the public sector in the UK, committed to promoting public sector excellence. We provide our members with opportunities for personal and professional development, and seek to influence debate around the future of public services to ensure that policy and legislation are informed by the experience and expertise of our members. Whilst the vast majority of Solace members work in local government, we also have members in senior positions in health authorities, police and fire authorities and central government.

SOLACE'S RESPONSE

Solace welcomes the opportunity to respond to the Business, Innovation and Skills Committee's inquiry on the Government's Productivity Plan.

- 1. Do you agree with the Government's assessment of the reasons for the UK's productivity slowdown (as outlined in the Annex to the Plan)? Has the Government acknowledged all of the main causes of the UK's poor productivity growth?**

Solace welcomes the Government's assessment of the reasons for the UK's productivity slowdown, as outlined in the Annex to the Plan. Whilst there are a range of causes to both the 2008 financial crisis and the national productivity slowdown, we would argue that one of the key reasons why Britain is struggling to fully recover from the crisis is a mismatch between striving to achieve a balanced economy and local areas not having the right levers to manage financially to tailor policies to the local needs and industry-specific dynamics of local areas. For instance, in regards to policies around skills, national attempts to define agricultural apprentice roles need to be tailored at local levels, as different areas will have different needs.

The purpose of this submission is to stress that local government views promoting economic growth, and within that improving productivity, as an important key objective. The sector has also got small but important financial incentives to do so through the policies such as the retention of business rates and new homes bonus. However, more could be done to ensure that the public sector can support the private sector to its best ability and with greater efficiency. Local authorities need to be given the necessary levers on local investment and the freedom to react to local circumstances; something that Whitehall currently struggles to achieve due to their lack of understanding of the issues and dynamics in local areas.

We welcome the Government's plans to rebalance the economy. In particular, we welcome the steps towards devolving more powers to Greater Manchester and working on devolution deals with

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other areas and we would urge the Government to devolve more powers to other clusters of local authorities and combined authorities across the country. There is much more to be done to give cities the powers they need to help boost the national economy and deliver joined-up decision-making and accountability. Moreover, the economic potential of rural areas is not fully understood beyond agriculture and food. For example, manufacturers with large-scale expansion ability seek freehold and greenfield land to allow scalability that urban areas limit due to price, contamination or availability reasons.

It is also important to recognise the need to accelerate research and development activity beyond university-led academic approaches to more experiential pilots that enable growth as well as learning. There needs to be a better understanding of the growth potential of small and medium-sized enterprises (SMEs) and some of the factors that affect step change.

It is clear that the current system does not function as effectively and efficiently as it could, and much of this is due to over-centralised governance, a confused set of financial incentives between local providers, and an over-reliance on national delivery models that over-regulate delivery at a local level. As such, the system has created a number of failures which impede on the efforts to increase the country's productivity, including:

- A mismatch between the supply of skills and the needs of employers continues to hamper growth in many local economies;
- Fragmented, inefficient and poorly sequenced public services which leave too many people trapped in a cycle of dependency, unable to access and progress through work to meet their potential and lead more productive and fulfilling lives;
- Many business struggling to access the right support and regulatory guidance at the right time to help them innovate because of the challenge of joining up national, local, public and private business support
- The inability of a siloed public sector to unlock the potential of sites for development, which means that the supply of new housing is running well below the 250,000 new homes per annum that forecasts suggest are needed to meet new demand;
- De-regulated local public transport services that constrains some areas' ability to market public transport as a consistent alternative to travelling by car and limits an authorities' ability to utilise revenues to meet its wider sustainable transport strategy; and
- The determination of priorities for the strategic road network at national level or through Highways Agency channels that fail to fully take account of local economic priorities or wider local consequences.

We recognise that progress has been made across some of these areas, and in some places. However, we believe there is still much potential that remains untapped.

- 2. One pillar of the Government's Plan is to increase "long-term investment". It outlines eight areas with specific measures to increase productivity.**
- a. Why has the UK's long-term investment been so low up to now?**
 - b. How can we ensure that the measures relating to long-term investment in the new Plan will contribute to productivity growth?**

We welcome the Government's plans to address the issues outlined in the Plan to promote long-term investment. However, we want to ensure that local government is enabled to do as much as it can to support businesses and boost economic growth in local areas, so that the plan benefits from the local insight and responsiveness that local government can bring.

Encouraging investment in economic capital, including infrastructure, skills and knowledge, is essential for increasing the overall productivity of the country. We would particularly stress the importance of addressing skills shortage and a lack of a highly skilled workforce, especially in areas such as construction and housebuilding; infrastructure funding and the need of a modern transport system; and achieving a world class digital infrastructure.

To ensure that the measures relating to long-term investment in the new Plan will contribute to productivity growth, local authorities need to be given the right tools and more overall control over these areas. Following last week's deadline for devolution deals submissions, clusters of local authorities and combined authorities are calling for greater local powers over, and funding for, skills, housing and transport. We believe that devolution is a key to rebalancing the economy, enhancing the global competitiveness of Britain's economy and making local services more sustainable. As the City Growth Commission, chaired by now-Commercial Secretary to the Treasury Lord O'Neill, projected, almost £80 billion in additional economic growth¹ could be generated if major city regions were given the tools to utilise their full potential. Only by devolving more power to local areas can we achieve our common goal of increasing the country's productivity and sustained economic growth.

According to a survey carried out on 310 respondents in Britain by the Confederation of British Industry (CBI) earlier this year, 2 in 3 businesses (68%) expect their need for staff with higher level skills to grow in the years ahead, but more than half of those surveyed (55%) fear that they will not be able to access enough workers with the required skills. Demand for highly skilled workers is particularly strong in sectors critical to the rebalancing of the economy – engineering, science and hi-tech (74%), construction (73%) and manufacturing (69%).² Previous research in this area has pointed out that economic growth could be at risk as a result of national and local skills gaps in the construction industry, arguing that by 2022, between 16 and 25 per cent of forecast economic growth could be lost if the lack of skills and capabilities that employers need is not addressed.³

¹ City Growth Commission, 'Final report – 'Unleashing Metro Growth', October 2014, www.citygrowthcommission.com/publication/final-report-unleashing-metro-growth/

² Confederation of British Industry, 'Inspiring Growth: CBI/Pearson Education And Skills Survey', 2015.

³ Local Government Association, 'Skills to Build: Creating the houses and jobs our communities need', 2015.

Consequently, this could have a negative impact on the ability to build the additional homes needed by our communities.

The sector has previously highlighted a growing mismatch between the construction industry's increasing demand for skills and a falling number of people gaining construction qualifications.⁴ There are 10,000 fewer construction qualifications being awarded by colleges, apprenticeships and universities annually, in contrast with the construction industry's forecasted annual recruitment need which is up 54 per cent from 2013.⁵ Solace welcomed the LGA's proposal to address this issue by creating a national 'Skills to Build' strategy delivered locally through the devolution process.

Further, we welcome the measures set out in the Plan, aimed to increase the quality and accessibility of digital infrastructure and a modern transport system. In order for these measures to increase productivity, we have asked the Government to bear in mind and understand the unique needs specific to urban and rural areas, which must be reflected in the locally-tailored policies. Local government is best placed to balance growth needs through local planning processes, and we are in support of more devolution and control of decisions over these areas at a local level to achieve economic prosperity. For rural areas around the country specifically, the biggest challenge in the coming years will be access to funding for infrastructure and access to services that sparsity and rural isolation present to service delivery and resilience. Its impacts, particularly around transport and connectivity, must not be underestimated.

- 3. The second pillar of the Government's Plan is to encourage a "dynamic economy". It outlines seven areas with specific measures to increase productivity.**
- a. What are the main weaknesses of our economy, in terms of dynamism, which are supressing our productivity?**
 - b. Do the measures introduced under in the plan address those weaknesses and are they appropriate?**

Solace agrees that promoting a dynamic economy that encourages innovation and helps resources flow to their most productive use is an important element for raising Britain's productivity.

We acknowledge that the Government's Productivity Plan has got a very broad remit across a range of public sector bodies. However, this submission aims to focus on how local government can be enabled to play its full and effective role to support businesses in local areas. Specifically, we want to focus on the issues around speeding up the planning system and incentivising the housebuilding industry to enable the industry to become more effective, and delivering the homes the country needs to boost the local economies, increase the productivity of local areas and workforce effectivity. As such, housing should be seen as an economic issue, as much as a social issue.

⁴ Local Government Association, 'Skills to Build: Creating the houses and jobs our communities need', 2015.

⁵ Ibid.

Speeding up the planning system and incentivising the housebuilding industry to boost the economy

Importantly, we believe that local decision-making needs to be placed at the heart of the planning system. We welcomed the Government's moves to speed up the planning system and make it more streamlined and efficient, and we agree that councils should move as quickly as possible to get an adopted plan in place.

Planning and development, which was cut to less than half its original level during the last Parliament, is one of the areas that saw one of the largest cuts to net spending over the last five years, whilst housing was cut by at least 30%.⁶ In order to speed up the planning process, local government needs to set all fees and charges locally to enable councils to be responsive to local needs and remove the subsidies that distort local markets. It is vital to empower local places and people to decide what they need and how they will deliver it, and local plans should represent the economic realities of the modern high street and reflect changes in society and be delivered in such a way that does not undermine the essence of local policy making or add additional layers of bureaucracy to the system. The integrated management of local assets allows local authorities to unlock land for economic growth and housing, make efficiencies through co-locating services, and allows assets to be used as a lever in public and private sector investment. To deliver the Government's goals set out in the Plan, local authorities need to be provided with the local management and disposal of public sector assets to create 'One Public Estate' and give local agencies and partners the same ability to co-ordinate local investment decisions for assets in their area.

Importantly, however, the planning system is only one piece of the puzzle and it should not be seen as the main obstacle on the economic recovery of the country. The planning system is not holding back house builders from delivering the homes we need. There are other issues that need to be addressed as well, such as skills shortage (as outlined above) and incentivising developers to use the land at their disposal with existing planning permission to deliver more homes. There are measures the government could take which could support both councils and developers in their shared aim to deliver more housing in a way that brings forward the necessary infrastructure to build strong communities. We also believe that infrastructure, development and planning should be considered altogether

Delivering the homes we need to boost the economy locally, increase the productivity of local areas and workforce effectivity

We believe that delivering the homes for workers is integral to boosting the national economy and increasing the productivity of local areas. Housing should be an essential strand to investment, regeneration programmes and devolution deals that are being developed and delivered by Local Authorities and Combined Authorities. It is crucial that housing developments are integral to these

⁶ Institute for Fiscal Studies, 'Central Cuts, Local Decision-Making: Changes in Local Government Spending and Revenues in England, 2009-10 to 2014-15', 2015.

wider plans and linked to the economic needs of businesses and communities to drive productivity and increase growth.

The Plan presents a number of policies and targets that the Government has set out around increasing housebuilding and home ownership. These include delivering 200,000 Starter Homes by 2020 at a 20% discount to first-time buyers and the extension of the Right to Buy to housing association tenants through the Housing Bill. The Government has proposed that the latter policy is to be funded by sales of high value council properties.

The sector has previously expressed concerns around a number of risks associated with the approach to build Starter Homes on under-used or unviable commercial or industrial sites, centred on the fact that these sites are frequently problematic – often in a multiple ownership and with the cost of remediation and infrastructure needs being so high as to render the sites unviable. Local government is, however, keen to work with developers to de-risk brownfield sites and bring public assets into use, as well as with the Government on the implementation of the new zonal system for automatic permission on suitable brownfield land. Local government needs streamlined and more effective compulsory purchase powers to enable Local Authorities to assemble and package up suitable brownfield sites for development.

In regards to the planned extension of the Right to Buy policy to housing associations, it is important to note that the replacement under the current Right to Buy scheme has not kept pace with sales, which has reduced the stock of affordable housing in many areas, and it has also led to growing housing waiting lists. Most local authorities feel the current system only allows them to replace less than a half of the homes they have sold. In those areas where the housing market prices are low, there are concerns that the policy intention does not stack up financially. The knock-on effects of this on productivity and workforce effectivity should not be underestimated.

Additionally, we believe that local government should be allowed more local control over the Right to Buy scheme in order to remove restrictions on reinvestment and better reflect local housing market conditions. We have previously asked the Government that the receipts from Right to Buy sales are to be retained locally and reinvested in building new homes in local areas, in order to boost local economies. Through devolved decision-making and decentralised funding, local government can develop the long-term policies, programmes, and partnerships required to shape local housing markets and provide the housing and neighbourhoods that people want to live in.

4. Overall, does the Plan adequately address the main causes of low productivity in the UK (as discussed in question 1) and will it have the desired results?

Solace believes that the Government's Productivity Plan will achieve the desired results only if the state is able to work effectively at the correct local economic area. Local government is uniquely placed as the convener of key local public services and it possesses the understanding of local circumstances, which the Whitehall currently lacks.

The financial challenges facing the country can only be solved by a step change in productivity in the wider economy, matched by far greater efficiency across the local public sector, and local government is pivotally placed to achieve both. By utilising the experience, management skills and innovation of the last five years, local government can really play a key role in supporting local businesses, increasing the country's productivity and creating a dynamic economy if it is given the tools and levers it needs to realise its full potential.