association for public service excellence

Kickstarting economic growth

Maximising the contribution of local council services

About APSE
The Association for Public Service Excellence (APSE) is a not-for-profit local government body working with over 300 councils throughout the UK. Promoting excellence in public services, APSE is the foremost specialist in local authority frontline services and operates one of the UK's largest research programmes in local government policy and frontline service delivery matters.

About the University of Staffordshire Centre for Business, Innovation and the Regions
The Centre for Business, Innovation and the Regions at Staffordshire University brings together internationally recognised researchers with a commitment to applied impactful research. With established partnerships with leading public and private organisations in the UK and abroad, its research seeks to advance community wellbeing, regional economic development, and the generation of alternative economies.

About CLES
CLES is the Centre for Local Economic Strategies. Established in 1986, CLES is a Manchester-based charity working towards a future where local economies benefit people, place and the planet. This will happen when wealth and power serve local people, rather than the other way around, enabling communities to flourish. CLES has an international reputation for its pioneering work on community wealth building and is recognised as the curators of the movement in the UK.

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As Visiting Professor Mark supports economic development, growth and regeneration in North Staffordshire and plays an active role in engaging businesses and students.
Mark's connections led to him being named LinkedIn 'Top UK Voice' in 2016, 2017 and 2018 which recognises individuals whose words have launched countless high-quality conversations locally, and globally. Alongside his Visiting Professor role at Staffordshire University Mark continues to be a member of the UK Government's Investment Trade Advisory Group and is actively involved with the Made in Stoke-on-Trent Network.

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Mo Baines is the Chief Executive, APSE and Visiting Professor at the University of Staffordshire. Within APSE Mo is responsible for the delivery of the Association's services to its UK-wide local authority networks, which support councils in the delivery of excellence in frontline services. APSE also delivers a research programme which seeks to apply theory into practice, specifically in frontline services and issues of local democracy and governance. Mo has an MPA with distinction from the University of Liverpool and is author of 'Rebuilding Capacity: the case for insourcing public contracts'. She is a regular columnist and commentator for the local government trade and national press. Starting her career with Manchester City Council, and working with local government trade unions Mo has also worked as Head of Communications, and the lead advisor for APSE member councils in the north of England and Northern Ireland. Mo is APSE's former Deputy Chief Executive and was appointed as the Association's Chief Executive in 2023.

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Foreword

The surprise timing of the General Election, called in July 2024 led to a flurry of political debate on the issue of growth. While growth is seen as the holy grail for developing economies, as successive administrations will attest, it is not that easy.

The new Labour Government has pledged to a 'Mission-based' approach with kickstarting the economy viewed as its number one priority.

It is in this context that APSE (Association for Public Service Excellence), the University of Staffordshire and CLES (Centre for Local Economic Strategies) developed this paper on the issues of growth, in terms of its relationship to the role of local authorities and framed by the now fifteen years of austerity, or, at the very least, severe constraints on local government spending.

Whilst the authors have used GDP as the commonly accepted reference point throughout this paper it is recognised for some readers this remains a contested measurement. However, this is intended to provide a relatively straightforward means to draw comparisons with historical and current economic performance, in terms of growth and local economies.

This paper is published in advance of the Autumn Budget to provide the local government sector with a means by which to advocate for a recognition that local councils, which are properly resourced and funded, can be a catalyst for good growth within local economies, and supporting growth in the national economic context too. This should, the authors argue, be viewed through the prism of investment, rather than a drain on the public finances. Indeed a failure to reflect upon the role of local councils in developing good growth runs counter to all of the Government's missions which rightly reflect on opportunities, life chances and the recalibration of public services to support an economy that provides for healthier, happier and more sustainable local communities.

Our message is clear. Investing in local government is an investment in local growth. I commend this paper to you.

Cllr Archie Dryburgh, MBE, APSE National Chair

1 Growth, growth, growth

Growth is the answer

Economic growth was the dominant theme of the 2024 General Election. There were 49 references to it in the Labour Party's Manifesto and Sir Keir Starmer described higher growth as *"his single driving mission."*[1] On taking power, the new Government immediately confirmed *"Kickstarting the UK economy to achieve the highest sustained rate of economic growth in the G7"* as one of its five priority missions.

Why is achieving faster economic growth so important to the new administration? Because, having effectively chosen to comply with, apart from a few small exceptions, the expenditure and taxation plans of the outgoing Conservative administration, it will be severely resource constrained as it seeks to create the change it has promised voters. Even reported changes to the classification of debt will only create a limited headroom under the existing rules as interest on any new borrowing will increase the squeeze on current spending.[2]

With limited fiscal space, the hope is faster economic growth, which we define as a rate above the one underpinning the existing fiscal projections, which will drive increased corporate profits, boost employment, and support higher wages. In this scenario, higher tax revenues and reduced welfare spending will provide the additional resources the Government requires to fund its overall programme of national renewal.

Writing in the Daily Mail on May 24, 2024, then Shadow Chancellor Rachel Reeves summarised Labour's thinking.

"The only way we can put more money in people's pockets and fund our public services over the long-term is by growing the economy and backing Britain's wealth creators." [3]

In this statement, Rachel Reeves went beyond explaining why growth is so important to Labour's plans, to outline the proposed approach to achieve it; reliance on the private sector to deliver higher output. It is an investment led strategy with a focus on attracting international investment.

Our approach

While its voluntary decision to adhere to the existing fiscal plans has forced the new Government to push for faster growth, it does have more flexibility on how it seeks to deliver on the ambition. It has chosen a very specific approach of private sector investment led growth with the public sector consigned to a supporting role, forced to wait for funding after the economy has grown.

In this report we demonstrate how an alternative approach, one that recognises an increased investment in public services, alongside higher private investment, is required to achieve the level of growth required to allow the Government to achieve its objectives for the country. The Government's proposed approach of relying on the private sector to drive growth is suboptimal because it will fail to maximise the potential of all the resources in the economy.

[1] Stacey K. 2024. "Labour will fail if it does not reduce inequality says new MP.", The Guardian, 25th July.
[2] Stacey K. & Partington R. 2024. "Rachel Reeves could change fiscal rules to allow more capital spending, say sources.", The Guardian, 23rd September.
[3] Reeves R. 2024. "'No one is going to give a box of matches back to the arsonists who burnt the house down." Daily Mail, 24th May.

To provide the platform for our analysis, in the remainder of this section we first estimate the likely rate of growth required for the Government to deliver on its objectives and then set out our understanding of the Government's proposed approach to realise this target.

In section two, we explore the research on economic growth and how investment in the public sector can contribute to growth nationally, evaluating what the evidence tells us about the Government's proposed approach. We then go on in section three to examine the relationship between growth and investment in public services provided by local councils. This analysis forms the basis for the estimation of the potential impact on growth of an increased investment in public services and our recommendations on how to achieve this improved performance which we present in section four.

There is a legitimate debate regarding how much policy focus there should be on growth, versus broader measures such as wellbeing, which would require more attention on improving other aspects of daily life. To a degree, the Government's other four missions are broader and will address some of these concerns, but delivering on them will, to a large extent, require growth to generate the resources to drive change. As our focus is on the kickstarting growth mission, we implicitly give the Government the benefit of the doubt on its ability to drive wider change, but it is important to recognise the danger that a narrow focus on growth could lead to insufficient attention to other important initiatives.

How much growth do we need?

What level of growth will be required to meet the new administration's ambitions and stay within the existing fiscal constraints? As the previous Government chose not to commission a Comprehensive Spending Review to set expenditure plans for the period after 2025, there is very little detail available upon which to base an informed judgement on the resources required to deliver the level of public services expected by citizens.

From the information we do have, the new Government is likely to find it extremely challenging to deliver in full on the commitments set out in its Manifesto. As the Institute for Government and CIPFA noted:

"Public services are in a much more fragile position now than in 2010. This is a result of both the first round of austerity and more recently the pandemic. Cuts are therefore likely to be both more damaging and harder to deliver."[4]

With the commitment to the broad outlines of the fiscal plan developed by the previous Conservative Government, after allowing for higher spending by protected departments, the proposed 1% annual real rise in spending over the next five years, would mean local authorities and other unprotected departments facing annual cuts of over 2% in the real resources available to them. With the discovery of a "black hole" in UK public finances immediately after the general election, the significant funding restrictions implied by these projections are very likely to turn out to be optimistic.[5]

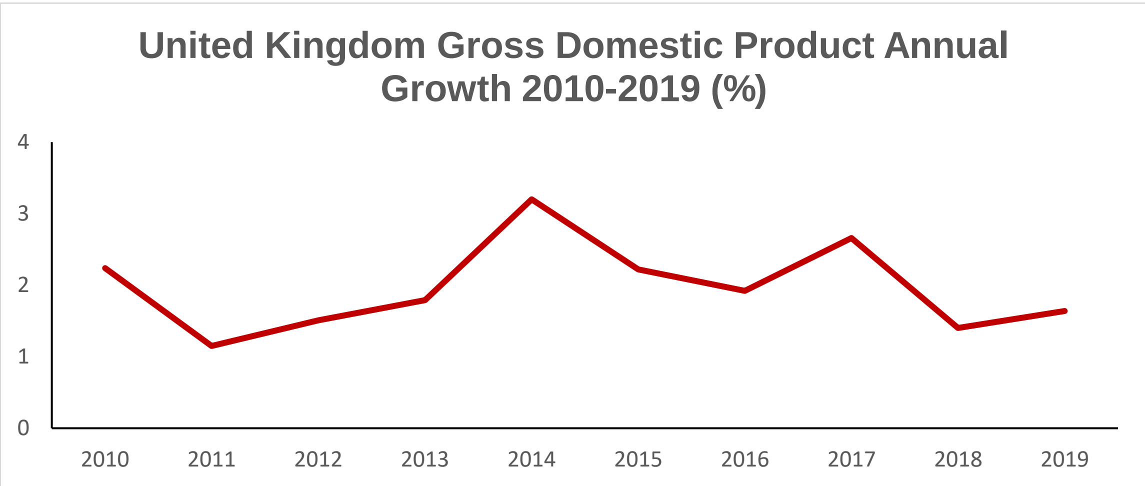
[4] Hoddinott S., Fright M. and Pope T., October 2022. Institute for Government and CIPFA, "Austerity' in public services: Lessons from the 2010s. IFG Insight.
[5] 2024. 'If We Cannot Afford It, We Cannot Do It': The £20 Billion Black Hole in Public Finances. www.chamberuk.com, 29th July.

According to the Financial Times[6], staff estimates from the International Monetary Fund (IMF) suggest the UK will need real GDP growth of 2.6% annually from 2025-26 onwards to stabilise public debt without extra tax rises or spending cuts. In other words, if correct, the UK needs to grow at 2.6% just to maintain the current state of its public finances.

As the financial problems of local authorities are well-known - the Local Government Association estimates the sector faces a funding gap of £6.2 billion over the next two years[7] - further real cuts in their resources appear totally unrealistic. In the light of this need for extra funding across local government, along with other pressures across the economy, even the 2.6% annual growth identified by the IMF, predicated on stabilising debt not supporting extra spending, may not be sufficient to enable the Government to deliver on its commitment to improve public services nationally. At best, 2.6% growth annually represents the low end of the target range and will require significant improvements in productivity alongside economic expansion across the whole UK economy to meet the stated objectives.

Where will the growth come from?

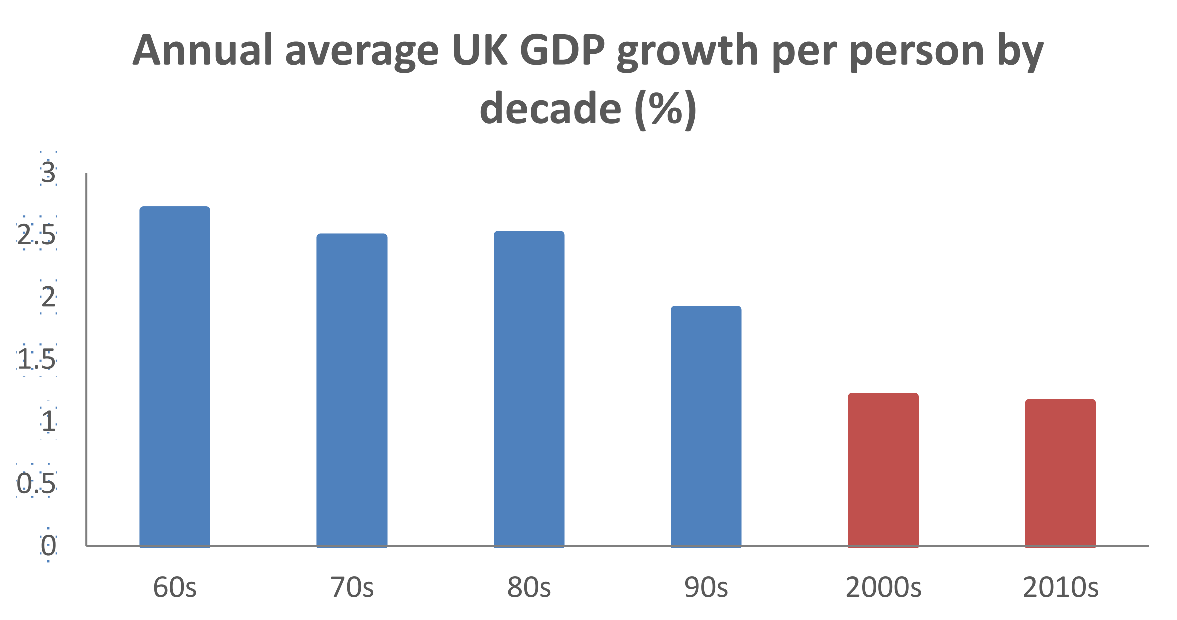
Achieving annual growth of 2.6% will require a major step up in both absolute and relative UK economic performance; between 2010 and 2019, the UK only twice grew at more than 2.6% in a calendar year. Current consensus projections are for growth to continue to be significantly below historic trends. For example, the Bank of England forecasts UK economic growth from 2024 to 2027 will be 1.3% to 1.4% on average annually[8], about half the growth the IMF estimates is necessary just to comply with the UK's fiscal rules.



Source: IMF via Statista

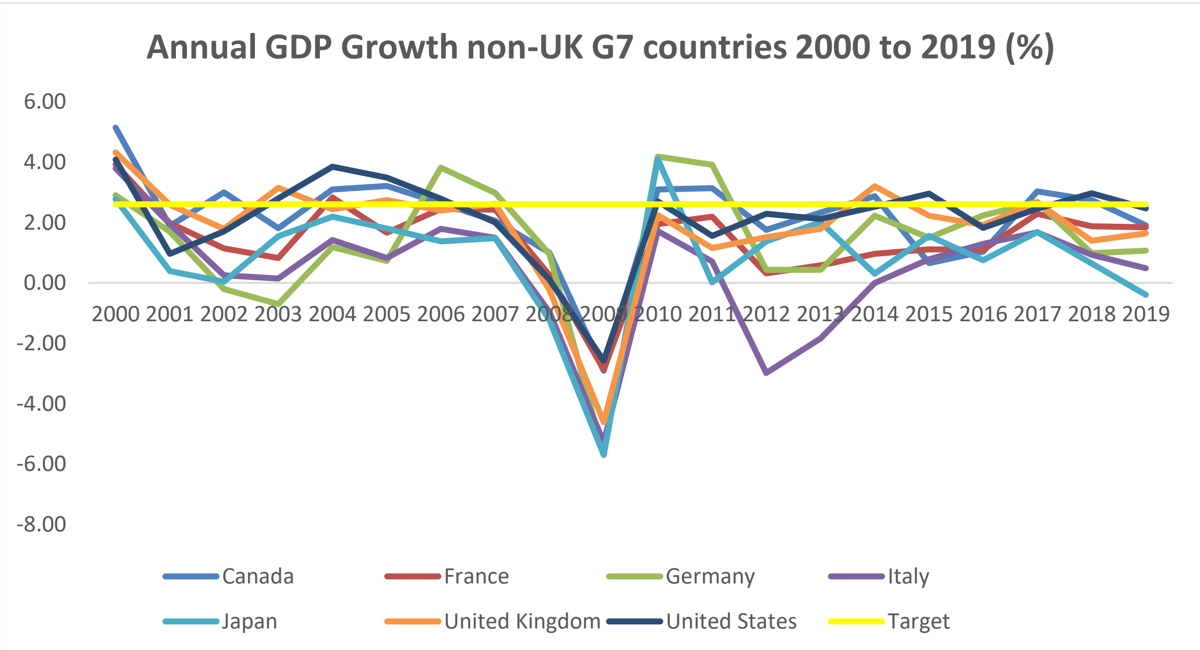
The UK's historic growth performance is revealed to be even weaker when we adjust for growth in the population. In the 21st Century, the UK has shifted from a model of productivity driven growth to one based on increasing the size of the workforce. Productivity growth has stalled and output per head has declined significantly with 2010-2019 being the worst decade in the last fifty years for increased output per head. With the Government planning to reduce net immigration levels in the future and population growth slowing, higher productivity growth will be essential to boost output.

[6] Fleming S. 2024. "UK needs 'significantly higher' growth to avoid tough budget measures IMF warns. Financial Times, July 22nd.
[7] Local Government Association quoted in Play Report, Solace, 2024.
[8] Bank of England, Monetary Policy Report, August 2024.



Source: Staffordshire University analysis of ONS data.

Raising the rate of national economic growth is not easy - most Western economies have found it very difficult to maintain, never mind increase, their national rate of economic growth in the 21st Century. Growth has become even more elusive in recent years. In the two decades prior to the pandemic, annual GDP growth of 2.6% would only have put the UK top of the OECD league table in six of the 20 years, three of which were during the Global Financial Crisis. Since the pandemic, with slower growth across the developed world, a consistent growth rate of 2.6% annually would on current trends be very likely to be a G7 leading performance. To have a chance of meeting its objectives for improving public services, the UK Government will have to effect a major transformation in UK economic performance.



Source: IMF via Statista

While achieving faster growth is never easy, the UK Government is seeking to kickstart the economy at a time when the external environment is more complex and potentially less favourable to growth than for some time.

- Geopolitical tensions, technological innovation and demographic changes are combining to complicate decision-making and create potential structural barriers to growth such as an ageing population, putting growth enhancing investment at risk.
- China's contribution to global growth has been declining for some time and there are now signs the US economy may be slowing.[9]
- Friction in supply chains and labour markets due to the changes to the UK's economic relationship with the European Union are also likely to act as a drag on economic growth compared to recent history.

In addition, governments must balance pushing for faster economic expansion with any potential adverse impacts on the environment. This does not preclude growth, quite the opposite; the transition to a greener economy will create new growth opportunities. However, as we are seeing with the transition in the North Sea, significant up-front investment and resources from the public sector will be required to drive and support the transformation needed to facilitate sustainable expansion, adding further pressure to the fiscal challenge.

[9] US PMIs August 2024. S&P Global.

Labour's Growth Model – recognising the reality

To achieve its objectives, the new Government will therefore need to transform the UK economy to deliver a consistent rate of growth significantly above what has been achieved for more than a decade. Yet, because of the commitment to stay within the existing fiscal rules, it is aiming to do this without a significant incremental investment in public services. How does the Government plan to deliver?

As identified above, speaking before the General Election, Rachel Reeves outlined the proposed approach, highlighting the importance attached to the private sector, especially in providing investment.

"*Economic growth only comes from businesses: big, medium and small. Government's role is to give them the stability they need to invest and to remove the barriers to make it harder to do business."* [10]

She provided more details on her thinking shortly after the General Election in July,

"Private-sector investment is the lifeblood of a successful economy. We need to unlock private-sector investment."[11]

Investment driven, private sector growth is not a new idea. Seeking to reform the supply side of the economy to unleash the private sector is an approach taken directly from the playbook that has dominated UK economic policymaking for nearly five decades. By staying in line with consensus on the need to grow the economy to generate resources to address the challenges in the UK's public services caused by a long period of underfunding, Labour's proposed way forward establishes a hierarchy. Wealth creators will be incentivised to deliver the solution, reducing public services to the role of dependents; forced to wait for growth to deliver the funding everyone acknowledges is required. In line with the long-standing position of HM Treasury, no role is envisaged for public services in stimulating faster growth.

Having committed to fiscal restraint, the Government realistically has no choice other than to emphasise the role of the private sector. It would not be credible to set out a significant role for the public sector in generating growth without a major adjustment to the level and structure of current public spending plans. As supply-side led policy reflects consensus thinking, the approach is on the surface a low-risk position, minimizing the possibility of an adverse response from the financial markets and commentators such as we experienced during Liz Truss's brief period as Prime Minister.

Is the consensus correct? As the TUC has observed, improving the supply side to enable the private sector to deliver growth through higher productivity has dominated UK economic policymaking since 2008 despite no evidence of it having the desired effect. [12] Even though there has been no uptick in either growth or productivity for nearly two decades, there remains a reluctance to break from the pack and consider alternative approaches such as stimulating demand as well as improving supply.[13] Sticking with the consensus is not risk-free. Quite the opposite; there is a real chance it will not deliver the growth required.

[10] 2024. Daily Mail, 24th ibid.
[11] 2024 "Reeves: 'There's not a huge amount of money'. www.bbc.co.uk, July 5th.
[12] TUC paper: Productivity Puzzle. https://www.tuc.org.uk/sites/default/files/productivitypuzzle.pdf
[13] TUC ibid.

Prior to the election Labour's manifesto contained more details about their proposed approach in Government. Private investment will be increased by improving the efficiency of the supply side of the economy through, inter alia, the following activities:

- **Restoring economic stability.**
- **Unleashing investment with a new National Wealth Fund, including GB Energy.**
- **Reforming planning rules.**
- **Reforming decision-making to shift power away from Westminster.**
- **Reforming the jobs market.**
- **Reforming the immigration and skills system.**
- **Introducing a modern industrial strategy.**

Despite the high-level messaging on the importance of the private sector, the details of proposed activities indicate a more balanced approach. The proposals for the creation and public funding of a National Wealth Fund and GB Energy together with the intention to launch a modern industrial strategy, are an explicit recognition of the need for state intervention to shape and make markets to support growth. And while the hope is that the private sector will be the source of the bulk of the investment required to drive growth from a green energy transition, the hope that every £1 of public money could leverage £3 of private capital points to an admission that a significant degree of public sector "pump-priming" will be required. In addition to needing to ensure the public sector receives value for money for what are in effect subsidies for private finance, the recent history of utility performance and other public-private deals highlights the risk of a loss of public control over key activities in the economy.

Of all the elements of the Government's growth strategy, the inclusion of the devolution of power and responsibility within its growth mission tells us most about the expected role of the local public sector. By placing the intention to reform the UK's geographic governance model in the set of core activities to drive growth, rather than in other missions, the Government is acknowledging how central local council services will be in achieving its ambitions. For all the focus on the private sector, this is a strong acknowledgement of the role local public services will have to play in enabling economic growth.

It is a rational approach. Evidence from recent economic history demonstrates the need to leverage both the public and private sectors to the maximum to generate growth. Between 1997 and 2010, the period of the last Labour Government, the UK economy grew at 1.93% annually on average, second only to the USA among its peers. On a per capita basis, the UK's expansion of 1.42% annually on average was the fastest of the group.

Public services played a significant role in supporting growth during this period. In the period up to the Global Financial Crisis, UK growth was 2.89% on average annually and 2.43% on a per capita basis.[14] Public spending and investment as a share of GDP in the UK both started to increase around the turn of the century. And, although they did not return to the share of output they represented in 1978-79, they were significantly higher than when the Labour Government came into power in 1997. Stronger growth prior to 2007 compared to the period after 2010, when the UK adopted a policy of austerity, does suggest there are significant risks in failing to invest in public services as enablers of growth.

[14] CEPR https://cep.lse.ac.uk/pubs/download/special/cepsp24.pdf

Kickstarting economic growth

Economic growth will be a dominant theme of the next five years. Based on current performance and projections, the new Government will need to at least double the current forecast rate of growth to achieve its objectives; a major challenge made harder by agreeing to stay within the pre-existing fiscal framework in an unfavourable global economy.

Beneath the high-level messaging of reliance on the private sector, the nascent plans for kickstarting growth acknowledge the role of public services, including at a local level, as contributors, drivers and enablers of growth. In a world where the drivers of economic growth are uncertain and the required level of improvement is large, we need to understand how we can maximise the potential contribution of all sectors of the economy to growth.

2 Creating economic growth

What drives growth?

Economic growth is widely desired yet not necessarily widely understood, possibly because it is a relatively new field of research. In "Growth", his recently published, comprehensive study of the topic, Daniel Susskind states:

"For most of the 300,000 years that human beings have been around, economic life was stagnant., …and "Modern economic growth began just two hundred years ago."[15]

Susskind's work shows us how young the field of growth is in economics compared to other branches of the subject. Only after the Second World War, the time when Gross Domestic Product (GDP), the core measure of economic growth, came into widespread use, did the economics profession start to seek to systematically identify the drivers of growth.

In a pioneering piece of research on growth, Robert Solow, often described as the father of modern growth theory, analysed the US economy from 1909 to 1949, concluding that only 12.5% of the growth in the period could be attributed to either increases in capital stock or the hiring of more workers. He attributed the 87.5% of unexplained growth to technological progress, loosely defined as using resources more productively.[16]

Other researchers have reached similar conclusions[17]:

- Vollrath estimated that from 1950 to 2000 a rise in the US's physical capital stock per person accounted for only 0.64 percentage points of the 2.2 per cent annual rise in real GDP per capita.
- Crafts concluded that less than one-third of growth in advanced economies between 1913 and 1973 was due to a bigger capital stock.
- Conlon et al came to the view that a fall in capital growth accounted for less than half of the slowdown in the UK's hourly productivity growth between 2001-07 and 2014-19.

Such a large unexplained amount of growth, sometimes known as the "Solow residual", illustrates how difficult it is to identify the policies best suited to supporting growth. Today's consensus, consistent with the Government's focus on investment, is that some combination of increased capital investment (including land), more investment in skills and education (including managerial capability), and support for innovation and knowledge transfer (for intangible assets alongside physical ones) are the potential routes to faster growth. Increasingly, as Susskind identifies, innovation has increasingly come to be regarded as a key piece of the puzzle.[18]

Despite this broad consensus on the major drivers of growth, recent economic history illustrates how hard it is to identify the optimal policy mix to stimulate faster growth. The Global Financial Crisis in 2008 and the Eurozone Crisis a few years later delivered major shocks to the most developed Western economies. Faced with economic and productivity growth at levels significantly lower than in the equivalent period before the crises, policymakers have found it very difficult to identify the best mix of activities to improve performance. Economic performance in the 21st Century continues to lag the levels achieved in the previous two or three centuries.

[15] Susskind D., 2024. Growth. A Reckoning, Allen Lane, 2024
[16] Susskind, p34, ibid
[17] All quoted in Chris Dillow, 2024. Investment & Growth: Some Problems, Stumbling and Mumbling Blog, 13th July.
[18] Susskind, FT, ibid.

As previously discussed, the new Government's approach of reform to the supply side of the economy to stimulate growth by unleashing private sector businesses is in line with the consensus amongst academics and policymakers. This view has dominated economic policy for over four decades, remarkably so in light of the disappointing performance of Western economies since 2008. Policymakers have been reluctant to consider demand stimulation as a route to boosting growth.

There are signs of a shift in thinking. To attempt to improve the growth rate of the US economy, the Biden administration launched several initiatives, the Infrastructure Investment and Jobs Act (2021), the CHIPS and Science Act (2022) and the Inflation Reduction Act (2022). Together, these efforts to stimulate demand are estimated to have boosted US GDP by 4%.[19] British economist, Simon French argues Biden's policy of running the economy hot has attracted more people back into the workforce, thereby raising the labour market participation rate.[20]

Further evidence of the way demand can drive productivity came during the pandemic. The shift online for communications and the rise in online shopping and home delivery were only possible because of the extremely rapid introduction and implementation of technology and rapid adoption of new ways of working. When demand surges, markets respond.

Alongside the emerging evidence, history provides reasons why we should think more flexibly about how to stimulate faster growth. One of the most comprehensive studies of growth is Robert Gordon's "The Rise and Fall of American Growth', published in 2016.[21]
Gordon is somewhat of a growth pessimist, arguing as he does that the IT revolution will be less important than any one of the five inventions he believes drove growth from 1870 to 1970: electricity, urban sanitation, chemicals and pharmaceuticals, the internal combustion engine and modern communications. He describes how long major innovations take to make their full impact. Despite most of the major steps on the five inventions taking place in the 19th century, further development and diffusion meant the peak effect on economic growth came became 1920 and 1970.

Through his analysis of how the five inventions moved into the mainstream, Gordon demonstrates the importance of demand as an influence on supply in driving change, the inter-relationship between public and private sector activity, the complexity of how growth develops, and the potential time it takes for innovation to translate into activity. With public regulation of private utilities happening much earlier than in Europe, a greater share of the growth creating activity in the USA was driven by the private sector. Nevertheless, even there, public investment was necessary in areas such as the planning of developments, co-ordination of infrastructure, safety standards and regulation and much more. In the UK, as well as providing the framework for roll-out, the public sector played a more significant role in the deployment of the inventions. Rather than relying on private sector growth to fund public sector activity, the state, nationally and locally, adopted a central role in creating the enablers for higher levels of economic activity.

In her book, "The Entrepreneurial State"[22], Marianna Mazzucato sets out the case for giving the public sector a central role in creating economic growth, arguing the state is well-placed (probably best-placed) to take on risk in certain areas to encourage investment to solve social problems. She believes governments can be risk takers and investors investing in innovation, citing how Apple exploited the government-led integrated technologies of GPS navigation, touch

[19] Redha H. 2023, Investment Strategy Insights: The US fiscal thrust is the stealth driver of economic growth, 4th August, Pinebridge Investments.
[20] French S. 2024. "Britain should learn from the revival of America's labour force." The Times, September 23rd.
[21] Gordon R.J. 2016. The Rise and Fall of American Growth, Princeton University Press.
[22] Mazzucato, M. 2013. The Entrepreneurial State, Anthem Press.

screen technology, and voice recognition into the modern smartphone. In her view, the US government is in many ways responsible for much of the large-scale innovation which drove the country's economic success. Her position was supported by the Financial Times' Martin Wolf:

"The failure to recognise the role of the government in driving innovation may well be the greatest threat to rising prosperity".[23]

Recent research by the National Centre for Universities and Business provides quantification of the importance of investment in public research. NCUB estimate every £1 of public R&D investment stimulates between £0.60 and £1.10 of private investment in the short-term and between £3.09 and £4.02 in the long-term, more than double what was previously thought to be the case.[24]

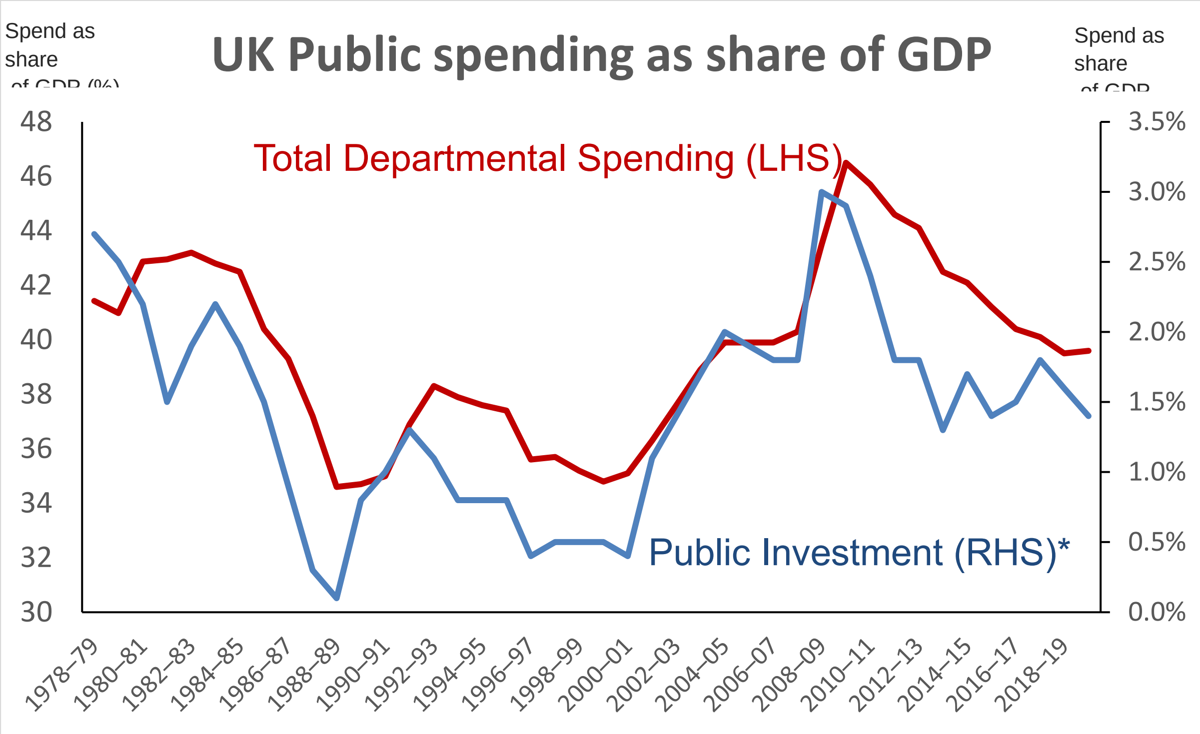
These findings should be a major cause for concern for the Government as the fiscal plans they have adopted imply public spending on R&D will fall from £70 Billion in 2023/24 to around £50 Billion in 2028/29, both measured in 2024 prices. This represents a fall from 2.6% to 1.7% of national income. Given the importance of innovation to economic progress and the plan to grow via increased private sector investment, the evidence strongly points to increased not reduced public investment in R&D as essential to stimulating growth.

Public spending and growth, the history

Economic theory and history illustrate how public services can contribute to faster growth by boosting demand as well as improving the supply side of the economy. Looking at the issue from the opposite perspective, the recent UK experience of public spending reductions further demonstrates the importance of the public sector in supporting economic growth; Reduce the public sector and you reduce growth.

What is the basis for believing, investing less in public services would lead to faster growth? Economic narratives can be powerful and long-lasting. It is almost fifty years since Margaret Thatcher, first likened the national economy to a household budget. In their ideologically driven push to reduce public borrowing and limit the scope of the state to free up the private sector, Margaret Thatcher and Ronald Reagan asserted that the state didn't create value and should therefore be constrained as far as was possible.[25] As a result, the UK embarked on an economic experiment to see how far the role of the state could be reduced. Public departmental spending and public investment were lower as a share of national income in 2019/20 than in 1978/79, when Margaret Thatcher came into power, this in a period when demographic change alone would have been expected to lead to the share of public spending increasing as a share of national output.

[23] Wolf M. 2013. "A much-maligned engine of innovation". Financial Times, August 4th.
[24] NCUB, 2024. Unlocking Growth: The impact of public sector investment on private sector investment in the UK.
[25] Atherton J. 1986. Reaganomics and Thatcherism. Origins, Similarities and Differences. Christopher Deeds in GB and US: How Far, How Close? Presses Universitaires, Francois-Rabelais.



*Excludes student loans
Source: ONS, Staffordshire University analysis.

In the Thatcherite tradition, following the 2010 General Election, Chancellor George Osborne embarked on an aggressive plan to reduce public spending, reversing the increases under the previous Labour Governments. It was in line with international trends in economic policymaking. Osborne went so far as to claim reducing spending would boost growth through a process of "expansionary fiscal contraction".[26] Any consideration of Keynesian like ideas of investing in public services to support growth was unceremoniously dismissed as outdated. The dominant belief was that public spending could not create incremental growth because higher public spending would "crowd out'[27] private sector growth.

A decade later the evidence is definitive; Austerity did not stimulate economic growth, it reduced it. Research by the Bank of England in 2015 estimated the policy led to a loss of 2% of UK GDP, a finding consistent with the OBR's view that GDP was 1% lower in both 2011 and 2012.[28] Writing in 2015, Simon Wren-Lewis suggested the level of lost GDP might have been even higher because the scale of the shock on the UK economy was severe enough to both reduce existing GDP and lower the rate of future growth due to the shock on confidence and expectations.[29]

Returning to his analysis in 2023, Wren-Lewis analysed the impact of austerity on long-term capacity, primarily through assessing how reduced demand impacted investment in the period post-2008 compared to the aftermath of the 1980/1 and 1991 recessions. Averaging across the recessions, he found the austerity period saw a loss of business investment double the average of the previous two slowdowns, with the lost capital expenditure amounting to almost one year of business investment.[30] Rather than stimulating private spending and investment, the reductions in

[26] Trades Union Congress, 2019. Getting it right this time: Lessons from a decade of austerity.
[27] Bacon and Eltis, 1984. "Crowding Out," Sunday Times.
[28] Aldrick P. 2024. "Osborne's Austerity Cost UK 2% in Lost GDP." Bloomberg, 11th January 2024.
[29] Wren-Lewis S. 2015. Austerity and Economic Hyperbole, Mainly Macro. Tuesday 6 January.
[30] Wren-Lewis S. 2023. "Did 2010 austerity permanently reduce UK output?" Mainly Macro, Tuesday 10 January.

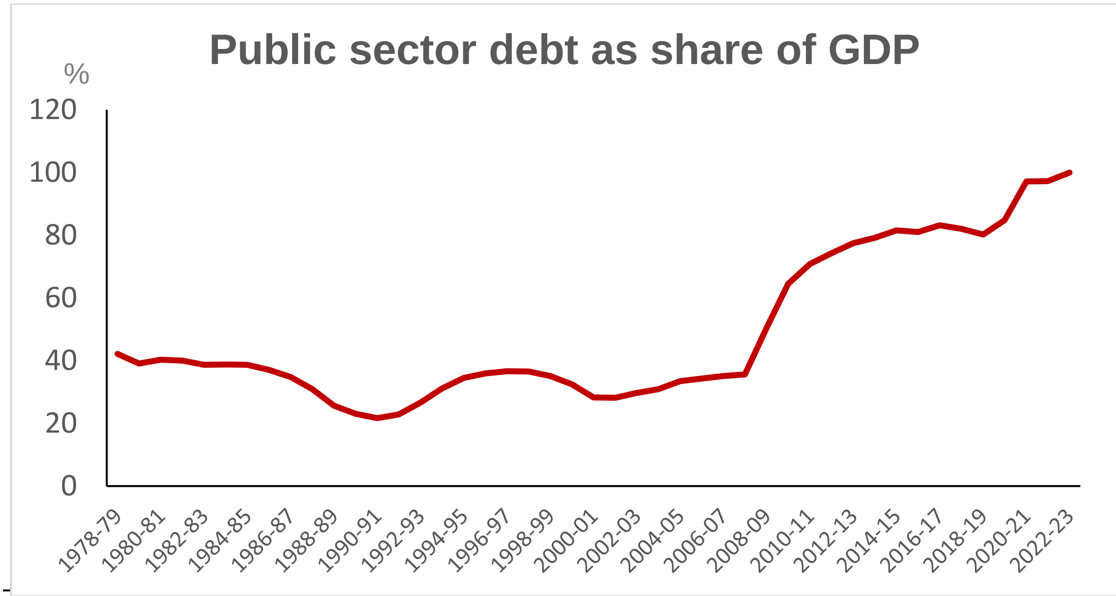
public expenditure after 2010 led to lower levels of private sector activity.

Inevitably, given their design, austerity policies also reduced the capacity of the public sector,

- Overall public spending was £540 Billion lower from 2010 to 2022 than would have been expected on past trends according to the Progressive Economy Forum.[31]
- In 2010/11 and 2011/12 UK public investment was cut by 40%.[32]

Reductions in public capacity of this scale would be difficult for any economy to cope with, much less a country like the UK where capital investment in public services had been relatively low for a long time. In 2023, Dr George Dibbe estimated UK public investment would have been £208 Billion higher than it was if had been at the average level of GDP in the OECD for the previous 25 years.[33]

Outcomes in the real world were the exact opposite of what the theory of austerity predicted. Lower levels of public sector activity negatively impacted the public finances rather than improving them. Public debt as a share of GDP increased during a period when public spending fell as a share of GDP; austerity failed on its own terms.



Source: Staffordshire University analysis of OBR data.

Austerity policies in the UK reduced current and capital spending on public services. The resulting fall in economic demand, together with a reduction in the capacity of the public sector to support the wider economy led to a reduction in private sector investment, limiting the future productive capacity of the UK and reducing long-term growth.

Public spending and growth, the case for public investment

Having, with a couple of relatively small adjustments, accepted the spending envelope of the previous administration and committed to meeting the current spending rules, the new Government has inherited a forecast for public finances that is widely believed to be unrealistic. As previously mentioned, once the likely demands of protected departments such as health and

[31] Elliot L. "Tory austerity 'has cost UK half a trillion pounds of public spending since 2010'. The Guardian, 3rd March.
[32] van Reenen J. 2015. "Austerity in the UK: past, present and future." March 11th.
[33] Dr Dibbe G. 2023, IPPR, "Now is the time to confront UK's investment-phobia." IPPR, 20th June.

defence are met, the 1% real rise in day-to-day spending will translate into cuts of 2% or more annually to other areas including local government.[34]

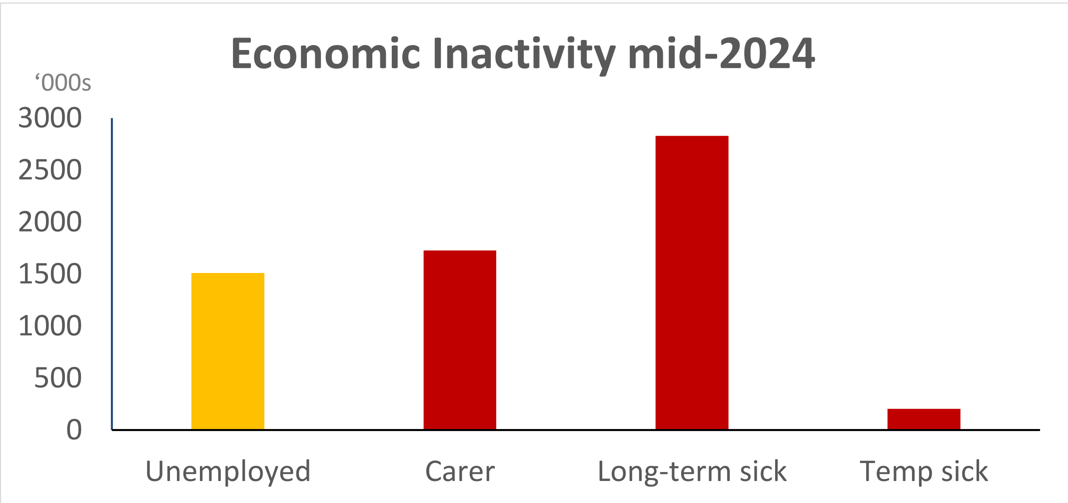
We have already seen how real reductions in public spending and investment since 2010, reduced growth by lowering aggregate demand and weakening the supply capacity of the economy. With this evidence, together with what we know about how investment in public services has supported growth, it seems reasonable therefore to expect that reversing these trends would lead to faster economic growth. Recent work by the Office of Budget Responsibility (OBR) supports this belief for the UK.

"We find a sustained 1 per cent of GDP increase in public investment could plausibly increase the level of potential output by just under ½ a percent after five years and around 2½ per cent in the long run (50 years)."[35]

The OBR also expects the investments would be fiscally neutral over the long run, generating tax receipts to cover the costs of investment. As returns typically start low and increase over time, moving quickly to invest quickly is essential to stimulating growth as soon as possible.

It is important to recognise that the OBR's analysis considers the direct costs of infrastructure investments. Extensive support from local councils will be required both to support the effective delivery of complex infrastructure projects and to create the conditions for ongoing operations via work to ensure the right skills, housing and other public services are available in the right places.

Further support for the potential benefits to growth from an increase in public spending can be found in the health sector. Around 4.5 million people are currently economically inactive, mostly either for health reasons or because they are caring for others. Increased investment to improve health outcomes and reduce the burden of caring could allow significant numbers of people to return to the labour market, directly boosting productive capacity.



Source. Staffordshire University analysis of ONS data.

Investment in health is likely to be positive for stimulating private sector investment. In a poll of business leaders by Savanta in July 2024, fixing the NHS to reduce the number of days staff take off due to illness was top of business leaders' wish list for the new UK government.[36]

[34] Barnett J. 2024. "IFS warns of tight fiscal constraints for next government." The Times 24th May.
[35] OBR Discussion Paper. 2024. "Public investment and potential output." August 29th.
[36] O'Dwyer M. & Smith I. "Fix the NHS to cut sick days, UK business leaders tell Labour." FT, August 7.

An analysis of five-year longitudinal data by CF and the NHS Confederation shows the potential size of the benefits of greater investment in health. They found:

- A statistically significant difference between economic growth in those areas able to increase spend by the least and those able to increase it by the most, in community, primary and acute care.
- Increasing spending on community and primary care had the largest effect on economic growth.
- The UK may have missed out on between £10 and £14 billion in additional growth if an extra £1 billion had been invested in community, primary or acute care in those areas which increased spend by the least. Indeed, this would mean that this investment would have paid for itself in terms of return to the NHS.[37]

We see once again how "investment" is a broad concept when we talk about public services. Alongside the need to invest in infrastructure and equipment, additional investment in human resources is required to enable the benefits are sustainable over time. In health, investment in people to deliver better care and increase awareness of preventative activities is extremely valuable in helping reduce future costs caused by avoidable ill-health.

Is faster growth all we need?

The Government plans to rely heavily on the private sector to kickstart economic growth, thereby generating extra resources to invest in improved public services. As we have identified, the proposed delay to resourcing the public sector puts the success of the plan at risk because a properly resourced public sector is essential to drive, enable and support growth in the private sector.

Separating the public and private sectors is possible at a theoretical level but in the real economy the two are intertwined and policy needs to reflect this. For example, as the Government plans to reduce net immigration, for economic growth to increase at a rate faster than the population expands, productivity, measured as output per head, will have to rise.

In this case, if we achieve improved labour and capital productivity, it is reasonable to expect both real profits and real wages in the private sector will rise. These changes will, all things being equal, increase the appeal of the private sector relative to the public sector for employees. With 73% of councils currently reporting challenges in recruitment due to pay levels in the private sector, we can expect the pressure on public sector wage bills to increase significantly if the economy grows strongly.

If public sector wages rise in response to market pressures without any improvement in public sector productivity, the promised increases in public sector resources from private sector expansion will be largely swallowed up by higher pay rather than through increased service quality or provision. Without the appropriate level of investment in public services to support growth and productivity improvement, a narrow focus on private sector growth could increase the pressure on public sector resources and thereby further reduce the ability of public service providers to meet the needs of their citizens. Under this scenario, the UK could be a faster growing economy with a lower level of public service provision than currently.

[37] CF and NHS Confederation. 2023. The influence of NHS spending on economic growth., 23rd August.

Breaking the spiral

Faster economic growth is necessary for the Government to generate the resources needed to deliver on its five missions while maintaining its commitment to comply with the UK's fiscal rules. To deliver on the ambitious programme of five missions and other reforms, the UK will have to consistently achieve rates of growth it has rarely achieved in recent years, this at a time when the external environment is challenging, policy must ensure 'sustainable' growth (e.g. lower carbon emissions, environmental justice), and the domestic economy appears too weak to expand without significant investment.

With limited public resources to invest, the Government's strategy is to incentivise the private sector to invest to deliver faster growth. Such is the structure of the economy, and the scale of growth required, the private sector alone cannot deliver economic growth of the level needed. Economic history over the last two centuries and the more recent experience with austerity policies leaves no doubt that investment in public services is central to driving economic growth through its impact on both the demand and supply sides of the economy.

To have a chance of generating the resources it requires, the UK Government must aim to maximise the contribution of all sectors, people and places across the country. And, if the approach is to seek to stimulate private sector growth while limiting, or even, in some areas, reducing the resources available to the public sector, recent UK evidence suggests it will fail. Without an adequate investment in national and local public services to support economic expansion, directly through key services, and indirectly by enabling places to function effectively, the UK will not be able to double its rate of growth.

Today's world with the challenges of climate change, AI roll-out, shifting global trade patterns and demographic shifts, may turn out to be like the period of major innovation Gordon[38] studied, suggesting a need for a broad and flexible, whole economy approach to drive transformation and growth. As the policies of the Biden administration demonstrate, the scale of change and the resources required to support shifts of the scale of a move to a greener economy, are of a scale that requires the public sector to play a critical role in helping to stimulate, drive and manage change. While Labour's adoption of mission-oriented government suggests they recognise this, it is unclear if they have accurately identified the resources required for the public sector to be able to provide the leadership and support needed for the successful delivery of the five missions.

At the national level, the evidence is clear: investment in public services will have direct and indirect positive impacts on economic growth, but what of the role of local public services? Is faster economic growth possible with funding for local councils set to fall by more than 2% per year in real terms in the current fiscal plan? In the next section, we identify the role local councils can play in driving growth and productivity.

[38] Gordon Robert J. 2016. ibid

3 A local growth model

Going local for growth

Deputy Prime Minister Angela Rayner's decision, within a few days of taking office, to remove 'Levelling Up' from the name of her Ministry was the signal of the launch of a new approach to reducing geographic inequalities in the UK. Despite its name, 'Levelling Up' operated as a centrally controlled approach that did not empower local councils. By including devolution in its mission to kickstart economic growth, the new Government has explicitly recognised the importance of local councils as drivers of activity in their places.

As explained above, creating faster economic growth is not easy, and so large is the scale of the shift in growth required to deliver on the Government's ambitions, success will only be possible if the contribution of all sectors of the UK economy, public, private and third, across the whole geography is maximised. A weakness can become a strength; as the UK is one of the most centralised states and geographically unbalanced economies in the OECD,[39] the opportunity to increase activity in the lower growth places in the country is greater than other nations with more spatially balanced models.

The decision to adopt a devolution led approach to growth is supported by the evidence. Research by the OECD found countries with high levels of local autonomy over policy with high quality local governance were likely to grow faster over time.[40] Enabling local leaders and supporting them with the investment in the resources they require to deliver is the route to faster growth.

These findings are what we would expect given what we know about the economics of place.

- Labour markets are predominantly local; people tend to work close to where they live. In the 2021 Census, of the people who travelled to work, just under half the UK resident population in employment, almost 46%, travelled less than 10 kilometres to work, and a further 31% of the population predominantly worked at home.
- As Diane Coyle and Penny Mealey demonstrated, the sector mix of local economies varies significantly from place to place.[41] Their comparisons of the City of Manchester with Wigan and Cambridge with Peterborough left no doubt that proximity does not necessarily imply similarity.

Wherever possible, with each place having its own unique characteristic, having policy decisions made close to where they will impact by people knowledgeable about local circumstances is likely to lead to better outcomes. We explore the various roles local councils can play in supporting growth below.

[39] McCann P. 2021. The UK Regional–National Economic Problem Geography, globalisation and governance

[40] OECD.

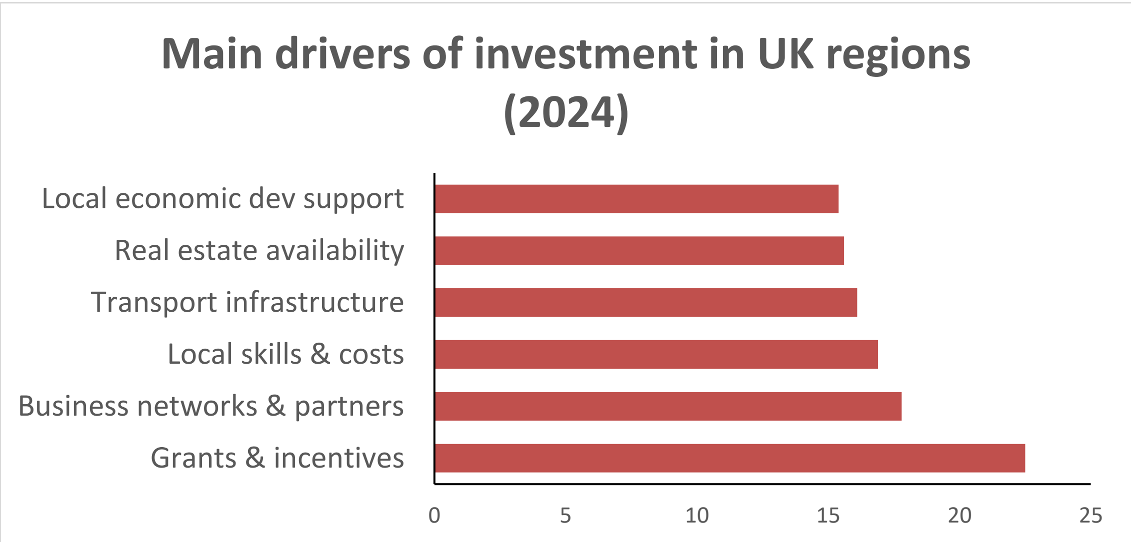
[41] Mealy P. and Coyle D., 2019, To them that hath: Economic complexity and local industrial strategy in the UK. University of Cambridge.

Local councils as investment enablers

Attracting private sector investment to increase output and improve productivity is central to the Government's plan for kickstarting UK economic growth. Rachel Reeves has consistently identified 'securonomics', creating a stable and resilient economy, as the route to convincing investors the UK is the best place to put their money. While stability is important to people making long-term decisions, it is not the only factor; taxation and regulation, for example, are important national level influences on potential investor returns and hence their decisions. However, while national level factors matter, as investment in facilities ultimately occurs in a place, the conditions in local markets are also extremely important influences on investment outcomes.

What features of places matter to investors? For more than a decade, EY has used its UK and European Attractiveness Surveys of private sector leaders to identify the drivers of investment into the UK outside of London. Between 2021 and 2023, the level of grants and incentives (22% on average), the availability of local skills (21%) and infrastructure (17% for both technology and transport infrastructure), and the ability to access support from local economic development agencies (19%) were the top 4 factors cited by investors. Other factors such as the existence of local business networks (19%), both for supply chains and access to advice, and those features which shape local quality of life such as housing, education and cultural provision (13% overall)[42] were consistently identified as important influences on the overall attractiveness of a place.

In 2024, there was a slight change in the rankings, most noticeably in the increased importance to investors of the availability of grants and incentives. This may in part reflect the messaging from policymakers on their desire to attract capital and the increased competition between places for investment, an important reminder for policy makers that they should be careful not to raise private sector expectations of the resources available to support investment to a level that risks losing public value.



Source: UK Attractiveness Survey 2024, Ernst & Young

EY's findings are consistent with the feedback from investment advisors that businesses and investors often identify their lack of knowledge of either a place or a specific opportunity as barriers to their investment.

[42] University of Staffordshire analysis of EY UK Attractiveness Surveys, 2021, 2022 and 2023.

These findings on what matters to investors as they evaluate places demonstrate just how important local councils are in supporting economic growth. All the most important factors identified by investors are primarily delivered and managed by local councils and their partners. Unsurprisingly, place-based policymakers are much better positioned than national agencies to possess an understanding of the unique characteristics of their areas which allows them to maximise the attractiveness of a place to businesses, investors and talent.

Local councils as entrepreneurs

We identified the potential of public sector led entrepreneurial growth at the national level earlier. The same opportunity exists for local action; an active local state can provide more insightful market information and targeted public entrepreneurship activity which works to create and better regulate local markets. We know for example that gaps in awareness and knowledge of opportunities and the resources to analyse them are significant barriers to investors addressing opportunities in places outside of London and the Southeast of the UK. Recent research by The Productivity Institute estimates the investment risk premia between London and the Southeast to the rest of the country to be 250 to 300 basis points.[43] This provides us with a quantitative estimate of the cost of differences in investor knowledge across different parts of the UK reducing the attractiveness of projects in less well analysed and understood places. As the keepers of knowledge of their places, this is an opportunity for local councils to step in to address private market imperfections.

Some local councils have responded to the challenges faced by their places by seeking to shape outcomes. The moves include infrastructure-based schemes and efforts to address barriers to regeneration directly.

These local authority interventions as both 'steward of place' and direct providers can have a positive impact on private investment. In infrastructure. For example, the highly successful Manchester Airport Group which operates Manchester Airport, East Midlands Airport and Stansted Airport is made up of an effective blend of public and private shareholders, including Manchester City Council with 35.5% of shares, IFM Global Infrastructure Fund with 35.5%, and the nine other Greater Manchester local authorities (29%). Whilst also receiving dividends the group provides significant aviation routes to market for the areas surrounding the airport, providing a huge contribution to business growth in the Northwest.

Having set up its own Independent Climate Change Board to bring together key organisations from across the city on the scale and scope of its response, Coventry City Council joined forces with E.ON in a 15-year strategic energy partnership (SEP) to transform the city's approach to carbon reduction whilst helping people to save money and boosting the local economy. The SEP provides the capacity, expertise, and investment needed to support Coventry's green economic growth, using public sector infrastructure assets alongside local knowledge to develop projects, deliver value for money and provide opportunities to generate revenue and include social value to benefit local communities and people.

In support of its objective of becoming carbon neutral by 2030, South Tyneside Council has developed and implemented a highly innovative renewable energy scheme, the Viking Energy Network Jarrow (VENJ), This harnesses low-grade heat from the River Tyne and exports it to Council-owned buildings across the town. The scheme became operational from October 2023 and has inspired two other renewable energy schemes within the borough. VENJ alone will cut carbon emissions by 1,035 tonnes a year as well as improve energy security and offer a good value heat supply that contributes to reducing fuel poverty.

[43] The Productivity Institute, 2024, Access to Capital and Finance.

On regeneration, local authorities have intervened in town centres and high streets not only attracting growth through supporting economic development services but by their own direct investment strategies, acting as anchor investors to de-risk and stimulate activity. Stockton on Tees Council has undertaken an ambitious programme of transformation, including the development of its 'hidden' waterfront, which has opened the city centre to an urban park and event space, with proposals for a new Community Diagnostic Hub for the Tees Valley, delivered by the NHS, alongside the demolition of Castlegate Shopping Centre, which will create a widened town centre, spanning the River Tees and bringing together key assets.

In Knowsley, in the Liverpool City Region, the Council purchased a delipidated shopping centre that was hindering its town centre Masterplan. As the largest key opportunity site in the town, it was, for many years in private ownership, but the shopping centre had declined in terms of occupancy levels, footfall, and overall physical condition. While this reflects the position in many towns and cities across the UK there had been little activity or investment by the previous owners to address this. Following public and retailer consultation the council is now actively developing the site reflecting in its approach the changing behaviours of consumers with an alternative shopping experience to that offered by out-of-town destinations, providing a mix of retail, leisure, and food and drink experiences.

Local government and municipal entrepreneurialism

Municipal entrepreneurialism has arguably always had a place in the history of local government with the origins of the sector stemming from a need for local interventions to improve the lives of local people. Whilst such interventions may have originated in areas such as the 'Poor Laws' or early forms of municipal housing schemes, as posited in 'The new municipalism: Taking back entrepreneurship'[44] the most recent examples of such entrepreneurial actions evidence how local authorities are able to use their investment powers, engage in local partnerships and markets and collaborate with other councils.

Local authorities sit at the centre of a vast array of actors and organisations across the public, private, voluntary and community sectors. They are nodal actors, possessing the comparative advantage of large informational resources and relational networks. In the context of a growth agenda local authorities are capable of the necessarily rapid exploitation of this nodal power, using it to gather information, survey local opportunities, forge new relations, and generate the conditions to support local economic growth. Crucially they are capable of ensuring that such growth is 'good growth' locking in so far as possible local supply chains, local skills and development opportunities and creating the conditions for local start-ups and new business opportunities.

With the interface to public services such as high-quality public realm, housing, transport connectivity and local services, local authorities are able to galvanise the conditions, at a local level to attract and support new investment, including the use of local data and local knowledge. Such tasks will typically rely upon the pro-active cultivation of external networks, as well as internal mechanisms for information exchange within and councils and their partners.

Local authority powers and municipal entrepreneurial activity

Whilst many may argue for new powers for local councils a plethora of existing powers could be deployed to support economic growth. Except for Scotland, local authorities across the UK have a

[44] The New Municipalism: Taking back entrepreneurship (2018) Published by APSE available at https://www.apse.org.uk/index.cfm/apse/research/current-research-programme/the-new-municipalism-taking-back-entrepreneurship/

General Power of Competence afforded under legislation within England, Wales and Northern Ireland with the Localism Act 2011, the Local Government and Elections (Wales) Act 2021, and the Local Government Act (Northern Ireland) 2014. Similarly, historic powers[45] exist for local authorities to support innovation, trading and charging activities which in turn can be skilfully deployed to support the local economy and good growth. The Levelling-up and Regeneration Act 2023, whilst using terminology which may no longer align to that of the new administration, has many reference points in terms of intervention powers and community empowerment, such as estate renewal.

Whilst local councils who charge and trade in services can often be portrayed as squeezing out private business many councils in fact use the opportunity to do so to positively support local economies, make goods or services more affordable, or to fill gaps in markets. In some cases, services are provided to support developments such as roads and lighting advice as well as specialist consultancy services. Income generated is then capable of reinvestment in local public services.

When income-generation is coupled to service innovations and aligns clearly with the vision of the local authority, it is possible to embark on a strategy of, what might be termed, 'profit for a purpose' or 'income generation for public purpose'. Such targeted municipal entrepreneurship opens up the potential for novel forms of local stewardship and commercialisation that challenge the dominant logics of extractivist economies and failing local markets. Of course, as Barnett et al. (2024)[46] argue, such outcomes rest on the dynamics of centre-local relations, the putting in place of the required policy infrastructure and the ambitious place-led leadership of local authorities. But in the quest for growth, it would be misguided to ignore how local authorities can use their agency to assemble powers and resources and design locally tailored approaches to intervene in markets in the pursuit of public value and the forging of new capabilities and opportunities for local communities. In fact, as Barnett et al. (2024) ultimately question: in the current conjuncture, if not municipal entrepreneurship, then what else? What, indeed, would local government be *for* if it were not able to pursue public value?

Local assets have also been repurposed either through the local authority purchasing an asset as part of a regeneration scheme or commercial venture whereby they can act as an anchor business within a community attracting other businesses. Public sector assets can also be used as start-up hubs or spaces for new and budding businesses in local areas or to attract a range of services into one area, supporting both resident access to services alongside generating footfall to businesses. Used innovatively local assets can support local economic activity.

Local councils as a source of demand

There is little doubt that austerity negatively impacted the level of demand in the UK and this in turn led to lower growth and reduced investment in potential productivity enhancing resources, capital, labour and intangibles. This is true at the local level as well as nationally. In 2022, employment in the local public sector, health and social care accounted for 10% or more of local employment in over 90% of local authority districts in England, Scotland and Wales. As work by

[45] Local Authorities (Goods and Services) Act 1970
Section 45 Environmental Protection Act 1990 (commercial waste)
Local Government (Miscellaneous Provisions) Act 1976:- Section 11 (Renewables); Section 19 (Leisure); Section 38 (surplus computer capacity), Section 145 Local Government Act 1972 (entertainments)
Staff secondment s.113 Local Government Act 1972, Section 97 Building Act 1984 (works)
Section 32 Local Government (Miscellaneous Provisions) Act 1976, Civic Restaurants Act 1947
Section 45 Road Traffic Act 1988 (MoT), Section 139 LGA 1972 Acceptance of gifts and incidental works

[46] Barnett N.J.,Giovannini A. and Griggs S. 2024. Serial adapters? Local government chief officers and the navigation of space and time. https://orcid.org/0000-0002-3301-0681.

CLES's and APSE demonstrates[47], this activity has a multiplier effect and as well as providing a significant boost to short-term local activity, a stronger economy helps fund public investment to improve the attractiveness of a place to private investors.

Recent trends in spending on local public services have reduced the contribution of councils to local economic growth. According to the IFS, by the end of the 2024/25 financial year, real council spending will have fallen by 9% since 2010-11 and by 18% on a per capita basis. The Local Government Association believes the reduction in core spending power is even higher at 27% since 2010 and APSE, alongside NPI, have identified reductions of up to 40% in the poorest areas of the UK.[48] The result is lower demand across the economy from direct and indirect effects.

Further, by reducing the outsourcing of services to providers who extract value from the local, and often the national economy, a locally based model can increase economic growth. An insourced[49] set of services would allow the redirection of margins from owners operating as a minimum in another UK place and possibly internationally, into the local economy. If this can be done more efficiently, then the saved resources can be invested in other economic growth generating activities. Rebuilding Capacity (ibid) also found that where local authorities directly provide local services, they are able to support local supply chains, pay better wages including the widespread adoption of a living wage, alongside security of pension provision to the workforce. Such approaches prevent cost-shunts to the public purse which arise through reliance upon top-up benefits and tax credits which is often a consequence of low-wages in outsourcing arrangements, which is especially dominant amongst low-paid part-time women workers.

Further insourcing provides for a further route for local authorities to intervene positively in local economies by recalibrating skills and training through local services, generating local supply chains and new market entrants, as well as providing capacity for innovation in new greener forms of service delivery, such as Passivhaus style developments for social housing delivery, greening fleet and providing new sustainable roads infrastructure, alongside high quality local employment. In addition to the local multiplier effect caused by retaining income in an area, public employment has additional value through the skilled work and control it offers. Often the local public sector will be the only example of some professions such as economists and public health in smaller cities and towns. Public employers can be incentivised to offer training and skills development and to bring disadvantaged groups into the workforce. While avoiding having to negotiate with private sector providers allows for greater influence over inputs alongside an ability to plan for the longer-term.

A local council growth model

Local council support is central to driving faster economic growth and improved productivity. There are a range of areas where councils both directly and with partners are the primary providers of key growth creating services. Drawing on the analysis presented above, we have developed a model to identify how local councils can support local growth.

- ***Market development.***
    - Supporting start-ups, working to maximise university links.
    - Ongoing business support, funding, advice.
    - Enabling community businesses, social enterprises, mutuals and co-operatives.

[47] https://cles.org.uk/wp-content/uploads/2011/01/Creating-resilient-economies-exploring-the-economic-footprint-of-public-services.pdf
[48] APSE and NPI. 2019. 'Neighbourhood services and sustainable local government' Published by APSE July.
[49] Rebuilding Capacity: The case for insourcing public contracts Baines, May 2019, Published by APSE https://www.apse.org.uk/sites/apse/assets/File/Insourcing%20(web).pdf.

- Attracting new businesses and investment, domestic and foreign
    - Data services to business on local demographics, transport, land and assets
- ***Increasing the attractiveness of a place.***
    - Regeneration and planning.
    - Housing development.
    - Infrastructure and transport.
    - Public realm and quality greenspaces
- ***Improving labour market effectiveness***
    - Employment support.
    - Skills development and retraining.
    - Building employer-education links.
    - Coordination of apprenticeships
- ***Stimulating Innovation***
    - Managing the transition to a greener economy.
    - Driving digital investment.
    - Working on university-business research links.
- **Interventions**
    - Dealing with failing assets
    - Regeneration of high streets and town centres
    - Coordinating and convening anchor institutions
    - Land supply, land-swaps and redevelopments

- **As a public service anchor institution**
    - As a quality standard setter as a local employer in its own right
    - As a purchasing power within local supply chains
    - Employing apprentices directly in hard to recruit areas like construction
    - As a source of investment in assets, place and people

In addition to this direct activity to support economic growth, other local authority work supports growth more indirectly. An improvement in productivity across the whole economy is essential for balanced growth. In most places, the local council, alone and with partners, will deliver core solutions able to impact positively on the capability and size of the workforce available in an area.

- ***Public Health***, initially to reduce backlogs, to deliver health closer to communities and leading a future shift to investment in prevention.
- ***Leisure, culture and public realm provision and investment in high streets*** to increase the attractiveness of places to new and existing residents, including supporting the retention of graduating students in university towns and cities.
- ***Housing, private and social***, to increase the capacity and choices available to people considering moving to a place to live and work.
- **Local roads, street-lighting and cycling routes,** to increase connectivity and safety for employers and employees

The downward spiral

Although local councils can play a significant role in enabling faster economic growth, policy over the last decade has severely limited their ability to contribute directly and indirectly. Faced with a severe squeeze on resources since 2010, with reduced real resources of 9% according to the IFS, councils have been forced to prioritise statutory services, with spending on children's social care up by 11% in real terms - although, after accounting for reductions of 67% in other spending on young people and Sure Start, expenditure on children was down 9%.

Despite being a statutory service, adult social care spending was cut by 2% in the period, though this represented a relative increase in share of total spending as other services were reduced much more significantly. However, the funding gap between need and available resources in adult care is increasingly strained by increased demand, driven by an ageing population and the numbers living with complex needs and long-term poor health, and therefore more costly needs, with the LGA White Paper[50] suggesting that the situation in adult and children services contributes to the £6.2 billion funding gap over the next two years. Despite higher real increases in funding since 2019, councils still spent more than their income in 2022-23 and 2023-24.

Much higher costs of provision explain some of the relative shifts in resource allocation. The cost per child in care increased by 20% in real terms between 2019/20 and 2022/23 while the cost per hour of adult home care went up by 29% between 2019/20 and 2023/24 and the residential adult social care charges were 25 to 35% higher in 2023/24 compared to 4 years earlier.

Reduced real funding and higher costs have consequences.

- In the three years from early 2020, the number of children in secure units and children's homes increased by 30%.
- The number of homeless households in temporary accommodation doubled between the end of 2019 and September 2023.
- There was a 9% increase in requests for support for working age adults between 2019/20 and 2022/23, although the number in care only went up by 1%, possibly illustrating the challenges of resourcing.

These trends are continuing; short-term cuts in spending appear to contribute to longer-term increases in demand for public services with the IFS reporting sustained increases in the demand for children's and adult social care, homelessness and support for children with special educational needs.

With statutory services absorbing an ever-greater share of resources, the ability of local authorities to support growth continues to fall. Between 2010/11 and 2019/20, due to the reduction in overall real funding and the rise in the share of spend going on adult and children's social care, real spending per head by local authorities on housing, highways and transport, planning and development and culture and leisure services were reduced by over 40% in real terms. This included reductions of 45% on highways and transport and 58% on planning and development.[51]

Using the IFS analysis of local authority spending in 2022/23, we estimate only 11% of resources were allocated to activities directly likely to stimulate economic activity and 14% (21% with public health) to those indirectly likely to have an impact. There appears to be a significant opportunity to stimulate faster place-based growth by investing in local authority capability to support local economic activity.

By comparison, 60% of local authority budgets in 2022/23 were spent on adult and children's social care, within County and Unitary areas. There is an opportunity to invest to transform how local public services support the economy. Adult and social care provision is vital to create the opportunity to empower all communities. By for example better funding and supporting people in care, we can reduce the burden on informal carers, often unpaid, potentially allowing for them to participate further in the economy and society. Within districts budgets are disproportionately allocated to support housing need, whilst other services suffer unequal misery in terms of budget allocation, whereas meeting housing needs provides more headroom for growth related activity.

[50] The LGA, Local Government White Paper, June 2024, https://www.local.gov.uk/publications/local-government-white-paper
[51] Institute for Fiscal Studies, 2024, op cit.

Alongside these factors there are opportunities to strengthen the whole foundational economy, leveraging communities and voluntary organisations more effectively to deliver services.

There is a real danger that a downward spiral has been created, reducing rather than increasing economic growth.

- Reduced funding has led to a greater share being allocated to statutory services however this relatively greater share is insufficient to meet demand, in part due to the increased costs of privately delivered services. To meet the higher demand, an ever-greater share of total expenditure is being allocated to statutory services, but the associated reduction in resources to other services, leisure centres for young people to meet at for example, adds to the pressure on statutory services.

- Allocating a greater share of a fixed budget to statutory services directly reduces the level of resources for growth supporting activities, both direct (such as development, housing, planning, transport and highways), and indirect (like cultural, leisure, parks and street-scene provision which provide attractive places to do business). As a result, economic growth is less than desired, further reducing the discretionary resources to support growth.

The recent financial crisis in Birmingham provides a perfect illustration of these effects working through. This is despite the existence of the West Midlands Combined Authority with a focus on growth. Failing to invest in local public services, risks more situations like Birmingham becoming the norm: a downward spiral as resources are diverted from direct and indirect growth supporting activities to those focussed on dealing with the social and economic consequences of the lack of resources for local authorities to support communities in the first instance.

Time to invest in local councils for growth

Rather than any provision for additional resources for local government to support the Government's plans to kickstart the UK's economic growth, the current public spending projections suggest further real reductions in the resources available to local councils across all dimensions of their operations.

And the specific nature of ring-fenced or special purpose funds, at a combined authority level, is not sufficient to offset the long-term underfunding of local councils on vital frontline services which support economic growth. The hollowing out of local council finances and service provision inhibits innovation and local growth, and the capacity of the local state to support sustainable growth in local economies.

We need to invest in local council services and reverse the trend of recent years of the hollowing out of service provisions. Doing this will free up resources at both the national and local level which can be used to support further investment in growth enhancing activities, creating an upward spiral in place of the downward effect that has prevailed in recent years.

4 Investing in local council services to drive economic growth

Transforming public services

National and local public services provide the foundation of the UK economy, supporting private sector investment and growth. A properly resourced public sector is essential if we are to raise the UK's sustainable rate of growth and improve productivity across the whole economy.

Since 2012, the number of local authority employees has reduced from 1.74 million to 1.18 million, a fall of 32%.[52] While some of the change is due to activities being moved into the private sector, the overall loss of local authority resources and the associated loss of control of local activities has weakened the ability of local councils to deliver services and support innovation and growth.

At the local level, there is a need to fix the foundations provided by core council services, provide the resources to deliver all the Government's missions, and invest to support the pursuit of incremental economic growth.

Fixing the foundations

Places without adequate core public services will not be attractive to investors or talent. Local councils are already facing major financial challenges to deliver on the existing demand for public services. 70% of councils surveyed by Solace in 2024[53] stated the current funding trajectory would lead to them being at risk of not delivering their statutory services during the life of the current Parliament. In addition, a majority identified deterioration of the public realm, increased homelessness, worse health outcomes and lower levels of educational and skills achievement as additional consequences of continuing the current funding plans. Even before considering the incremental investment required to support economic growth, investment to provide the basic resources required by local councils should be a priority.

After more than a decade of austerity, over 60% of local council spending is going on adult and children's social care and tackling homelessness. Investment is required to transform and strengthen core public service delivery to provide the platform and free up resources to deliver the Government's five missions.

Delivering the missions

Alongside the investment required to fix the foundations, increased local council resources will be required for the delivery of the Government's other four missions.

- Developing a clean energy superpower by developing community energy, increasing insulation and creating green skills.
- Breaking down barriers to provide the best start in life with reforms to further and higher education.
- Creating safer streets through reducing crime and antisocial behaviour.
- Building an NHS able to support economic and social progress.

All the missions will require co-ordination across agencies to deliver. For example, while the police will control most of the resources to lead on tackling address antisocial behaviour and crime, improvements in healthcare to enable people to go back to work, cultural and leisure facilities

[52] PwC and County Councils Network, 2024. Future of Local Government.
[53] Solace. 2024. Play Report, 2024.

providing rewarding experiences and a care system able to offer young people the support they need, will all have a part to play in transforming outcomes. Local councils will also have to act as coordinators and convenors, drawing on their local knowledge and data to inform decision-making across multiple domains.

...or local authorities.

Mapping Local Authority services to missions

Mission	Market Making	Attract-iveness	Labour market	Innovation	Health	Culture & Leisure	Environ ment	Care
Energy superpower	●	●	●	●			●	
Breakdown barriers			●		●	●		●
Safer streets		●				●		●
NHS fit for purpose			●		●	●		●

Source:Staffordshire University analysis.

THE CONNECTED UNIVERSITY

Labour's missions will be important in enabling productivity improvement in the public and private sectors. Improving the health of the workforce, providing secure, competitively priced energy and maximising the UK's talent will all enable organisations to grow and improve their efficiency.

Kickstarting economic growth through local councils

Our focus in this report is on Kickstarting economic growth, the delivery of which will require a large degree of local authority leadership, capability and support. We have mapped the high-level activities to kickstart growth set out in labour's manifesto to the broad local authority services we identified in our Local Council Growth Model. Two of the other missions (*Build a clean energy superpower* and *Breakdown barriers)* will also need to draw extensively on the economic development skills of local councils.

...at the local level.

Mapping Local Authority services to Economic Growth Activities

Growth Activity	Market Making	Attract-iveness	Labour market	Innovation	Health
National Wealth Fund	●	●		●	
Planning reform		●		●	
Access to work			●		●
Skills & Immigration		●	●		●
Industrial Strategy	●	●	●	●	
New deal for working people			●		
Transport & Infrastructure	●	●			

Source: Staffordshire University analysis

That such a wide range of activity will have to be provided by local councils demonstrates there is a significant need for support and hence investment in the capability and capacity of local public services if significant increases in the rate of economic growth are to be achieved. While public health is more accurately a support activity to growth rather than a direct enabler, its importance to growth via strengthening labour markets has led us to include it here.

Considering how the proposed Industrial Strategy is expected to support growth is a useful way to illustrate the important role local authorities will play in maximising growth across the country. In the Green Paper[54], eight priority sectors were identified. Several of these such as financial services, professional services and the creative industries tend to be concentrated in larger urban areas. For example, less than half of local authorities outside of London had more than 1,000 people working in the creative sector in 2023. Other sectors such as defence and life sciences are centred in a small number of places - In 2023, in the 206 higher level authorities in England, Scotland and Wales, there were only 12 places with 1,000 people or more working in life sciences. With digital capability more widespread, there were over 1,000 people working in related sectors in more than half of all local authorities. At a high level, it appears there is more potential for digital and technology to be nationally transformative in a way other sectors are less likely to be.

[54] Invest 2025, 2024. www.assets.publishing.service.gov.uk.

For many places, the final two priority sectors identified, advanced manufacturing and clean growth, will be the main hope for accelerated growth. However, these are internationally competitive sectors which will not be easy to exploit. Even allowing for stimulative effects due to supply chains, it appears unlikely that the priority sectors other than digital will be of a scale and reach to generate large, incremental growth in a significant number of places across the country.

There is a need for more bottom-up activity in each local authority area to identify the sectors and skills with the potential to generate growth in places without a large opportunity from one of the priority national sectors. Local growth plans will be vital in identifying what capabilities exist where, and how national support for these sectors, and places, should be delivered. Local authorities will play a central role in shaping markets and driving growth in those parts of the country where national initiatives are unlikely to have a major impact.

Estimating the investment required to enable local authority led growth

Such has been the scale of the reduction in local council resources over the last decade and a half, there is a need for increased revenue and capital funding to restore capability and capacity to the minimum level required to fix the foundations and support the Government's four missions other than economic growth. Kickstarting economic growth will also need revenue and capital support, but the majority of the requirement will be for investment to enable local councils to drive, support and enable growth in their places.

We have used the local growth model to identify the areas where an investment in local council services will be necessary to increase the rate of economic growth. The incremental resources required to kickstart economic growth include:

- Economic development resource to help identify opportunities, access funders, support start-ups and business development, foster innovation by working with universities and businesses, and site delivery. This will include an increased level of support for community, cooperative and social enterprises.
- Planners to support the proposed expansion in housebuilding and regeneration activity, more than doubling annual housebuilding delivery will place a heavy burden on council teams.
- Transport planning and delivery to support new and improved infrastructure and to take advantage of new legislation such as on the provision of bus services.
- Skills and careers support for all ages and experience levels to maximise the contribution of everyone in a place.
- Specialist skills to lead the transition to local green economies.

Additional management and project delivery resource will also be necessary to provide the appropriate degree of oversight and risk and financial management from the envisaged extensive programme of activity.

There are a number of ways to boost local council resources while staying within the existing spending envelope. For example, in Solace's survey, over two thirds of respondents identified full devolution of skills and transport budgets and some devolution of the national R&D budget as major opportunities to enhance the performance of local economies. And the LGA and Learning to Work Institute estimated devolving a share of the national employment budgets and simplifying funding (there are currently too many schemes causing confusion in the market and increasing delivery costs), could increase the number of people going into employment or acquiring skills by 15%. [55] By changing the allocation of these resources from national bodies to local councils, it

[55] Solace 2024, op cit.

would be possible to target support and resource allocation more effectively and at the same time increase the capability of local authorities.

Competitive bidding for funds from a variety of pots has been an inefficient and expensive use of resources and it is notable that the Deputy Prime Minister, and Secretary of State for Housing and Communities, in her opening speech to Labour Party Conference 2024 reaffirmed this position. Consolidating different funding streams, without competitive bids would be a more efficient use of funds. Whilst place-based funding models may be seen by many to be the most advantageous way of securing fair funding to local areas it is a model that has proven difficult to implement in practical terms. Nevertheless, a more immediate and achievable return to needs-based funding is evidently necessary, alongside an emergency strategy to prevent further councils falling into a S.114 situation. The recent commitments from Government to work towards a multi-year settlement are also positive measures and will further support the ability of local authorities to plan for growth though it is noted that it is unlikely that local government will see the benefits of a multiyear settlement until 2025/26, which will again inhibit rather than promote growth.

In addition to reallocating current expenditure pots, there is a case for significant incremental investment. Housebuilding, an important sector in Labour's overall plans, illustrates how incremental investment should be assessed on its potential return rather than its impact on public debt in the short-term. The multiplier impact effect of housebuilding on growth could potentially be accessed relatively quickly if local authorities are able to accelerate existing or lapsed proposals. Studies suggest a multiplier of above 2 for every new house built, ie every £1 spent will generate over £2 of additional economic output across the UK.[56]

The Government's plan to build 300,000 houses a year, roughly a doubling of the run rate, is a major commitment. It is only likely to be achieved if a significant share of the new build is social housing, as was the case when the UK last consistently hit these levels of construction over 4 decades ago. Recent research by Shelter and the Peabody Foundation estimates that building 90,000 social houses at an upfront cost of around £35 Billion, would add £51 Billion to the economy, with nearly 70% of these occurring within 12 months of starting construction, a huge boost to economic growth and wellbeing. Public funding would be repaid within 11 years and a profit of £12 Billion to taxpayers over 30 years.[57]

Living Locally: The role of housing and planning in local councils [58] a report by APSE and the TCPA once again found that councils with responsibility for housing provision reported severe or moderate needs for new social homes for rent, with 67% of councils reporting housing need as severe and a further 29% reporting need as moderate. Figures from the National Housing Federation in a recent report prepared by Savills[59] found that an investment of £4.6bn over the lifetime of Parliament could start to deliver the 300,000 homes needed per annum. Whilst many councils have looked to develop new council homes the limitations within HRA and the disincentive to build new social homes as a result of Right-to-Buy sales and discounts has meant the numbers of new units against housing need has been inadequate.

Furthermore, the hollowing out of planning departments as a result of funding and a centralising policy for planning, coupled with a lack of qualified planners has created gaps in the ability of local

[56] See for example, The Economic Footprint of Housebuilding in England and Wales, 2018. Lichfields and the Hone Builders Federation.
[57] CBRE for Shelter and The Peabody Foundation. 2024.The economic impact of building social housing,
[58]Living Locally: The role of housing and planning in local councils, APSE, TCPA, 2023 Available at https://www.apse.org.uk/index.cfm/apse/research/current-research-programme/living-locally-the-role-of-housing-and-planning-within-local-councils/
[59]Savils. Delivering 300,000 homes per year in England. 2024 available at https://www.savills.co.uk/research_articles/229130/366981-0

authorities to respond as they would wish to development opportunities. The proposed reforms to the National Planning Policy Framework[60] whilst welcomed by the sector overall will take time to result in improvements to planning and planning capacity.

Ambitious schemes such as doubling the rate of housebuilding will clearly require some additional resources to deliver. According to ATPI's 2023 State of the Profession Report, 56% of local authorities are struggling to recruit planners, with over 50% of the profession now in the private sector, a quarter of planners having left local authorities since 2010. Local councils will either have to recruit more planners or pay private sector firms to undertake additional work. In either case, the costs of planning will increase, although, as discussed above, it would be reasonable to seek to classify work undertaken on successful investment pursuits as capital spending.

In the mid 2000s, prior to the financial crisis, the UK economy was growing at an average of around 2% per annum, around double the current rate. Since then, local council funding for economic development and planning has been reduced by over 40% while real spend on infrastructure and transport and housing has fallen by nearly 50%. Such has been the reduction in resources, some incremental revenue funding will be essential to enable local councils to provide the full range of support necessary to stimulate economic growth.

As the name of the mission implies, some increase in revenue funding will be essential to kickstart activity. Nevertheless, investment in growth should provide the flexibility to classify significant elements of the support in economic development and transport and infrastructure in particular as capital spending, incurred to secure investment. There is also a case for some upfront transformational investment to change capabilities and improve the technology available to teams to support investors and businesses.

Increases in resources will be required across economic development, skills and highways and transport. A reasonable estimate would be for an increased investment of half the decline in spending in these 3 areas over the life of the Parliament. This would represent spend of around £10 billion on planning and economic development and £20 billion on transport.

Economic growth costs money

There is no such thing as a free lunch, is a favoured saying of economists. In the case of economic growth, it serves as a useful reminder that growth is not cost free, we need to invest to grow. When the aim is to double the national rate of growth then the resources required to shift the economy to a new level will be significant. In the UK, especially after austerity, a large share of the incremental investment will have to be allocated to restoring and increasing capacity in the public sector.

The evidence demonstrates this investment is necessary to maximise the economy's potential and that there will be a return on the investment. Reducing real public spending in recent years has contributed to lower overall growth.

While there is a need for additional resources to restore capacity lost due to years of austerity, there are also opportunities to reallocate existing funding from the national to local level to maximise its impact and to invest in opportunities, such as those offered by social housing, to increase growth and wellbeing simultaneously. It is important to think of investment in terms of its benefits rather than as an addition to debt.

[60] APSE briefing 24-45 Reforms to the National Planning Policy Framework available at chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://apse.org.uk/index.cfm/apse/members-area/briefings/2024/24-45-reforms-to-the-national-planning-policy-framework/

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