Ultra-local approaches to regeneration: utilising people-powered prosperity

The ultra-local economics sector (comprising community banking, community energy, local regeneration and new kinds of money) has been frustrated by the failure of national policy-makers to respond to its ideas and techniques for regenerating poor areas. This study set out to improve communication and understanding between national policy-makers and those working at the local level, to enable local entrepreneurs to begin to build a body of effective economic solutions that are backed by appropriate support at the national level.

Key findings

A number of conceptual areas appear to be creating barriers to national policy-makers' understanding of ultra-local economic regeneration. For example, a great deal of public policy is devoted to helping people leave impoverished areas, yet most will not actually leave. In addition, the economic challenges areas face are affected by local factors, but the levers to deal with them are devised nationally, and therefore there is very little fit between the actual problem and the possible solution.

In order for the ultra-local economics sector to deliver effective change, local economies in disadvantaged areas need the support of new forms of measurement. But they also need a new understanding of how they can deliver what mainstream economic policy-makers need. This might, for example, require the development of micro-providers, a new local banking sector, small business zones and secondary currency systems.

Key recommendations

Small and medium-sized enterprises (SMEs) should receive more investment to reflect the substantial economic benefits they bring to local areas – and given they provide just over half the added value in the UK economy, an efficient economy would provide them with half the resources.

Regeneration policy-making should be re-structured to reflect the importance of the ultra-local economics sector. This should include the setting up of an ultra-local policy and delivery unit by HM Treasury.

Policy and practice context

The emerging ultra-local economics sector, dedicated to helping neighbourhoods regenerate using existing resources, has the potential to both 'rebalance' the economy, and to provide UK cities with effective economic levers. But traditional economic policy-makers are unfamiliar with the sector, and national policy is not always structured in a way that would support its development. This needs to be addressed, not just to create economic resilience but also to enable a more effective localism.

About the study

This study attempts to fill the evidence and theory gaps that exist between national policy-making and local economic activity. It sets out an intellectual framework to improve communication and understanding between national policy-makers (including HM Treasury and the Department for Business, Innovation and Skills) and those working at the local level. It is intended to enable local entrepreneurs and local authorities, urban and rural, to begin to build a body of effective economic solutions that are backed by appropriate support at the national level.

The study was carried out by the New Weather Institute (www.newweather.org), a think-tank that works to bring together radical thinkers, makers, artists and activists to design future ways of living and working. In 2014 its researchers conducted in-depth interviews with 14 leading economists selected for their ability understand the objectives of both sides on this issue. They also held round-table meetings at the Treasury and at Plymouth Business School. More information is available in the accompanying book, *People Powered Prosperity*, published by the New Weather Institute.

Background

Traditional regeneration policies created and implemented by central government and its agencies have had mixed success in creating lasting prosperity in some deprived areas of the UK. The twin approaches of economic support (often in the form of building projects, which would better be classed as land-use policy) and education support (training) have failed to treat the problems some areas face, and the approach has lacked coherence.

New policy instruments such as City Deals, which allow cities to draw down the powers they need to fulfil ambitious economic projects submitted to Whitehall, can exacerbate the problem as they have led policy-makers to believe that they are already operating locally. But central policy-makers' definition of local is on a very different scale, and their institutions tend to be geared for supporting large places and organisations. This often actively frustrates the efforts of the ultra-local economics sector, because institutions are too large to be able to deal with the scale that local economic regeneration requires – one of the reasons the big banks have so much difficulty providing for the needs of SMEs.

Little interest has been shown by national policy-makers and economists in how money flows round a local economy, or how, given the correct levers, the (currently wasted) economic potential and ingenuity in many of these areas could be released to give entire communities the means to make their lives better. But there is increasing evidence, some from abroad, that localised, small economic interventions can make a difference to the economic futures of very disadvantaged places. Local interventions can gather the information they need to act locally; they are better able to deal at that kind of scale and are better at avoiding the kind of market failure that besets larger ones.

Conceptual barriers to mutual understanding

The interviews and round-table meetings held during this research identified a number of conceptual areas, some of them based on ambiguities in the approach to regeneration favoured at the national level, that appear to be creating barriers to national policy-makers' understanding of ultra-local economic regeneration. These are:

- A great deal of public policy is devoted to helping people leave impoverished areas, yet clearly most will not actually leave.
- The economic challenges areas face are affected by local factors, but the levers to deal with them are devised nationally, and therefore there can be very little fit between the actual problem and the possible solution.
- The ultra-local – or ultra-small – approach to local regeneration lacks a generally accepted or recognised name (though 'economic resilience' is increasingly used).

A series of failures of communication between national policy-makers and local entrepreneurs and authorities also prevents effective debate. For example, there is an unresolved debate about the best approach to regeneration. How much value gets added to local economies if they specialise in a crowded global market (for example electronics, or media) in an attempt to pull in more wealth from outside the area? How much value is added by replacing imports coming in from outside the area with locally made goods? How much value is added by narrowing production, and how much by looking to local resources to broaden it?

In particular, mainstream economists and policy-makers are often sceptical about the full value of the additionality, believing that most, if not all, regeneration is usually just shifted from elsewhere. This is unlikely to be the case, and policy-makers might have reasons to carry on with local regeneration even if it were the case. It would be hard to claim that any new business, for example using the new sharing platform innovations like Uber, has no additional value at all.

Practical ways out of the current impasse

The researchers suggest three ways forward to bring the two sides – national and local – together for the benefit of cities and towns:

- The impact of the ultra-local economics sector needs to be measured in ways more in line with the Treasury Green Book and some way beyond Gross Value Added (GVA), which is not a useful way of measuring the success of impoverished local economies, because it will always undermine the efforts of ultra-local regeneration. GVA will always tend to give precedence to financial services and other high-value, low-impact earnings.
- Institutions capable of nurturing small enterprises can have access to very local information, which national institutions find it nigh on impossible to seek out. This is an important market failure that ultra-local approaches are attempting to tackle by shaping new local institutions such as community banks.
- The Bank of England recently suggested that secondary money systems, and local currencies, might play a role in reaching parts of a local economy that conventional money fails to reach. The researchers extend this argument, explaining why local measures that privilege small enterprises may be required to provide more choice in certain disadvantaged areas. It may be the best way of avoiding the far greater market failure that is disadvantaging those areas.

The study also identified a need for local financial institutions and a 'mezzo' level of business support that can coordinate local efforts but are easier to access than business support at the national level.

A vital, forgotten economic resource that could be used to support local economic development is local pride. Local ingenuity, driven by local people, based on their growing awareness of the resources that are lying unused in their very midst, can and should be harnessed to increase local prosperity. Mainstream economics has never really understood local pride as a factor, but cities are increasingly aware of how powerful it can be – if the local institutions are in place, and if the techniques are available to tackle local market failure.

The word 'local' can be misleading. Mainstream policy-makers regard it with suspicion. They fear that it implies protectionism or borders. It is clearer to emphasise the importance of small to local economies – providing more competition, not less, and using up the spare capacity at local level in small enterprise.

Recommendations

The researchers make two key recommendations:

A fairer share of investment

The Government should, as a rule of thumb, aim for at least half the business investment in the UK to go to SMEs. They currently earn slightly more than half the 'value-added' (profit) in the UK, but get much less than half the business investment. This investment may take more appropriate forms when it comes to SMEs – not all will require the kind of business investment that big businesses need – but they require half the investment in its broadest sense.

If SMEs are not getting this share of the investment, then they need to be given the intermediaries and institutions that could make this possible. In the interim, the Government needs to compare profitability and investment by size of business, track these numbers regularly and report on them.

A national support structure

The structures of UK policy-making need to reflect the importance of ultra-local economic policy. The Treasury should set up an ultra-local policy and delivery unit to:

- Advise ministers on the barriers to local economic development and ultra-local economic prosperity in all the cities and regions of the UK – and on what institutions are needed locally and nationally to achieve it.
- Report on local economic progress and lessons, and capture progress in more appropriate measures.
- Coordinate policy across government departments to achieve these objectives.

Join the debate: The New Weather Institute has attempted to set out an intellectual framework to allow both sides to understand each other. More discussion is needed, so join the debate with the New Weather Institute (www.newweather.org) and the Friends Provident Foundation (www.friendsprovidentfoundation.org). On the Foundation's website you can also view video clips, 'If I had a million pounds', where key opinion-formers discuss how they would make our economic system more resilient; Andy Haldane of the Bank of England, in his video clip, focuses on SMEs' participation in the market.

Further information

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