

Is Economic Regeneration in the Valleys on WAG's Agenda?

Professor Brian Morgan
UWIC

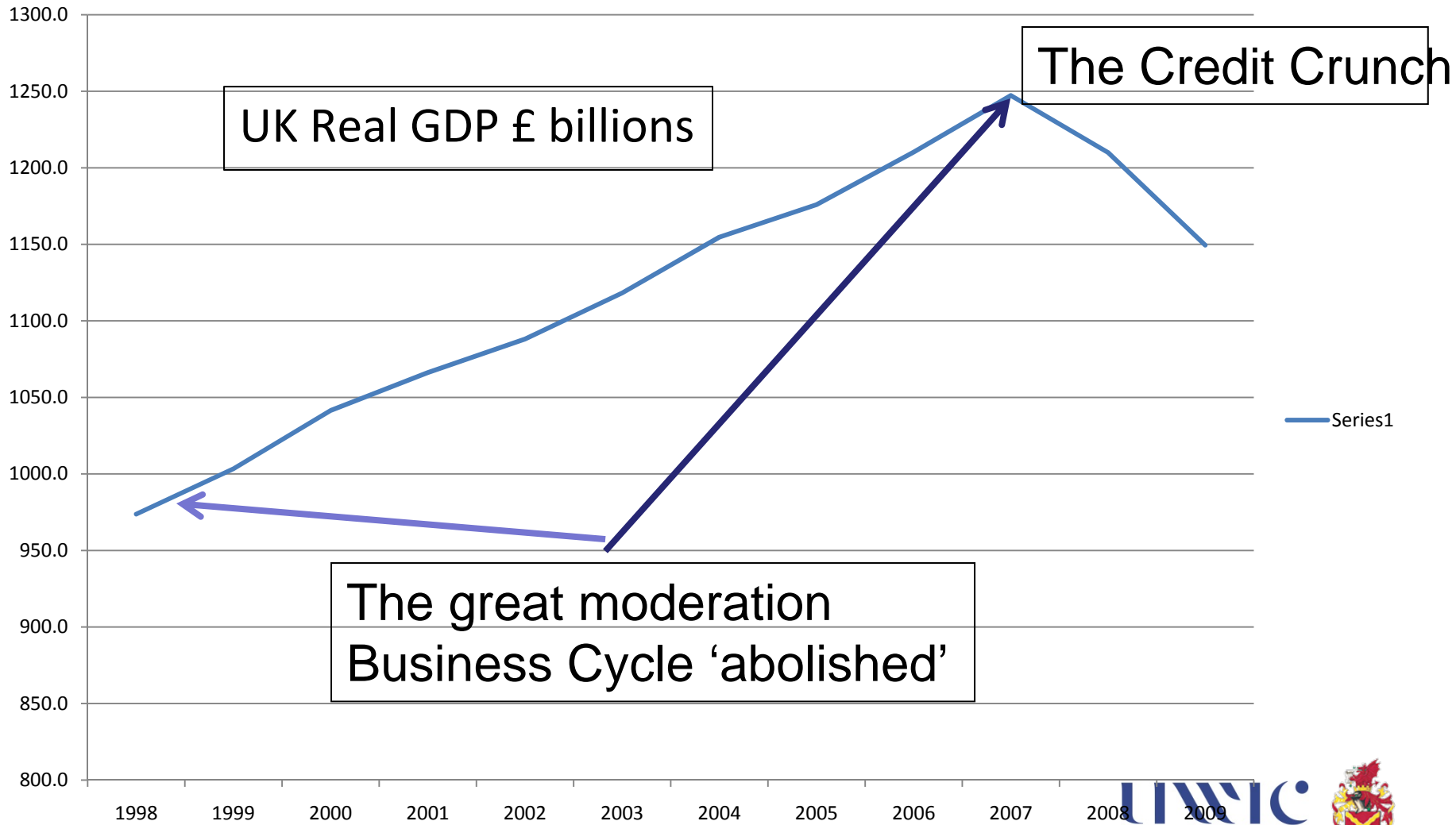
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Presentation Plan

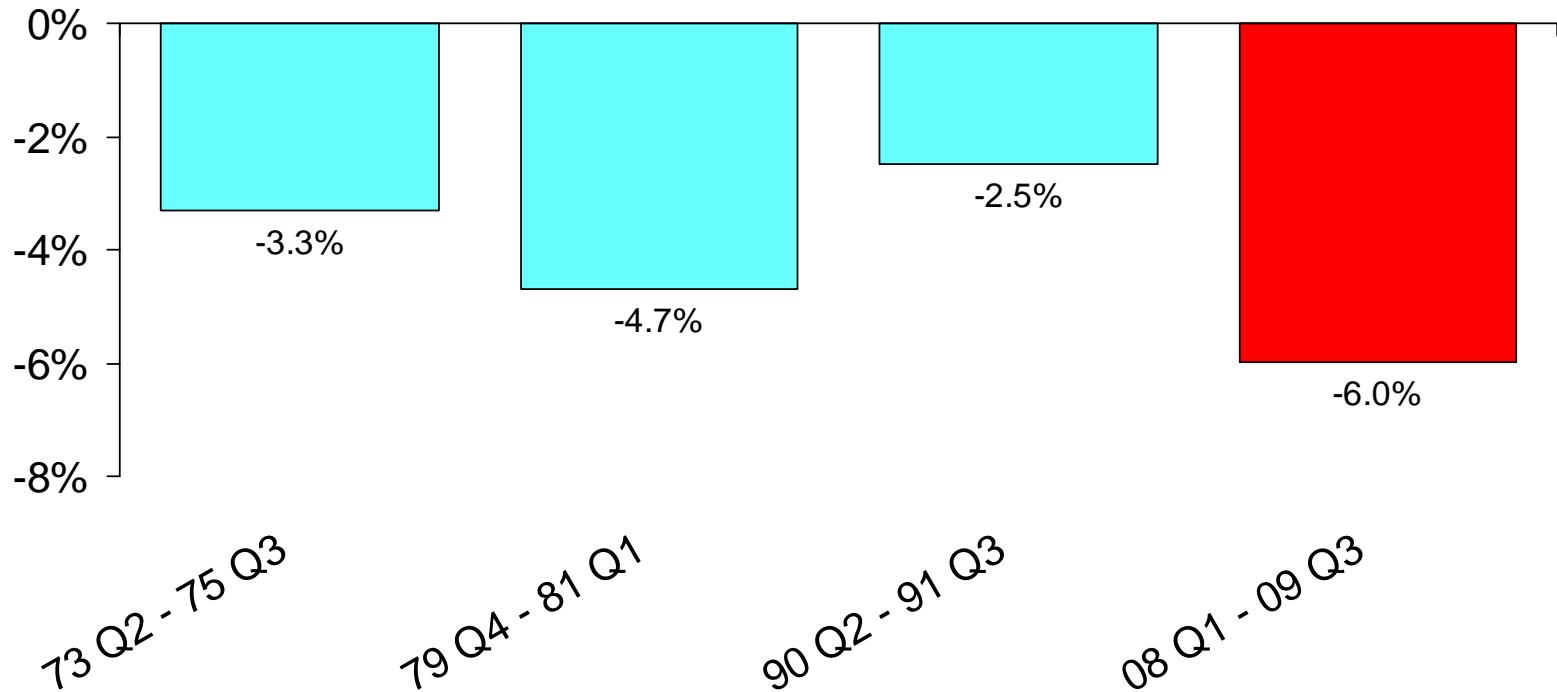
To answer this question:

- First we look at the UK economic trends and the state of the Welsh economy
- We then ask what is needed to maintain the economic recovery
- What can WAG do?
- What are the implications for the Valleys?

UK economic trends



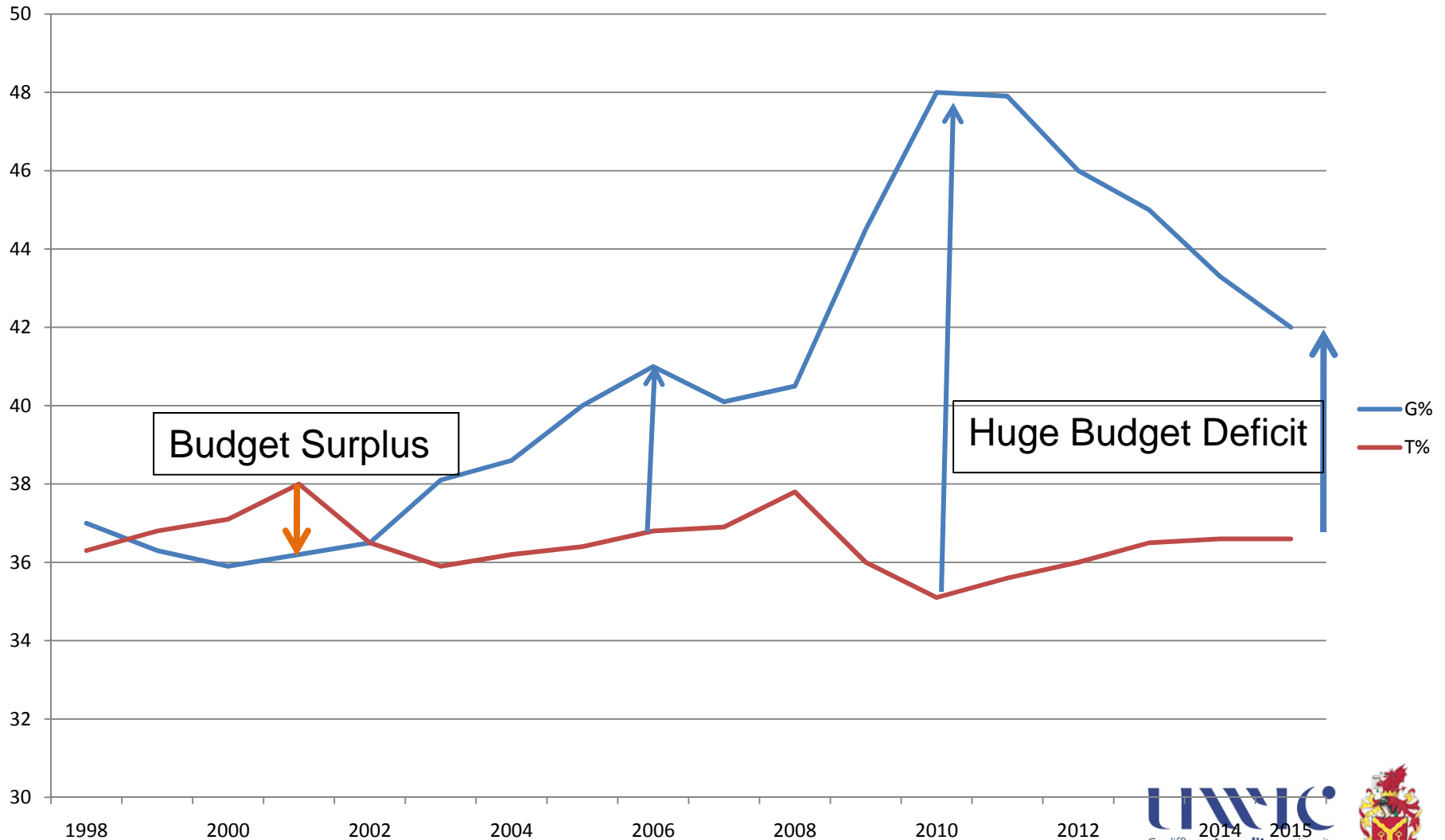
The Business Cycle Returns (with a vengeance)



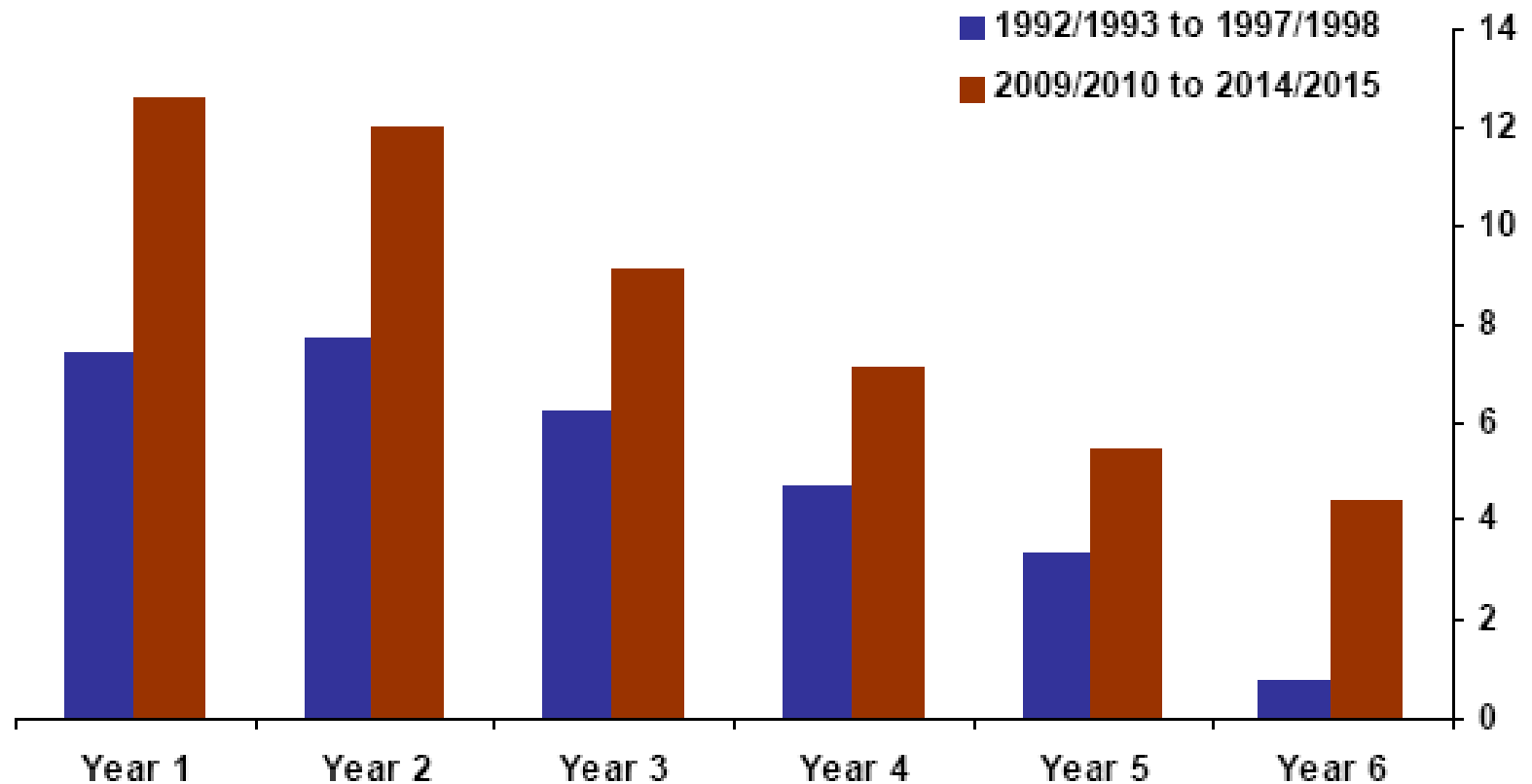
UK GDP Loss During Recent Recessions (Peak to Trough)

Source: ONS

Government Expenditure and Tax Revenue The Fiscal Deficit in the UK as % of GDP

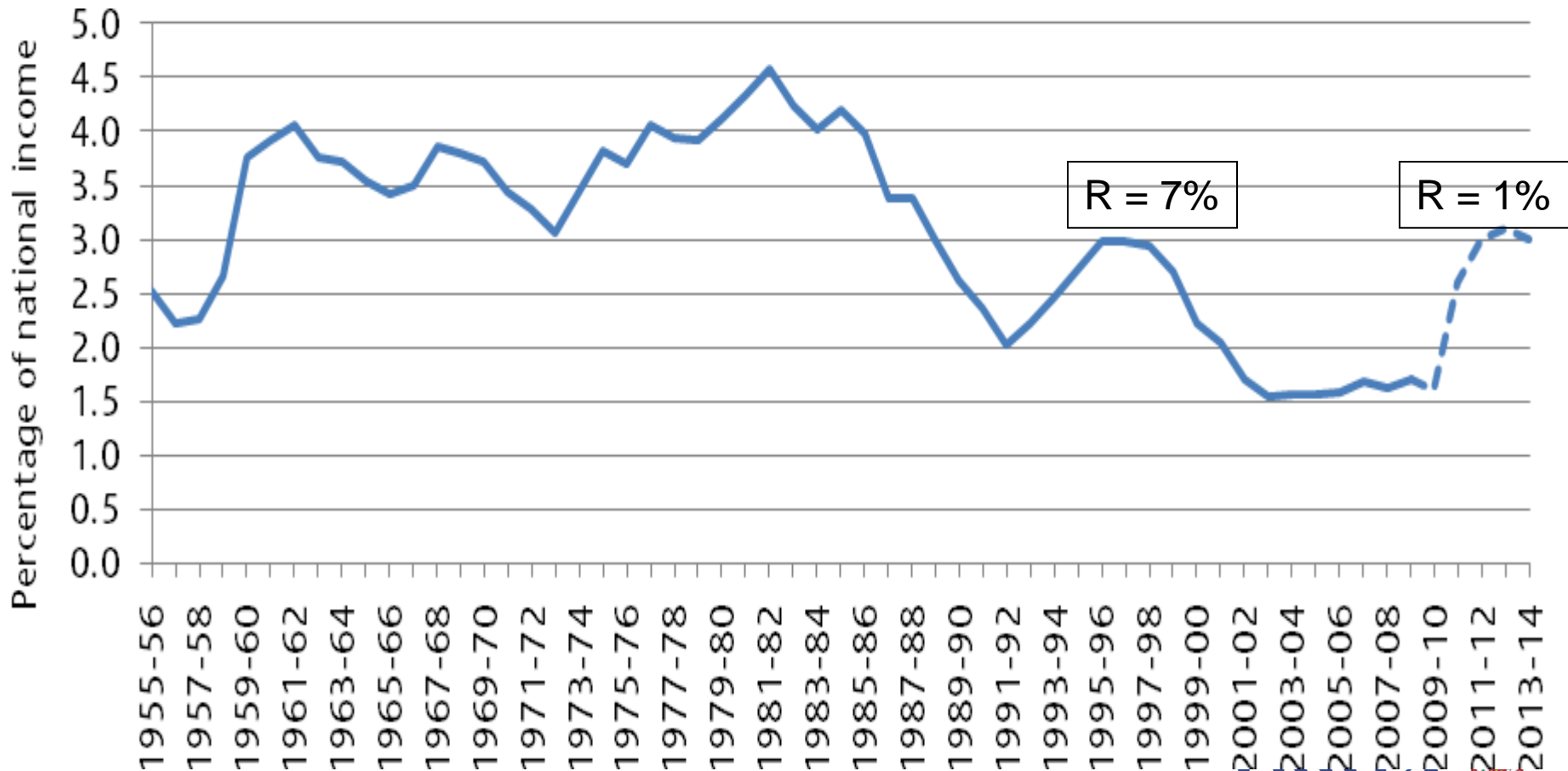


Public sector net borrowing, % of GDP, 1990s and 2010s



Source: Andrew Sentance

Debt interest payments as a share of national income, 1955 to 2014



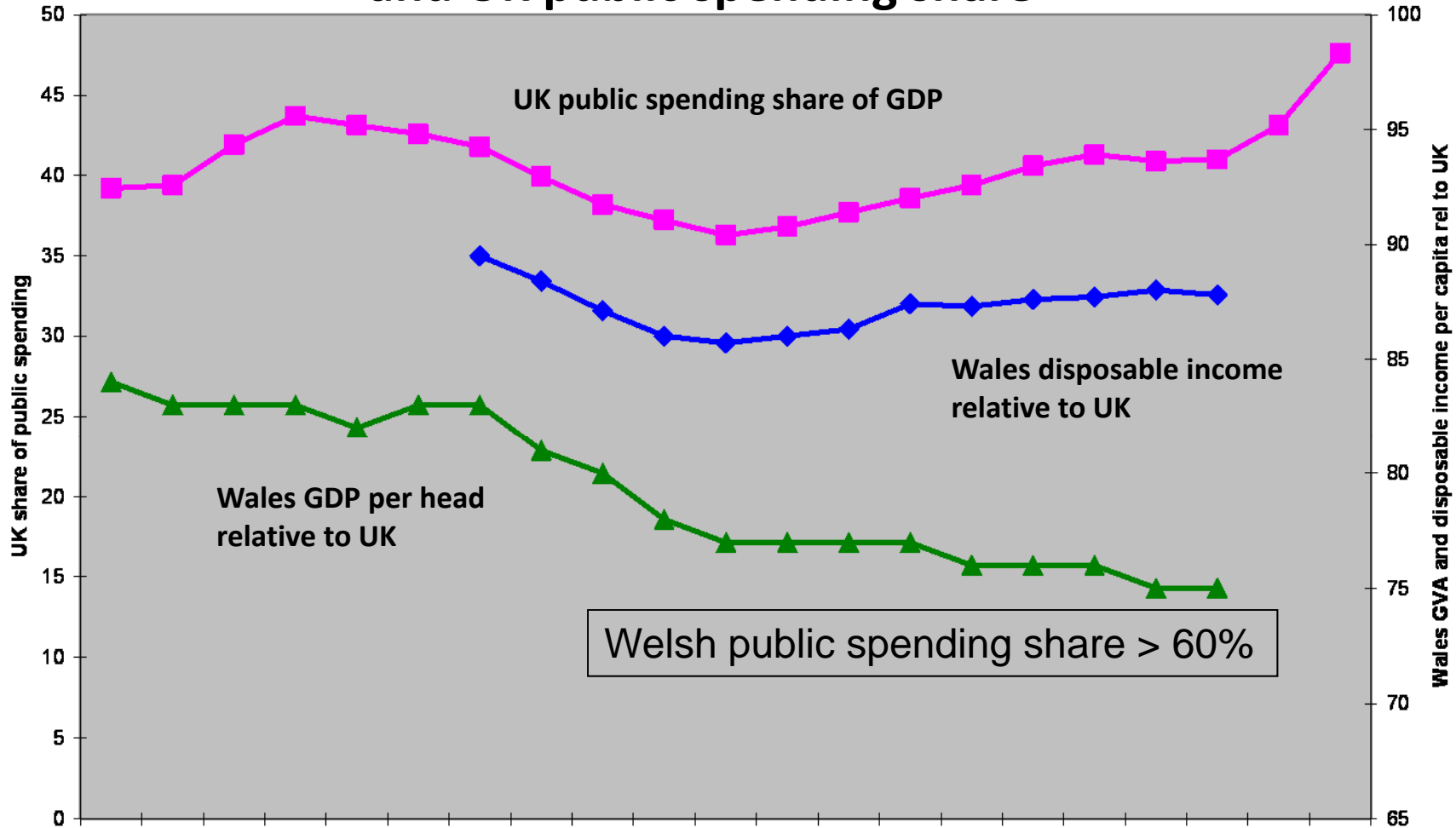
Problems of National Debt

- **Interest Payments.** The cost of debt is very high. In 2008 Debt interest payments were £31 billion a year (est 2.5% of GDP).
- In 2009, they will be £35 billion (similar to defence budget) - 4th highest spend after social security, health and education.
- Will require higher Taxes in the future.
- Crowding out private sector investment / spending
- The main worry is that higher levels of national debt will cause inflation

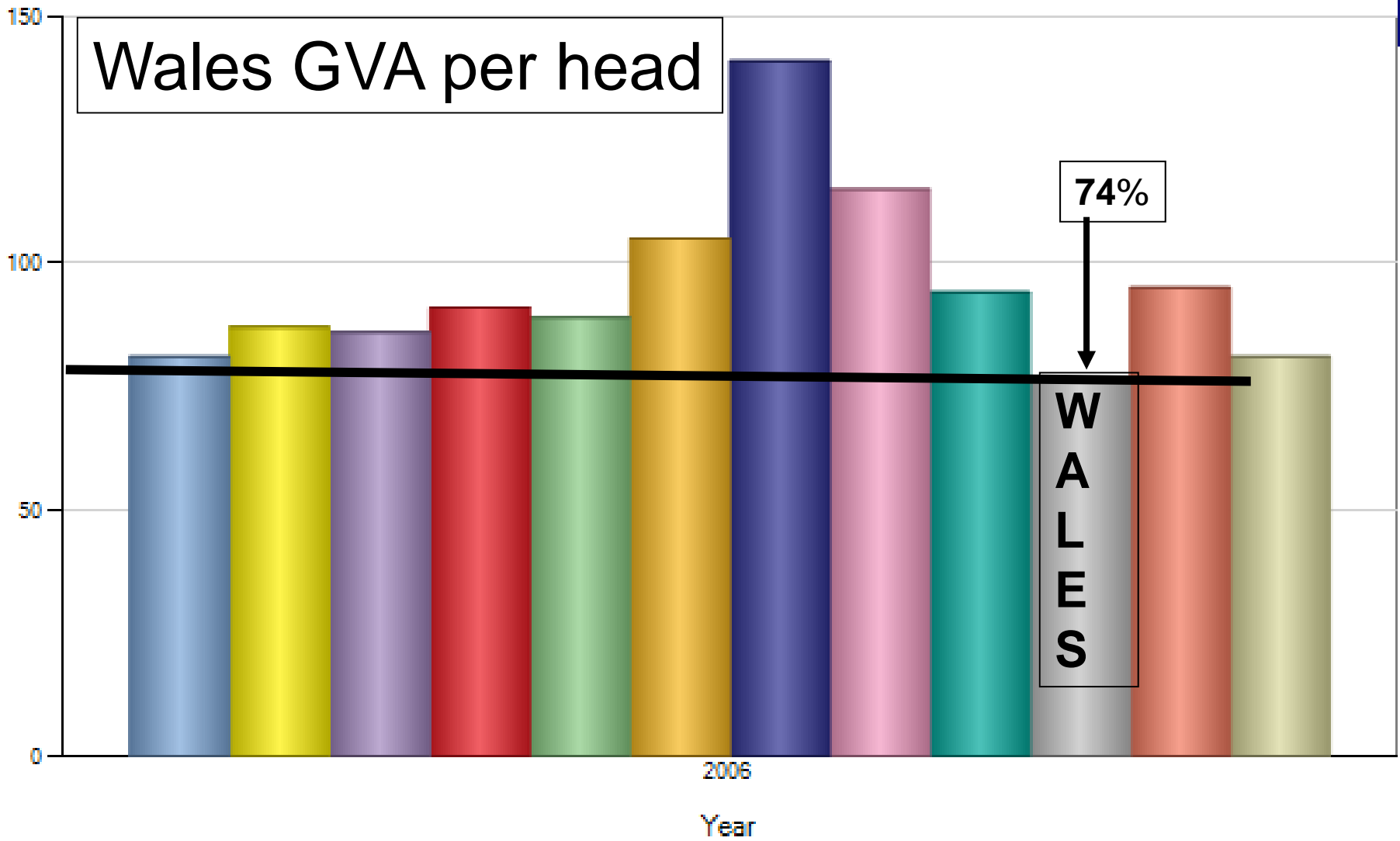
The Green Budget:

- “the cuts in spending that are needed by 2014 would reverse almost all of the increase in departmental expenditure as a share of national income since Labour took office”.
- Labour, then, would have marched public spending to the top of the hill and marched it down again
- with no long term benefits to the economy.
- Prolonged Government borrowing and high debt could cause even more **crowding out** of the private sector
- Two parliaments of pain in prospect

Wales relative GDP, disposable income and UK public spending share



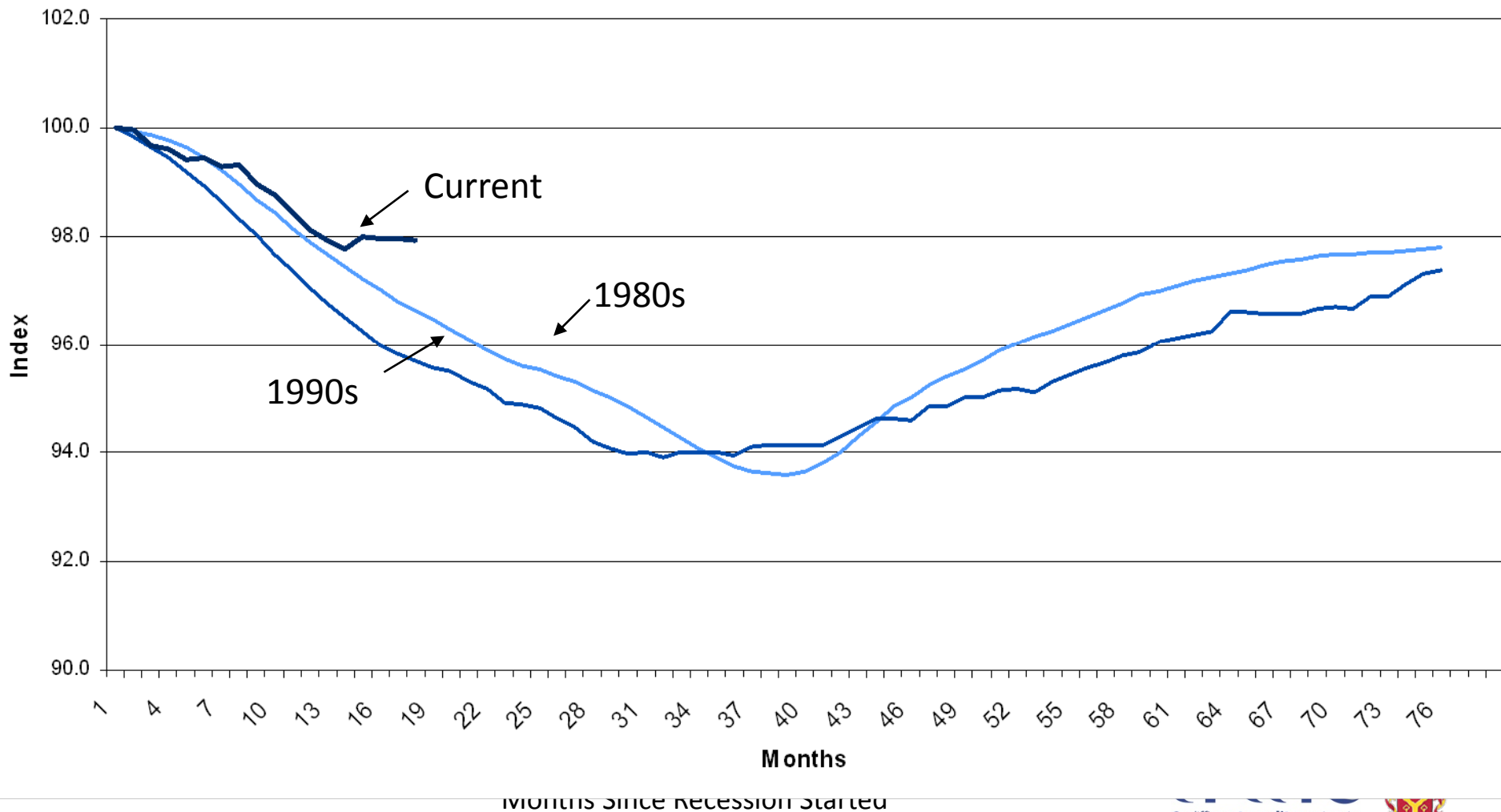
Wales GVA per head



- | Area | | |
|--------------------------|---------------|------------------|
| North East | West Midlands | South West |
| North West | Eastern | Wales |
| Yorkshire and the Humber | London | Scotland |
| East Midlands | South East | Northern Ireland |

Evidence of labour market flexibility

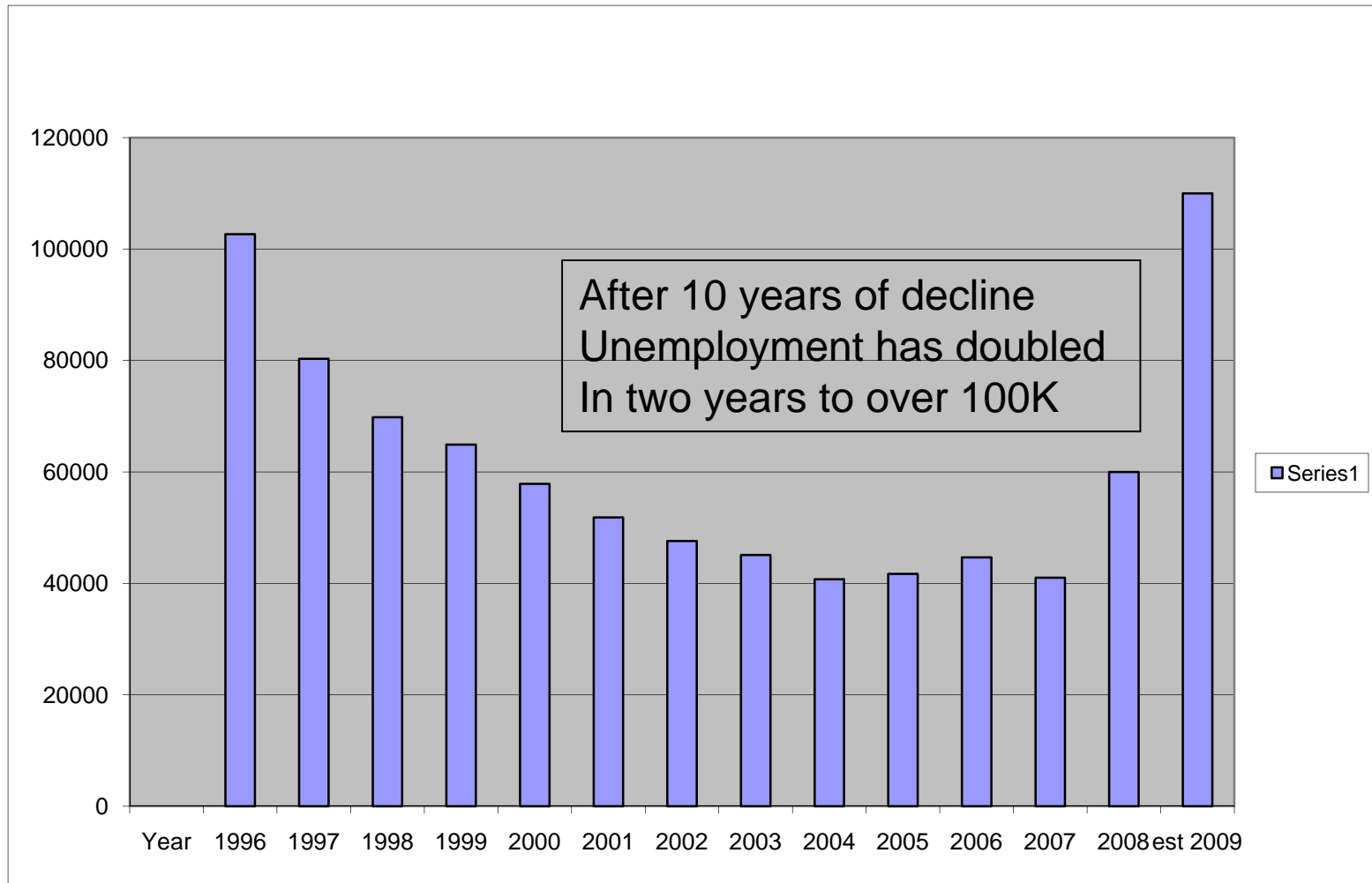
UK - Employment Level during recessions



Source: ONS



Welsh Unemployment



Unemployment Rates

Aug 2008 to Aug 2009

- **Year** **Wales** **England** **Scotland** **N. Ireland**
- 2009 9.2% 7.9% 7.1% 7.1%
- 2008 5.9% 5.9% 4.7% 4.3%
- The Welsh economy is suffering more than other regions
- Unemployment expected to keep on rising during 2010
- Youth unemployment is set to rise above 25%
 - the under 25s are bearing the brunt of this recession
- This is where social problems begin and it suggests where the solution lies

UK Competitiveness Index

(Prof Rob Huggins at UWIC)

Local Authority	2008	Rank 2008 out of 407
Cardiff	100.5	126
Monmouthshire	98.1	152
Flintshire	94.1	211
Vale Glamorgan	92.0	239
Newport	91.9	241
Carmarthenshire	84.5	343
Torfaen	82.3	367
Ceredigion	81.1	378
Anglesey	80.5	388
Neath Port Talbot	78.6	394
RCT	78.5	395
Caerphilly	76.2	403
Merthyr Tydfil	73.7	405
Blaenau Gwent	71.3	407

Clear Red Water

- WAG's 'clear red water' policy has been nothing short of disastrous.
- Compared with England, - it has done nothing to generate either economic prosperity or solve our social problems
- Expensive publicity stunts like free car parking and free prescriptions have diverted attention from the underlying problem :
- the continuing decline in Welsh relative prosperity levels – now down to 74% of the UK average.

It's the Economy Stupid

- Improving economic prosperity is the surest way to address our social problems.
- However, instead of appreciating this, we have created - both in the UK and in Wales and particularly in the Valleys - a new industry of 'social problem solvers'
- supported by an army of bureaucrats.
- This is not the best way to address our economic and social challenges

Implications for the Valleys

- There are some good things happening such as the HoVI - a 15 year regeneration project
- A total of **£140 million investment** has been ring fenced for the region **to stimulate:**
- Pat Lewis and the team are doing a good job in terms of **regeneration, economic growth**, and environmental improvement
- But the key question is this:
- Does WAG view the Valleys as an important part of future economic development in Wales?
- Or is the Valleys area seen as a dying industrial area offering only dormitory town options?

Is HoVI enough?

- One of the keys to economic development is investment in infrastructure and WAG is loath to do this
- Take the HoV Road Dualling from Abergavenny to Hirwaun - 40 Kms
- First contract awarded in 2002 for first phase of 4 miles – it cost £30 m – opened in 2004
- but the rest will not be finished until at least 2020 because of funding constraints
- So 2 Kms per year is all that we can afford in Wales?
- But £30 m per year is spent on free prescriptions!

Funding is the key

- Funding the infrastructure needed to support regeneration is the continuing problem.
- the combined effects of the credit crunch, the downturn in the property market and constraints on public spending are severely impacting on regeneration.
- Need new ideas - innovation
- TIFs (**tax increment financing**) offer one of the most promising avenues
- TIF uses future gains in taxes to finance current improvements.

Flexible funding

- There is also the community infrastructure levy (CIL) and the business rate supplement (BRS)
- **CIL** is a new charge on most types of new development in the LA area
- based on simple formulae and more transparent than 'planning gain'
- **BRS** is a levy on the Non-Domestic Rate used to fund additional investment aimed at promoting the economic development of local areas.
- “supplementary business rates provide a powerful new tool for local authorities to invest in infrastructure”

What are others doing?

- Edinburgh council's economic development specialists have come up with a revival plan that uses a TIF.
- With the help of the Scottish Futures Trust (a **PFI** support mechanism) councils are actively introducing TIF to support:
 - the £1.2bn Ravenscraig development
 - develop projects such as the £300m Borders Railway
 - and the £200m-plus Line 3 for the Edinburgh tram
- Other LAs in England are pioneering TIFs, CIL and BRS
- What are we doing in Wales?

New ideas

- Surely those new appointments in WAG (earning £150K + p.a.) are forging ahead with new ideas?
- Not really - at present, Wales is the smallest user of any flexible funding method
- e.g. PFI, we have only 1.3% of the UK total. Scotland has 5 times the amount
- But greater use of modern PPP schemes would allow more infrastructure investment in Wales and the Valleys
- The Audit Commission – PFI or PPP, can be an effective way to secure both capital investment and management expertise.

Stock Transfer

- A PPP that facilitated stock transfer of houses to new social landlords to refurbish homes and maintain them while receiving the rents is needed.
- The potential for stock transfer across the Valleys is substantial.
- For example, the WLGA estimates that around £4 billion is needed to bring houses in Wales up to Quality Standards at an average cost of £11,000.
- £700m could be available in the Valleys
- but to fund this and achieve the quality standard, stock transfer via a PPP is the only viable option.

Welsh Planning and Procurement

- Have the top brass at WAG streamlined this area?
- No !
- In Wales we have ended up in planning and procurement Hell
- We have a policy-overloaded planning culture + risk aversion that blocks economic development
- This also undermines our approach to public procurement – it is ridiculously expensive
- Wales needs slimmed down procurement and planning processes - because we can no longer afford the current system and it excludes local SMEs

The Key to Regeneration

- HoVI can only do so much with such minimal funding
- To really kick start regeneration we need:
- much more investment in infrastructure,
- better planning and procurement and
- support for stock transfer
- And to achieve this we need flexible funding
- Finland regenerated its poorer areas by building a hospital and a university in each locality
- Together with the above ideas that might be a good solution for the Valleys

Is it likely to happen?

- The current WAG structure is flawed
- it labours under the fiction that the Minister is the only person who can make a decision.
- this over-centralised DE&T system has created a logjam of decisions in the area of economic development and raising the profile of Wales
- each new “initiative” has taken at least twice as long as planned
- WAG officials appear to have no conception of the importance of making timely decisions.

The Elusive Economic Dividend

- Raising economic prosperity levels and making the Valleys a great destination for both inward investors and indigenous companies would solve many problems
- our aspirations for improving:
 - the health service,
 - achieving educational excellence
 - and other social objectives
- will be much easier to achieve on the back of an expanding and competitive economy.
- And many opportunities now exist for investment in new activities in a number of sectors – renewables etc.

WAG's Role

- But this inevitably means **increasing** the size of the **private** sector rather than crowding it out
- it requires WAG to trumpet and encourage the contribution of private sector companies to all areas of economic policy
- Indeed, increased utilisation of private sector services is the best way to ensure that devolution eventually delivers an economic dividend
- Only then will the tentative green shoots of optimism bear fruit for businesses in the South Wales Valleys