

LOCAL ECONOMY OF THE FUTURE

A BUSINESS-LED PLAN FOR THRIVING COMMUNITIES



FUTURE OF THE
ECONOMY
WHERE BUSINESS BELONGS



British
Chambers of
Commerce
LOCAL ECONOMY
OF THE FUTURE

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This paper is part of a series of five policy areas which develop realistic recommendations for the future of the UK economy, and fresh and compelling proposals for government.



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FOREWORD

JAMES TIMPSON OBE DL, CHIEF EXECUTIVE OF THE TIMPSON GROUP



James Timpson
OBE DL
**Chief Executive of
the Timpson Group**

Local economies play a powerful role in all of our daily lives. They impact on how we live, work and spend our money. Crucially, they create a sense of community.

Many of our most well-known and best-loved UK businesses started life on local high streets. Some are still there, many have grown across multiple locations, and others have gone international. What they all have in common is being rooted in local economies.

This report rightly identifies both the major challenges and exciting opportunities facing our local economies across the UK right now. It identifies the crucial partnership that is needed between business and government to meet the challenges of tomorrow. At the same time, it recognises that every place is unique, so we need clear but flexible solutions.

Policymakers face the daunting task of aligning the priorities of individual businesses with the broader community. The focus should not be on competing interests but rather on fostering collaboration for the collective benefit of the community and local economy.

The recommendations in this report offer a strategic roadmap. Proactive business leadership, institutional reform and further devolution of powers are urgently needed. Local economies also need targeted efforts to address specific challenges such as use of infrastructure, investment for growth, and the overall cost of doing business.

Our local communities are the building blocks upon which our economy sits. They are the natural home for businesses, and concerted efforts are essential to ensure their success and the prosperity of the broader economy.

CHAIR'S INTRODUCTION

SEBASTIAN MUNDEN



Sebastian Munden

**Chair of WRAP
(The Waste &
Resources Action
Programme)**

Local economies are at the centre of our wider national economy. As part of this, the UK has the opportunity to be a leading purposeful economy, building on recent leading positions in the service industries, the energy transition and the circular economy. But there is increasingly fierce competition between countries to build decisive competitive advantages in the economy of the future.

A key feature of a more purposeful economy is that it is more evenly and justly distributed across the country. More local. Better for quality of life, more inclusive, more circular economy and better for the planet. Enabled by access to fast connectivity, with no areas of the country left behind. Transformational for small towns and coastal areas. Diversifying rural locations empowered by equal access to fast connectivity.

Our policy recommendations aim at increasing the productivity of the local economy and fully capitalising on the opportunities of a more sustainable and digitally enabled location for many more types of businesses. Where small businesses can become medium sized and achieve the benefits of sufficient scale in their sectors.

For a place to thrive, three forces need to come together: community, business and local government. Where any one is weak, communities tend not to prosper. Where there is strong local leadership and a powerful sense of place – all three forces tend to align.

Our recommendations for the purposeful future of the local economy centre around these five themes:

- Enhance local leadership and collaboration between business, communities and local government to create local strategies for economic development and the skills, transport and infrastructure to support them.
- Resource the capabilities, speed and capacity of local government for infrastructure planning and transport, simplifying the number of pots and schemes to fund them.
- Provide all localities with access to fast, high quality digital connectivity and financial services / capital.
- Drive the more sustainable local economy opportunities, and promote more sustainable consumption, through policy and entrepreneurial culture.
- Ensure business rates, tax systems (VAT, tourism) and codes of practice supporting SMEs incentivise their growth and remove disincentives to grow.





BRITISH CHAMBERS OF COMMERCE INSIGHTS

2023 QUARTERLY ECONOMIC SURVEY - Q4

58%

OF BUSINESSES SAID THAT INFLATION IS OF MORE OF A CONCERN TO THEM THAN 3 MONTHS AGO.

47%

JUST UNDER HALF OF BUSINESSES PREDICTED AN INCREASE IN THEIR PRICES OVER THE NEXT THREE MONTHS (COMPARED WITH 41% IN Q3).

49%

OF BUSINESSES THINK PRICES WILL STAY THE SAME, AND JUST 4% ARE ANTICIPATING A DECREASE.

2023 BUSINESS OUTLOOK SURVEY

58%

OF BUSINESSES FELT THERE WASN'T A HIGH AVAILABILITY OF RELEVANT GOVERNMENT FUNDING IN THEIR LOCAL AREA.

75%

OF BUSINESSES SAID THEY ARE PAID LATE BY CUSTOMERS

2024 BUSINESS OUTLOOK SURVEY

50%

OF BUSINESSES SAID THAT ACCESSING EXTERNAL FINANCE HAS BECOME MORE DIFFICULT OVER THE LAST 3 YEARS.

73%

OF BUSINESSES SAW THEIR BUSINESS RATES BILL EITHER INCREASE OR STAY THE SAME AT THE 2023 REVALUATION

EXECUTIVE SUMMARY AND RECOMMENDATIONS

Businesses play a pivotal role in shaping the economic landscape of the United Kingdom, and their impact extends far beyond the national level. Local economic development is an essential facet of a thriving society, and businesses are integral to its success. Their role is more than simply the generation of profits; it encompasses a commitment to the well-being and growth of the communities in which they operate.

The local economy can mean a myriad of different things to different people. It might be the traditional high street with a range of shops. It could be a shopping centre on the edge of town or a cluster of businesses on an industrial estate. Increasingly it might even be a normal residential street, where SMEs and micro businesses are being run from people's houses. In other words, the local economy is a coat of many threads and colours. As such, there is no one size fits all approach, but that doesn't mean there aren't common themes and experiences.

Both our local communities and businesses within them are facing a challenging economic time. They are operating against the backdrop of a cost-of-living crisis, political uncertainty, inflation and interest rates pressures and a changing global trading landscape. All of this comes on the back of the Covid-19 pandemic, a once-in-a-century event that altered the way our economy works forever. One such example is that, inevitably, businesses with a solid online presence and digital infrastructure fared much better than more traditional, physically located, brick and mortar businesses.

Similarly, the way we approach our day-to-day lives and decision making is changing. Given the global, national, local and individual adaptations required to move us towards a more sustainable and net zero-based future, it is crucial we consider the long-term sustainability of local economies, and what that might look like.

At least in part, a grand list of ideas isn't what is required. Instead, what is required is the recognition that that every town or village (whether urban or rural) is different. What might work in Preston won't necessarily work in Blackpool, and what fits in London won't fit in Liverpool. Local place-based decision making is needed, tailored to the priorities of local businesses and people in local economic clusters. The huge challenge for policymakers is to align the priorities of individual businesses with the wider community. There shouldn't be competing priorities, but rather working together for the benefit of the entire community.

This paper explores what currently works well, what work less well and how our local economies must adapt now to create the thriving local economies of the future. This is about identifying the problems and challenges then proposing solutions.

This paper is part of the wider Future of the Economy programme of work, in which BCC has identified five core national challenges that will shape the Future of the Economy. Alongside the Local Economy of the Future Challenge, the other four challenges include: Digital Revolution, People and Work, Global Britain and the Green Innovation.

Therefore, whilst this paper will refer to issues such as workforce shortages and businesses operating on an international scale, foundational issues will be addressed in their most relevant challenge paper. Our local economies are where business belongs.

RECOMMENDATIONS

1. Business leadership

Given the current economic pressures, businesses need to be leading the way in facilitating collaborative local partnerships, via business support networks, to ensure there is the right mix of unit development in towns to draw people in and adapt to the way local economies are evolving.

2. Institutional Reform

Reform and strengthen the National Infrastructure Commission (NIC) by giving it greater statutory powers, for instance as a statutory consultee for major infrastructure decisions, potentially with powers to call for government to rethink or re-examine its approach in light of the NIC's long term infrastructure proposals.

3. Further Devolution

Government should further devolve powers to ensure that decisions on local infrastructure and transport are decided at a local level with appropriate levels of funding support.

4. EV Charging Network + Digital Infrastructure

BCC, local authorities and other stakeholders, such as network operators, should work together with the government to find solutions to accelerate the both the rollout of Electric Vehicle (EV) charging points and digital connectivity infrastructure.

5. Resources for Planning Authorities

To unlock the planning system, we need better resourced Local Planning Authorities (LPAs), greater stability of planning policy, more focus on the supply of land for business use and appropriate housing solutions for the local workforce.

6. Sustainable Local Economy

Normalise sustainable production and consumption to build the economic foundations for the future through the introduction of targeted policy, such as the introduction of a legal 'right to repair'. Stimulate local sustainable economic activity with sustainable public procurement criteria and asset management policies.

7. Local Funding

Reduce and streamline the number of funding pots (but not the overall fiscal amount) available to local economies, making them easier for local authorities and other business development bodies to access and spend the funds, in a transparent and accountable way.

8. Local Skills Planning

Commit to funding employer-led Local Skills Improvement Plans (LSIPs) in England as a long-term programme of work, to build local skills plans for the future.

9. Voice of Business

The Department for Levelling Up, Housing and Communities (DLUHC) should facilitate the involvement of the business community in a meaningful way, including on strategic questions. There should be specific requirements to involve independent business membership organisations based in the local government regions, to ensure that the wider business community is fully represented in strategy development and decision making.

10. Business Support

The government should create a long-term strategic approach to publicly funded business support, which provides more agency and autonomy to local and regional communities, and could provide vital investment in our country's future economic success. In the short term, government should ensure newly-tax-registered firms are given information on local business support networks.

11. Local Government Funding

Increase core funding to local government to ensure their long-term ability to protect services that businesses, people and communities rely on every day.

12. Business Rates

Government should develop a long-term strategy for business rates that incentivises rather than disincentivises growth and investment. This could be achieved by creating a system that reflects the lifecycle stage of business e.g., "Start Up rate" for new firms, with costs levied in line with other taxes i.e., a percentage charge based on profit rather than flat fee. The system should also be more responsive to local economic cycle and the wider economic cycle.

13. VAT registration threshold

The government should immediately restart the VAT registration review and explore a smoothing mechanism that could decrease the bunching effect, preventing the threshold from acting as a barrier to business growth.

14. Tourism Taxes

Government should explore the role of tourism taxes in other countries and assess whether such measures should be introduced in the UK. Any measures should provide the power to local authorities but not mandate usage.

15. Banking Hubs

The banking hub model should be rolled out into more local communities and the range of services offered to businesses should be expanded.

16. Prompt Payment

The government should refocus the Prompt Payment Code back on SMEs being paid within 30 days and actively publicise repeat offenders when it comes to late payments to SMEs.



LOCAL ECONOMY OF THE FUTURE: A BUSINESS-LED PLAN FOR THRIVING COMMUNITIES

a. THE LOCAL ECONOMY IN 2024

In order to explore what the Local Economy of the Future should look like, we must first understand what local economies look like in 2024.

At the beginning of each year, the British Chambers of Commerce (BCC) Insights Unit conducts its Business Outlook Survey. Placing the data from this alongside the Office for National Statistics' data on UK business activity provides a current picture.

As of March 2023, the number of VAT/PAYE registered businesses in the UK was 2.72 million.ⁱ Most are based in offices and factory units, mainly outside of city and town centres, the majority being situated on a business or industrial park.ⁱⁱ Most business owners believe their area has relatively low crime, a culture of business engagement and, perhaps somewhat surprisingly, affordable business premises costs. In contrast to this, businesses believe that local taxation and personal housing costs are far less affordableⁱⁱⁱ.

Most think their areas have a high availability of suppliers, financial advisors and demand. However, fewer think their areas have sufficient skills, banks or access to government funding. In a clear example of how the face of the local economy is quite literally shifting, almost all respondents (90%) said they had seen a decrease in the number of bank branches in their area over the last five years.

Behind the statistics are two key factors:

1. The way our local economies work has changed.
2. The funding and financing for and within them has changed.

Firstly, our shopping habits have changed. Up until the beginning of the 21st century, if you lived in an average-sized town, you would do your grocery shopping on the local high street in the town centre. Your other retail needs, be it household items or clothing, could also be purchased in the local shop, department store or specialist retailer.

Over the last 25 years or so, the chances are your groceries have become a weekly shop at a larger supermarket that's located on the edge of town where commercial land is cheaper. The local department store, if it still exists, has also likely moved to the same retail park on the edge of town. In 2024, it is now also possible that any, or all, of the aforementioned shopping can be and is done entirely online, meaning

that footfall has reduced exponentially in town centres. As Section B will set out, this paper is not intended to make a judgement on whether this is a good or bad thing, but instead acknowledges that this shift has happened. It is crucial that local economies now, and in the future, adapt to this change.

Equally as important is the way that financing and funding have changed in our local economies over the last decade or so. Local Authority grant funding has evolved from a small number of strategic funding sources, to a system of grants delivered by multiple government departments and agencies; research for this paper has shown that in early 2023 there were over 200 funding pots that a local authority could hypothetically bid or apply for. These range from large funds such as the £1.1bn Long-Term Plan for Towns announced in the autumn of 2023, to smaller grant schemes such as Community ownership fund. We welcome the January 2024 announcement by DLUHC to simplify funding pots.^{iv}

Even a local authority with a plentiful supply of funds cannot do everything and, more importantly, should not be doing so. Local economic development has for too long been centralised at both a local and national level. For economic growth and prosperity to be a reality, there needs to be a serious collaboration between public and private, business and local community groups to ensure that local economies can grow, flourish and adapt to the changing economic landscape.

Similarly, as footfall has declined in physical locations, we have seen the economy, even at the local level, move not just from the physical to online but also towards a more omni-channel, hybrid model. It is important to recognise that this isn't something that has just benefited larger, nationwide businesses. On the contrary, some of the biggest beneficiaries of the growth of online shopping and business transactions have been SMEs and micro businesses. The fact that a one-person micro business being run out of somebody's dining room can now sell and transact with customers both nationally and across the world is something that should be both celebrated and appreciated.

From an economic perspective, this is an irreversible change. The crucial question is how local economies adapt to these changes.

b. PLACE & SPACE

The Changing Nature of the High Street

As discussed in the Executive Summary, although the way our local economies look and operate has always changed and evolved, the pace and scale of the change we see today is unprecedented.

What has become clear is that the local economies that have managed to adapt are, unsurprisingly, the ones who are doing the best, even in tough economic conditions. The reality today is that there is too much retail space in a number of our towns and cities, with research showing a need for 40% of shops needing to be repurposed in the next five years.^v

Retail is no longer the primary reason people visit our urban centres. Instead, food and drink, culture and housing are as important. People, especially younger people, are increasingly going to their local town or city centre for an 'experience', be that a meal out, going to the cinema or some other kind of activity. It could be visiting a specific location for an independent business or taking part in an activity run by a local community interest group or charity. One example we see more and more of are independent 'refill and reuse' stores, allowing people and businesses to be more sustainable.

This is why the evidence shows that those towns doing best are those who have thought about a 'place-based' strategy that incorporates a range of mixed unit development that can facilitate this 'experience' led activity.

The evidence also shows that landlords, especially the larger corporate types, are diversifying the tenants they let commercial property to. Not only does this highlight the changing nature of our local economies but also the economic reality that landlords can be less selective about who they let to.

The places succeeding have strong partnerships, great local leaders and understand the importance of place-based solutions, bringing together businesses, policy and the local community in a collaborative model.

The places struggling are those that don't have partnerships, which is leading to a siloed mindset that prevents meaningful change and adaptation.

RECOMMENDATION 1

Given the current economic pressures, businesses need to be leading the way in facilitating collaborative local partnerships, via business support networks, to ensure there is the right mix of unit development in towns to draw people in and adapt to the way local economies are evolving.



Infrastructure: Major Projects

Infrastructure forms the physical and digital environment that businesses operate in, and efficient infrastructure is vital to support local and national economic activity. Recent policy instability, such as cancelling the northern leg of HS2, has knocked business confidence in the ability of the UK to deliver on major infrastructure projects. Overall, the UK is a comparatively low investor in infrastructure investment. In the 40 years to 2019, investment in the UK averaged around 19% of GDP, the lowest in the G7^{vi}. This has jeopardised growth and runs the risk that businesses outside our main economic centres are left behind.

Positive and comprehensive reform of our infrastructure system is needed to restore business confidence and promote long-term growth in the UK. Local businesses require wider and deeper devolution led by a clear strategy from central government, ‘joining up’ projects to connect the whole nation.

Only long-term policy stability will give businesses the confidence they need to plan for growth in our local economies. While the National Infrastructure Commission (NIC) has delivered on its remit of assessing infrastructure needs and setting the agenda, under its current format it has arguably not been able to fully influence the course of infrastructure policy. The best example of this disconnect was the decision to scrap the HS2 link between Birmingham and Manchester, which was taken just two weeks before the latest NIC infrastructure assessment was published; the assessment had modelled its infrastructure strategy based on HS2 proceeding as planned. In our view, the NIC’s role should be augmented and its powers strengthened empowered to review national infrastructure proposals and hold government to account in delivering on promised projects.

RECOMMENDATION 2

Reform and strengthen the NIC by giving it greater statutory powers, for instance as a statutory consultee for major infrastructure decisions, potentially with powers to call for government to rethink or re-examine its approach in light of the NIC’s long term infrastructure proposals.

It is vital to increase the capacity and connectivity of our transport systems, whether road, rail, bus or aviation, to support the flow of people and goods around our communities. Whilst HS2 and other major infrastructure projects dominate the news and do have far-reaching impacts, as equally important for local communities are infrastructure connections within their towns and cities.

Without considered and meaningful investment in transport infrastructure, it is impossible for economic clusters to grow. Leeds is the largest city in western Europe without a light rail or metro system; something that has a real impact on its local economy. When it comes to infrastructure, national decision-making impacts the local.

It is also vital to consider the role of active travel and ensure that accessible infrastructure is in place to support walking, cycling and other movement in local communities, such as through pathways and cycleways.

Local government is best placed to identify the transport needs of communities and how to direct funding. Mayoral devolution in areas like Manchester has proved successful in tackling local infrastructure challenges with ambition, for example through the integrated Bee Network.

Central government should provide a strategy that devolved authorities can take a lead from; however meaningful decision-making powers should be transferred to local governments to maximise the economic potential of oft-forgotten regions. This frees up central government capacity to complete national infrastructure projects by distributing funding to the right levels and trusting local communities to take the lead.

RECOMMENDATION 3

Government should further devolve powers to ensure decisions on local infrastructure and transport are decided at a local level with appropriate levels of funding support.

Digital Infrastructure

Economic activity is increasingly happening in the digital world and investment in infrastructure to support this is essential. Government must ensure that businesses in all parts of the UK have reliable, high-speed internet connections and are protected from cyber-security threats. These matters will be addressed further in the 'Digital Revolution' challenge report.

Furthermore, sustained investment is needed to help drive the UK's journey to net zero, respond to the impacts of climate change and support local economies to play their role. For example, the rollout of EV charging points must be accelerated to increase business confidence in the transition to net zero and encourage take-up of electric vehicles. There is a significant geographical divide on EV charging points – with research suggesting just one publicly available charge point for every ten miles in rural parts of England, compared to one for every three-quarters of a mile in London and one for every 4.5 miles in other major cities and towns.^{vii} Businesses are facing rising cost pressures and cannot afford the challenge that climate crisis poses to our infrastructure. This is especially true in rural and coastal communities.

RECOMMENDATION 4

BCC, local authorities and other stakeholders, such as network operators, should work together with the government to find solutions to accelerate the both the rollout of EV charging points and digital connectivity infrastructure.

Planning

The planning system has a major role to play in our economy at both the national, regional and local level; delivering the vital homes for our skilled workforce, along with the land and premises for our growing businesses. Crucially, it must also underpin the strategic development of our economic infrastructure - enabling the new, greener technologies and energy sources that are essential for our people, planet and progress.

Chambers of Commerce across the country are working with businesses and strategic economic partners to boost investment, generate sustainable growth and create new opportunities in local communities. The need to maintain a high-quality environment in which local communities and businesses can prosper together is of crucial importance. That's why we need a planning system that recognises the importance of economic growth and the social and environmental benefits it brings.

To unlock the planning system, we need better-resourced LPAs, greater stability of planning policy and more focus on the supply of land for business use. Given the strength of a development planned system, planning must respond to prevailing economic, social and environmental challenges and do more to balance the needs of business with other stakeholders. A report commissioned by the Royal Town Planning Institute (RTPI) suggests that the UK needs a 12.5% increase in the number of planning officers between 2021 and 2031.^{viii}

Planning for jobs and homes, together with up-front government investment in modern, green and smart infrastructure, will give our businesses the platform to compete globally and grow their local economies. Future planning decisions must also take into account the impact of climate change, especially with regard to flooding risk both current and expected.

Permitted Development often creates poorly designed and delivered housing units, with none of the necessary accompanying infrastructure. This leads to commercial property being taken for residential use, often with no overarching plan to maintain similar levels of availability within a locality. Any use of extended Permitted Development rights should involve dialogue between relevant local stakeholders and respect the needs of the local community – including local businesses.

An inefficient planning system holds back local economies and the business community at large. Firms are finding it increasingly difficult to use the planning system and find the land and premises they need. Alongside rising costs and complexity, the business voice is being lost as housing, green belt and neighbourhood plan issues dominate the planning system.

RECOMMENDATION 5

To unlock the planning system, we need better resourced LPAs, greater stability of planning policy, and more focus on the supply of land for business use and appropriate housing solutions for the local workforce.

CASE STUDY

STAMFORD QUARTER

PUBLIC - PRIVATE PARTNERSHIPS

Trafford Council and Bruntwood, a Manchester-based property developer and asset manager, entered into a joint venture (JV) to purchase the Stamford Quarter in Altrincham and Stretford Mall. The partnership was based on a regenerational model of impact investment. This is an example of an ambitious town centre regeneration project with a wide range of outputs.

Environmental

The project includes the improvement of 24,000 sq ft of public areas, including Stamford Square, which has enhanced biodiversity, and plans to redevelop Sunningdale House which provides the opportunity to build modular homes to ‘create a highly sustainable rooftop neighbourhood and green space’. The JV has an interest in much wider ownership than the shopping centre.

Social

In the surrounding Stamford Square, local distinctiveness has been strengthened through introducing more independents to the area such as Stutter and Twitch and have launched the Stamford Quarter Pop-Up Shop, which since opening in May has seen a large mix of independents use the space, offering a range of products and services, with great feedback across the board from the retailers and our customers.

Regenerational

By improving the shopping centre it adds value to the whole neighbourhood, fundamentally increasing real estate value to make the model work, but also to making Stretford a more pleasant place to live and work and making better housing more viable.

In larger towns and cities, a number of the bigger social spaces containing hospitality, retail and leisure facilities are all privately owned. These spaces often have better cleanliness and security because the private enterprise that owns them ordinarily has the funds to maintain them to a higher standard, in comparison to a local authority. The future direction for our public realm spaces, therefore, is likely to be a mix of public-private initiatives, working in collaboration with one another.

Similarly, private sector businesses have a role to play in acting as anchor institutions across local economies. Whilst a multinational company might be headquartered in one part of the country, any additional locations across the UK support their local areas via job creation and other economic development activities.

Sustainability / Waste

A circular economy is an alternative to a traditional linear economy (i.e. make, use, dispose), in which we keep resources in use for as long as possible, extract the maximum value from them whilst in use, then recover and regenerate products and materials at the end of each service life. The embedding of circular economy principles in local public-private partnerships will future-proof local economies and develop resilient hubs which can lead innovation and grow GDP in a more sustainable way.

The circular economy decouples value creation from material consumption by extending product lifetimes through activities including reuse, repair,

remanufacturing and refurbishment, to make the most of the materials and products we extract, produce and buy. Landing Extended Producer Responsibility for packaging and increasing the scope of materials over time (to textiles and electronics for instance) will be critical, requiring the cooperation of UK government, devolved governments, waste management companies producers and citizens. Another such solution would be to introduce a legal right to repair, as seen in other countries such as France, where citizens are provided with information on parts and repairability while businesses are incentivised to respond to increased demand for repair services.

CASE STUDY

REPAIR CAFÉ WALES

A Community Interest Company, Repair Café Wales facilitates pop-up events, offering training and advice to encourage communities that want to work towards a more Circular Economy, creating a culture of repair and re-use, directly addressing the ever growing emergency of unsustainable growth in landfill and waste.

According to the Waste & Resources Action Programme (WRAP) in 2021, scaling UK reuse and repair in the UK would result in a net GVA gain of £3.3bn per annum, create over 30,000 jobs and help to revitalise city centres. The growth of a circular economy will result in shorter, more resilient supply chains and provide access to goods and services that have been previously unavailable or unaffordable, while reducing environmental impacts. It also presents economic opportunities for citizens, charitable, public and private sector organisations to normalise sustainable consumption behaviours.^{ix}

Local governments can further stimulate the circular economy with sustainable procurement policies, and through the way the physical assets like buildings and infrastructure under their control are managed. Business and local government can work together to develop capability and capacity in the local economy with training and sector specific workshops that provide civil servants, suppliers and consultants along the value chain with the expertise and framework on circular procurement. Local governments can help to create community hubs that can build skills among local businesses and residents in innovation, repair and reuse.

RECOMMENDATION 6

Normalise sustainable production and consumption through the introduction of targeted circular economy policy, such as the introduction of a legal 'right to repair'.

c. PEOPLE & LOCAL VOICE

Devolution

When it comes to devolution, businesses want to have active participation and not just cursory consultation. Business communities will not lend their support to greater devolution of spending or tax-raising powers from Westminster to local areas without clear, democratic accountability to local firms as well as residents.

Given the current economic conditions, councils sometimes use ‘un-ringfenced’ monies intended for economic development to plug holes in their service budgets. Mechanisms need to exist to ensure that devolved spending is transparent to businesses and residents – so that local taxpayers know how their resources are ultimately spent.

At the same time, it’s clear that the funding pot system for local government has become overly complex, with unnecessarily high thresholds and too many logistical loops to jump through. Instead of continuing to create more and more individual funding pots, central government should rationalise these streams into fewer, easier to navigate funding pots whilst also boosting general finance.

RECOMMENDATION 7

Reduce and streamline the number of funding pots (but not the overall fiscal amount) available to local economies, making them easier for local authorities and other business development bodies to access and spend the funds, in a transparent and accountable way.

Skills to Build Local Economies

Workforce and skills shortages are arguably the number one issue facing the UK economy at the moment, prohibiting growth both locally and nationally. This crucial area is being addressed by our People and Work challenge group, but the important point for local economic development is that place-based skills plans are a vital complement to national skills initiatives and policies. For that reason, the Chamber Network championed the concept of Local Skills Improvement Plans (LSIPs) in England, which are employer-led efforts to bring together all of the relevant stakeholders to map out and resolve the skills shortages in their local areas, and are now delivering plans to help match employer needs with training provision*. It is vital that LSIPs in England are continued for the long term, to cement relationships between stakeholders and establish long-term local skills planning.

While the LSIPs programme in England focus primarily on Further Education, universities also have a key role to play in this area as critical anchor institutions in local economies. By simply existing as larger local employers, they are creating opportunity in their locations. Similarly, research intensive activities can act as a catalyst for investment and economic growth.

RECOMMENDATION 8

Commit to funding employer-led LSIPs in England as a long-term programme of work, to build local skills plans for the future.

Business voice in economic development

There is significant risk that the voice of the private sector will be diminished following the government ending core LEP funding and economic development reverting to be led by local authorities. Business Board structures in Combined Authorities can feel far removed from democratically elected Mayoral offices. Companies want a real say in local decision-making that affects them, not tick-box consultation masterminded by councils.

It is vital that local government ensures the voice of business is clearly heard in the development of their economic development priorities, strategies and major projects. It is vital to utilise local assets and expertise. Local partners, including businesses, need to feel empowered to support and achieve shared strategic goals, and be involved in decisions on how resources are used.

It is also important that Chambers are fully involved in the appointment of members of the Business Boards that many local authorities are planning to set up to replace LEP boards. A significant number of LEP staff are moving into senior local authority roles, and there is a risk that local authority Business Boards end up with the same people who were on the LEP boards - many of which are not truly representative of their local business community. Action from DLUHC is required to ensure the business voice is listened to and acted upon.

RECOMMENDATION 9

DLUHC should facilitate the involvement of the business community in a meaningful way, including on strategic questions. There should be specific requirements to involve independent business membership organisations based in the local government regions, to ensure that the wider business community is fully represented in strategy development and decision-making.

Business Support

Most businesses find advice from other businesses, and in the B2B networks that scale up these conversations. Firms are more comfortable accessing support via well-established 'front door' non-public sector organisations, such as a Chamber of Commerce, than via a public sector body. Government must act as a funding source of business support, responding to market failure, augmenting and enhancing the overall offer, not replicating, under cutting or devaluing non-state funded provision.

Ministers should develop a long-term strategy to support the roll out of government-funded business support. This should provide more agency and autonomy to local and regional communities, and be developed with local business communities, including trusted third parties like Chambers of Commerce, to reach a joint government-business vision.

Some of the historic challenges of government-funded support include a fragmented and complex system, multiple brand identities and lack of longevity. In contrast, the broader business support market often provides much-needed continuity and consistency of provision in an otherwise turbulent system. In business support, trust and impartiality is paramount, and government should consider working through anchor institutions/trusted intermediaries rather than attempting to establish another new brand or access route.

A quick win on this topic would be for new businesses registered to HMRC or registered as new payees of business rates, to proactively link their owners to B2B support networks in the local community.

RECOMMENDATION 10

The government should create a long-term strategic approach to publicly funded business support, which provides more agency and autonomy to local and regional communities, which could provide vital investment in our country's future economic success. In the short term, government should ensure newly-tax-registered firms are given information on local business support networks.

d. FUNDING + BUSINESS TAXATION

Local Authority Finances

Although businesses do, on occasion, have concerns about how local authorities are choosing to spend taxpayer money, it is in everybody's interest that each community has a thriving and well-resourced local authority at its heart.

As Local Government Association data shows, there has been a 27% real-terms reduction in local authority core spending power since 2010/11. This, plus the ongoing additional high costs from inflation, means that local authorities face a funding gap of £2.4bn in 2023/24.^{xi}

If businesses are to call for reform to the business rates system, this can only be achieved by a government commitment to increase core funding for local authorities.

RECOMMENDATION 11

Increase core funding to local government to ensure their long-term ability to protect services that businesses, people and communities rely on every day.

Business Rates

Whilst paying taxes might not be enjoyable, businesses and people know that they are a necessary part of life, as long as they provide the necessary associated benefits for individuals and communities. Business rates should be a tax that incentivises growth rather than inhibiting it.

A number of relief measures have been put in place at recent fiscal events on business rates, especially for hospitality and retail businesses. At the same time, HM Treasury conducted the fundamental review of business rates that has moved the system to a three-year cycle.

We believe the long-term goal should be to move to annual revaluations. That would ensure that rateable values remain in step with their market levels, as well as local economic cycles, but there is a need to ensure that the Valuation Office Agency (VOA) and local authorities are properly resourced to deal with this shift.

In its current form, however, the Business Rates system is still in a non-optimal condition. It causes an unnecessarily large burden on businesses, regardless of their ability to pay, and does not make allowances for the significant structural changes that have taken place in the UK economy over the last decade. The system, as it exists, is neither responsive to changes in the economic or business cycle at a national level, or to local economic needs.

RECOMMENDATION 12

Government should develop a long-term strategy for business rates that incentivises, rather than disincentivises, growth and investment. This could be achieved by creating a system that reflects the lifecycle stage of business e.g., "Start Up rate" for new firms, with costs levied in line with other taxes i.e., a percentage charge based on profit rather than flat fee. The system should also be more responsive to local economic cycle and the wider economic cycle.

VAT Registration Threshold

Another way taxation could be changed to support local economies would be to reform the VAT registration threshold to boost growth.

There is clear evidence that the VAT threshold acts as a disincentive for smaller businesses to grow. A 2022 Warwick University study found “robust evidence that annual growth in turnover slows by up to 2 percentage points when firm turnover gets close to the threshold, and weaker evidence of higher growth when the threshold is passed”.^{xii}

Similarly, an OTS report from 2017 noted the a “significant ‘bunching’ of businesses whose turnover is just below the threshold, particularly businesses with lower levels of inputs relative to supplies to consumers”, combined with a “very significant fall-off in business numbers immediately after it”.^{xiii}

A BCC study on the VAT threshold found strong evidence that the threshold was a hindrance to business growth; 57% of respondents agreed with the statement “my business is actively trying to keep below £85k turnover so that we don’t have to register to pay VAT”.^{xiv}

RECOMMENDATION 13

The government should immediately restart the VAT registration review and explore a smoothing mechanism that could decrease the bunching effect, preventing the threshold from acting as a barrier to business growth.



Tourism Tax

A tourist tax is a charge imposed on the occupation of short stay accommodation in a local authority area. The situation regarding tourist taxes varies from nation to nation within the UK. Currently, tourism-related businesses in some UK cities and regions pay a tourism business development levy which funds activities such as promoting their area and improving local infrastructure.

However, there are no direct taxes on tourists currently in the UK. Currently, Local Authorities do not have the power to introduce a tourist levy and the government confirmed in September it has no intention to introduce the primary legislation required to implement a tax.

Several cities and regions in Scotland and England have introduced tourism-based Business Improvement Districts (BID) with an associated

levy as a work around in the absence of primary legislation. BIDs collect additional business rates payments ('BID levies') from businesses operating in specified geographical areas. They are established by local business groups, following a referendum of businesses in the area concerned and are often implemented in response to declining tourist numbers. The levy is on businesses, rather than visitors, and rates are set by a management board rather than the local authority.

RECOMMENDATION 14

Government should explore the role of tourism taxes in other countries and assess whether such measures should be introduced in the UK. Any measures should provide the power to local authorities, but not mandate usage.

CASE STUDY

VISIT INVERNESS LOCH NESS

In 2013, Highlands and Islands Council introduced the Loch Ness tourism BID, which trades under the name Visit Inverness Loch Ness. The BID is up for renewal in 2024, pending a ballot by local tourism businesses such as museums, providers of tourist accommodation, and restaurants, who pay the levy.

The levy proceeds go towards tourism development, advertising and funding local infrastructure projects, such as walking trails. Since 2013, the BID has achieved

successes, including an economic benefit to the destination in excess of £1.3m, becoming only the second destination in Scotland to be awarded World Host destination status in 2017, and the delivery of a £2m four-year marketing campaign.

Visit Inverness Loch Ness has also driven related social media traffic significantly, raising the area's profile globally. In 2019, local tourism businesses, who pay the levy, voted overwhelmingly to extend the BID for another five years.

Access to finance

In order to grow, businesses need access to finance, whether that be reinvesting profit or borrowing from a lender. However, the appetite for finance remains low. A recent BCC survey found that 42% of respondents took on debt during the pandemic, with more than 1 in 4 businesses saying they may need to scale down operations to repay and 1 in 10 saying they might have to cease trading. 42% of those surveyed said that they had accessed finance during the pandemic through government lending schemes. Those drawing on the schemes were overwhelmingly doing so to support critical day-to-day business operations. 71% said they used finance to support cashflow, 43% for overheads, 40% for paying staff and 32% for paying other debts.

There is a degree of ‘finance apathy’, particularly since the 2008 recession – many SMEs do not engage in seeking finance, with 48% being classed as ‘Permanent Non-Borrowers’.^{xv} There is a perception that they will be unsuccessful or have unfavourable terms, while many are simply not looking to grow.

This problem is particularly acute the further you get from traditional financial centres, especially in rural and coastal areas. Whilst at the start up and private equity level, businesses do have options such as the British Business Bank or the UK Infrastructure Bank, there is a perceived lack of willingness on the part of the banks and investors to invest in debt outside of the major cities.

One of the key barriers facing SMEs who are seeking finance is accessibility. Feedback from BCC members confirms that customer engagement among SMEs with their bank remains limited. There is also little ‘shopping around’ with businesses typically staying with their bank for a prolonged period of time and purchasing most of their financial products and services from the same institution. One of the main reasons for this is they struggle to differentiate between the major banks. Fear over losing existing facilities such as overdrafts is another reason for the lack of engagement. The low levels of switching institutions are indicative of a market that is not functioning well.

There has been a significant decrease in the number of bank branches over the last five years. 87% of respondents stated that there had been a decrease in the number of bank branches in their locality. Whilst most businesses now prefer to bank online or via an app for day-to-day operations, with only 5% of respondents preferring face-to-face, the reduction in branches poses more of a challenge for business lending financing, as 28% of businesses preferring face-to-face banking when it came to financing for growth.^{xvi}

Feedback from our membership suggests that a local presence with a defined market area would help to improve user engagement, because local people who are geographically closer to their customers are more likely to better understand the needs of customers, rather than those operating in a central function of the bank. However, having a local presence does not necessarily mean having a regional branch, as this could be achieved by using an already existing local network.

In this context, the introduction of banking hubs has been a positive and should be replicated elsewhere. They could also be expanded to act as kick starter space for SMEs, having a specific microbusiness / SME adviser available to provide advice.

RECOMMENDATION 15

The banking hub model should be rolled out into more local communities and the range of services offered to businesses should be expanded.



Address the Late Payment Culture

A key barrier to economic and business growth, especially for SMEs, is the late payment culture that exists in the UK. The BCC 2023 Business Outlook Survey found that three quarters of firms had, at some point, been paid late, with 28% of firms saying that this had an impact on their operations and growth.^{xvii}

Alongside the issue of late payment is the issue of bad payment practices, where (mainly larger) businesses are taking advantage of SMEs and supply chains in general with unnecessarily long payment terms, disadvantaging SMEs and their ability to both survive and grow.

The announcements made at the 2023 Autumn Statement to tackle this were welcome. The businesses that are impacted most by the status quo are SMEs. Transactions between large companies is unlikely to create serious cashflow or business continuity issues, so the focus should be on ensuring that SMEs are paid within 30 days.

RECOMMENDATION 16

The government should refocus the Prompt Payment Code back on SMEs being paid within 30 days, and actively publicise repeat offenders against late payments guidance.



CONCLUSION

Thriving local economies can help create thriving local communities across the UK. Beyond their balance sheets and their role as employers, businesses have opportunities to help develop a sense of pride and belonging in a particular geographical area. Our communities will look very different in the coming decades, it's crucial that businesses lead that local transformation.

The recommendations in this report offer a strategic roadmap. Proactive business leadership, institutional reform and further devolution of powers are urgently needed. Local economies also need targeted efforts to address specific challenges such as use of infrastructure, planning resources, and sustainable production.

Our recommendations focus on strategic collaboration and transparency at a local level. We need streamlined funding processes, enhanced local skills planning, and the active involvement of the business community in the decision-making process.

Ultimately, this plan proposes a future where local economies flourish through strategic partnerships, adaptive planning, and a commitment to sustainable growth. By implementing these recommendations, the UK can create resilient and prosperous local economies which continue to serve as the backbone of the national economic landscape.



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NOTES





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