



Local Authority Economic Assessment Duty

Impact assessment



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Summary: Intervention & Options

Department /Agency:

Title:

CLG

Impact Assessment of Local Authority Economic Assessment Duty

Stage: Final

Version: Draft

Date: 29/09/2008

Related Publications: *Review of Sub-National Economic Development and Regeneration*, HMT/CLG/BERR, July 2007
Prosperous Places: Taking forward the Review of Sub-National Economic Development and Regeneration CLG/BERR. March 2008

Available to view or download at:

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What is the problem under consideration? Why is government intervention necessary?

Local government faces weak incentives to consider how their activities affect economic performance both locally and in neighbouring areas, due to: requirement to perform other statutory duties; limited financial gains from economic growth due the pooling of business rates; the costs of growth tending to be localised whilst benefits disperse across LA boundaries.
 Economic activity does not respect administrative boundaries and it is important that local authorities and their partners understand how the local economy fits into the wider functional economy.

What are the policy objectives and the intended effects?

The objectives are to ensure local authorities and their partners develop a sound understanding of local economic conditions to inform existing local strategies and strengthen the economic role of local authorities.
 A better understanding of how local economic activity links with the wider economy will lead to more effective economic development policy at sub-regional and regional levels.

What policy options have been considered? Please justify any preferred option.

The policy options are:
 (i) No change
 (ii) Local authorities to prepare assessment, with regard to guidance set out by the Secretary of State.
 (iii) Local authorities to prepare assessment, no requirement on authorities to have regard to guidance issued by the Secretary of State.

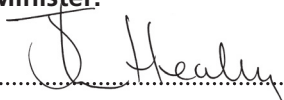
The preferred option is (ii), due to the evidence laid out in the evidence annex.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? 2012 – review the quality of local economic assessments, their geographic scope and the extent to which they have influenced economic policy development and LAA targets

Ministerial Sign-off For Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:



Date: November 2008

Summary: Analysis & Evidence

Policy Option:
(ii)

Description: Local authorities to prepare assessment, with regard to guidance set out by the Secretary of State

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups'
	One-off (Transition)	Yrs	
	£0		
	Average Annual Cost (excluding one-off)		Total Cost (PV) £30.4m
£3.9m			
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups'
	One-off	Yrs	
	£0		
	Average Annual Benefit (excluding one-off)		Total Benefit (PV) £52.4m
£7.0m			
Other key non-monetised benefits by 'main affected groups' There are likely to be benefits from improved employment outcomes, which are likely to be largest amongst those currently workless. There are also likely to be improvements in productivity.			

Key Assumptions/Sensitivities/Risks Key assumptions: the duty will help LAs identify savings from opportunities for joint working duplication, and superior targeting of policies; there will be shared working amongst LAs, particularly in urban areas; there will be no additional data costs; not all the cost will be additional. See evidence base for more detail.

Price Base Year 2008	Time Period Years 9	Net Benefit Range (NPV) £-16.4m to 56.5m	NET BENEFIT (NPV Best estimate) £22.1m
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What is the geographic coverage of the policy/option?	England only			
On what date will the policy be implemented?	2011–12			
Which organisation(s) will enforce the policy?	Audit Commission			
What is the total annual cost of enforcement for these organisations?	£			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	Yes/No			
What is the value of the proposed offsetting measure per year?	£			
What is the value of changes in greenhouse gas emissions?	£0			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)			(Increase – Decrease)	
Increase of	£	Decrease of	£	Net Impact £0

Key: **Annual costs and benefits: Constant Prices** (Net) Present Value

Summary: Analysis & Evidence

Policy Option:
(iii)

Description: Local Authorities to prepare assessment, no requirement for authorities to have regard to guidance issued by the Secretary of State

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups'
	One-off (Transition)	Yrs	
	£		
	Average Annual Cost (excluding one-off)		
£3.9m		Total Cost (PV)	£30.4m
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups'
	One-off	Yrs	
	£		
	Average Annual Benefit (excluding one-off)		
£7.0m		Total Benefit (PV)	£52.4m
Other key non-monetised benefits by 'main affected groups' There are likely to be benefits from improved employment outcomes, which are likely to be largest amongst those currently workless. There are also likely to be improvements in productivity. The Government is proposing to go with option 2 (a duty with Secretary of State guidance). This guidance will help to ensure a level of consistency in relation to the economic assessments and help ensure that they have maximum impact.			

Key Assumptions/Sensitivities/Risks Key assumptions: the duty will help LAs identify savings from opportunities for joint working duplication, and superior targeting of policies; there will be shared working amongst LAs, particularly in urban areas; there will be no additional data costs; not all the cost will be additional. See evidence base for more detail.

Price Base	Time Period	Net Benefit Range (NPV)	NET BENEFIT (NPV Best estimate)
Year 2011–12	Years 9	£–16.4m to 56.5m	£22.1m

What is the geographic coverage of the policy/option?	England only			
On what date will the policy be implemented?	2011–12			
Which organisation(s) will enforce the policy?	Audit Commission			
What is the total annual cost of enforcement for these organisations?	£0			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	Yes/No			
What is the value of the proposed offsetting measure per year?	£N/A			
What is the value of changes in greenhouse gas emissions?	£0			
Will the proposal have a significant impact on competition?	No			
Annual cost (£–£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase – Decrease)	
Increase of	£0	Decrease of	£
		Net Impact	£0

Key: **Annual costs and benefits: Constant Prices**

(Net) Present Value

Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

Background and Overview

1. The *Review of sub-national economic development and regeneration* ('SNR') set out an enhanced role for local authorities in promoting economic development and regeneration. As part of this package, the SNR included a commitment to consult on the creation of a focused statutory economic assessment duty for local authorities¹. Such a duty would:
 - require upper tier and unitary local authorities ("lead authorities") – in consultation with other key partners, including district authorities – to carry out an assessment of the economic conditions of their local area; and
 - result in an assessment that would form part of the analytical underpinning of Sustainable Community Strategies, Local Development Frameworks, Local and Multi-Area Agreement targets and the integrated Regional Strategy

2. Drawing on research commissioned by Communities and Local Government² the Government believes that a new duty would add value to existing arrangements and practice through:
 - improved evidence base to inform Sustainable Community Strategy, Local Development Framework and Local Area Agreement
 - improved understanding of how economic development can support regeneration priorities in the area
 - analysis of the ways in which local areas fit into wider sub-regional and regional functional markets, recognising that economic markets and market failures rarely reflect administrative boundaries
 - better understanding of how local authorities and their partners through their wider policies (eg on schools, health, crime etc.) influence sustainable economic development
 - development of a shared evidence base that supports sub-regional economic development activity (through MAAs or other sub-regional structures) and support local authorities' dialogue with RDAs on the development of the regional strategy.

¹ Para 6.13, *Review of sub-national economic development and regeneration*, HM Treasury, BERR, CLG, July 2007

² *Review of Economic Assessment and Strategy Activity at the Local and Sub-Regional Level*, Syrett, S. February 2008

3. In turn, this improved and agreed evidence base could lead to:
 - enhanced local authority capability and capacity on economic development issues, with greater understanding of the conditions required for business to flourish
 - more effective prioritisation of economic and regeneration interventions
 - clarity of the roles leading to greater delegation of greater resources from national government and RDAs to local authorities
 - improved local authority engagement with private sector partners
 - a stronger, higher quality local authority input to the iterative dialogue, led by the RDA, on the development of the regional strategy
4. The assessment may be produced jointly by two or more lead authorities in a single functional economic area or sub-region, for example by all authorities participating in an MAA.

Consultation Options

5. In March 2008 the Government published a consultation paper *Prosperous Places: Taking Forward the Review of Economic Development and Regeneration*. This presented three options:
 - Option 1, no new duty (“do nothing”)
 - Option 2, an assessment, with guidance
 - Option 3, assessment without guidance
6. The consultation paper also set out three options for how the duty will operate in London:
 - i. Duty on the boroughs
 - ii. Joint Duty on the GLA and the boroughs
 - iii. No Duty in London

Option 1

7. Option 1 would require no change to existing practice, which research shows is highly variable between authorities. Some local authorities already play a strong role in economic development, based on assessments of the economic circumstances of their local area. All local authorities are required to set out sustainable community strategies which set the overall strategic direction and long-term vision for the economic, social and environmental well-being of a local area³. Sustainable Community Strategies should contain the following elements:

³ *Creating Strong, Safe and Prosperous Communities Statutory Guidance: Draft for Consultation*, HM Government, 2007

- the **long-term vision based firmly on local needs**. This will be underpinned by a shared evidence base informed by community aspirations
 - **key priorities for the local area**, based upon this vision which may realistically be achieved in the medium term – these will inform the strategy’s delivery agreement – the LAA
8. Therefore, option 1 is the baseline against which the benefits of options 1 and 2 are compared.

Option 2

9. Under option 2, a duty would be placed on lead authorities to assess the economic conditions of their local areas. There would also be a duty on lead authorities to consult certain named partners – and others whom they consider to be appropriate – in the preparation of any assessment. The lead authority would be required to have regard to any guidance issued by the Secretary of State as to the preparation of the assessments. This guidance could describe the manner in which assessments might be conducted. The guidance would set out clearly:
- the purpose of an assessment of economic conditions
 - how they might be undertaken
 - who could undertake the assessment on behalf of local authorities
 - questions the assessment should look to answer, including in support of the regional strategy and
 - the data sets available that would support successful completion of any assessment
10. Providing guidance should help ensure that local assessments are more effective at addressing deficiencies in existing practice. For instance, guidance will help authorities to understand how they can analyse the ways in which local economic activity interacts with the wider economy, and hence should make it easier to build sub-regional co-operation.

Option 3

11. As for option 2, primary legislation would be introduced to place a duty on upper tier and unitary local authorities to assess the economic conditions of their local areas. There would be no requirement on authorities to have regard to guidance issued by the Secretary of State. However, the legislation would set out some priority areas that would be need to be covered by the assessment.
12. The costs and benefits of options 2 and 3 are likely to be very similar. The list of priority areas would provide much less information to local authorities hence could reduce the benefits of undertaking an assessment. It would also be much more difficult to alter the priority areas set out in option 3, than to revise the guidance, as this would require primary legislation.

Post Consultation

13. The SNR consultation showed strong support across all sectors for the proposed new duty. Views were pretty evenly split between options 1 and 2. There was also support amongst key London stakeholders for the duty to apply to the London boroughs.
14. In the light of the consultation the Government proposes to go ahead with option 2 (duty with guidance). The duty will apply to all upper tier and unitary authorities and in two tier areas there will be a statutory requirement on the county councils to seek the involvement of district councils in their area. In London the duty will fall to the London boroughs. The Government will publish draft guidance for consultation.

An economic rationale

15. The economic rationale for a local economic assessment is two-fold: firstly, because public provision of local economic information will be a form of *public good*, and secondly that the assessment will *improve the effectiveness of public services* that are already provided by local government and their key economic development partners.
16. A publicly available assessment of the local economy will help public bodies, private and third sector organisations to understand the way in which places impact on firms' productivity, and what barriers may be holding back economic growth. It will also help inform local government and others about what public infrastructure will be required to cope with, or catalyse, changes in an area's economy. By ensuring that existing strategies are firmly grounded in evidence, the duty will help reduce uncertainty about future public sector activity, thus benefiting the investment decisions of the private sector. Publicly available assessments and strategies are non-excludable and non-rivalrous, so can be regarded as a form of public good provision.
17. A good economic assessment should influence the public services delivered by the local authority and its partners, so that they more effectively address relevant market failures and tackle disadvantage.
18. Incentives for local authorities to support economic development can be undermined because economic activity does not respect administrative boundaries⁴. Policies with a positive net benefit at FEA level may not have a positive net benefit at LA level. For example, the costs of housing growth can be localised while the benefits are more dispersed through commuting flows. A good economic assessment can help local authorities and their partners understand how the local economy fits into the wider functional economy.
19. Incentives can also be negatively affected by the requirement to perform other statutory duties not relating to economic performance and the limited financial

⁴ This is further explored in: *CLG Economic Paper 2: Why Place Matters and Implications for the Role of Central, Regional and Local Government*, CLG, March 2008

gains from economic growth due to the operation of the local government finance system.

Benefits

Option 2

20. The duty will not impact on outcomes directly, but indirectly, through affecting local government processes. The logic chain connecting improvements in local authority analysis and understanding to improved outcomes (higher productivity and employment) is set out below, with a diagrammatical representation in figure 5 (see appendix).
21. This logic chain can be better understood by setting out the key components of a good economic assessment:
 - better understanding of the local economy
 - better understanding of existing policy
 - development of a shared understanding with partner bodies, including the private sector
22. An economic assessment will require local authorities to bring together data, evidence – and the expertise of economic development partners – to develop a sound understanding of the economic activity of the residents and firms located in the local area. Although many authorities already undertake some assessment of the economy, these vary in scope and quality, and are often limited in extent⁵. Furthermore, research suggests that local strategies are not always underpinned by evidence.
23. For example, the consultation on the future of LSPs (published in December 2005), drew on findings from the evaluation of community strategies and reported that⁶:

“many community strategies contain little analysis or evidence to back up proposed actions. They tend to rely largely on community aspirations and make few references to available baseline data that should inform priorities for action.”
24. Subsequent research has reported that less than 60 per cent of respondents to a survey of local authorities believed that their community strategy had been influenced by local statistical data to a significant extent⁷.
25. An assessment undertaken under the duty would also be expected to include, as a key principle of the assessment, some analysis of how the local economy interacts with the wider economy. Local authorities need to understand how their activities impact on economic activity in their area, and because successful economic development

⁵ *Review of Economic Assessment and Strategy Activity at the Local and Sub-Regional Level*, Syrett, S., February 2008

⁶ *Local Strategic Partnerships: Shaping their future. A consultation paper*. ODPM, 2005.

⁷ Page 5, *Formative evaluation of Community Strategies. The use of evidence in Community Strategies*, CLG, 2006

is a partnership, they should also understand how the actions of the key economic development activities in their area impact on the economy. This will require local authorities to work with their key economic development partners to map the extent and form of existing activity.

26. Developing a sound understanding of the economic conditions within the context of the wider functional economy cannot be achieved by the collection of statistical data alone, and requires analysis and interpretation, drawing on information and knowledge held by key economic development partners, including the private sector. This should help local authorities, and their partners to develop a better understanding of the needs of the private sector, and the ways in which they can work better together.
27. Developing and producing an assessment with these components should influence the way in which local government and their partners decide on their local priorities, strategies, and the way in which they work together. This in turn should have a positive effect on outcomes, in the way described below.

Improved outputs

Local government services more sensitive to economic development

28. As outlined above, local authority services are not always sensitive to their effect on economic development. Improving the understanding of how the local economy operates should help local government to ensure that their strategies and interventions are based on robust evidence and are more sensitive to the distinct needs of the firms and residents located in their area.
29. Local government delivers a number of services that contribute towards economic development, including land use planning (though this is primarily undertaken at the lower-tier level), housing, education, amenities and leisure, environmental health and regulation, licensing and permitting, street and road management, which all impact on attracting and developing a skilled workforce and productive firms.
30. For example, the economic assessment may reveal that high land prices and a shortage of land for commercial premises is a key factor constraining the growth of local firms. Evidence suggests that premises are overwhelmingly the most important reason for firm relocation⁸, and that tight land use planning policies can restrict economic growth⁹. Local authorities may use this evidence to further investigate where land for commercial development can be appropriately supplied.
31. Local authorities also play a role in delivering education and skills to their residents, which can help equip them with the skills to access work. If the assessment leads local authorities to provide skills training that are more relevant to available jobs, this could lead to higher employment and productivity through improved job matching. As part of an assessment that considers local economic activity within the context of the wider economy, authorities should

⁸ *Territorial Competition: some lessons for policy*, Cheshire, P. and Gordon, I., *The Annals of Regional Science*, **32**, 3, 321–46, 1998.

⁹ *Barker Review of Land Use Planning*, Barker, K, 2006

also consider the skills that will be required by employers that are outside the local area but within easy reach of local residents.

32. A third instance where local government services impact on productivity and employment is their role in providing street and road management. The impact of transport on productivity has been set out in the Eddington Review¹⁰. Economic assessments may help to identify areas where local provision of public transport, or other forms of improved access could enhance employment outcomes.

Identifying duplication of economic development activities and opportunities for better co-ordination

33. Economic development is influenced by a wide range of bodies, and different agencies may operate similar interventions in the same location. The Audit Commission have highlighted a “widespread pattern of fragmentation and duplication”¹¹ The assessment may help to identify opportunities for greater co-ordination and integration between different activities already undertaken by local government, and by their partners.
34. In its simplest form, this might take the form of signposting, so that, for example, agencies promoting entrepreneurship amongst disadvantaged groups are able to co-ordinate better with agencies that focus on tackling worklessness. This can help deliver better employment and productivity outcomes for the same resource. In some cases, better co-ordination, or even shared delivery may enable bodies to provide the same services at reduced cost.
35. A good assessment will take into account the links between local economic activity and the wider economy. This should reveal more opportunities for working across local authority boundaries, and could identify further scope for gains from co-operation and co-ordination. For example, policies to tackle worklessness in one authority might consider the job opportunities that exist beyond local boundaries. There may also be potential for economies of scale from shared delivery between neighbouring authorities.
36. Strategic co-ordination of the activities of different bodies and agencies can be an important way of promoting economic development, but in some areas there is a confusing array of overlapping partnerships. For example, the Audit Commission identified one local authority which was involved in 21 regeneration partnerships¹². Ensuring clarity of roles between agencies and partnerships, and helping to build a common analysis of the opportunities and challenges facing the local economy could enable the economic development process to work better.

¹⁰ *Transport's role in sustaining UK's Productivity and Competitiveness: The Case for Action*, Eddington, R., 2006

¹¹ Page 22, *A Life's Work. Local authorities, economic development and economic regeneration*, Audit Commission, 1999.

¹² *A Life's Work. Local authorities, economic development and economic regeneration*, Audit Commission, 1999

Identification of groups and areas facing particular economic disadvantage

37. Even in the most economically successful places, there are large variations in economic performance between neighbourhoods.¹³ A good local economic assessment can highlight pockets of deprivation and provide information on why these areas suffer from disadvantage. This could help local authorities and their partners to better focus their policies to tackle the root causes of disadvantage and benefit the most disadvantaged in society.

Identifying opportunities to co-operate across functional economic areas

38. An assessment that helps local authorities understand the way that local economic activity links with the wider economy may enable cross-boundary working where appropriate. As outlined above, the positive payoffs from local economic development can disperse into adjacent areas, so a policy with a net benefit at sub-regional level, may have a negative pay off at LA level and hence not be implemented. For example, the costs of housing growth can be concentrated in local areas, whereas the wider benefits, from employment growth, can disperse.
39. Therefore, co-operation between local authorities across the wider area in which key economic markets operates increases the economic role they can play and can support economic growth. There is some evidence that effective governance over the functional economic area can have a positive effect on economic growth. Unpublished work by Cheshire and Magrini has suggested a positive relationship between the degree of coincidence of government and economic boundaries in EU (including British) cities and cities' economic growth performance over the 1979–1994 period.¹⁴
40. A better evidence base at local level will help co-ordination at sub-regional level, and will also assist local areas in identifying their priorities for the regional plan. Regions will also be able to draw on local evidence to produce their strategies.

A better baseline for policy evaluation and appraisal

41. A better baseline of economic conditions and the economic policies operating can help lead to better appraisal of economic and regeneration policies. Economic development and regeneration involves an element of risk, of trying out innovative schemes to see if they work. However, evidence-based identification of problems and choice of interventions will help authorities to achieve better outcomes from the same resource. Having a clear rationale for activity is also a key element of best value.¹⁵

Outcome benefits

Economic growth

42. Improving the way that local government's services support and promote economic development can impact on economic growth through increases in employment and productivity. The role of local authorities in economic

¹³ *Review of sub-national economic development and regeneration*, HM Treasury, CLG, BERR 2007

¹⁴ *European urban growth: throwing some economic light into the black box*, Cheshire and Magrini, paper presented at the Spatial Econometrics Workshop, Kiel Institute for World Economics, Kiel, April 8–9 2005.

¹⁵ *Review of Economic Assessment and Strategy Activity at the Local and Sub-Regional Level*, Syrett, S. February 2008

development can support employment, and four of the five productivity drivers¹⁶ – skills, investment, innovation and enterprise – through their roles in planning, skills, transport and enterprise support.

43. Quantifying the potential extent of benefits is extremely difficult, as there is very limited empirical evidence on the drivers of sub-national economic growth or the impact of strategies. However, to get an idea of scale, if more supportive economic development activity by local government resulted in 10 additional jobs per upper-tier LA, and a productivity improvement of 0.01 per cent, this amounts to economic gains of £12m and £97m respectively per annum¹⁷.

Social benefits

44. In addition to the economic benefits of enhanced economic performance, there is significant evidence that reducing worklessness has important non-monetary benefits, including improved physical and mental health, and well-being.¹⁸

Cost savings

45. It is also difficult to estimate the potential benefits of better targeted spend, reducing duplication and enhancing co-operation. However, it seems reasonable to assume that the assessment could lead to a one per cent reduction in the cost to upper-tier local authorities of delivering the economic development services they already provide. Based on data for 2006–07, this amounts to a saving of £7.9m per annum, or £6.3m excluding London boroughs.¹⁹
46. These savings could be recycled into further economic development expenditure, other local government services, or reductions in local taxation.

Present value

47. The present value shown in figure 1 is calculated on the basis of nine years, beginning in 2010–11 (when the duty first comes into effect). The first gains are assumed to be realised in 2011–12, ie one year after the duty comes into effect.

Figure 1: Present value of benefits		
Scenario	Per annum (excluding London)	Present value (excluding London)
Economic benefits	Not monetised	n/a
Social benefits	Not monetised	n/a
Cost savings – low	£3.9m (£3.2m)	£26.2m (£21.1m)
Cost savings – central	£7.9m (£6.3m)	£52.4m (£42.1m)
Cost savings – high	£9.5m (£11.8m)	£78.6m (£63.2m)

¹⁶ *Productivity in the UK 7: Securing Long-term prosperity*. HMT, November 2007

¹⁷ Gains from employment calculated using data from page 62 of *Reducing dependency, increasing opportunity: options for the future of welfare to work*, Freud, D. 2007. This suggested economic benefits of £8100 from returning a person from JSA to work. Productivity gains calculated from English GVA figures for 2006, from ONS Regional GVA data.

¹⁸ *Reducing dependency, increasing opportunity: options for the future of welfare to work*, Freud, D., DWP 2007

¹⁹ Based on RO5 returns for England, 2006–07.

Distribution of benefits

48. If the duty succeeds in improving economic development outcomes, it is likely that benefits will be largest amongst the following groups:
 - a. *age*: improvements in employment and earnings outcomes will largely affect those of working age
 - b. *ethnic group*: better targeting will produce benefits for groups and areas suffering from economic disadvantage. These benefits should be larger amongst minority ethnic groups
49. Further information on the potential information on different groups is presented in the equality impact assessments (see annex).

Option 3

50. The benefits of option 3 depend upon how local authorities choose to carry out an economic assessment in the absence of central government guidance. Given the way in which economic assessments are currently undertaken, it is likely that assessments will be less thorough, have less impact and provide less information on the functional economic area under option 3 than under option 2. This may in part be rectified if the local government associations choose to produce guidance of their own.
51. However, given the significant uncertainties in estimating benefits, separate calculations have not been undertaken for this option, and it is assumed that benefits will be of the same magnitude as for option 2 above.

Costs

Option 1

52. There will be no *additional* costs under option 1, as this assumes no change to existing practice.

Option 2

53. The estimate of the additional cost of option 2 covers the following topics:
 - staff and data costs
 - possible cost savings from joint working
 - involvement of lower-tier authorities
 - involvement of partner organisations
 - annual updates
 - capacity
 - existing expenditure by authorities
 - net present value

Staff and data costs

54. Although local authorities may choose to make use of data held by private companies (eg MOSAIC) or commission specific local surveys, there is enough data freely available to enable a good economic assessment to be undertaken. Therefore, *it is assumed that this duty will not require additional spending on data*, and so the additional burden will arise exclusively from additional staff costs, plus a provision for overheads.
55. Developing a robust assessment that provides authorities with a sound understanding of the economic conditions within the context of the wider functional economy, cannot be achieved by the collection of statistical data alone. It will require analysis and interpretation, drawing on information and knowledge held by key economic development partners, including the private sector. Local authorities will therefore need to devote resources to analysing and interpreting raw data, and to sharing and developing this information with partners.
56. Local authorities will also need to work with their partners to understand how they and their partners impact on economic activity in their area. The costs to partner organisations are estimated below.
57. Two sources of evidence were used to estimate the costs of carrying out an assessment: case studies of good practice and the cost estimates from the Joint Strategic Needs Assessment.
58. Telephone interviews were undertaken with a number of economic development organisations, including some local authorities, who have undertaken economic assessments that have been identified as being of good quality.²⁰ The results of these case studies are summarised in the annex.
59. The case studies were used to obtain an indication of the staff structure and time devoted to compiling the assessment. This was then multiplied by an estimate of staff costs²¹, which incorporates National Insurance contributions and pension costs. An additional 30 per cent has also been added to account for overhead costs of 30 per cent, in line with Cabinet Office guidance. The cost of engaging external consultants is also included, where they were used. The case studies indicate a cost range of £55,000 – £95,000 per local authority.
60. As outlined above, authorities will also need to devote resources to developing the assessment with key partners. If preparing, attending and responding to the comments from stakeholder meetings takes two days of a project manager's time and there are five meetings then this corresponds to approximately 70 hours over the lifetime of the project. Including overhead costs, this equates to approximately £6,000 per local authority.
61. Therefore, the overall cost to upper-tier authorities of developing the assessment, in conjunction with partners, can be estimated as falling in the range: £60,000 – £100,000 per authority, at current (2007) prices.

²⁰ Good quality economic assessments and strategies were identified in the process of compiling: *Review of Economic Assessment and Strategy Activity at the Local and Sub-Regional Level*, Syrett, March 2008

²¹ Hourly wages taken from *Annual Survey of Hours and Earnings (ASHE)*, 2007–2008

62. A Joint Strategic Needs Assessment (JSNA) is the means by which Primary Care Trusts (PCTs) and local authorities will describe the future health, care and well-being needs of local populations and the strategic direction of service delivery to meet those needs. Whilst the JSNA clearly covers different areas of policy to an economic assessment, it is similarly designed to answer a range of questions that will help PCTs and local authorities to develop their activities so it more closely meets the wants and needs of local people. This suggests it may be a reasonable benchmark for an economic assessment.
63. The costs of this assessment were estimated in the Regulatory Impact Assessment for the Local Government Public Involvement in Health Bill at £72,000 per assessment, including costs to local authorities. This falls in the lower-middle of the range outlined above, and supports a *central estimate of £80,000 per economic assessment, at current prices.*

Cost savings from joint working

64. We would expect some authorities to choose to work together on parts or all of an assessment, as this would help them to develop an understanding of how local economic activity interacts with the wider functional economy. There is also considerable potential for economies of scale, so that the cost of undertaking a joint assessment between three authorities is less than the combined cost of three separate assessments. Indeed, our case studies suggest that the costs involved in undertaking a sub-regional assessment were similar to those at a local level. However, it is important for all authorities to engage in the assessment to ensure that it informs their strategies, and some parts of the assessment, such as understanding existing policy and talking to local partners, will be less easily shared between authorities.
65. The costs of undertaking a joint assessment are likely to increase with the number of authorities involved. Our assumption here is that when an additional authority is involved in a joint assessment, the additional cost will be 50 per cent of the cost of undertaking such an assessment on their own. Hence if an individual assessment cost £80,000, a joint assessment between two authorities would cost £120,000, between three would cost £160,000 and so on.
66. It is likely that those LAs involved in city-regions and/or MAAs will gain significant benefits from undertaking their economic assessments together; there are also likely to be opportunities for joint working elsewhere. The central scenario assumes that outside London, there will be 14 joint assessments covering 68 upper-tier local authorities, and 49 assessments covering just one upper-tier authority. This will yield savings of 23 per cent compared to all authorities undertaking an assessment on their own. Low and high scenarios assume savings of 13 per cent and 33 per cent respectively.
67. There is also likely to be considerable scope for joint working across London boroughs, perhaps building on the East and West London City Strategy Partnerships²². The central case assumes that there will be five joint assessments covering London, yielding savings of 35 per cent compared to all authorities

²² East and West London are two of the 15 City Strategy partnerships that have been set up in 15 pathfinder areas to tackle worklessness in the UK's most disadvantaged communities.

undertaking an assessment on their own. Low and high scenarios assume savings of 25 per cent and 45 per cent respectively.

Costs to lower-tier authorities

68. Lower-tier authorities already collect evidence on the local economy to inform their important role in land-use planning. They will need to be involved in the development of economic assessments covering their areas, and any additional costs they incur should be included. If the additional staff resources required are equal to those required by upper-tier authorities in working with all their partners (paragraph 60), this amounts to a cost of approximately £6,000 per authority. This equates to an overall cost for the 238 district councils of £1.4m at current prices.

Costs to partners

69. There will also be costs to partner bodies from contributing towards the assessment, which must be included in an estimate of social costs. Assuming an additional cost per local authority area of £15,000 equates to £2.3m for England as a whole.

Annual updates

70. New assessments will need to be carried out periodically to ensure that the analysis is fit for purpose to inform Sustainable Community Strategies, Local Area Agreements and other local strategies. There will be additional costs if the data contained in the assessment is to be updated on an annual basis. A specialist economic development consultancy would charge approximately £10,000 – £15,000 to provide baseline and trend analysis. In general, this is likely to constitute an upper estimate as many authorities would be able to undertake this updating in-house. Therefore a central estimate of £10,000 per assessment has been adopted, including adjustments for inflation, and the scope for savings from joint working are assumed to be the same as for full assessments.

Capacity

71. Some authorities may need to build up their capacity and knowledge in order to undertake an effective assessment in 2010–11. Although most authorities will undertake assessments in partnership, and some will rely on external consultants, all will require sufficient capacity and knowledge to understand the evidence produced and use it to develop and support local strategies. Each partnership will also require somebody with sufficient knowledge to commission any external research, but this is likely to exist amongst the partnership.
72. Therefore there is likely to be a need in some authorities for a deeper understanding of economic analysis. The National Improvement and Efficiency Strategy sets out that one of the future strategic priorities will be to “improve economic and neighbourhood renewal leadership capacity locally”²³. As a

²³ *National Improvement and Efficiency Strategy*, CLG, LGA, 2008

result, we do not expect there to be any additional cost in the years leading up to the economic assessment in 2010–11.

Enforcement

73. The Government does not propose to monitor lead authorities' assessments of the economic conditions of their areas. The Government expects that assessments would improve local authorities' knowledge and ability to strengthen performance against the local government performance framework's economic indicators. The Audit Commission has indicated that inspectorates would be able to assess the effectiveness of local economic assessments as part of the new Comprehensive Area Assessment (CAA). We do not expect that this will lead to any additional costs.

Existing expenditure by local authorities

74. Most local authorities already undertake some assessment of their local economy, or will be able to draw upon assessments undertaken at the sub-regional level. They are also expected to have an understanding of their local economy in order to fulfil existing duties (annex, figure A1). However, the quality and content of existing duties is highly variable, and most would be unlikely to fulfil the expectations of this duty. If we assume that 50 per cent of upper-tier authorities already undertake assessments, and that the quality of these assessments allows them to be produced at half the cost of the assessments outlined above, then current spending on economic assessments can be estimated at *£3.2m in England overall (at 2010/11 prices)*.

Summary of costs

75. The information above has been used to estimate low, central and high estimates of additional costs to local authorities in undertaking a full assessment in 2010–11 (figure 2). The central estimate, adjusting for additional expenditure is £9.8m.

Figure 2: Cost estimate for full assessment, 2010–11 prices

Scenario	Cost to upper-tier	Cost to lower tier	Cost to partner bodies	Existing spend	Total additional cost
Low	£6.2m	£1.5m	£2.4m	£3.2m	£6.9m
Central	£9.1m	£1.5m	£2.4m	£3.2m	£9.8m
High	£13.5m	£1.5m	£2.4m	£3.2m	£14.3m

76. In addition, the cost of an annual update, to take place for two years out of every three year cycle, would be in the range £1.0–1.3m per annum.

Costs to key groups, at 2008 prices

77. The net additional cost to local authorities of a full assessment, at 2008 prices is £6.9m (£9.1m + £1.5m – £3.2m, deflated at 5 per cent to convert to 2008 prices). The cost to partners, at 2008 prices, is £2.3m.

Average annual costs

78. Average annual costs are calculated on the assumption that Local Authorities will do a short update of their assessment every year, and a full review every three years. This will not be required by statute, but is our working assumption for the purposes of these calculations. A three-year cycle with an annual refresh would fit with the cycle of Local Area Agreements. Figure 2 provides a central estimate of £9.8m. At *current* prices, this is approximately £9.2m. Our current price estimate of an annual update is £1.1m. Averaging these over a three year cycle gives an average annual cost of **£3.9m**, at 2008 prices.

Present Value

79. The present value provides a comparable figure representing the future stream of costs, using a discount rate to reduce the weight placed on future costs. The present values calculated in figure 3 use a discount rate of 3.5 per cent as set out in the Treasury Green Book. The present value is calculated using estimates of the cost of full assessments over nine years beginning in 2010–11. The estimates assume full assessments will be undertaken every three years (starting in 2010–11) and annual updates will be undertaken in the other two years of the three year cycle (starting in 2011–12).

Scenario	Present value
Low	£21.8m
Central	£29.6m
High	£41.3m

Option 3

80. The costs of option 3 depend upon how local authorities choose to carry out an economic assessment in the absence of central government guidance. It is possible that assessments will be less thorough and hence be less costly; on the other hand, provision of central guidance may reduce costs by providing a framework for local assessments. Separate estimates of cost have not been made at this stage, and it is assumed that the costs of option 3 will be as for option 2.

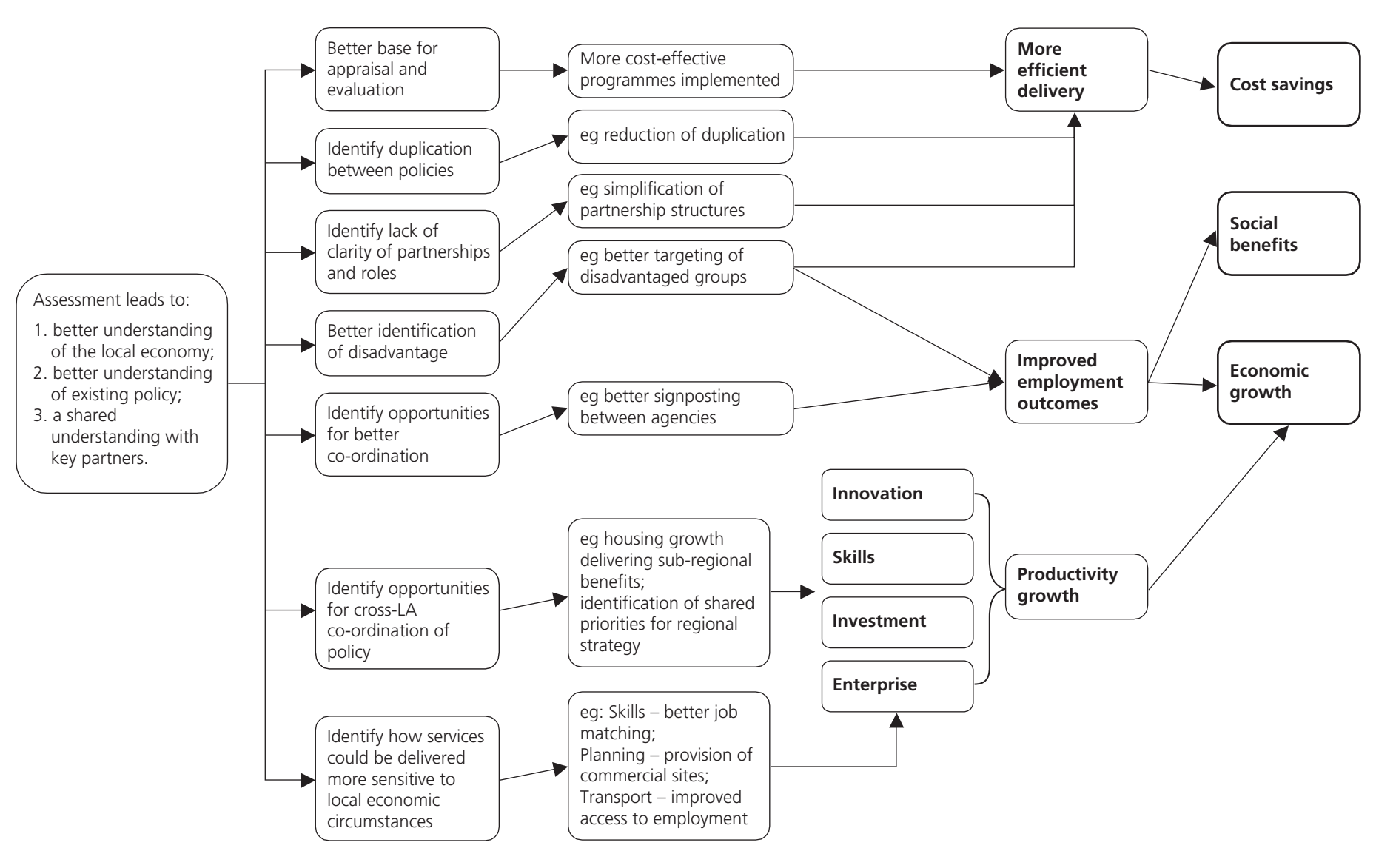
Net Present Value

81. Figure 4 presents a range of value for the net present value (NPV), based on the monetised costs and benefits. *It should be noted that these estimates include no assumptions about the impact of the duty on economic growth or employment rates.* Improvement in these outcomes should be regarded as additional to the benefits included in the NPV calculation.
82. The high end of the NPV range is calculated as the high estimate of benefits less the low estimate of costs. Conversely, the low NPV estimate is the low estimate of benefits less the high estimate of costs. The central or best guess, NPV estimate is the central estimate of benefits less the central estimate of costs. This range will be refined as new evidence becomes available during the consultation.

Figure 4: Range of Net Present Value estimates	
Scenario	NPV
Low	-£15.1m
Central	£22.8m
High	£56.8m

Appendix

Figure 5: Logic chain



Annex: Case studies of economic assessments

Organisation type	Timeframe		Staffing				Overhead costs (30 per cent)	Total cost
	Collection and Collation of Data	Data Analysis	Staff Position	Staff Time (%)	Staff Pay	Staff Cost (collection and analysis of data)		
County Council	2 Mths	2 Mths	Project Manager	50%	63.38/hr	£17,746	£21,665	£93,883
			Principal Research Officer	50%	44.07/hr	£12,340		
			3 Research Officer	75%	33.44/hr	£42,132		
London Borough	3 Mths	2 Mths	Project Manager	20%	63.38/hr	£8,873	£13,514	£58,556
			Middle Manager	20%	44.07/hr	£6,169		
			3 External Consultants	NA	NA	£30,000		
City Regional Partnership	1.5 Mths	1.5 Mths	Project Manager	50%	63.38/hr	£13,310	£15,228	£65,990
			3 Support Officers	NA	33.44/hr	£14,044		
			5 Support Officers	NA	33.44/hr	£23,408		
County Economic Partnership	3 Mths	3 Mths	Project Manager	50%	63.38/hr	£26,620	£14,459	£62,657
			University Placement	50%	21.25/hr	£8,925		
			3 Data Consultants	NA	NA	£5,250		
			Input from other Team Members (8–10 people)	2.5%	44.07/hr	£7,404 – £9,255		

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	Results in Evidence Base?	Results annexed?
Competition Assessment	No	Yes
Small Firms Impact Test	No	Yes
Legal Aid	No	Yes
Sustainable Development	No	Yes
Carbon Assessment	No	Yes
Other Environment	No	Yes
Health Impact Assessment	No	Yes
Race Equality	No	Yes
Disability Equality	No	Yes
Gender Equality	No	Yes
Human Rights	No	Yes
Rural Proofing	No	Yes

Annexes

Specific Impact Tests

Competition Assessment

The duty will have a small pro-competitive effect by making it easier for firms to access market information. The public provision of information will reduce fixed costs incurred by new entrants, leading to greater competition.

The sector most affected by the duty is likely to be the private economic consultancy sector, as the requirement to undertake an assessment will increase the demand for services, amongst local authorities without the capacity to undertake the entire assessment internally. With 150 upper tier authorities in England, the demand for economic consultancy services could potentially increase rapidly nationwide, particularly if local authorities carry out an assessment at a particular time of year.

The provision of guidance under option (ii) should encourage competition amongst consultancy firms by reducing market barriers created through specialist knowledge. Local authorities adhere to best practice procurement rules which should ensure competition in the market for consultancy services.

Option (iii) allows greater flexibility in tailoring the assessment to reflect local economic priorities. Without a legal obligation to follow guidance, authorities may decide to focus on a specific area of the local economy, eg worklessness, enterprise levels etc. If this requires greater specialisation, this may slightly increase the barriers to entry and reduce the number of firms who can compete for the business.

Research conducted on current economic assessment and strategy activity found that there are a large number of local authorities already carrying out assessments of some sort, and in two out of the four case studies, external consultants had a large role in developing the assessment. This evidence suggests that an absence of guidance will not have a significant effect on the availability of consultancy services.

Small Firms

The duty will not affect business or small firms directly. The duty will not place any costs on businesses, but may provide some indirect benefits.

The economic assessment duty is expected to increase local authority awareness of local economic conditions and to encourage greater collaborative working across authority boundaries with regard to economic development. In this respect it is likely to have indirect benefits for local businesses, particularly small firms. Local authorities will be better placed to directly tackle any local market failures and assist small firms whose activity transcends local authority boundaries.

By tackling local market failures (such as the lack of local public service provision eg Transport), barriers to entry for start-ups and small firms may be reduced.

The duty will not place any direct or indirect burden on local businesses. The duty will result in some additional costs to individual local authorities, which will be assessed and met in line with the Government's new burdens principles. It is not anticipated that this will lead to higher business rates.

Small firm consultation has not been carried out in the options development phase of this policy because it is not aimed at business and is not expected to place any additional costs or burdens on firms. However, this Impact Assessment is subject to public consultation and as a result we welcome views from small firms on the detail on the policy option adopted.

Legal Aid

There will be no impact on legal aid from the adoption of a duty on local authorities to commission an economic report on their local area.

Sustainable Development

This duty aims to improve the economic evidence base that local strategies are based on, including the Sustainable Community Strategy, which sets out the overall strategic direction and long-term vision for the economic, social and environmental well-being of a local area. These strategies should contribute to sustainable development in the UK²⁴, and as such should draw on environmental and social expertise, as well as the economic evidence base provided by an assessment.

Assessments should improve the quality of scientific evidence used to inform decisions.

Other Environment

This duty will not have any major impacts on other environmental considerations.

Carbon Assessment

The economic assessment should not lead to an increase in carbon emissions. Emission levels may change if authorities pursue different policies as a result of the assessment, for example if it leads to a change in policy regarding the building of new infrastructure or housing. These emissions should be included in project appraisals, and cost and benefits estimated on a case by case basis.

Health Impact

The proposal will not have a direct impact on health, although there may be beneficial effects on well-being from the formulation of strategies designed to tackle worklessness or poverty.

²⁴ *Creating Strong, Safe and Prosperous Communities. Statutory Guidance: Draft for Consultation*, HM Government, 2007

Race, Disability and Gender Impacts (Equality Impact Assessment)

83. The direct cost of the economic assessment itself will be fully-funded through increased LA resources, so will not lead to a diversion of expenditure from other services. However, the assessment could indirectly lead to increased spending on economic development activity by identifying areas where it could add value. This in turn would reduce the resources available for other LA activity. Alternatively, the duty might enable LAs to identify economic development activity that is poorly targeted or ineffective, and thus free up resources. By encouraging economic growth, the duty could also lead to additional resources for local government services in the long-term. It is not obvious which of these alternatives is more likely. If funding is diverted from other services, the impact could disproportionately affect those who tend to benefit most from current LA service provision.
84. The economic development role of local authorities is often focused on services to individuals and groups that are underserved by national 'one-size fits all' policies. Improvements to the evidence base that lead to more effective services should therefore tend to disproportionately benefit these groups. The assessment will also help local authorities to identify priorities for expenditure on regeneration and tackling disadvantage, which should lead to particularly positive effects for those in the most disadvantaged groups, and living in the most deprived areas.
85. The economic assessment should incorporate the expertise of key partners in economic development. Authorities will be legally required to consult some partners, but will be able to have discussions beyond this. There should not be an unequal consideration of the needs and views of particular groups.

Human Rights

There will be no impact on human rights from the adoption of this duty.

Rural Proofing

The structure and operation of rural economies are just as diverse as their urban counterparts. Rural England extends from the remote uplands to coastal areas and incorporates thriving market towns and commuter belts that lie on the fringes of major conurbations. The role of the rural community in the sub-regional economy will therefore differ from area to area. Some communities will be self-contained, whereas others will be primarily commuter belts that provide a valuable labour resource to the city.

Some economic assessments may focus on urban than rural issues, because urban areas constitute a large proportion of local economic activity. However, analysis of the flow of people, goods and services between market towns and their hinterlands will be an important part of any assessment.

Rural areas do not conform to a set of criteria consistent with "Rural England" and are diverse in terms of their economic base and spatial characteristics. Good assessments will need to consider how challenges and opportunities diverge

across the local area, and should recognise the interdependency of urban and “fringe” markets.

The challenges of analysing economic issues that are more common to rural areas may be more easily addressed through the provision of common guidance.

The inclusion of rural representatives, including through a duty to involve lower-tier authorities, should help ensure that local economic assessments take into account the needs of the rural economy.

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