

# **Local Economies, Local Choice**

**Policy Paper 45**





# Contents

<b>Summary</b>	<b>4</b>
<b>Introduction</b>	<b>6</b>
1.1 Missing Social Capital	7
1.2 Missing Local Self-Determination	7
1.3 Missing Economic Lifeboats	7
1.4 Principles	8
<b>Access to Money</b>	<b>9</b>
2.1 Access to Bank Accounts	9
2.2 Access to Bank Services	9
2.3 Access to Credit	10
2.4 Encouraging Investment	11
<b>New Kinds of Money and Credit</b>	<b>13</b>
3.1 Forgotten Resources	13
3.2 Local Exchange	13
3.3 New Kinds of Credit	14
3.4 Tax and Benefits	14
<b>Underpinning Diversity and Plugging the Leaks</b>	<b>16</b>
4.1 The Problem	16
4.2 The Solution	16
4.3 Local Shops and Services	17
4.4 Community Development Trusts (CDTs)	18
<b>Sustainable Local Economics</b>	<b>20</b>
5.1 Local Quality of Life Targets	20
<b>Volunteering as a Resource</b>	<b>23</b>
6.1 Draining Social Capital	23
6.2 Time Banks and Service Credits	24
6.3 Community Exchange Banks	24

# Summary

## Principles

How to enable people and communities to escape from poverty is an issue that has been a central concern for Liberal Democrats. The Party's policies emphasise the importance of solutions that empower people, and build on local self-determination and individual self-help. The following principles lie behind these policies:

- Defining work that needs doing more broadly than the narrow definition of traditionally marketable skills.
- Everyone should have access to a full range of necessary services including finance, shops, health, business, local jobs and local government, as well as timely and accurate information services.
- Diverse local economies are stronger, more resilient and provide better access to everybody.

## Access to Money

Poor access to financial services can hasten decline and delay recovery in communities. Liberal Democrats would improve access through several initiatives including:

- The development of a Universal Bank, together with a Universal Bank account, encouraging local authorities to provide home contents insurance in red-lined areas through agencies like local credit unions.
- Providing a universal debit card to people of all ages, so that they can have access to e-commerce and phone buying without going into debt.

In addition to this Liberal Democrats will develop a parallel network of mutually-owned community banks, which may be in post offices, or shared bank branches, but might just as well be based in pubs, village shops, churches or community centres. We will encourage high street banks to fund this network, or fund it with a levy on bank profits if they fail to rise to the challenge.

Liberal Democrats recognise the crucial role of credit unions and will pioneer a package of measures to help the UK community finance sector grow. These will include setting up a micro-enterprise loan fund that can support the development of new credit unions and mortgages and provide start-up funding through the new generation of community banks.

## New Kinds of Money and Credit

Liberal Democrats have long supported the idea of local exchange trading systems (LETS) as a way of drawing people into the system who are currently largely excluded. We will now go further by pioneering other local exchange systems that use local currencies to circulate the resources that people have locally. The purpose of this is to make sure that socially-excluded people stay in touch with local networks and to provide people with practice of working informally.

## **Underpinning Diversity and Plugging the Leaks**

Economic policy tends to increase the dependence of communities on outsiders, rather than helping them to develop the resources themselves or give them real power over the resources they manage to draw in. To address this problem Liberal Democrats would:

- Nurture local business and enterprise by encouraging the use of locally generated renewable energy and supporting small-scale schemes that can supply a community's needs and sell to the National Grid in time of surplus.
- Support virtuous circles that use either waste products or commodities with low market value to produce goods of sustainable and economic benefit.
- Support local institutions and businesses in their efforts to source products locally, including defining Best Value rules so that they allow local councils to do this, and abolishing the anomaly in the Local Government Act that currently makes it hard for them to do so.
- Introduce a Business Rate Allowance in order to deliver relief on business rates for smaller businesses, as a transitional arrangement before the return of business rating to local authority control.

## **Sustainable Local Economics**

Liberal Democrats will promote sustainable local economics by:

- Setting local environmental targets that can be easily understood and monitored.
- Empowering local statutory bodies to undertake a 'sustainability audit' of all their existing targets and performance measures.
- Requiring central and local government to report on progress on sustainability targets at the same time as publishing annual financial reports.

## **Volunteering as a Resource**

Liberal Democrats will involve volunteers as equal partners in regeneration by:

- Organising a network of time banks in communities, post offices and health centres.
- Measuring and recognising the efforts people put in locally with 'credits' that they can spend themselves when they need it.
- Allowing people to spend time credits on refurbished computers or furniture without losing benefits.
- Allowing people to open Individual Learning Accounts with time credits instead of cash.
- Launching a programme for community entrepreneurs within our proposed replacement for the New Deal, the 'Flexible Guarantee for Jobseekers', and organise accredited courses in social entrepreneurship.

# Introduction

*"The minds of this generation are still so beclouded by bogus calculations that they distrust conclusions which should be obvious ... We have to remain poor because it does not 'pay' to be rich. We have to live in hovels, not because we cannot build palaces, but because we cannot 'afford' them... The same rule of self-destructive financial calculation governs every walk of life."*

**John Maynard Keynes, 1933**

*"There is another kind of economy altogether - not really an economy at all, but everything we do, everything we care about in our country, every business success we have achieved depends on it. This is the neighbourhood and family economy which brings up children, nurtures relatives and friends, looks after older people, watches out for neighbours, and does so through hundreds of thousands of small local organisations and millions of individuals who keep the wheels of our communities turning,"*

**Paddy Ashdown, 1998**

*"I see a healthy voluntary sector as a sign of a healthy nation. Strong interest and involvement in voluntary groups shows that civic Britain is strong. It shows that there is a lively public spirit, and that citizens are willing to work together for the better of others. It builds powerful communities, in which citizens are used to challenging authority, taking power, and controlling their own lives."*

**Charles Kennedy, 1999**

**1.0.1 How do we enable people and communities to escape from poverty?** The issue has been a central concern for Liberal Democrats and predecessor parties, which have emphasised the importance of solutions that empower people, and build on local self-determination and individual self-help.

1.0.2 Yet for much of the past half century, the efforts of governments to tackle the problem have been astonishingly ineffective. If it wasn't Labour governments bulldozing whole communities and stifling their ability to regenerate, it was Conservative governments redeveloping the areas and pricing out the poorer people they were supposed to be helping.

1.0.3 Throughout that time, it has been clear to people who lived there that trickle-down never worked, that most regeneration money tends to go to outside professionals - and even local 'partnership' action has simply served to help the most capable people leave the area even faster than before. The unemployment level for Toxteth, for example, has stayed stubbornly at twice the national average for the past four decades.

1.0.4 But it is becoming clear that there are other ways forward that allow local people in urban and rural areas to become less dependent on unreliable central government funding, to re-connect with the skills and resources they already possess and to find it easier to ride out the global economic storms. These policies do not refer to regional or national economic policies - though they depend on recognition and support at those levels - but to a series of measures that can be taken to renew local economies locally.

1.0.5 This paper is an attempt to draw together a policy on local economics for Liberal Democrats. It does so not because the party has no policy on the subject, but because what it does have is piecemeal and scattered through a range of other policy documents - from welfare to urban affairs. The result of this is that the policy has not so far been perceived as a whole. Nor is it widely understood outside the party that Liberal Democrats have been taking the lead on many of these issues, quietly and un-noticed at local level, right back to the days of John Stuart Mill.

## **1.1 Missing Social Capital**

1.1.1 People are increasingly recognising that local economic success depends on what they call ‘social capital’ – the social networks and trust that underpin society and allow business to thrive. The money economy provides us with food and jobs and the material things we need. The social economy is not what people would instantly recognise as an economy, yet everything else depends on it. It is the neighbourhood and family economy which works through hundreds of thousands of small local organisations and millions of individuals who keep the wheels of our communities turning, and according to the Office of National Statistics, it would significantly boost UK GDP if it was included.

1.1.2 All too often, this vital social capital is undermined –by economic indicators that fail to recognise it, by loss of local trust and criminality that drives it out, by financial institutions that fail to provide it with credit or by traffic that destroys the social networks that local economies depend on. This policy could cover anything from crime to planning, but it concentrates on providing communities – especially those sidelined by the mainstream economy in urban, suburban and rural areas – with the social capital and the financial resources they need to survive in a globalised world.

## **1.2 Missing Local Self-Determination**

1.2.1 For all the ingenuity and passion Liberal Democrats lavish on giving communities power over their own destinies, the global economy seems increasingly to call the shots. The kind of local culture and tradition which underpins people’s lives are increasingly being replaced by identikit places. Local economic life is

increasingly perceived as simple juggling of powerlessness and insecurity.

1.2.2 The opportunity for Liberal Democrats now is that – although local life and the decentralisation of power runs like a thread through so much of what the party does locally, nationally and internationally – we have no coherent set of policies to cover the economic aspects of this decentralisation. We have plans to devolve political power to local level, power over health and education and many of the aspects of life that people feel are most important to self-determination. But until now we have made no attempt at a coherent policy to devolve economic power too.

1.2.3 This has been a serious omission. Because without some measure of influence over our local economic lives, we are at the mercy of global forces in all the other areas – health, education and political self-determination as well. Without a local economic policy, we are increasingly powerless in the face of expenditure cuts, recession and the decisions of distant multinational executives, so that local life has to cut itself to fit economic forces that are increasingly outside the power of national governments as well. And without addressing this, we can't expect people to know the benefits of the self-respect and added self-esteem that self-determination can bring.

## **1.3 Missing Economic Lifeboats**

1.3.1 Excluded communities aren't just the geographic ones. There are wider communities too, and in the age of the Internet - communities linked across nations by computers and phone lines. They are equally vulnerable in an uncertain world, when we are increasingly dependent

on highly complex distribution and monetary systems. The fuel crisis in September 2000 showed, among other things, just how vulnerable our 'Just In Time' delivery systems have become.

1.3.2 We need to build parallel economic systems that can not just provide services and support to the larger numbers of people being excluded from the mainstream, but that can help communities better ride out recession or other accidents outside their control. Whatever our attitude to globalisation, we need to have other local life-support systems just in case. It wasn't just the Titanic that didn't have enough lifeboats.

## 1.4 Principles

1.4.1 This policy document tries to sketch out the beginning of a policy for local economics and local life that can provide these things. It does so based on the following principles:

**1.4.2 To achieve a better quality of local life for everyone, we need to define 'work' that needs doing more broadly than the narrow definition of traditionally marketable skills.**

However prosperous any community is in terms of money, there is clearly a large amount of work that still needs to be done. Some of this might have been done by the council in days gone by, some of it never could have been –

ranging from clearing up litter from the park to visiting older people. Local economic programmes that recognise that all this *is* work, (even if it isn't remunerated work of the traditional kind) can improve local quality of life.

**1.4.3 Everyone should have access to a full range of necessary services including finance, shops, health, business, local jobs and local government, as well as timely and accurate information services.** This is not just a matter of equal opportunities, though that principle is as important as ever. A local economy that only caters for the better off is not sustainable, nor is it meeting the needs of many of the people who live locally.

**1.4.4 Diverse local economies are stronger, more resilient and provide better access to everybody.** This is not to say that Liberal Democrat local authorities should discourage inward investment, or that the money they bring to local economies would be unwelcome. But it does imply that the recent obsession with inward investment can be wasteful and can make local economies dependent on single distant employers. If big chains are also allowed to drive out the fine mesh of small business and self-employed people, it makes local economies far more vulnerable to worldwide blips and dives – and to the vagaries of corporate policy pursued by one large multinational employer.



# Access To Money

2.0.1 The economic future of many communities around the UK is determined not just by the distant changes in the world markets, but by decisions in banks and other financial institutions much nearer home. Their policies to lend to people and businesses in some areas, but to refuse to do so in others, probably does more than anything else to hasten decline and delay recovery.

2.0.2 These problems have knock-on effects on the rest of the economy. It means that housing is blighted in many neighbourhoods, and that businesses are blighted in others. It means that people with access to Internet banking thrive, while those who still need branches – maybe to bank the day's takings – have increasing problems staying in business. It means that much of the energy and ideas at local level is often not matched by the necessary credit.

## 2.1 Access To Bank Accounts

2.1.1 Up to 9 per cent of the population still have no bank accounts, though it can be almost impossible to get a job or accommodation without one.

2.1.2 Liberal Democrats will develop plans for the Universal Bank, which do not yet go far enough, so that a Universal bank account – that cannot go into debt – should be available to anyone through a range of existing and new financial institutions. This will allow us to give people a statutory right to a basic bank account.

2.1.3 We will also:

- Allow tenants to convert local authority housing rent accounts into cheque accounts, providing them with a means of saving and paying.
- Encourage local authorities to follow Liberal Democrat Liverpool's lead with their Tenants' Insurance Scheme. This scheme provides home contents insurance in red-lined areas through agencies like local credit unions.
- Encourage housing associations to provide regional banking facilities, using their rent accounts as the basis – along the lines pioneered by the North British Housing Association (now Places for People).
- Provide a Universal debit card, connected to the Universal Bank account, to people of all ages – so that they can have access to e-commerce and phone-buying without going into debt.

## 2.2 Access To Bank Services

2.2.1 The disappearance of bank branches from communities in many parts of Britain, because of competition from Internet banking, is a serious drag on local economic recovery. Those affected the most are those people and areas least likely to use Internet banking as an alternative. It also falls heaviest on small businesses that need somewhere to bank their takings that doesn't require a 20 mile round trip of four bus journeys.

2.2.2 The 4,000 bank branch closures in the past decade – and the expected 4,000 in the next decade – have hit poorer communities disproportionately hard. Even in London, the nearest ATM machine in some areas can be as much as four miles and two bus journeys away. However widespread virtual banking becomes, there is still a continuing need for physical infrastructure, for people to bank and draw out cash.

2.2.3 We do not believe that subsidising existing financial institutions to fill the gaps is desirable, because that would risk setting in stone second rate institutions for poorer communities. But the government *does* have a role creating a parallel network that can serve these communities, and assess credit needs flexibly and locally, and compete with the banking sector for their market. This may also encourage mainstream banks to get involved there as well.

2.2.4 We welcome government plans to widen access to banking facilities, but fear that their Universal Bank in post offices, providing basic accounts – but no mortgages or other banking services – will not go far enough.

2.2.5 We will therefore:

- Develop a parallel network of mutually-owned community banks, which may be in post offices or in shared bank branches, but might just as well be based in pubs, village shops, churches or community centres.
- Encourage these new local banks to offer services including Universal Bank accounts, but also other credit facilities.

- Encourage the high street banks to fund the network, or fund it with a levy on bank profits if they fail to rise to the challenge.
- Encourage a range of local businesses to offer cashback facilities.

## 2.3 Access To Credit

2.3.1 Poorer places may have the local energy, experience and skills they need to provide the resources for regeneration, but they have much more difficulty than richer areas raising finance for enterprise and employment. That means the places that need capital most have the most problem getting hold of it – leaving them prey to money-lenders lending money at rates commonly between 100 and 500% APR and sometimes much more. The problem is repeated in a series of linked phenomena that are sapping the economic life out of many communities:

- Small and micro-businesses that provide the vast majority of new employment, according to the OECD, yet have increasing difficulty attracting credit. The recent Cruikshank Report identified small business lending as a serious problem.
- There is an estimated repair backlog of £50 billion in owner-occupied homes – most of it in poorer communities – often as a direct result of difficulties in getting mortgages or improvement loans in some neighbourhoods, and the difficulties of raising housing finance for small housing associations.
- Conventional banks find it hard to lend to arts projects or the new

generation of social enterprises emerging to tackle urban, suburban or rural exclusion.

- The problem is compounded by the disappearance of the UK's regional banking network – unlike those in Europe – so that investment decisions by building societies with regional names are sometimes still controlled in other cities, or even other countries, and by regional managers with little discretion and unyielding formulas.

2.3.2 Liberal Democrat policy paper 37 on urban areas, *Engaging Communities* (2000), backed the idea of credit unions – along the lines pioneered by Liberal Democrats in control of Eastleigh Borough Council. It also proposed making it easier to experiment with new methods of lending to open the way to credit unions which could serve the Muslim community which does not allow the charging of interest for religious reasons – and lending and saving institutions to serve a range of other cultural traditions.

2.3.3 We recognise the crucial role that credit unions can play in this field – not just for poorer communities, but for everyone. But left to themselves, credit unions will not be able to grow at a sufficient rate, so Liberal Democrats will also pioneer a package of measures to help the UK community finance sector grow beyond their current £400 million. We will:

- Empower local authorities to develop open criteria to give discounts on business rates for community bank premises, just as Liberal Democrats want them to do for community shops – and by

encouraging them to set up in closed bank branches.

- Extend the Small Firms Loan Guarantee Scheme.
- Set up a micro-enterprise loan fund, like the highly successful Fundusz Mikro in Poland, that can also support the development of new credit unions and mortgages and start-up funding through the new generation of community banks.
- Encourage appropriate regional institutions, like the new London Re-building Society – accountable to elected regional assemblies and to members – to provide larger loans to the community finance and social business sector.
- Make sure the new micro-finance and community loan funds are linked to a network of business advice and support, often on a mutual basis, in every region.

## 2.4 Encouraging Investment

2.4.1 It is not part of a Liberal Democrat programme to instruct commercial banks where to lend their money. Nor would that be an effective way of funnelling investment to where it is needed. But we do regard it as an ethical duty for financial institutions to make sure they provide finance and insurance services where they are prepared to take deposits. We will therefore find ways to create the market conditions that favour social responsibility in bank lending. That means rating banks every year according to their contribution to poorer communities, along the lines pioneered by the 20-year-old Community Reinvestment Act in the USA. That sets legal duties on banks to reveal the postcode pattern of their loans and deposits.

---

## **CASE STUDY – CREDIT UNIONS**

About nine per cent of the population do not have bank accounts, and the reasons for this are disputed – banks say it's a matter for choice; anti-poverty campaigners say they are not allowed them. Either way, recent research in the London Borough of Southwark shows that some addresses remain 'red-lined' by both banks and insurance companies. No matter how wealthy people are who live on those estates, they are refused banking facilities and insurance.

One answer to this is to set up a new generation of local mutually-owned financial institutions known as credit unions, of which there are now about half a million in the UK – about half of those in Northern Ireland. Many of these are employee credit unions, but the most important area of growth is in local ones catering to people who can't get banking facilities or loans elsewhere – and who have to rely on loan sharks.

The problem is often that credit unions take many years to build up enough deposits to be able to start making loans. One way forward is to provide another level of financial infrastructure above them, like the new London Re-building Society due for launch this year. Another is for local authorities to provide backing for a network of local credit unions. One of the leaders in this field is Liberal Democrat Eastleigh.

### **CASE STUDY: EASTLEIGH CREDIT UNION**

Eastleigh Credit Union was officially established in 1997 and offers people the opportunity to save from as little as 25p per week. Members can borrow money at low rates of interest after they have been saving with the credit union for at least three weeks. The aim was initially to address anti-poverty objectives of the council – to enable those denied financial services to access a local non-discriminatory savings and loans scheme. But it is now recognised that credit unions are most successful when they include as member's individuals from a range of economic backgrounds.

The credit union was established as a non-profit making savings and loans co-operative run by volunteers in Eastleigh Borough. There are currently two main collection points: one at the council-owned local area office, based in Eastleigh town centre. It has been innovative because, whereas most other credit unions have been set up either to benefit employees or local communities, the Eastleigh Credit Union has a wider 'common bond' that enables all who live or work in the borough to be a member. At present this means that approximately 140,000 people are eligible to access the credit union's services.

### **CASE STUDY: TENANTS' HOME CONTENTS**

Liberal Democrat Liverpool has recently won a top housing award from the Chartered Institute of Housing for their innovative scheme to provide contents insurance for tenants – residents excluded from mainstream insurance because of where they live. Linking up with insurance brokers Aon, CGU and Paypoint, the cash collection company, the Tenants' Home Contents Scheme means they can pay weekly and in cash – and get their possessions covered. After a year of operation, 2,000 households are now taking part in the scheme, which has the unexpected spin-off effects of more accurate reporting of crime and a greater sense of trust and inclusion in poorer neighbourhoods.

---

# New Kinds Of Money And Credit

3.0.1 In some places in the UK, there is enough money circulating locally to make sure that the bulk of local needs are met. In others, especially in the inner cities but in rural communities too, there are enormous needs, as well as people with time, skills and willingness to fulfil them – but no money to bring the elements together.

## 5.1

### 3.1 Forgotten Resources

3.1.1 Money circulates to some people and some places better than others. In many areas it circulates so badly that local people are increasingly cut off from the world of work – as well as the ongoing training and education that we all need to create a successful economy. Yet despite this, these ‘poor’ neighbourhoods are often ‘rich’ in assets which – because they have no value in the market economy – can’t be used to enrich the local economy, and are wasted.

3.1.2 Surplus local produce and stock, abandoned buildings, jobless people – even garbage, computers, white goods which are thrown away – may have no value in pounds, yet they do have a value locally. But now there are currently few ways available to access them to meet local needs, so that people keep in touch with each other, the experience of work, when the mainstream economy has all but disappeared.

3.1.3 The so-called ‘shadow’ economy has also become increasingly

widespread as the disparities in local income grow. The difficulty is how to claw that back into the mainstream, without undermining some of the few outlets for enterprise and income in the poorest areas, so that we can use this local energy to ease people back into the world of work.

### 3.2 Local Exchange

3.2.2 Liberal Democrats have supported the idea of local exchange trading systems (LETS) in policy paper 8, *Agenda for Sustainability* (1994), explaining that “LETS can draw people into the system who are currently largely excluded, strengthen local self-sufficiency and at the same time boost morale and combat crime by helping to rebuild a sense of community.” Similar support for the idea came in the urban policy paper, *Engaging Communities* (2000).

3.2.3 Liberal Democrats will go further by pioneering other local exchange systems, that use ‘local currencies’ to circulate the resources that people have locally, if they want to. There are clearly dangers to local currencies if they are too successful in promoting ghettoisation. The purpose here is the reverse: to make sure socially-excluded people stay in touch with local networks and, provide people with practice of working informally. That means:

- Giving local authorities the discretion, under powers of general

competence, to accept local currency for a proportion of council tax or local fines, and to use it as grants for local charities – and to trade in it themselves for goods and services, as a way of keeping local resources circulating locally.

- Accepting local currency in payment or part-payment for local training courses – so that the national currency covers the basic costs of the course.
- Providing start-up finance for currency systems that encourage local sectors into mutual support – like the highly successful support systems for local arts backed by Liverpool City Council, known as Creative LETS.

### **3.3 New Kinds of Credit**

3.3.1 Experience in Switzerland with the Wir network suggests that there would be major benefits in larger regional barter clubs for small and micro-businesses, giving them access to interest-free credit from other members of the same circle – keeping local expertise, goods and services circulating locally. There would be particular benefits to the farming, catering and building sectors.

3.3.2 Liberal Democrats propose a series of regional barter currencies, based on the European Commission's Scottish Organisational Currency System, and managed by the RDAs. These would also:

- Allow local business to use surplus capacity as assets.
- Provide a source of interest-free loans to community groups from local authorities.

- Provide a source of income to run the networks, by selling other applications onto smartcards which also carry local currency.

### **3.4 Tax and Benefits**

3.4.1 There have been fears that LETS could be used as a tax avoidance strategy, and it is important that it does not become so. Liberal Democrats propose a clarification of the current tax law so that LETS earnings are clearly taxable beyond a basic tax disregard of £25 a week. This would mean that people using LETS or equivalent for business purposes would be expected to declare it, but that those earning below the tax threshold would not be discouraged from taking part.

3.4.2 But recent research by the Joseph Rowntree Foundation has shown that LETS does build networks and communities and gives people experience of work – and should not therefore be hampered by benefits regulations that exclude the very people who would be helped the most. We propose, therefore, that Britain follows the lead set by Australia and the Netherlands and allows a benefits disregard for LETS earnings or the equivalent also of £25 a week.

3.4.3 This should be part of a broader policy of allowing a higher benefits disregard, to allow people to remain engaged and in the habit of working while they are unemployed.

---

## **CASE STUDY: LOCAL EXCHANGE AND TRADING SYSTEMS**

There are now about 400 LETS systems in the UK. It's a Canadian idea that allows local people to trade with each other without cash. LETS uses a sophisticated software, and people who buy services from each other write a cheque, and this is debited from their account. The system means that local people can choose a currency name for themselves, and trade using a kind of yellow pages directory of services. The idea is used increasingly by local authorities as part of their anti-poverty strategies, because it can connect hidden local resources with unmet needs even if cash is scarce. LETS is taxable if it is used as part of a business.

The original UK schemes were run by enthusiasts – often in the West Country – but the main growth is now in inner cities. One of the local authorities leading the field is Liberal Democrat Liverpool, who regard LETS as a key anti-poverty policy, and are setting up LETS systems on local housing estates. The idea is to help people trade, but even more to re-connect them to local networks and keep them in the habit of working, improving self-esteem, so that they find it easier to get a job when they can. Recent research confirms that LETS can be a powerful way of rebuilding social inclusion.

---

# Underpinning Diversity and Plugging the Leaks

4.0.1 Diversity is valued by the Liberal Democrats: we include ‘celebrating diversity’ in the preamble to our constitution. Diversity between regions helps to provide people with roots, identities and a sense of place. New cultures that have taken root should be encouraged too, where many of our cities can now support a multiplicity of ethnic businesses and shops.

4.0.2 A diverse local economy is a critical factor in enabling localities and regions to withstand the rollercoaster effects of over-reliance on a national or global economy. Where an area is heavily reliant on a single employer or form of employment, the effect of a boardroom decision taken hundreds of thousands or miles away can be devastating.

## 4.1 The Problem

4.1.1 Present economic policy tends to increase the dependence of communities on outsiders, rather than helping them to develop the resources themselves or give them real power over the resources they manage to draw in.

4.1.2 Retailing, banking, the utilities, most of the services that touch our everyday lives have amalgamated, developing into structures that have little relationship with the communities and regions they serve. A few have acted to try to redress this situation. Many do not regard a flexible approach as important – one that allows for local needs and aspirations – so long as they provide a cheap, efficient service. The way they look, the sort of goods and services available are identical

everywhere. Crucially they also tend to take money from the local economy as people spend it and invest the profits elsewhere.

4.1.3 Liberal Democrat policy paper *37 Engaging Communities* (2000) says: “As work moves out of urban areas so the money needed for regeneration follows. Where once a person’s wages would be reused three, four or even five times within the local community at local shops and leisure facilities, now more often than not, it is spent in out of town shopping centres and multiplexes”. We feel this applies to any area – rural or suburban too.

## 4.2 The Solution

4.2.1 Liberal Democrats will make sure that their local authority community strategies place more importance on nurturing local business and enterprise. This is illustrated in the case study on page 18/19. We are also aware that competing for inward investment, with the high costs in time and money that this can entail, may not produce the sustainable economic result that we want.

4.2.2 We will insist on full reporting by the DTI and RDAs on the real cost of public support for inward investment projects. We believe this would avoid some of the extreme recent examples, such as the £150 million of public money spent by regions competing for one major electronics project.

4.2.3 We believe that communities have not fully appreciated the potential of locally generated renewable energy. We will support small-scale schemes



that can supply that community's needs and sell to the national grid in times of surplus. We will give an initial ten-year period for renewables suppliers to be able to sell their power into the grid at the same price as individuals in their community must pay for it.

4.2.4 We support virtuous circles that use either waste products or commodities with low market value to produce goods of sustainable and economic benefit. Two examples are waste potato products used to make biodegradable alternatives to plastic take away plates and dishes and sheep's wool marketed as a more sustainable alternative to fibreglass insulation.

### **4.3 Local Shops and Services**

4.3.1 We support local produce being sold to local people through local outlets. This maintains money in the locality, cuts out food miles and provides the opportunity for people to buy fresh food that can often be special to its region – saving energy as well as directing local resources at local people.

4.3.2 We will also support local institutions and businesses, including local authorities, in their efforts to source products locally. That means making sure that Best Value rules allow local councils to do this – while still complying with EU regulations – and abolishing the anomaly in the Local Government Act that currently makes it hard for them to do so. Best Value for local people will often mean keeping spending power circulating locally, encouraging local business and employing local people.

4.3.3 We will encourage the development of farmers markets and remove arcane legislation preventing them, and which doesn't relate to the purpose for which markets would exist in the 21<sup>st</sup> century.

4.3.4 We recognise that 100 per cent rate relief is a useful measure for a community's only shop or pub. But we would return business rates to local authorities and we believe they should have the freedom to vary the rating of shops so that the system would not penalise the small, less profitable shops over the large stores. We will introduce a Business Rate Allowance, similar to a Personal Tax Allowance, in order to deliver relief on business rates for smaller businesses. This would be a transitional arrangement before returning business rating to local authority control. This proposal in no way supersedes or replaces our long term commitment to Site Value Rating (SVR).

4.3.5 As acknowledged in policy paper 30, *Re-Inventing Local Government* (1999), local authorities are still unable to borrow money, for example to repair their housing stock. They are also increasingly constrained by the incredible labyrinth of ring-fenced funding, specific grants and bid controlled funding. Policy paper 30 sets out detailed proposals to give local authorities greater financial autonomy.

4.3.6 In principle, we believe care parking charges for out of town developments should be part of the local authority management tool kit for maintaining the economic health of their in-town shopping centres.

4.3.7 Sequential tests – which are designed to make sure that commercial development is located as close as possible to a town's centre – now apply to most structure and local plan areas. In practice, this test may well conflict with other sustainability interests such as re-using brownfield sites for housing. It may also cause small-scale industrial uses to relocate to urban fringes well away from the communities they serve.

4.3.8 Although local authorities have powers to use compulsory purchase orders to assemble land for regeneration they rarely use them as they are slow, bureaucratic and have to be confirmed by the Secretary of State. We will simplify the process whilst ensuring individuals' rights are secured.

4.3.9 Local authorities that have fully consulted their communities and produced a community strategy should be given the powers to implement them. We will make sure that the development control system would attach substantial weight to the community strategy so that applications would be expected to further the strategy not diminish it. We recognise that local authorities have been given the power of promoting the social, economic and environmental well-being of their areas. Whilst this is helpful, it is still not the power of general competence which we would introduce.

## **4.4 Community Development Trusts (CDTs)**

4.4.1 CDTs offer communities an organisation independent of both the state and the private sector but which can draw in finance and expertise from both. Less bound by rigid rules than local authorities, communities can see them as a very direct, user friendly way of getting involved in social and economic regeneration. Local authorities can be key to setting them up where communities decide they want one. They can provide a kick start with staff expertise in facilitating initial meetings and in helping Trusts to bid for funding.

4.4.2 Community development trusts can take a long-term look at their community's future. They need not be based on a single community – although they often are. In Somerset, the county council and South Somerset district have helped to establish a CDT whose mission is to further sustainable construction of housing stock and public buildings.

---

### **CASE STUDY: LOCAL DEVELOPMENT COMPANIES IN GLASGOW**

Glasgow has had local development companies (LDCs), working in the eight most deprived districts of the city, since the early 1990s. These are primarily charged with helping to find, fill and sustain jobs for local residents. They have changed over the years, increasingly taking on a wide variety of roles as community champions. The Gorbals Initiative has recently:

- Developed new business units in the area – the first such development for over 40 years – to attract inward investment. The units have the highest standard of connectivity to be found anywhere in Glasgow.
- Developed a unique programme of psychotherapy to help clients with severe personal problems and a poor work history address these and other barriers to employment.
- Experimented with a community website and outreach programme to promote IT training and local services.
- Launched Scotland's first time bank, and a community empowerment strategy.

The Glasgow LDC model, with funders, local residents and businesses represented on the board, and a high proportion of staff with a local connection, has been successful and cost effective in terms of its regeneration remit. In the longer term, there is certainly scope to convert these companies completely to community ownership. In the Wester Hailes estate in Edinburgh, such a trust owns nearly £60 million worth of assets on behalf of the community and is the main conduit for all public funding in the area. It is wholly community owned and managed. This has not of course been arrived at overnight, but as part of a 10-15 year process of development.

### **CASE STUDY: NORTH LIVERPOOL REGENERATION COMPANY**

The North Liverpool Regeneration Company (NLRCo) was founded in 1997 to help local residents access training and employment, with the emphasis on sustainability and by involving the community as stakeholders to improve the quality of life in the area. The NLRCo's projects include the North Liverpool Driving School which offers free lessons to residents of the North Liverpool Partnership area. This has improved peoples' chances of gaining access to full time employment.

North Liverpool Media is another NLRCo project which offers training in IT, design, music production, website design and management, journalism, marketing and business administration. The project has enabled musicians to launch their solo careers, young bands have been guided through funding applications and music production, trainees have moved into full-time employment discovering new areas of interest and talent, individuals have taken the first steps to setting up their own design houses.

### **CASE STUDY: SOMERSET FOOD LINKS**

Somerset Food Links is a partnership between Somerset County Council, South Somerset District Council, Mendip District Council, Somerset Health Authority, and the South West RDA, and is designed to give the greatest number of local people possible access to quality local produce. It was born out of a dual wish – to strengthen the local farmer and grower economy, address the issue of food miles and ensure quality fresh food was widely available in Somerset at affordable prices.

Food Links have set out to achieve this by setting up food purchasing co-operatives, grants to start or support community gardens and allotments, producing a directory of local food producers for the public and one for the trade (pubs, restaurants etc.), working in schools on a 'grow it, cook it, eat it!' project, starting farmers markets and helping them to become self-managed, training for producers in marketing, planning, food safety, establishing a co-operative basis for home deliveries or box schemes for local produce, developing criteria for local branding, and encouraging local institutions to review their food purchasing policies.

---

# Sustainable Local Economics

5.0.1 Sustainable local economies can be hard to foster. A strong local economy based on a chemical factory polluting nearby rivers and ground can hardly be deemed sustainable. Yet too often local economic policy making has put such parochial, short term interests first.

5.0.2 Liberal Democrats believe sustainability must be inextricably linked with all policy, especially economic policy and above all local economic policy. The proposals that the Liberal Democrats have for making our national economic policy sustainable therefore apply all the more at the local level.

## 5.1 Local Quality of Life Targets

5.1.1 The first step is to choose sustainable targets which local policy can aim for. These need to relate to national targets, whilst being within the realistic control of local policy makers. The Liberal Democrats' proposal for a Quality of Life Index, as described in policy paper 43 *An Inclusive Society* (2000), would be the basis for setting such targets.

5.1.2 The Government has recently published new national sustainable indicators in *Quality of Life Counts* including 15 'headline' indicators and around 150 indicators in total. While the exact choice of indicators could be debated, the government's general approach is

sensible for the national framework. The list of 15 headline indicators includes, for example, important new environmental targets such as the quality of rivers and the populations of farmland and woodland birds.

5.1.3 We also recognise the dangers of too many targets imposed by central government. Targets like these must be developed further, must be better linked to local targets and must be given a greater emphasis in policy formation. If targets require detailed scientific knowledge and can only be understood by technicians, they will be less inclusive and less effective than which where ordinary people can immediately see for themselves and play a role in monitoring. We believe that, in the context of local economies, these targets must meet several key tests:

- How will policies be affected by the national targets?
- What local targets are needed to support national targets?
- How should uniquely local targets be adopted, for local sustainability needs?
- What policy tools and legal powers will be available to guarantee supremacy to the long term sustainability targets, local or national, to prevent constant over-riding?

5.1.4 To meet such tests, Liberal Democrats would consult the Local Government Association and other associations of local agencies on

developing local sustainability targets consistent with national frameworks. These might include local targets for:

- Re-use of previously developed land (planning).
- Increasing local bird populations (planning, park, horticultural).
- Improvements in monitoring of air quality (environment).
- Traffic reduction (transport planning).
- Waste reduction, re-use and recycling.

5.1.5 Liberal Democrats would empower local statutory bodies like councils and health authorities to:

- Undertake a ‘sustainability audit’ of their established audit system, and all their existing targets and performance measures (especially new local public service agreements) – looking at their rigidity and cost.

- Consult with local communities on the key local quality of life indicators and changes they would prioritise.
- Develop locally unique quality of life targets, like increasing the percentage of primary school children walking to school in Greensborough LEA or improving the energy efficiency of local businesses.

5.1.5 Liberal Democrats would also legislate to strengthen the role of sustainability targets by requiring:

- Central and local government to report on progress on sustainability targets at the same time as publishing annual financial reports.
- The Audit Commission and National Audit Office to review all such reports, and report on best practice.

---

## CASE STUDY: WHAT KIND OF INDICATORS?

Indicators can make change happen. They can involve people in the political process, empower them and excite them. They can also do precisely the reverse. The best indicators are those that fulfil the following criteria:

- *Are democratic:* they are chosen by the people they affect locally if they are local indicators. They are not foisted on us by civil servants because they look good, and are easy to measure.
- *Measure outcomes:* they measure effects as far down the chain as possible. They don't measure whatever the trendy solutions happen to be at the time. Measuring the distance people live from a bus-stop to the shops might ignore the real problem: that the bus service is terrible and the local food disgusting.
- *Involve ordinary people:* in Oldham they measure the number of local ponds with frog-spawn. It means school children can be involved and excited. It also means we don't have to rely on official scientists to tell us whether we're making progress.
- *Allow for innovation:* measuring what you want to achieve means, especially in pollution reduction, there can be ideas, inventions and competition to find the best way of getting there. That will encourage new technology. Specifying a solution and measuring its uptake will dampen innovation.
- *Thrill people:* In one city in Peru they measure smog-reduction progress by the number of days you can see the Andes.

## CASE STUDY: LIVERPOOL NEIGHBOURHOOD SERVICES

Liberal Democrat Liverpool is developing a series of Neighbourhood Services Compacts so that the council can work more constructively with local communities to identify their needs and priorities. These set realistic targets and standards for local services, monitor their performance, and influence how they will be improved each subsequent year to make sure the council provides the right service, the right way, the first time.

The area assembly is being introduced to monitor the compact. This includes elected representatives from each of the tenants and residents associations within its boundary, and where appropriate local neighbourhood representatives. They will meet regularly with council officers and other partners, to oversee and monitor the compact.

---

# Volunteering as a Resource

6.0.1 The idea of volunteering is traditionally Liberal Democrat because of its links to self-help and social responsibility. It is government policy to expand the idea, especially among the old and young, and to boost Internet sites that link volunteers to opportunities. But government policy regards volunteering as a branch of their communitarian philosophy: it is too much about social control and not nearly enough about setting people free. Government policy encourages the idea of volunteering as semi-professional, as an activity that one class provides for another, delivered one-way from on high.

6.0.2 Liberal Democrats need to re-invent volunteering as a major resource that involves the whole of society, developing the idea of mutual volunteering – a tool that the most disadvantaged in society can use to provide themselves with the support they need. We need systems that enable two-way volunteering, so that the people dismissed by professionals and civil servants as the ‘problem’ are involved as equal partners in the business of regeneration.

6.0.3 Like all forms of well-organised volunteering, this costs money to administer. We recognise that it must be properly resourced, but that the new money earmarked for volunteering by the Government should also encourage diverse new forms of mutual support.

## 6.1 Draining Social Capital

6.1.1 Despite the unravelling of social capital, and the recognition of the problem by the Government’s Social Exclusion Unit, Labour have few proposals for rebuilding local trust other than a mixture of professional support, curfews and the penal code.

6.1.2 The current economic system, and many government regulations, ignores the role of volunteers. They do not value their efforts or reward them. On the contrary, it can be extremely difficult even putting in the time to be a parent governor, and even more difficult if you are unemployed – whatever the official benefits regulations might say.

6.1.3 The history of post-war regeneration has been one of high hopes and terrible failure. It is becoming clearer that every government institution – from urban development agencies to health centres – must have strategies to involve their beneficiaries as equal partners. Without them they will fail.

6.1.4 Liberal Democrats will:

- Make sure the benefits system does not remove Job Seekers Allowance or Incapacity Benefit from people just because they are doing vital unpaid work in their own communities. There is no point in paying people to stay idle.

- Recognise the value of volunteer time alongside GDP in the national accounts.
- Allow projects to count volunteer time as match funding – on an equal standing to paid time – to draw down statutory funds.

## 6.2 Time Banks and Service Credits

6.2.1 The Government is looking for ways to increase local volunteering, but has been concentrating on increasing semi-professional ‘mentors’ – valuable as they are – at the expense of genuine self-help by local people. Liberal Democrats will involve the people who are never asked for their views or involvement as the agents of change. That means using time as a kind of money, so that people who are time-rich and money-poor find they have assets they can use – compared to the money-rich and time-poor in the mainstream economy.

6.2.2 Liberal Democrats recognise that voluntary activities can keep older people healthier, save on health costs, improve education in schools and – according to research – build a sense of local trust and self-reliance. It can also provide a stream of people into tutoring in schools, community transport or health visiting.

6.2.3 That means we will:

- Organise a network of ‘time banks’ in communities, post offices and health centres – along the lines which have proved so successful in Japan in the USA – measuring and recognising the efforts people put in locally with ‘credits’ that they can spend on help themselves.

- Encourage time banks in both public and private sector institutions to unleash people power to support local education and health.

## 6.3 Community Exchange Banks

6.3.1 We will also encourage networks of this kind of time infrastructure at city or regional level, along the lines proposed as ‘community exchange banks’ by the Performance and Innovation Unit – but not acted on by the government.

6.3.2 These will allow people to donate time across regions, but also to draw down refurbished computers and recycled furniture – earned with time credits rather than money – from the range of new recycling facilities that are emerging around the country, as a result of the Landfill Tax. There are 200 facilities now recycling computers alone.

6.3.3 The community exchange banks will also be linked to learning centres and the University of Industry, and to the Individual Learning Account infrastructure, so that people can earn ILAs or buy training at cost, paid for or part paid for by their contribution to their local community.

6.3.4 This new infrastructure will be set up primarily by local institutions, paid for out of the savings they will create – in improved health and lower crime. A Liberal Democrat government will also:

- Make it a legal requirement for every government agency or quango, however local, to have a



strategy for involving their clients and beneficiaries as equal partners in the business of regeneration.

- Allow people on benefits to spend time credits on refurbished computers or furniture – allowing them to access what they need with their time and effort rather than simply by cash. Time credits are already zero-rated for tax and benefits. Benefits rules should not be used to undermine volunteering or network-building activity.
- Insist that government departments donate their old IT equipment for recycling. This means changing Treasury rules that insist all equipment has to either be auctioned or thrown away.
- Encourage colleges and the new learning and skills councils to accept payment in time credits towards a range of different

training courses. Government would need to make sure their support for specific courses would make this financially viable for colleges, as a way of attracting in people in deprived neighbourhoods.

- Allow people to open Individual Learning Accounts – and draw down £150 in government money for training – with time credits instead of cash, so that they can be used for education.
- Allow local authorities – under a power of general competence – to offer reductions in sports centre charges for time credits.
- Include a programme for community entrepreneurs and organise accredited courses in social entrepreneurship.

---

### **CASE STUDY: THE RUSHEY GREEN TIME BANK**

‘Social capital’ has become a buzz-concept for the new century – but how can we rebuild it, together with a sense of community, when it doesn’t exist? That’s the idea behind a new concept of volunteering that uses time as a kind of currency, and credits people for the time they put in helping others. In the USA, this is called time dollars, and it can be used to buy support for yourself when you need it – but also things like recycled computers that have no value in the real economy. Time credits can be exchanged for time and services at the rate of an hour for an hour, which means almost everybody – no matter how old or young – can find something to contribute, even if it is simply supportive phone calls to neighbours.

The Rushey Green Time Bank is a New Economics Foundation initiative in a health centre in Lewisham, and it means that doctors are able to refer people to the time bank if they think they need support or help, or if they think helping people might be good for them – either increasing their confidence or self-esteem or getting them out of the house. It also means doctors can write prescriptions for older people for a lift to the shops.

In the USA and Japan, time banks have become a major tool for rebuilding communities and a sense of local trust. They are also a system that any institution can use to involve its ‘clients’ as co-partners in the business of regeneration.

---

*This paper has been approved for debate by the Federal Conference by the Federal Policy Committee under the terms of Article 5.4 of the Federal Constitution. Within the policy-making procedure of the Liberal Democrats, the Federal Party determines the policy of the Party in those areas which might reasonably be expected to fall within the remit of the federal institutions in the context of a federal United Kingdom. The Party in England, the Scottish Liberal Democrats and the Welsh Liberal Democrats determine the policy of the Party on all other issues, except that any or all of them may confer this power upon the Federal Party in any specified area or areas. If approved by Conference, this paper will form the policy of the Federal Party, except in appropriate areas where any national party policy would take precedence.*

*Many of the policy papers published by the Liberal Democrats imply modifications to existing government public expenditure priorities. We recognise that it may not be possible to achieve all these proposals in the lifetime of one Parliament. We intend to publish a costings programme, setting out our priorities across all policy areas, closer to the next general election.*

## **Working Group on Local Economics**

Sue Miller (Chair)  
Jassim Al-Kanani  
David Boyle  
Nasser Butt  
Stuart Callison  
Ed Davey MP  
Cllr Suzanne Fletcher

Cllr Richard Kemp  
Dr Tim Leunig  
  
*Staff:*  
Helen Belcher  
Rob Blackie  
Judith Edwards

*Note: Membership of the Working Group should not be taken to indicate that every member necessarily agrees with every statement or every proposal in this Paper.*

Comments on the paper are welcome and should be addressed to:  
Policy Unit, Liberal Democrats, 4 Cowley Street, London SW1P 3NB

**ISBN: 1 85187 658 8**

© February 2001

Further copies of this paper may be obtained, price £4.00 from:  
Liberal Democrat Image, 11 High Street, Aldershot, Hampshire, GU 11 1BH  
Tel: 01252 408 282

Printed by Contract Printing, Units 9-10 Joseph House, Eismann Way, Phoenix Park Industrial Estate, Corby, NN17 5ZB.

Cover design by Helen Belcher

**This document has been prepared using 100% recycled paper.**