



## Budget 2009: towards local economic resilience?

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### THE BUDGET'S CONTEXT

The lead up to the 2009 Budget announcement by the Chancellor Alistair Darling<sup>1</sup> was preceded with media talk about it being the most important 'red book' since the end of the Second World War. In the grips of a global economic crisis, the Budget was seen as a key opportunity to set out the UK's plans for recovery in our financial markets, in our demand and consumption, in our productiveness and ultimately in our international competitiveness as measured by Gross Domestic Product (GDP).

For our sector, that is the delivery of public services, regeneration and local economic development activity, there was much anticipation as to what the Budget would deliver. The Centre for Cities went strongly down the route of reinvigorating the housing market to aid the recovery of the economy, calling for investment in house building and social homes. Third sector representative bodies and indeed the Third Sector Minister felt that there was a need for investment to support flailing community organisations, key supporters of communities in difficult times.

We at CLES however felt that the Budget 2009 really represented a key opportunity to utilise and support local government more effectively to develop local economic resilience and recovery. There was a key opportunity to devolve more power towards local government for economic development functions and use local government more effectively to channel support to communities in a time of a recession. Local government and the wider public sector are and should be viewed as key drivers of local economic change and not just economic growth but local economic resilience. In recent years there has been a proliferation of policy that has sought to create a local economic role for local authorities as 'place-shapers'. The 'duty to involve', the process of new Local Area Agreements, and the proposals of the *Sub-National Review of Economic Development and Regeneration*<sup>2</sup> have all pointed towards an enhanced strategic economic development role for local government.

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<sup>1</sup> HM Treasury (2009) Budget 2009: *Building Britain's future*. London: HMSO. [http://www.hm-treasury.gov.uk/bud\\_bud09\\_repindex.htm](http://www.hm-treasury.gov.uk/bud_bud09_repindex.htm)

<sup>2</sup> HM Treasury, Communities and Local Government, and Department for Business, Enterprise and Regulatory Reform (2007) *Sub-National Review of Economic Development and Regeneration*. London: HMSO [http://www.hm-treasury.gov.uk/d/subnational\\_econ\\_review170707.pdf](http://www.hm-treasury.gov.uk/d/subnational_econ_review170707.pdf)

Indeed, at the outset of the economic downturn and subsequent recession there was much debate as to what local authorities could do to respond to support local people through difficult times and to make local economies more resilient to global economic change. CLES have worked with a number of authorities, particularly in the North West, to examine what they can do to respond to the recession. Our recent publication for the North West Improvement and Efficiency Partnership (NWIEP)<sup>3</sup> detailed key measures local authorities are utilising to respond including: setting up recession task groups; providing grants for struggling businesses; and providing financial advice and support.

Whilst it is evident that no direct new resources will be available to local government to tackle the issues posed by recession, there is an opportunity to develop smarter working practices and foster innovation. Given the spending restraints and cuts of the 2007 Comprehensive Spending Review<sup>4</sup> for local government, interventions in response to the recession have had to come from core budgets rather than direct special central government investment and increasingly have required local government innovation and risk. Budget 2009 was thus an opportunity to enable local responses, local economic change and ultimately local economic resilience through greater responsibility for local government. The resilience of local economies, involving the commercial, public and social sectors is crucial to getting our national economy moving and developing again.

So what did the Budget provide for our sector and for local economies? This bulletin provides firstly an outline of the key measures of the budget relating to: economic development and the environment; regeneration; and public services, before secondly moving on to critique these measures.

## **WHAT DOES BUDGET 2009 MEAN FOR OUR SECTOR?**

The latter part of 2008 and the early part of 2009 has been a disastrous period for the global economy and indeed for the UK economy. In the UK, Gross Domestic Product was down 1.6% in the final quarter of 2008, with industrial production falling by 4.5%. The outlook looks bleak for the remainder of this year and beyond. The world economy is predicted to contract for the first time since the 1940s, with UK Gross Domestic Product expected to drop by 3.5% in 2009 alone.

Budget 2009 alongside a range of other recent Government directives, interventions and publications has thus sought to respond to these economic challenges with a series of fiscal and financial interventions, set out in six core chapters:

1. maintaining macroeconomic stability;
2. ensuring financial stability;
3. supporting business;
4. helping people fairly;
5. improving public services;
6. building a low carbon recovery.

The key aim of the diversity of interventions presented in Budget 2009 is to contribute to the Government's vision of recovery from recession. Budget 2009 forecasts that recovery from recession will begin in late 2009, with growth picking up through 2010 (growth of 1.25%) and forecasted to grow strongly in 2011 (growth of 3.5%). This optimism has been widely criticised, including by the International Monetary Fund who predict not growth, but a shrinkage of 0.4% in 2010.

The first two chapters and themes of Budget 2009, maintaining macroeconomic stability and ensuring financial stability, largely concentrate on macro-economic interventions relating to raising income tax

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<sup>3</sup> North West Improvement and Efficiency Partnership (2009) *Local responses to the economic downturn in the NW*. Wigan: NWIEP.

<http://www.nwce.gov.uk/files/Local%20response%20to%20economic%20downturn%20in%20the%20NW%2016%20Jan%2009.pdf>

<sup>4</sup> HM Treasury (2007) *Meeting the aspirations of the British people*. HMSO: London. [http://www.hm-treasury.gov.uk/d/pbr\\_csr07\\_complereport\\_1546.pdf](http://www.hm-treasury.gov.uk/d/pbr_csr07_complereport_1546.pdf)

for people that earn over £150,000 for example, and enabling GDP growth. It is the further four chapters that hold the greatest insight into what Budget 2009 will mean for our sector. The following section thus details the interventions contained in Budget 2009 that are most relevant to the themes of: economic development and the environment; regeneration (both physical and social); and public services.

### ***Theme 1: Economic Development and the Environment***

Stimulating national economies is a key drive of Budget 2009. There appear to be two elements to this approach. First, there is a drive to stimulate the demand side of the economy through physical and strategic investment such as the Strategic Investment Fund which will be discussed further below. Second, there is a drive to stimulate the supply side of the economy and particularly providing support to gain access to jobs and training. Budget 2009 has thus introduced the following economic development related measures:

- ***Strategic Investment Fund*** – the £750 million Strategic Investment Fund is designed to support economic renewal in the UK's strength industries of manufacturing, services and science. It is expected to support advanced industrial projects of strategic importance as the global economy returns to growth. A third of the investment is earmarked for low-carbon investments.
- ***Supporting small business sustainability*** – Budget 2009 contains a couple of measures designed to support small business financial sustainability during the recession. There are changes to the process of business rates, with Government enabling to spread the payment of the April 2009 inflation up-rating to business rates over three years. Budget 2009 also increases the VAT registration threshold for small business from £67,000 to £68,000, keeping some 6000 small businesses out of the VAT system.
- ***Supporting third sector sustainability*** – Budget 2009 also provides new financial support for third sector organisations during the recession. The new £20million Hardship Fund provides grant support to third sector organisations which are delivering front line services to the vulnerable and disadvantaged in society that have been financially affected by the recession.
- ***Increased support for vulnerable sectors*** – one of the most debated schemes in the lead up to Budget 2009 was the car scrappage scheme. Budget 2009 has pushed forward this initiative which offers a discount of £2000 to consumers buying a new vehicle to replace a vehicle more than ten years old. The Government will set aside £300million for the scheme. The scheme is a major employment boost in localities with flailing car manufacturers.
- ***Increased Jobcentre Plus funding*** – Jobcentre Plus, the Government agency responsible for benefit administration and jobs brokerage has benefited to the tune of £1.7billion from Budget 2009. The money is earmarked to ensure that Jobcentre Plus continue to enable a swift return to work for those recently unemployed. The money is designed to ensure that Jobcentre Plus has the capacity to deliver a personalised approach to the unemployed and to provide a package of support to the longer term unemployed through the Flexible New Deal Programme.
- ***Increased emphasis on youth joblessness*** – those aged 16-18 and Not in Education, Employment and Training (NEET) and the wider increasing levels of unemployment amongst 18-24 years olds are key consequences of the recession. Budget 2009 guarantees everyone aged between 18-24 who have been claiming Jobseeker's Allowance for 12 months a job, work placement or work-related skills training for at least six months.
- ***Encouragement for public sector employment*** – Budget 2009 provides for initiatives that seek to increase levels of employment in the public sector. There is funding for Care First to offer 50,000 traineeships for young people in the care sector; funding for local authorities and partners to take forward the creation 100,000 new jobs in socially useful activity, 10,000 of

which will be 'green' jobs and funding for local authorities to provide a further 50,000 jobs in areas of high unemployment across the country.

Budget 2009 also announced the much anticipated decision on the two areas that will become formal city regions managed by Economic Prosperity Boards. The two selected city regions of Greater Manchester and Greater Leeds will gain further devolved powers around housing, regeneration and Transport. These areas of power do however require legislation and form an element of the *Local Democracy, Economic Development and Construction Bill*<sup>5</sup> which is currently passing through Parliament.

The environment and mitigating the impacts of climate change is also a key theme of Budget 2009. The Government have recognised the importance of framing economic recovery within environmental limits. There are a number of new investments in Budget 2009 relating to the environment including:

- ***Enabling a low carbon economy*** – Proposals contained in the *Climate Change Act (2008)*<sup>6</sup> legislated for the creation in the UK of the world's first Carbon Budgets. Budget 2009 sets the first three Carbon Budgets at levels that will lead to a 34% reduction in greenhouse gas emissions with respect to 1990 levels by 2020. The carbon budgets are complemented in Budget 2009 with a range of interventions designed to cut emissions including:
  - £375million to support energy and resource efficiency in businesses, public buildings and households over the next two years. This investment includes monies for insulation and low cost energy efficiency loans;
  - £70million for small-scale community energy schemes;
  - £405million to support the development of a world leading low-carbon energy and green manufacturing sector in the UK. The funding is designed to support the development of low carbon technologies such as wind and marine energy.

### ***Theme 2: Regeneration***

Budget 2009 contains interventions that seek to reinvigorate regeneration activity across the UK. In a number of localities as a result of the recession, physical development and regeneration activities have ground to a halt as a result of the withdrawal of funding and falling demand, particularly in housing market. Budget 2009 has thus introduced the following measures designed to stimulate physical regeneration:

- ***Further money for housing*** – Budget 2009 invests a further £600million to increase housing supply. This funding is designed to both build new homes and to clear previously dormant sites for development. £150million has also been earmarked for new social housing.

Budget 2009 also introduces and rolls out funding for initiatives relating to social regeneration and tackling deprivation caused by the recession. These initiatives include:

- ***Further social fund investment*** – the Social Fund provides interest free credit to vulnerable and disadvantaged people, enabling them to meet and spread the payment of unexpected costs. As the recession deepens and unemployment grows, more people are likely to require access to the Social Fund. Budget 2009 thus allocates the fund an additional £125million in 2009/10 and £145million in 2010/11. The additional investment will enable the Social Fund to make an additional two million loans over the next two years.

### ***Theme 3: Public Services***

Financial allocations for public services, including health and education, as well as local government were set for the period 2008-2011 during the 2007 Comprehensive Spending Review. Whilst no great changes were expected in public service provision and finance as a result of Budget 2009, there was

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<sup>5</sup> Local Democracy, Economic Development and Construction Bill 2008/09. Available at <http://www.publications.parliament.uk/pa/ld200809/ldbills/002/2009002.pdf>

<sup>6</sup> Climate Change Act (2008) available at: [http://www.opsi.gov.uk/acts/acts2008/ukpga\\_20080027\\_en\\_1](http://www.opsi.gov.uk/acts/acts2008/ukpga_20080027_en_1)

expected to be some small ones, particularly as a result of the recession. The only real mention of public service finance in the budget is with regard to efficiency and value for money:

- ***Continued public service investment but a stronger drive for value for money*** – since the Gershon Review of 2004<sup>7</sup>, there has been a strong drive from Government to increase efficiency savings from the activities of Central Government Departments and from the delivery of public services. Budget 2009 increases the efficiency targets of the Comprehensive Spending Review of 2007 by £5billion for 2010/11. The target for recoverable efficiency and value for money savings for 2010/11 will therefore be £35billion rather than £30billion. It is clear that this drive for efficiency is an indication that there will be cuts in public spending in the longer term to claw back some of the national debt derived from Budget 2009.

As with any Budget announcement there is an array of supporting documentation. One of the most important is the *Building Britain's Future: New Industry, New Jobs*<sup>8</sup> publication.

### ***Industrial Activism***

This document, building upon a speech by Lord Peter Mandelson on industrial activism, talks extremely positively of the role the active policy of UK government has played over the last nine months in stabilising a number of industries, predominantly the banking sector. The document moves away from this focus upon the banking sector to set out a vision for the future of other UK businesses and employment, particularly in how we can use our existing industrial base to shape economic recovery. It outlines Government plans to:

- turn excellence in science and technology into innovation and new opportunities;
- foster a talented workforce through investment in education and skills;
- invest in infrastructure to enable economic competitiveness.

All these broad aspirations are supported by a series of measures including:

- from April 2009 all applications to Research Councils for academic funding will have to set out the economic impact of proposed research;
- in the summer the Higher Education Framework and a new skills strategy will set out a new strategic approach to the provision of higher-level skills in England;
- in the near future the Government will launch a review to consider whether and in what form further intervention could help increase the supply of long term growth capital to small and medium sized businesses.

## **CRITIQUE OF BUDGET 2009**

At the outset of this bulletin, we stated that CLES felt that Budget 2009 was a significant opportunity to provide support to local government to enable them to put into practice ideas and proposals to tackle the local impacts of the recession and to foster local economic resilience. Upon reading through the content of Budget 2009 and detailing the key investment areas that are of relevance to our sector, it is clear that whilst there are some good proposals there are few which will be directly led by or be the responsibility of local government. Additionally, there are few proposals that will contribute directly to the two core challenges of the recession, namely job creation and business sustainability.

The primary critique of Budget 2009 is that it continues to push forward the reliance upon economic growth as a way out of recession. CLES would argue that there needs to be a much more sustainable economic development approach which twins economic growth considerations with ensuring social

<sup>7</sup> Gershon, P. (2004) Releasing resources to the front line: Independent review of public sector efficiency. London: HMSO. [http://www.hm-treasury.gov.uk/d/efficiency\\_review120704.pdf](http://www.hm-treasury.gov.uk/d/efficiency_review120704.pdf)

<sup>8</sup> HM Government (2009) Building Britain's Future: New Industry, New Jobs. London: HMSO. <http://www.berr.gov.uk/files/file51023.pdf>

equality and mitigating climate change. Whilst, there is some welcome investment around the low carbon economy; around jobs and training for younger people; around sectoral growth; and around public sector employment; there are a number of outstanding critiques of some of the proposals:

***Jobcentre Plus: benefit administrator or employment broker***

The decision to allocate further funding to Jobcentre Plus to deliver 'individualised' brokerage support to jobseekers is a disappointing one. CLES have recently completed research<sup>9</sup> examining different approaches to tackling worklessness. One of the core findings of this research was that the role of Jobcentre Plus needed to be re-evaluated. It can no longer continue in its dual guise of benefit administrator AND employment broker. CLES believes the function of Jobcentre Plus needs to be reformed creating a national benefits administrator AND a separate sub-regional employment broker for all benefit claimants. Investment in the supply of employees announced in Budget 2009 needs to be additionally matched with investment in the demand side, enabling employers to actually provide the required jobs for the labour market to function effectively.

***Is £600million for housing enough?***

The Government has a longstanding target to build 300,000 new homes in England through the Housing White Paper. These homes are to be largely built in South East. The recession has largely stalled homebuilding and the £600million committed to housing in Budget 2009 is likely to only cover stopping these projects from stalling indefinitely, rather than enable new housing to be built. Additionally, the £150million committed to new energy efficient social housing appears a pittance, given the scale of demand for social housing which has grown significantly as a result of the recession. The National Housing Federation had called for this figure to be over £6billion.

***The broadness of the Strategic Investment Fund***

The Strategic Investment Fund appears extremely broad in its remit. Budget 2009 states that the Strategic Investment Fund builds on the findings of the *Building Britain's Future: New Industry, New Jobs* report<sup>10</sup> which called on the Budget to support the UK's economic renewal by building on the UK's strengths in manufacturing, services and the science base. This is a broad spectrum of industrial sectors and there needs to be greater clarification on exactly what developments of 'strategic importance' the £750million will hone in upon. Budget 2009 also fails to provide clarification upon how the Strategic Investment Fund will link to job creation.

***Does the economy have jobs for young people?***

The announcement to guarantee employment, training or work placements for all 18-24 year olds who have been claiming Jobseeker's Allowance for 12 months appears a good yet bold proposal. Whilst there is undoubtedly a supply of 18-24 year olds wanting to work, in a recession and as a result of the constriction of the jobs market, there is unlikely to be firms readily offering work placements, nor jobs on the demand side of the labour market. More work needs to be done by Government and employment brokers on the demand side of the labour market to ensure these types of opportunities actually exist in all localities for young people, and to act as a preventative measure to long term unemployment and worklessness in the future.

***Efficiency or effectiveness***

Budget 2009 places further demands upon Central Government Departments and public service deliverers to make efficiency savings. This is difficult in a period of recession, given that the most used way of achieving efficiency is to cut costs, and particularly employment costs. Additionally placing too much emphasis upon efficiency neglects the quality and wider effectiveness of service delivery. Service users will be looking for continuation and quality in the public services that they receive and service delivery should therefore ensure the correct balance is achieved between effectiveness and efficiency. To respond to the renewed efficiency drive, local government will need

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<sup>9</sup> Centre for Local Economic Strategies (2009) Making it work: analysing different ways of tackling worklessness. Manchester: CLES. [http://www.cles.org.uk/files/103791/FileName/Makingitwork\(web\).pdf](http://www.cles.org.uk/files/103791/FileName/Makingitwork(web).pdf)

<sup>10</sup> HM Government (2009) Building Britain's Future: New Industry, New Jobs. London: HMSO. <http://www.berr.gov.uk/files/file51023.pdf>

to be cleverer in its procurement processes to ensure that services offer value for money in both cost and quality terms. Local government should work to utilise community benefits to ensure the benefits of procurement are reaped by local business and local people.

### ***Third sector investment beyond front line service deliverers***

Investment to sustain third sector organisations announced in Budget 2009 is positive, yet the rhetoric appears to suggest that the Hardship Fund only applies to third sector organisations delivering front line services to disadvantaged communities. This appears to neglect the fact that there will be hundreds and thousands of third sector organisations that do not deliver contracted services, but whose financial sustainability is also at threat as a result of the recession and other factors such as decreasing grants and the winding up of special regeneration initiatives such as SRB and NRF.

### ***Recognising the value of public employment***

CLES have been pushing strongly over the course of the last couple of years the role of public sector employment in creating local economic resilience. Public sector employment, investment, training, and its supply chain are strong contributors to the functioning of local economies alongside the commercial and social sectors. It is thus encouraging that Budget 2009 makes provision for investment in public sector employment, particularly in those localities with the highest levels of unemployment. The 50,000 traineeships in the care sector will also potentially fill a skills gap in this sector.

### ***Can EPBs drive local economic development?***

There has been a significant drive towards sub-regional governance for the function of local economic development in recent years. The Economic Prosperity Boards introduced as part of the Review of Sub-National Economic Development Regeneration are the latest sub-regional governance idea following on from city regions and Multi Area Agreements. CLES has significant concerns as to whether the sub-region is the correct scale for local economic development. Sub-regionalism appears to potentially neglect the concerns of wards, neighbourhoods and super output areas when it comes to local economic development delivery activity.

## **CONCLUSION**

The first budget of a new economic era is an interesting one. Expectations were that we would see the Government be extremely proactive in detailing new investment to respond directly to the impacts of recession, with a number of innovative ideas. Budget 2009 is however on the whole light on creativity, risk and innovation. Instead, what we see is: the reinvention of existing interventions; the transfer of monies from other investments; new interventions which are positive but which do not go far enough; and quite simply the bringing forward of budgets. CLES were expecting a greater role for local government in Budget 2009, particularly with regard to forging resilient local economies. We guess that local authorities will have to continue to move forward using the tools and funding already available to them to shape their local economies of the future.

**Bulletin** is one of a series of regular policy reports produced by the Centre for Local Economic Strategies (CLES). CLES is a not-for-profit think-doing organisation, consultancy and network of subscribing organisations specialising in regeneration, economic development and local governance. CLES also publishes Local Work, Rapid Research and Briefing on a range of issues. All publications are available as part of CLES membership services. To find out more about membership visit the CLES website or contact CLES to request a membership leaflet.

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